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MANAGEMENT COMMENT LETTER

Board of Education
Chenango Valley
Central School District
Binghamton, New York

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Chenango Valley Central School District (the School District) for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the School District'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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. 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.

However, during our current year audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes these comments and recommendations regarding these matters. This letter does not affect our report dated September 22, 2014 on the financial statements of the Chenango Valley Central School District.

CURRENT YEAR FINDING

Federal Project Salary and Wage Certifications

Finding:

2 CFR 225-Cost Principles for State, Local and Indian Tribal Governments (formerly Circular A-87), Appendix B-Selected Items of Cost, 8-Compensation for Personal Services, h. Support of Salaries and Wages, states:

In addition to the standards for payroll documentation, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of work performed by the employees.

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Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects after-the-fact distribution of the actual activity of the employee, accounts for the employee's total activity, is prepared at least monthly and must coincide with one or more pay periods, and is signed by the employee.

Federal project salary certifications were not completed and signed by employees and a supervisory official for personnel working on the IDEA Section 611 (Special Education-Grants to States) grant until September 2014.

Recommendation:

To meet the documentation requirements for support of salary and wages for Federal award projects, the School District uses Payroll Verification Forms. We recommend the School District complete these forms within two weeks of the end of the period covered by the Payroll Verification Form.

PRIOR YEAR FINDING – NON-RECURRING

Collection of Property Taxes

Prior Year Finding:

After approval of rates for the 2012-2013 fiscal year, it was determined an incorrect tax rate had been used. This error resulted in an overcollection of property taxes of \$293,251. The School District discovered the error and properly segregated the overcollected amount to a separate bank account. This overcollection, along with interest earned, will be used to offset property taxes in the 2013-2014 fiscal year.

Current Status:

The correct tax rate was used for the 2013-2014 fiscal year.

DISCUSSION ITEM

Reserve for Tax Reduction

During the year ended June 30, 2009, the School District sold property, and properly placed the proceeds of the sale in a reserve for tax reduction. This reserve was established for the gradual use of the proceeds of such sales. Under New York State Education Law, the School District is required to use the balance of the reserve within a ten year period. At June 30, 2014, the balance in this reserve was \$507,761. The District should consider the proper timing for the use of the reserve for tax reduction by the 2018-2019 fiscal year.

Impact of Future Standards of the Governmental Accounting Standards Board (GASB)

The Chenango Valley Central School District is in the process of assessing the future effects of GASB Statement Number 68, "Accounting and Financial Reporting for Pensions" to be implemented in fiscal year 2014-2015.

GASB Statement Number 68 establishes accounting and financial reporting requirements related to pension for governments whose employees are provided with pensions through certain pension plans. As a participant in a cost-sharing employer plan, the School District is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan) - the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Generally, pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This communication is intended solely for the use of the Audit Committee, the Board of Education, and management, and others within the Chenango Valley Central School District, and is not intended to be and should not be used by anyone other than these specified parties.

Linchi, Dietershagen, Little, Minkler & Company, LLP

September 22, 2014
Ithaca, New York