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October 10, 2023

To the Board of Education, Audit Committee, and Management
Freeport Union Free School District
Freeport, New York

In planning and performing our audit of the financial statements of the governmental activities and each major fund, each major fund, and the fiduciary fund of the Freeport Union Free School District (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.

During our audit, we noted certain opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated October 10, 2023, on the financial statements of the Freeport Union Free School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Education, Audit Committee, management, others you deem appropriate within the District, and any governmental authorities you need to share this information with. It is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Cullen & Danowski, LLP
Cullen & Danowski, LLP

Freeport Union Free School District

For the Year Ended June 30, 2023

STATUS OF PRIOR YEAR'S COMMENTS

Unassigned Fund Balance - General Fund

New York State Real Property Tax Law (RPTL) §1318 limits a school district's general fund unassigned fund balance to an amount not greater than 4% of the ensuing year's budget.

We noted that the District's unassigned fund balance as of June 30, 2023 is in excess of the 4% limit established by New York State Real Property Tax Law (RPTL) §1318.

We recommend that the District continue to monitor its plan for utilizing and reducing the General Fund's unassigned fund balance.

School Food Service Fund

The District's school food service program serves lunches to students and District employees. Except for free and reduced-price lunches that are served to eligible students, meals are sold at a set price under normal circumstances. Due to the COVID-19 pandemic, the Federal and state governments have allowed school districts to provide free meals to all students regardless of their income eligibility for the 2020-2021 and 2021-2022 school years. The District receives reimbursements from the Federal and state governments based on the number of student meals served. Federal Regulation, 7CFR Part 210.14b, limits the net cash resources within the school food service fund to an amount that does not exceed three months average expenditures.

We noted that, although the District increased its purchases of cafeteria-related equipment during the year, the District's school food service fund ended the 2022-2023 fiscal year with a surplus from operations; as a result, its fund balance continues to be in excess of the three-months-average-expenditures threshold. We note that the District has a State-approved plan to utilize the school food service fund's fund balance, and that additional cafeteria equipment has been ordered.

We recommend that the District continue to monitor the school food service fund's fund balance and assess the need to update its plan to lower the school food service fund's fund balance to a level that complies with Federal Regulation, 7CFR Part 210.14b.

Extraclassroom Activities Fund – Financial Inactivity

The extraclassroom activity funds are the depository of student money. The New York State Education Department publishes the *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*. These guidelines recommend procedures for organizing these activities, controlling receipts and disbursements, as well as recording and reporting transactions.

We reported last year that several High School and Middle School student clubs/activities had no financial transactions during the 2020-2021 and 2021-2022 school years.

We noted this year that some of those student clubs continued to have no financial transactions except for bank interest earnings being allocated to their balances. We recommend that the District review the status of these student clubs/activities with the building principals to determine whether or not these clubs are still active. Inactive clubs should be closed and any remaining cash balances transferred or disbursed to another student activity or activities.

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Extraclassroom Activities Fund - Bank Reconciliations

Monthly bank reconciliations are an important part of internal controls. When performed timely and properly, bank reconciliations help ensure that cash transactions have been recorded appropriately. Reconciling items including uncashed outstanding checks, deposits in transit, and other miscellaneous differences should be investigated and resolved on a timely basis. The High School and Middle school central treasurers appointed by the Board of Education are responsible for preparing monthly bank reconciliations for the extraclassroom activities funds' bank accounts.

We noted last year that both the High school and the Middle school's extraclassroom activities checking accounts had a number of uncleared checks that have been outstanding for more than one year.

During the current audit, we noted that both the High School and the Middle School have resolved almost all of the stale-dated outstanding checks; as of June 30, 2023, there was only one uncleared check that was outstanding for just over one year in the High School checking account. The District placed a stop payment on the stale-dated check as soon as we brought it to their attention.

We recommend that the District continue the positive effort of reviewing and resolving outstanding checks on a timely basis.

CURRENT YEAR'S COMMENTS

Unexpended Capital Projects Balances

The District provides funding for resources needed for the acquisition and construction of capital facilities throughout the District by means of annual budgetary appropriations or through financing methods approved by the taxpayers, such as long-term debt or capital reserves; these projects are accounted for in the Capital Projects Fund. Upon completion of the capital projects, any unexpended balances should be returned to the General Fund if the projects were originally funded by budgetary appropriations or capital reserves, or transferred to the Debt Service Fund if the projects were financed by debt, to be used towards future debt service payments.

We noted that the District's capital projects fund has a number of capital projects which appear to be completed; those capital projects, some of which were financed by bond borrowings, have had no expenditures for several years and have unexpended balances. Some projects also appeared to have negative balances.

We recommend that the District review its capital projects currently reflected in the supplementary Schedule of Project Expenditures and Financing Resources – Capital Projects Fund of the annual financial statements, to identify the completed projects and determine the appropriate disposition of the unexpended balances accordingly.

Intangible Assets Capitalization and Recognition Thresholds

The District has implemented the new accounting pronouncement issued by the Governmental Accounting Standards Board (GASB), Statement No. 87, *Leases* (GASB 87) during the 2021-2022 fiscal year, and Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) during the 2022-2023 fiscal year as required. GASB 87 established new accounting and financial reporting standards for long-term leases of non-financial assets and the intangible right to use lease assets. These lease assets are considered part of the District's capital assets inventory and whose principal values are amortized over the term of the lease agreements or until

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For the Year Ended June 30, 2023

the leased assets are returned to the lessors. Similarly, GASB 96 requires governmental entities with applicable long-term IT arrangements to report an intangible right-to-use subscription asset, and include the intangible asset in the District's capital assets inventory.

The District has a Board-approved policy, Policy No. 5620, for the accounting and tracking of fixed assets inventories with an established capitalization threshold for capitalizing and depreciating its capital assets; however, the policy currently does not address intangible assets.

We recommend that, as a best practice, the District update its current capital assets policy to include intangible assets, including the right-to-use lease assets and subscription assets, to provide capitalization threshold and amortization criteria for intangible assets as well. The District may consider adopting a higher but reasonable threshold for the recognition and disclosure of intangible assets resulting from leases and subscription arrangements, in order to provide some operational efficiency and relief.
