

Town of Walkill Boys & Girls Club, Inc.

Independent Auditors' Report on Communication of
Internal Control Related Matters Identified in the Audit

December 31, 2010



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

**Independent Auditors' Report on Communication of Internal Control Matters
Identified in the Audit**

**Board of Directors
Town of Walkill Boys & Girls Club, Inc.**

In planning and performing our audit of the financial statements of the Town of Walkill Boys & Girls Club, Inc. (the "Club") for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Club's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Club's internal control. Accordingly, we do not express an opinion on the effectiveness of the Club'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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, as indicated in the attached Addendum A, we identified certain other matters for consideration that are opportunities for strengthening internal controls and operating efficiency.

This communication is intended solely for the information and use of management and the Board of Directors of the Club and is not intended to be and should not be used by anyone other than these specified parties.

O'Connor Davies Munns & Dobbins, LLP

New Windsor, New York
October 12, 2011

Addendum A

Other Matters for Consideration that are Opportunities for Strengthening Internal Controls and Operating Efficiency

**A. Accounting Policies and Procedures Manual and Cross Training of Employees
(prior year comment)**

We noted that the accounting office has not adopted a formal, written accounting policy and procedures manual. A comprehensive manual is a fundamental component of an effective accounting and financial reporting system. Lack of formal procedures may result in increased risks of errors and loss or misuse of assets, inconsistent treatment of transactions and lack of comparability of financial information. Further, we noted that only one employee has the knowledge to perform certain accounting functions. In the event of an unscheduled absence by this key individual, certain accounting processes would be disrupted.

Recommendation

We recommend that efforts be made to formalize and adopt procedures used by the Club's accounting office in an accounting policies and procedures manual. We also recommend that the Club consider cross-training employees to perform other functions so that key functions are appropriately backed-up in the event of an unexpected absence.

B. Segregation of Duties (prior year comment)

Due to the limited number of people working in the office, many critical duties are combined and assigned to the available employees. Presently, the same individual receives and processes cash receipts, prepares and signs checks, performs payroll duties, and records the financial activity in the general ledger.

Recommendation

We recommend to the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible. Segregation could be improved if different employees performed the separate duties of signing checks, processing cash receipts and cash disbursements, and maintaining books of original entry. When it is not possible to segregate duties, controls could be improved by utilizing others within the Club (including the Club's Board of Directors) to perform review and oversight functions. For the year ended December 31, 2011, the Club implemented additional controls. The Board Treasurer reviews all bank reconciliations and the Executive Director collects and distributes all mail.

Addendum A

Other Matters for Consideration that are Opportunities for Strengthening Internal Controls and Operating Efficiency

C. Revenue to Membership Reconciliations including Scholarships, Discounts and Grants Receivables (*prior year comment*)

During the course of performing our audit, we identified differences between the QuickBooks accounting records and the Club's Visions membership database. We noted that receipts for program revenue are first recorded through Visions. Daily Visions reports are then given to the bookkeeper for recording into QuickBooks. We noted that the revenues are not periodically reconciled, reviewed and approved. Scholarship and related discount information should be similarly tracked and reconciled.

Recommendation

We recommend that a system be implemented to periodically reconcile the separately maintained membership data to the program revenue amounts recorded in the accounting system. This reconciliation process would help to ensure that all program and member dues receipts and scholarships and discounts are accounted for and appropriately classified as well as establish an additional internal control over cash receipts and revenue recognition.

D. Property and Equipment (*prior year comment*)

Asset Disposal Policy

The Club does not have a formal policy to ensure that disposals of property and equipment are reported to the accounting department as they occur. Without such a policy and procedures, the likelihood increases that disposals are not being recorded. This could lead to a situation where property and equipment that physically exist within an organization and the asset listing used for accounting purposes, do not agree.

Recommendation

We recommend that management implement a formal policy to ensure the reporting of asset disposals is adopted, includes the necessary level of approval for disposal and be reported to the accounting department on a timely basis. A simple standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to the Club's policy. We also recommend that the Club's fixed assets be periodically reviewed for obsolete assets that should be disposed of.

Reconciliation of Property and Equipment to the General Ledger

At the present time, there is no procedure for reconciling detailed property and equipment records to the general ledger on a regular basis. The lack of such a procedure has led to inaccurate reporting of property and equipment cost and depreciation expense in monthly financial statements.

Addendum A

Other Matters for Consideration that are Opportunities for Strengthening Internal Controls and Operating Efficiency *(continued)*

D. Property and Equipment *(continued)*

Reconciliation of Property and Equipment to the General Ledger *(continued)*

Recommendation

To prevent the need for adjustments to the property accounts at the end of each year, we recommend that the general ledger fixed asset accounts be reconciled to the detailed records on a monthly basis.

Implementation of a Capitalization Policy

During our audit, we noted that the Club has no formal policy for the capitalization of property and equipment purchases. This leaves the organization open to the possibility that property and equipment will not be appropriately recorded, depreciated, or reported for accounting or tax purposes.

Recommendation

We recommend that the Club implement a written policy requiring all assets costing more than an established amount, such as \$1,000, to be capitalized and depreciated over the estimated useful lives of assets.

E. Journal Entries *(prior year comment)*

During our testing of journal entries we noted that journal entries were not signed by the preparer and are not reviewed by a supervisor. In addition, the Club does not keep a journal entry book with supporting documentation of the journal entries.

Recommendation

We recommend that all journal entries be signed by the preparer and reviewed by a supervisor. Proper supporting documentation should always be kept on file.

F. Data Disaster Recovery Plan *(prior year comment)*

During our audit, we noted that the Club does not have a formal data disaster recovery plan. However, we noted the Club is in the process of contracting with a company to provide a system of remote back up for its information systems.

Addendum A

Other Matters for Consideration that are Opportunities for Strengthening Internal Controls and Operating Efficiency *(continued)*

F. Data Disaster Recovery Plan *(prior year comment) (continued)*

Recommendation

A data disaster recovery plan should be prepared within reasonable cost/benefit constraints, to deal with any event that could corrupt or destroy computerized systems and subsequently adversely affect the Organization's ability to conduct its operations.

G. Record Retention Policy *(prior year comment)*

The availability of records can be critical to a business organization in the event of an audit by the Internal Revenue Service (or other federal or state agency), a lawsuit, an insurance claim, or a number of other circumstances. A clear, written record-retention policy can help ensure that the appropriate records are available when they are needed. The recommended record-retention schedule (below) is offered as a guide. Note, however, that different retention periods may apply depending on the specific facts and circumstances and on the history and attributes of a particular organization.

<u>Document</u>	<u>Retention Period</u>
Accounts payable ledgers and schedules	7 years
Accounts receivable ledgers and schedules	7 years
Audit reports of accountants	Permanently
Bank reconciliations	1 year
Checks (canceled but see exception below)	7 years
Checks (canceled for important payments, i.e., taxes purchases of property, special contracts, etc.); checks should be filed with underlying supporting documentation	Permanently
Deeds and mortgages, bills of sales	Permanently
Employee personnel records (after termination)	3 years
Financial statements (end-of-year, other months optional)	Permanently
General ledgers (and end-of-year trial balances)	Permanently
Payroll records and summaries	7 years
Property records, including costs, depreciation reserves, end-of-year trial balances, depreciation schedules, blueprints and plans	Permanently
Tax returns and worksheets, revenue agents' reports, and other documents relating to determination of income tax liability	Permanently
Vouchers for payments to vendors, employees, etc. (includes allowances and reimbursement of employees, officers, etc. for travel and entertainment expenses)	7 years

Town of Walkill Boys & Girls Club, Inc.

Financial Statements

December 31, 2010



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

The Board of Directors Town of Wallkill Boys & Girls Club, Inc.

We have audited the accompanying statements of financial position of the Town of Wallkill Boys & Girls Club, Inc. (the "Club") as of December 31, 2010 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Club's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Club's financial statements as of and for the year ended December 31, 2009 and, in our report dated September 16, 2010 expressed an unqualified opinion on those financial statements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Club's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Town of Wallkill Boys & Girls Club, Inc. as of December 31, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on page 9 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

O'Connor Davies Munns & Dobbins, LLP

New Windsor, New York
October 12, 2011

Town of Wallkill Boys & Girls Club, Inc.

Statement of Financial Position

December 31, 2010

(with comparative amounts for 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 46,742	\$ 181,428
Accounts receivable	31,102	29,482
Grants receivable	243,344	132,627
Prepaid expense	-	2,000
Property and equipment, net	<u>27,617</u>	<u>32,461</u>
	<u>\$ 348,805</u>	<u>\$ 377,998</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Borrowings under line of credit	\$ 54,642	\$ -
Accounts payable and accrued expenses	<u>21,556</u>	<u>28,712</u>
Total Liabilities	<u>76,198</u>	<u>28,712</u>
Net Assets		
Unrestricted	265,607	349,286
Temporarily restricted	<u>7,000</u>	<u>-</u>
Total Net Assets	<u>272,607</u>	<u>349,286</u>
	<u>\$ 348,805</u>	<u>\$ 377,998</u>

See notes to financial statements

Town of Wallkill Boys & Girls Club, Inc.

Statement of Activities

Year Ended December 31, 2010

(with summarized totals 2009)

	Unrestricted	Temporarily Restricted	2010 Total	2009 Total
REVENUE AND SUPPORT				
Contributions	\$ 36,635	\$ -	\$ 36,635	\$ 34,762
Grants	368,141	7,000	375,141	527,188
Registration fees	8,416	-	8,416	6,541
Program services	233,689	-	233,689	247,413
Special events, net of direct expenses of \$20,912 and \$6,197	13,380	-	13,380	29,305
Donated facilities	56,000	-	56,000	58,000
Miscellaneous	6,357	-	6,357	2,374
Total Revenue and Support	722,618	7,000	729,618	905,583
EXPENSES				
Programs	700,415	-	700,415	664,900
Management and general	53,325	-	53,325	51,219
Fundraising	52,557	-	52,557	45,649
Total Expenses	806,297	-	806,297	761,768
Change in Net Assets	(83,679)	7,000	(76,679)	143,815
NET ASSETS				
Beginning of year	349,286	-	349,286	205,471
End of year	\$ 265,607	\$ 7,000	\$ 272,607	\$ 349,286

See notes to financial statements

Town of Wallkill Boys & Girls Club, Inc.

Statement of Cash Flows

Year Ended December 31, 2010

(with comparative amounts 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (76,679)	\$ 143,815
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	4,844	3,654
Write-off of previously capitalized construction costs	-	1,980
Bad debt expense	3,727	-
Net changes in operating assets and liabilities		
Accounts receivable	(1,620)	19
Grants receivable	(114,444)	86,985
Prepaid expenses	2,000	(2,000)
Accounts payable and accrued expenses	<u>(7,156)</u>	<u>(8,973)</u>
Net Cash from Operating Activities	<u>(189,328)</u>	<u>225,480</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	<u>-</u>	<u>(12,564)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings under line of credit	54,642	112,150
Repayment of line of credit borrowings	<u>-</u>	<u>(186,113)</u>
Net Cash from Financing Activities	<u>54,642</u>	<u>(73,963)</u>
Net Change in Cash and Cash Equivalents	(134,686)	138,953
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>181,428</u>	<u>42,475</u>
End of year	<u>\$ 46,742</u>	<u>\$ 181,428</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 972	\$ 1,401

Town of Wallkill Boys & Girls Club, Inc.

Notes to Financial Statements

1. Organization and Taxation

The Town of Wallkill Boys & Girls Club, Inc. (the “Club”) is a chartered member of The Boys & Girls Clubs of America, incorporated in 1993 in Middletown, NY. The Club is a community-based organization which provides a fun, safe, supervised environment for recreational and educational activities where boys and girls can develop self-esteem and the qualities needed to become caring, responsible citizens. The programs and services are designed to build character and strengthen life skills in youth ages 6-18.

Tax Exempt Status

The Club has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for federal and state income taxes has been recorded in the accompanying financial statements. The Club has been classified as an organization that is not a private foundation under Section 509(a) and has been designated as a publicly supported organization under Section 170(b)(1)(A)(vi). Contributions to the Club are tax-deductible within the limitations prescribed by the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Club and changes therein are classified and reported as unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Contributions restricted for the Club’s operating programs whose restrictions are met in the same reporting period are reported as unrestricted.

In-kind Support

A number of the members of the Board of Directors have contributed significant amounts of their time to the affairs of the Club; however, these services, if not professional in nature, have not been reflected in the financial statements unless the services provided represent the value of services provided by an otherwise salaried employee. The value of donated services for the use of office and program facilities is reflected in the accompanying financial statements based upon the estimated fair value of the facilities provided.

Town of Wallkill Boys & Girls Club, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Functional Expense Reporting

Expenses are classified according to the programs and support functions for which they were incurred. Certain common costs have been allocated based on management's estimate of the benefit provided.

Cash and Cash Equivalents

The Club considers all highly liquid investments with a maturity of three months or less, at the time of purchase, to be cash equivalents.

Property and Equipment

Property and equipment is recorded at cost and depreciated using the straight line method over the estimated useful lives of the respective assets. Estimated useful lives range from five to thirty-nine years. Maintenance, routine repairs and minor replacements are charged to operations as incurred, while those improvements which materially extend the lives of the existing assets are capitalized.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2010 was \$1,643.

Accounting for Uncertainty in Income Taxes

The Club recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Club had no uncertain tax positions that would require financial statement recognition. The Club is no longer subject to examinations by applicable taxing jurisdictions for periods prior to 2007.

Summarized Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Club's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 12, 2011.

Town of Wallkill Boys & Girls Club, Inc.

Notes to Financial Statements

3. Property and Equipment, Net

Property and equipment, net consisted of the following at December 31, 2010:

Leasehold improvements	\$ 30,720
Computers and equipment	80,987
Vehicles	<u>4,000</u>
	115,707
Accumulated depreciation	<u>(88,090)</u>
Property and Equipment, Net	<u>\$ 27,617</u>

4. Borrowings under Line of Credit

The Club maintains a \$100,000 line of credit with Orange County Trust Company until terminated by either the Club or the lender. Interest is calculated at prime rate plus 1.0% (3.25% at December 31, 2010). The line of credit is collateralized by all assets of the Club. The outstanding balance at December 31, 2010 was \$54,642.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$7,000 are available for the Club's "InfluenceHer: Taking Action for Girls" program for the year ended December 31, 2010.

6. Operating Leases

The Club leases equipment under operating leases that expire in 2011 and 2012. Rent expense was \$2,457 for the year ended December 31, 2010. The minimum annual rents as of December 31, 2010 are payable as follows:

2011	\$ 1,061
2012	<u>709</u>
	<u>\$ 2,479</u>

7. Donated Use of Space and Services

The Club receives free use of facilities from the Town of Wallkill, New York and various other locations for its school programs. The fair value of the space used is estimated at \$56,000 for 2010. This amount has been included in the financial statements as donated facility and rental expense. Subsequent to December 31, 2010, the Club entered into an operating lease for its administrative offices and will no longer receive use of facilities from the Town of Wallkill.

Town of Wallkill Boys & Girls Club, Inc.

Notes to Financial Statements

8. Defined Contribution Plan

The Club maintains a defined contribution retirement plan (the "Plan") for eligible employees which provides for contributions by the Club of up to 3% of each participant's compensation. Contributions to the Plan by the Club amounted to \$3,149 for the year ended December 31, 2010.

9. Concentration of Credit Risk

Financial instruments which potentially subject the Club to concentrations of credit risk consist primarily of cash and cash equivalents and grants and accounts receivable. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation insurance limits. The Club believes no significant concentration of credit risk exists with respect to its cash and cash equivalents and receivables.

Town of Wallkill Boys & Girls Club, Inc.

Supplemental Information

December 31, 2010

Town of Wallkill Boys & Girls Club, Inc.

Schedule of Functional Expenses

Year Ended December 31, 2010

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
PERSONNEL				
Salaries	\$ 416,887	\$ 40,182	\$ 45,205	\$ 502,273
Payroll taxes and benefits	<u>73,954</u>	<u>6,574</u>	<u>1,643</u>	<u>82,171</u>
Total Personnel Costs	<u>490,840</u>	<u>46,756</u>	<u>46,848</u>	<u>584,444</u>
OTHER THAN PERSONNEL COSTS				
Supplies	15,459	158	158	15,774
Printing and postage	7,273	156	391	7,820
Telephone	10,304	1,042	232	11,577
Insurance	7,703	550	917	9,170
Travel	3,909	434	-	4,343
Dues and fees	7,994	167	167	8,327
Professional fees	19,269	1,014	-	20,283
Office expense	7,796	419	168	8,383
Utilities	3,453	384	-	3,837
Interest	923	49	-	972
Marketing and public relations	8,233	185	833	9,250
Rent	62,510	316	316	63,141
Repairs and maintenance	6,521	272	-	6,793
Meetings and conferences	9,073	1,008	-	10,081
Bank fees	-	151	-	151
Recreation	16,307	-	-	16,307
Youth transportation	2,107	-	-	2,107
Contributions	100	-	-	100
Snacks	5,820	-	-	5,820
Camp	5,057	-	-	5,057
Outside services	200	-	-	200
Advertising	1,068	-	575	1,643
Fundraising	-	-	1,954	1,954
Miscellaneous	169	23	-	192
Bad debt expense	3,727	-	-	3,727
Depreciation	4,602	242	-	4,844
Total Expenses	<u>\$ 700,415</u>	<u>\$ 53,325</u>	<u>\$ 52,557</u>	<u>\$ 806,297</u>

See independent auditors' report