



**Nugent & Haeussler, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
ESTABLISHED 1925

101 Bracken Road  
Montgomery, New York 12549  
Tel (845) 457-1100  
Fax (845) 457-1160  
e-mail: nh@nhcpas.com

Peter J. Bullis, CPA, FACFEI, DABFA  
Norman M. Sassi, CPA  
Christopher E. Melley, CPA  
Gary C. Theodore, CPA  
Julia R. Fraino, CPA  
William T. Trainor, CPA  
Mark M. Levy, CPA, CFP  
Thomas R. Busse, Jr., CPA  
Brent T. Napoleon, CPA  
Jennifer L. Capicchioni, CPA  
Patrick M. Bullis, CPA  
Justin B. Wood, CPA

Richard P. Capicchioni, CPA  
Walter J. Jung, CPA  
Jennifer A. Traverse, CPA

October 15, 2018

To the President and Members  
of the Board of Education of the  
Liberty Central School District  
115 Buckley St.  
Liberty, New York 12754

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Central School District for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 3, 2018. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Liberty Central School District are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, in 2018 the District implemented Statements of Governmental Accounting Standards (GASB Statements) GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, GASB Statement 81, *Irrevocable Split-Interest Agreements*, GASB Statement 82, *Pension Issues – an amendment of GASB Statements 67, 68 and 73*, GASB Statement 85, *Omnibus 2017*, and GASB Statement 86, *Certain Debt Extinguishment Issues*. We noted no transactions entered into by Liberty Central School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the Liberty Central School District's financial statements were:

Management's estimate of Other Postemployment Benefits based on actuarial assumptions and relevant census data provided to an independent actuarial firm hired by the District. We evaluated the key factors, assumptions and the census data used to develop the estimate in determining that they are reasonable in relation to the financial statements taken as a whole.

Depreciation of fixed assets is based on estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop the depreciation of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the annual pension costs and its proportionate share of related net pension assets, deferred outflows, net pension liabilities and deferred inflows which are based on information provided by New York State Employees' Retirement System (ERS) and the New York State Teachers' Retirement System (TRS) and other relevant data provided to independent actuarial firms hired by the retirement systems. We evaluated the key factors and assumptions used by the retirement systems to develop the annual pension costs and the District's proportionate share of related net pension assets, deferred outflows, net pension liabilities and deferred inflows in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected some of such misstatements. In addition, none of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole. Please refer to the attached journal entries.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 15, 2018.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Liberty Central School District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

General Fund

A. New York State regulations require that no more than 4% of your approved budget may be withdrawn from the year-end fund balance and not be appropriated to reduce taxes. The 2017-2018 approved General Fund budget was \$45,913,009. A reconciliation of the available fund balance and the amount appropriated to reduce taxes in comparison with the 4% limitation revealed a deficiency as follows:

Assigned and Unassigned Fund Balance - June 30, 2017	\$ 3,838,857
Encumbrances included in Assigned Fund Balance	( 1,553,659)
Appropriated to Reduce 2017-2018 Tax Levy	( 120,888)
Unassigned, Unappropriated Fund Balance	2,164,310
2017-2018 Budget	\$45,913,009
	<u>x 4%</u>
Limitation	<u>1,836,520</u>
Excess Fund Balance Retained	<u>\$ 327,790</u>

We recommend that the District not retain fund balance in excess of the 4% limitation and approve all relevant fund balance appropriations prior to the approval of the tax levy, if possible.

B. During our procedures, we noted that budget transfers had not been routinely performed throughout the year and expenditures had been made when sufficient budget appropriation was not available. Management advised that this was primarily the result of a change in personnel in the Business Manager position and that this task had been overlooked.

We recommend that budget transfers between budget codes be performed in a timely manner such that no expenditure line can be overspent. Additionally, no purchases should be made without adequate budget appropriation being available.

C. During our audit, we found that the District's Retirement Contribution Reserve was overfunded as of June 30, 2018.

We understand the importance of maintaining adequate reserves to avoid unnecessary tax rate spikes and potential fiscal stress. However, we recommend reviewing the level of this reserve based on historical data and future expectations and adjusting as determined appropriate.

D. During our audit we found instances of open purchase orders which were no longer accurate or valid.

We recommend that the District implement procedures to review all open purchase orders for accuracy and validity on a regular basis and especially at June 30, the end of the fiscal year.

#### Special Aid

A. As a result of our procedures, we found that the Special Aid Fund ended the year with a deficit fund balance of \$55,991 as well as had an operating deficit of \$25,921.

This deficit is the result of the costs of the Summer Handicapped program exceeding reimbursements in prior years. The District is monitoring the costs of the program in relation to the reimbursements received and interfund transfers are budgeted from the General Fund, as appropriate. We recommend that the District continue their monitoring and establish and maintain a plan to eliminate this and prevent future deficits.

B. As a result of our audit, we found instances where the STAC (System to Track and Account for Children) form was completed and filed for children who did not attend a summer program and the District received the associated reimbursement. Conversely, we noted instances whereby a STAC form had not been completed and filed for children who did attend a summer program.

We recommend that the District perform an annual reconciliation of all children placed in special education programs to verify that all children have been properly STAC'ed and that the District is receiving the correct reimbursement.

C. During our compliance review of Title IIA, Teacher & Principal Training & Recruiting, we found that payroll certifications in the form of Personnel Activity Reports (PARs) had not been completed for employees being paid from this grant and the grant was not spent in accordance with the budget.

We recommend that the District ensure that all employees working in the grants are certifying their actual percent of effort working in the grant. We additionally recommend that the grant be spent in accordance with the approved budget. If budget modifications are necessary, they should be requested and submitted timely.

### Other

A. It was noted during our audit that substantially all of the District's Information Technology (IT) services have been outsourced to a third party vendor. Whenever an integral function of the District is outsourced, there is a need for close management oversight and monitoring.

We recommend that District establish procedures which require the vendor to submit weekly reports and/or work orders. The District would then be able to evaluate that they are being provided adequate and appropriate service in accordance with the established contractual agreement. Management should review these reports and work orders as a precursor to payment of vendor invoices.

B. As a result of our procedures, we noted that some funds had "due to other funds" balances at the end of the fiscal year. While we understand that it may be necessary for some funds to make temporary loans to other funds, it should be noted that General Municipal Law, Article 2, Section 9-a states that all interfund advances need to repaid as soon as funds are available, but in no event later than the close of the fiscal year in which the advance was made.

We recommend that management repay those temporary loans as soon as possible. Furthermore, we recommend that management closely monitor future temporary loans to other funds and take steps necessary to repay such loans prior to the end of the fiscal year.

C. We noted during our procedures that some changes had been made to the user access functionalities in the Wincap accounting software in the prior year. As stated previously, School District management and a representative from the CBO had worked together during the previous fiscal year to remedy prior findings. The result of that interaction was a memorandum from the CBO regarding the complexities within the software, the CBO's operational needs, and suggested corrective actions. These corrective actions included a reduction of access rights granted to CBO teams and/or a reduction in the number of individuals with access to certain functionality. Furthermore, where a reduction in access negatively impacted the CBO's needs, it was suggested by the CBO that some users' system logons be made inactive until their service is required for the Liberty Central School District. While positive steps have been made, it did not appear that any additional changes have been made in the current year to further the segregation or limitation of incompatible user access and that some individuals remained with broad user access.

We recommend that the District continue to work with the CBO to make the necessary changes to the Wincap user access report in order to establish the proper oversight and safeguards necessary to facilitate strong internal control procedures.

### Extraclassroom Activity Fund

We found that the Middle School Yearbook, Students Against Drunk Driving, and Technology clubs had no or limited financial activity during the current year.

We recommend that the Board review the status of these Clubs and transfer the remaining funds to the student government if there will be no further activity.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, Schedule of Changes in the District's Total OPEB Liability and Related Ratios, the Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund, the Schedule of the District's Proportionate Share of the Net Pension Asset/Liability, and the Schedule of District Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Change from Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund, the Schedule of Capital Projects Fund – Project Expenditures and Financing Sources, the Net Investment in Capital Assets and the Statement of Indebtedness, which accompany the financial statements but are not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with prescribed New York State Education Department guidelines, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Liberty Central School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



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NUGENT & HAEUSSLER, P.C.

Client: **LIBE5993 - Liberty Central School District**  
 Engagement: **Liberty Central School District**  
 Period Ending: **6/30/2018**  
 Trial Balance: **3000A.00 - Fund A TB**  
 Workpaper: **3700A.00 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>				
To close budgetary accounts				
A960	Total Appropriations-Mod.Budq.		49,116,526.00	
A510	Total Est. Rev.-Modified Budq.			45,792,121.00
A511	Appropriated Reserves			1,650,000.00
A599	Appropriated Fund Balance			1,674,405.00
<b>Total</b>			<b>49,116,526.00</b>	<b>49,116,526.00</b>
<b>Adjusting Journal Entries JE # 2</b>				
To adjust encumbrance balance for 18/19 estimated tuition bills				
A821	Reserve for Encumbrances		247,429.00	
A521.00	Encumbrances			247,429.00
<b>Total</b>			<b>247,429.00</b>	<b>247,429.00</b>
<b>Adjusting Journal Entries JE # 3</b>				
To record receivable for School Lunch equipment purchased in General Fund.				
A391.CF	Due From School Lunch Fund		46,243.00	
A522.1620-250-00-0000	CLASSROOM FURN & EQUIP			46,243.00
<b>Total</b>			<b>46,243.00</b>	<b>46,243.00</b>
<b>Adjusting Journal Entries JE # 4</b>				
To reclassify BAN interest expenditure during the year.				
A522.9731-700	BOND ANTICIPATION NOTE INTEREST		57,231.00	
A522.9789-700-00-0000	OTHER DEBT - INTEREST			57,231.00
<b>Total</b>			<b>57,231.00</b>	<b>57,231.00</b>
<b>Adjusting Journal Entries JE # 5</b>				
To adjust fund balance for \$5,750 discrepancy between A and H fund equity transfer. A had \$151,601 and H had \$157,351				
A522.1620.489-00	CONTRACTUAL & OTHER EXPENSES		1,250.00	
A522.1621.401-00	SITE IMPROVEMENT		4,500.00	
A917	Unassigned Fund Balance			5,750.00
<b>Total</b>			<b>5,750.00</b>	<b>5,750.00</b>
<b>Adjusting Journal Entries JE # 6</b>				
To record entries associated with Emergency Impact Aid				
A391.FF	Due From Special Aid Fund		2,250.00	
A522.2110.130-00	TEACHER SALARIES-HIGH SCHOOL			2,250.00
<b>Total</b>			<b>2,250.00</b>	<b>2,250.00</b>

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 Period Ending: **6/30/2018**  
 Trial Balance: **3000A.00 - Fund A TB**  
 Workpaper: **3700A.00 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 7</b>				
To adjust opening fund balance for rounding				
A917	Unassigned Fund Balance		3.00	
A522.2250-490-20-6300	BOCES/ITAP SERVICES			3.00
<b>Total</b>			<b><u>3.00</u></b>	<b><u>3.00</u></b>



Client: **LIBE5993 - Liberty Central School District**  
 Engagement: **Liberty Central School District**  
 Period Ending: **6/30/2018**  
 Trial Balance: **3000C.00 - Fund C TB**  
 Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries</b>				
<b>Adjusting Journal Entries JE # 2</b>				
To close budgetary accounts				
C960	Appropriations		1,280,197.00	
C510	Estimated Revenues			1,280,197.00
<b>Total</b>			<u><u>1,280,197.00</u></u>	<u><u>1,280,197.00</u></u>
<b>Adjusting Journal Entries JE # 3</b>				
To close encumbrances to fund balance				
C917	UnAssigned Fund Balance		200.00	
C521	Encumbrances			200.00
<b>Total</b>			<u><u>200.00</u></u>	<u><u>200.00</u></u>
<b>Adjusting Journal Entries JE # 4</b>				
To record school lunch equipment purchases made by the General Fund				
C522.2860-250-00	EQUIPMENT		46,243.24	
C630.AF	Due To General Fund			46,243.24
<b>Total</b>			<u><u>46,243.24</u></u>	<u><u>46,243.24</u></u>
	<b>Total Adjusting Journal Entries</b>		<u><u>1,326,640.24</u></u>	<u><u>1,326,640.24</u></u>
	<b>Total All Journal Entries</b>		<u><u>1,326,640.24</u></u>	<u><u>1,326,640.24</u></u>

Client: **LIBE5993 - Liberty Central School District**  
 Engagement: **Liberty Central School District**  
 Period Ending: **6/30/2018**  
 Trial Balance: **3000F.00 - Fund F TB**  
 Workpaper: **3700F.00 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>				
To adjust encumbrance balance. Entry not posted prior to receiving TB's				
F821	Reserve for Encumbrances		199,180.00	
F521	Encumbrances			199,180.00
<b>Total</b>			<b><u>199,180.00</u></b>	<b><u>199,180.00</u></b>
<b>Adjusting Journal Entries JE # 2</b>				
To reclassify s/h overpayment in 16/17 as Due To Other Governments.				
F691.00	Deferred Revenue		28,364.00	
F631	Due To Other Governments			28,364.00
<b>Total</b>			<b><u>28,364.00</u></b>	<b><u>28,364.00</u></b>
<b>Adjusting Journal Entries JE # 3</b>				
To adjust opening fund balance				
F917.00	Unassigned Fund Balance		3.00	
F600.99	Accounts Payable			3.00
<b>Total</b>			<b><u>3.00</u></b>	<b><u>3.00</u></b>
<b>Adjusting Journal Entries JE # 4</b>				
To record entries associated with Emergency Impact Aid				
F410	Due From State and Federal		2,250.00	
F522.2110.150.00.IMP18	EMERGENCY IMPACT AID - SALARIES		2,250.00	
F630.AF	Due to General Fund			2,250.00
F980.4291	EMERGENCY IMPACT AID			2,250.00
<b>Total</b>			<b><u>4,500.00</u></b>	<b><u>4,500.00</u></b>

Client: **LIBE5993 - Liberty Central School District**  
 Engagement: **Liberty Central School District**  
 Period Ending: **6/30/2018**  
 Trial Balance: **3000H.00 - Fund H TB**  
 Workpaper: **3700H.00 - Adjusting Journal Entries Report**

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>			
To adjust encumbrance balance. Journal entry not posted prior to receiving TB's.			
H821	Reserve for Encumbrances	40,893.00	
H521	Encumbrances		40,893.00
<b>Total</b>		<b><u>40,893.00</u></b>	<b><u>40,893.00</u></b>

Client: **LIBE5993 - Liberty Central School District**  
 Engagement: **Liberty Central School District**  
 Period Ending: **6/30/2018**  
 Trial Balance: **3000V.00 - Fund V TB**  
 Workpaper: **3700V.00 - Adjusting Journal Entries Report**

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>			
To adjust opening fund balance			
V980.2401	Interest and Earnings	20.00	
V915.00	Assigned UnAppr Fund Balance		20.00
<b>Total</b>		<b><u>20.00</u></b>	<b><u>20.00</u></b>