

D'Arcangelo & Co., LLP
Certified Public Accountants & Consultants

200 E. Garden St., P.O. Box 4300, Rome, N.Y. 13442-4300
315-336-9220 Fax: 315-336-0836

Required Communication with Board of Education

Board of Education
Potsdam Central School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Potsdam Central School District for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *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 June 16, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practice

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Potsdam Central School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015-2016. We noted no transactions entered into by the 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 financial statements were:

1. The District, in accordance with GASB No. 45: "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," requires significant actuarial estimates to calculate the District's postemployment benefits liability.
2. Estimates involving depreciable lives of the District's capital assets and the related depreciation.
3. The District, in accordance with GASB No. 68, Accounting and Financial Reporting for Pensions (as amended by GASB Statement 71), requires significant actuarial estimates to calculate the net pension assets and liabilities, deferred inflows and outflows of resources – pensions, and pension expense.

We evaluated the key factors and assumptions used by management in determining that the accounting estimates were 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 clearly trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. The attached schedule summarizes corrected misstatements of the financial statements. In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 September 15, 2016.

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 School District'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 the 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.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the schedule of revenues, expenditures, and changes in fund balance budget and actual—general fund, the schedules of funding progress of the other postemployment benefits, the schedule of District's Contributions and the schedule of District's proportionate share of the net pension liability which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries 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 schedules of change from original budget to revised budget, section 1318 of real property tax law limit calculation, the schedule of project expenditures-capital projects fund, and the net investment in capital assets, which accompany the financial statements but are not RSI. With respect to this 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 accounting principles generally accepted in the United States of America, 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.

Findings and Recommendations

In addition, we have enclosed a memorandum summarizing a matter involving the internal control structure and its operations that we feel can be improved and strengthened. This matter is not considered to be a significant deficiency or a material weakness.

Restriction on Use

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

D'Arcangelo + Co., LLP

September 23, 2016

Rome, New York

**POTSDAM CENTRAL SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016**

A. Unassigned Fund Balance

As of June 30, 2016, the General Fund of the School District has an unassigned fund balance of \$1,749,030 which represents 5.53% of the subsequent year's budget. New York State's Real Property Tax Law limits the amount of undesignated fund balance to 4% of the subsequent year's budget.

We recommend that Management should implement a plan to reduce the amount to within the 4% limit.

**POTSDAM CENTRAL SCHOOL DISTRICT
STATUS OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2016**

A. Unassigned Fund Balance-Prior Year

As of June 30, 2015, the General Fund of the School District has an unassigned fund balance of \$1,520,484 which represents 5.1% of the subsequent year's budget. New York State's Real Property Tax Law limits the amount of undesignated fund balance to 4% of the subsequent year's budget.

We recommend that Management should implement a plan to reduce the amount to within the 4% limit.

Status:

See current year finding regarding non compliance with 4% limitation.