

MANAGEMENT LETTER

October 3, 2023

The Audit Committee, Board of Education,
and Management
Newfane Central School District

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the remaining fund information of Newfane Central School District (the District) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

OBSERVATIONS

General fund unassigned fund balance

The unassigned fund balance in the general fund was \$3,078,000 at June 30, 2023 which represents 7.7% of the 2024 budget. As you are aware, the legal limit imposed by the State is 4% of the ensuing year's budget. The District intends to use these funds to offset any shortfalls in 2024, with any excess being funded into reserves in accordance with the District's long-range plan.

Extraclassroom activity

We noted the District has extraclassroom clubs that do not appear to have any student involvement in the elementary school. These clubs also continue to have significant funds at the end of the year. We recommend the District evaluate these clubs' cash balances and determine whether such clubs should exist.

We also noted in the current year several instances of missing or incomplete documentation. We continue to recommend the District approve or disburse funds only once all required documentation and signatures are present.

Excess fund balance in the food service fund

In accordance with regulations of the New York State Education Department, fund balance in the food service fund should not exceed three months' average expenditures, as defined, at any time. As a result of the COVID-related shutdowns and additional funding, the District exceeded this limit at year end. During 2023, District management submitted a plan to the Child Nutrition Program Administration detailing its plans to use the excess balance. Despite using fund balance of \$37,000 during 2023, at June 30, 2023 fund balance in the food service fund remained in excess of the required amount. We continue to recommend management implement its plans to use the excess fund balance. Allowable uses include improving the quality of food served or purchasing needed supplies, services, or equipment.

PRIOR YEAR RECOMMENDATIONS

Included in our current year procedures is an update of the status of recommendations made in previous audits. We previously noted that amounts owed between funds were steadily increasing. Such amounts are expected to be short-term in nature and should be repaid within a year. We continue to recommend that amounts owed between funds be liquidated in a timely manner.

ACCOUNTING STANDARDS UPDATES

GASB Statement No. 100, *Accounting Changes and Error Corrections*, is effective for the District's year ending June 30, 2024. This statement defines four categories of accounting changes and error corrections along with the required reporting requirements, which include the following: (1) *Change in accounting principle* with retroactive reporting to the earliest period presented and required financial statements footnote disclosures including an explanation as to why the change is preferable, (2) *Change in accounting estimate* with prospective reporting from the period when change occurs and required financial statement footnote disclosures, (3) *Change to or within the entity* with an adjustment to beginning net position and (4) *Error correction* with retroactive reporting to the earliest period presented and required financial statement footnote disclosures.

GASB Statement No. 101, *Compensated Absences*, is effective for the District's year ending June 30, 2025. This statement clarifies what is considered unused leave balances for employees. Under this statement, compensated absences should be recognized as liabilities on the government-wide statements for leave that has not been used and leave that has been used but not yet paid or settled.

We have discussed these comments with District personnel and would be pleased to discuss them in further detail, perform any additional studies, or assist you in implementing the recommendations.

This communication is intended solely for the information and use of the District's management, Audit Committee, and Board of Education; others within the District; the NYS Education Department Office of Audit Services; and the Office of the NYS Comptroller, Division of Local Government and School Accountability. It is not intended to be, and should not be, used by anyone other than these specified parties.

