

SPACKENKILL UNION FREE SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2002

Spackenkill Union Free School District



DISTRICT OFFICE

Andrew M. Manca
Superintendent of Schools

Patricia N. Richardson
Assistant Superintendent

To: Board of Education
From: Patricia Richardson *PR*
Re: Corrective Audit Action
Date: September 19, 2002

It was noted during our fiscal audit that the indebtedness to the General Fund from Special Aids Fund needed to be reduced on a monthly or quarterly basis. We have instituted procedures to file monthly requests for funds on our Section 611 Grant and quarterly for the remaining grants held by the district.

In addition, payroll expenses for work federally funded shall be expended in the federal funds on a monthly basis.

These procedures will address all of the comments made in audit recommendations.

15 CROFT ROAD
POUGHKEEPSIE
NEW YORK 12603
845-463-7800
FAX: 845-463-7804

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Combined Financial Statements - Overview:	
Combined Balance Sheet - All Fund Types and Account Groups	3
Combined Statement of Revenues, Expenditures and Changes in Fund Equity - All Governmental Fund Types and Similar Trust Funds	4
Combined Statement of Revenues and Expenses and Changes in Fund Equity - Budget and Actual - General Fund	5
Notes to Financial Statements	6-22
Financial Statements of Individual Funds and Schedules:	
Combining Schedule of Balance Sheet - Special Revenue Funds	23
Combining Schedule of Revenues, Expenditures and Changes in Fund Equity - Actual - Special Revenue Funds	24
Schedule of Change from Original Budget to Revised Budget - General Fund	25
Schedule of Use of Fund Balance as of the Beginning of Year - General Fund	25
Schedule of Project Expenditures - Capital Projects Fund	26
Schedule of Revenues, Other Sources, Expenditures and Other Uses Compared to Budget - General Fund	27-28
Schedule of Certain Revenues and Expenditures Compared to ST-3 Data	29
Report on Compliance and on Internal Control Over Financial Reporting based on an Audit of Financial Statements performed in accordance with <i>Government Auditing Standards</i>	30-31
Management Letter	32-33

RAYMOND G. PREUSSER, CPA, P.C.

Certified Public Accountant

P.O. Box 538

Claverack, New York 12513

Telephone: (518) 851-6650

Fax: (518) 851-6675

INDEPENDENT AUDITORS' REPORT

To the Board of Education of the
Spackenkill Union Free School District:

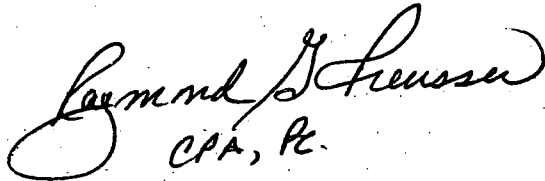
We have audited the accompanying general-purpose financial statements of the Spackenkill Union Free School District as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Spackenkill Union Free School District as of June 30, 2002, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2002, on our consideration of Spackenkill Union Free School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of Spackenkill Union Free School District. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.


CPA, PC.

Claverack, New York
August 8, 2002

SPACKENKILL UNION FREE SCHOOL DISTRICT
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 2002

	Governmental Fund Types				Fiduciary	Account Groups	
	General	Special	Debt	Capital	Trust &	General	General Long-
		Revenue	Service	Projects	Agency	Fixed Assets	Term Debt
Assets							
Unrestricted Cash	\$4,023,159	\$198,235	\$40,193	\$51,655	\$10,508	\$0	\$0
Restricted Cash	413	0	0	0	80,495	0	0
Accounts Receivable, net	102,923	4,716	0	0	0	0	0
State and Federal Aid Receivable	122,775	188,257	0	0	0	0	0
Due from Other Governments	258,737	0	0	0	0	0	0
Due From Other Funds	397,454	0	2,018	0	0	0	0
Inventories	0	14,536	0	0	0	0	0
Fixed Assets	0	0	0	0	0	16,528,747	0
Amount to be Provided for Retirement of Long-Term Debt	0	0	0	0	0	0	11,137,000
Total Assets	\$4,905,461	\$405,744	\$42,211	\$51,655	\$91,003	\$16,528,747	\$11,137,000
Liabilities							
Accounts Payable	\$70,432	\$8,760	\$0	\$8,367	\$0	\$0	\$0
Accrued Liabilities	429,348	8,404	0	0	0	0	0
Bonds Payable	0	0	0	0	0	0	6,330,000
Bond Interest and Matured Bonds	413	0	0	0	0	0	0
Due to Other Governments	0	1,351	0	0	0	0	0
Due to Other Funds	0	322,410	0	77,018	44	0	0
Due to Teachers' Retirement System	163,631	0	0	0	0	0	0
Due to Employees' Retirement System	25,062	0	0	0	4,474	0	0
Compensated Absences Payable	0	0	0	0	0	0	4,807,000
Extraclassroom Activity Balances	0	0	0	0	48,858	0	0
Other Liabilities	0	0	0	0	5,990	0	0
Deferred Revenues	21,350	0	0	0	0	0	0
Total Liabilities	710,236	340,925	0	85,385	59,366	0	11,137,000
Fund Equity							
Investment in General Fixed Assets	0	0	0	0	0	16,528,747	0
Reserved for Insurance	300,000	0	0	0	0	0	0
Scholarship	0	0	0	0	31,637	0	0
Reserved for Encumbrances	316,019	8,888	0	0	0	0	0
Reserved for Tax Certiorari	983,249	0	0	0	0	0	0
Reserved for Workers' Compensation	454,783	0	0	0	0	0	0
Reserved for Unemployment Insurance	96,042	0	0	0	0	0	0
Capital Reserve	120,000	0	0	0	0	0	0
Unreserved-Designated for Subsequent Year's Expenditures	1,435,000	0	0	0	0	0	0
Unreserved - Undesignated(Deficit)	490,132	55,931	42,211	(33,730)	0	0	0
Total Fund Equity	4,195,225	64,819	42,211	(33,730)	31,637	16,528,747	0
Total Liabilities and Fund Equity	\$4,905,461	\$405,744	\$42,211	\$51,655	\$91,003	\$16,528,747	\$11,137,000

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY -
ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS
For the Year Ended June 30, 2002

	Governmental Fund Types				Fiduciary Fund Types
	General	Special Revenue	Capital Projects	Debt Service	Trust & Agency
Revenues					
Real Property Taxes	\$15,489,510	\$0	\$0	\$0	\$0
Other Tax Items	1,590,157	0	0	0	0
Charges for Services	62,282	0	0	0	0
Use of Money and Property	386,265	722	0	6,439	0
Miscellaneous	235,388	30,305	0	0	11,580
State Sources	4,028,192	125,248	0	0	0
Federal Sources	31,623	379,398	0	0	0
Sales	0	338,140	0	0	0
Total Revenues	21,823,417	873,813	0	6,439	11,580
Expenditures					
General Support	2,518,543	0	0	0	31,828
Instruction	13,927,948	371,326	0	0	0
Pupil Transportation	864,923	30,000	0	0	0
Employee Benefits	3,528,953	43,842	0	0	0
Debt Service	696,506	0	0	0	0
Capital Outlay	0	0	1,163,232	0	0
Cost of Sales	0	430,762	0	0	0
Total Expenditures	21,536,873	875,930	1,163,232	0	31,828
Excess (Deficiency) of Revenues Over Expenditures	286,544	(2,117)	(1,163,232)	6,439	(20,248)
Other Sources and Uses					
Proceeds from Obligations	0	0	1,085,000	0	0
Operating Transfers In	36,122	28,553	0	0	0
Operating Transfers (Out)	(28,553)	(4,122)	0	(32,000)	0
Reserve Revenues	451	0	0	0	0
Total Other Sources and Uses	8,020	24,431	1,085,000	(32,000)	0
Excess (Deficiency) Revenues and Other Sources Over Expenditures and Other Uses	294,564	22,314	(78,232)	(25,561)	(20,248)
Fund Equity, Beginning of Year	3,900,661	42,505	44,502	67,772	51,885
Fund Equity, End of Year	\$4,195,225	\$64,819	(\$33,730)	\$42,211	\$31,637

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2002

	General Fund		
	Budget (Amended)	Actual	Variance Fav.-Unf.
Revenues			
Real Property Taxes	\$15,489,510	\$15,489,510	\$0
Other Tax Items	1,574,227	1,590,157	15,930
Charges for Services	37,500	62,282	24,782
Use of Money and Property	575,000	386,265	(188,735)
Miscellaneous	87,500	235,388	147,888
State Sources	3,690,000	4,028,192	338,192
Federal Sources	0	31,623	31,623
Total Revenues	<u>21,453,737</u>	<u>21,823,417</u>	<u>369,680</u>
Expenditures			
General Support	2,840,119	2,518,543	321,576
Instruction	14,872,121	13,927,948	944,173
Pupil Transportation	971,958	864,923	107,035
Employee Benefits	3,647,330	3,528,953	118,377
Debt Service	705,127	696,506	8,621
Total Expenditures	<u>23,036,655</u>	<u>21,536,873</u>	<u>1,499,782</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,582,918)</u>	<u>286,544</u>	<u>1,869,462</u>
Other Sources and Uses			
Operating Transfers In	32,000	36,122	4,122
Operating Transfers (Out)	(28,553)	(28,553)	0
Reserve Revenues	0	451	451
Total Other Sources and Uses	<u>3,447</u>	<u>8,020</u>	<u>4,573</u>
Excess (Deficiency) Revenues and Other Sources Over Expenditures and Other Uses	<u>(1,579,471)</u>	<u>294,564</u>	<u>1,874,035</u>
Fund Equity, Beginning of Year	<u>3,900,661</u>	<u>3,900,661</u>	<u>0</u>
Fund Equity, End of Year	<u>\$2,321,190</u>	<u>\$4,195,225</u>	<u>\$1,874,035</u>

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

The accompanying general-purpose financial statements of Spackenkill Union Free School District have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB) which is the standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The general-purpose financial statements include all funds and account groups of the School District as well as the component units and other organizational entities determined to be includable in the School District's financial reporting entity.

The decision to include a potential component unit in the School District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities included in the School District's reporting entity:

The Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the Spackenkill Union Free School District represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the School District with respect to its financial transactions and the designation of student management. The cash and investment balances are reported in the Trust and Agency Funds of the School District. Separate audited general-purpose financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the School District's business office.

B. Joint Venture

The Spackenkill Union Free School District is one of 14 component school districts in the Dutchess Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities.

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

B. Joint Venture (Continued)

BOCES are organized under Section 1950 of the Education Law. A BOCES Board is considered a corporate body. All BOCES property is held by the BOCES Board as a corporation (Section 1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section 119-n(a) of the General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program, and capital costs. Each component school district's share of administrative and capital cost is determined by resident public school district enrollment as defined in Education Law, Section 1950(4)(b)(7).

There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section 1950 of the Education Law.

During the year ended June 30, 2002, the Spackenkill Union Free School District was billed \$1,720,429 for BOCES administrative and program costs.

C. Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A Fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **Summary of Significant Accounting Policies (Continued)**

C. **Fund Accounting (Continued)**

The School District records its transactions in the fund types and account groups described below.

1. **Governmental Fund Types**

- a. **General** - is the general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund.
- b. **Special Revenue** - is used to account for the proceeds of specific revenue sources such as Federal and State grants, that are legally restricted to expenditures for specified purposes, school lunch operations, and other activities whose funds are restricted as to use, other than expendable trust or major capital projects. These legal restrictions may be imposed by either governments that provide the funds or outside parties.
- c. **Capital Projects** - is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.
- d. **Debt Service** - is used to account for the accumulation of resources and the payment of general long-term debt principal and interest.

2. **Fiduciary Fund Types**

Fiduciary Fund Types include Expendable and Nonexpendable Trust Funds and Agency Funds. The Expendable and Nonexpendable Trust Funds and Agency Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, and other governments.

Nonexpendable Trust Funds are accounted for on the accrual basis. Agency Funds are custodial in nature (assets equal liabilities) and generally are accounted for on the cash basis which approximates the modified accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)**C. Fund Accounting (Continued)****3. Account Groups**

- a. **General Fixed Assets Account Group** - is used to account for general fixed assets of the School District.
- b. **General Long-Term Debt Account Group** - is used to account for long-term obligations of the School District including bonds, most obligations under lease/purchase and other financing arrangements, certain pension contributions, compensated absences, and other long-term obligations.

D. Basis of Accounting/Measurement Focus

The basis of accounting determines when revenues and expenditures are recognized in the accounts and reported in the general financial statements, regardless of the measurement focus applied. Measurement focus is the determination of what is measured. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included in the fund types on the balance sheet. Operating statements of these fund types present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in fund equity.

1. Modified Accrual Basis

Generally accepted accounting principles and the New York State Uniform System of Accounts for School Districts require the use of the modified accrual basis of accounting for recording transactions in its governmental fund types and expendable trust and agency funds as applicable. Under this basis of accounting, revenues are recorded when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition for governmental fund revenues.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting/Measurement Focus (Continued)

1. Modified Accrual Basis (Continued)

Material revenues that are susceptible to accrual include real property taxes, charges for services, intergovernmental revenues and operating transfers. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made. Expenditures are recorded when the fund liability is incurred except:

- a. Expenditures for prepaid expenses and inventory-type items are recognized at the time of the disbursements when liable for payment;
- b. Principal and interest on long-term debt is recognized as an expenditure when due;
- c. Interest on short-term debt is recognized as an expenditure when due;
- d. Unfunded compensated absences for vacation leave and other compensated absences with similar characteristics and additional salary-related payments are recognized as a liability as the benefits are earned by the employees, based on the rendering of past service and the probability that the employees will be compensated for the benefits through paid time off or some other means.

E. Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments having maturities of three months or less are considered as cash equivalents.

F. Inventories

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis or in the case of surplus food, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)**G. Fixed Assets**

Fixed assets in the General Fixed Assets Account Group are reported at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

H. Long-Term Debt

The liabilities reported in the General Long-Term Debt Account Group include the School District's general obligation bonds, most obligations under lease/purchase and other financing arrangements, certain pension contributions and other long-term liabilities including vacation leave, sick leave, litigation, and other (i.e. workers' compensation, insurance-related liabilities pertaining to the Governmental Funds).

I. Compensated Absences

The liability for compensated absences is calculated at rates in effect as of the balance sheet date and is recorded in the governmental funds in as much as it will be funded from current financial resources, and the general long-term debt account group for amounts to be paid from future financial resources.

J. Deferred Revenue

Deferred revenues are reported on the combined balance sheet. Deferred revenues arise when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School District before it has a legal claim to them, as when grant monies are received prior to the incurring of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the School District has legal claim to the resources, the liability for deferred revenues is removed and revenues are recognized.

K. Post - Employment Benefits

In addition to providing pension benefits, the School District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the School District's employees may become eligible for these benefits if they reach normal retirement age while working for the School District.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **Summary of Significant Accounting Policies (Continued)**

K. **Post - Employment Benefits (Continued)**

Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the School District and the retired employee. The School District recognizes the cost of providing health insurance by recording its share of insurance premiums (for retirees and their dependents) as an expenditure or operating transfer to other funds in the General fund in the year paid.

L. **Fund Balance - Reservations and Designations**

Reservations of fund balances are created to either satisfy legal restrictions or to plan for future expenditures. A designation of unreserved fund balances in governmental funds indicates the use of these resources in the subsequent year's budget. The following is a description of the reserves utilized by the School District.

1. **Reserve for Encumbrances**

The balance of this account represents the amount of outstanding encumbrances at the end of the fiscal year.

2. **Workers' Compensation Reserve**

The purpose of this reserve fund is to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program.

The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated.

Within sixty days after the end of any fiscal year, excess amounts may be either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. This reserve is accounted in the General Fund.

3. **Unemployment Insurance Reserve**

This reserve fund is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **Summary of Significant Accounting Policies (Continued)**

L. **Fund Balance-Reservations and Designations (Continued)**

3. Unemployment Insurance Reserve (Continued)

The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated.

Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. This reserve is accounted in the General Fund.

4. Insurance Reserve

This reserve is used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee.

In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law, e.g., Unemployment Compensation Insurance.

This reserve may be established by board action and funded by budgetary appropriations, or such other funds as may be legally appropriated.

There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$ 33,000 or 5% of the budget. Settled or compromised claims up to \$ 25,000 may be paid from the reserve without judicial approval. This reserve is accounted in the General Fund.

5. Tax Certiorari Reserve

Chapter 588 of the laws of 1988 amended Section 3651 of the Education Law to permit the establishment of a reserve fund for tax certiorari and to expend from the fund without voter approval of the qualified voters of the school district.

The new chapter further stipulates that the total of the monies held in the reserve fund shall not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings.

See auditors' report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **Summary of Significant Accounting Policies (Continued)**

L. **Fund Balance-Reservations and Designations (Continued)**

5. **Tax Certiorari Reserve (Continued)**

Any monies deposited to such a reserve fund which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the general fund on or before the first day of the fourth fiscal year after deposit of these monies. This reserve is accounted for in the General Fund.

6. **Capital Reserve**

The Capital Reserve Fund is used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund **requires** authorization by a majority of the voters establishing the purpose of reserve; the ultimate amount its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters.

The form of the required legal notice for the vote on the establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in Section 3651 of Education Law. This reserve is accounted in the General Fund.

M. **Budgetary Procedures and Budgetary Accounting**

1. **Budget Policies**

The budget policies are as follows:

- a. The School District administration prepares a proposed budget for approval by the Board of Education for the General Fund.
- b. The proposed appropriation budget for the General Fund was approved by the voters within the School District.
- c. Appropriations are adopted at the program level.
- d. Appropriations established by adoption of the budget constitute limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

See auditors' report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **Summary of Significant Accounting Policies (Continued)**

M. **Budgetary Procedures and Budgetary Accounting(Continued)**

2. **Budget Basis of Accounting**

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

The budget and actual comparison for Special Revenue Funds, included in the Combined Statement of Revenues and Expenditures-Budget and Actual, reflects budgeted and actual amounts for funds with legally authorized (appropriated) budgets.

Special Revenue Funds have not been included in the comparison because they do not have legally authorized budgets.

N. **Property Taxes**

1. **Calendar**

Real property taxes are levied annually by the Board of Education and became a lien on August 27, 2001. Taxes were collected during the period September 1, 2001 and ending November 8, 2001.

2. **Enforcement**

Uncollected real property taxes are subsequently enforced by the County of Dutchess. An amount representing uncollected real property taxes transmitted to the Counties for enforcement is paid by the Counties to the School District no later than the forthcoming April 1.

O. **Interfund Transfers**

The operations of the School District give rise to certain transactions between funds, including transfers to provide services and construct assets.

II. **Cash and Investments**

A. **Deposits and Investments**

The Spackenkil Union Free School District 's investment policies are governed by State statutes. The Spackenkil Union Free School District 's monies must be deposited in FDIC-insured commercial banks or trust companies located within the

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. Cash and Investments (Continued)

A. Deposits and Investments (Continued)

State. The treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State and its municipalities and School Districts.

Deposits and investments at year end were entirely covered by Federal Deposit Insurance or by collateral held by the School District's custodial bank in the School District's name.

B. Investment Pool

The School District participates in a multi-municipal-cooperation investment pool agreement pursuant to New York State General Municipal Law Article 5-G, Section 119-0, whereby it holds a portion of the investments in cooperation with other participants. At June 30, 2002, the School District held \$927,451 in investments consisting of various investments in securities issued by the United States and its agencies. The investments are highly liquid and considered to be cash equivalents.

III. Interfund Transaction

Interfund balances at June 30, 2002, are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General Fund	\$ 397,454	\$ 0	\$ 36,122	\$ 28,553
Special Aid Fund	0	319,974	28,553	4,122
School Lunch Fund	0	2,436	0	0
Capital Fund	0	77,018	0	0
Debt Service Fund	2,018	0	0	32,000
Trust & Agency Fund	<u>0</u>	<u>44</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 399,472</u>	<u>\$ 399,472</u>	<u>\$ 64,675</u>	<u>\$ 64,675</u>

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

IV. Changes in Fixed Assets

A summary of changes in general fixed assets is as follows:

	Balance <u>7/1/01</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/02</u>
Land	\$ 121,545	\$ 0	\$ 0	\$ 121,545
Buildings	12,844,105	1,163,232	555,532	13,451,805
Machinery & Equipment	<u>3,049,809</u>	<u>0</u>	<u>94,412</u>	<u>2,955,397</u>
Total	<u>\$16,015,459</u>	<u>\$ 1,163,232</u>	<u>\$ 649,944</u>	<u>\$ 16,528,747</u>

V. Liabilities

A. Pension Plans and Post - Employment Benefits

1. General Information

The Spackenkil Union Free School District participates in the New York State and Local Employees' Retirement System (ERS), and the New York State Teachers' Retirement System (TRS). These Systems are cost sharing multiple employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

2. Plan Descriptions

a. **Teachers' Retirement System (TRS)**

As an employer, the school district make contributions to the New York State Teachers' Retirement System (System), a cost sharing, multiple employer defined benefit pension plan administered by the New York State Teachers' Retirement Board. The System provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

See auditors' report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

V. Liabilities (Continued)

A. Pension Plans and Post - Employment Benefits (Continued)

2. Plan Descriptions (Continued)

b. **Employees' Retirement System (ERS)**

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

3. Funding Policies

For the Teachers' Retirement System, plan members who joined the system before July 27, 1976 are not required to make contributions. Those joining after July 26, 1976 who have less than 10 years of service or membership are required to contribute 3% of their salary. Employers are required to contribute at an actuarially determined rate. Rates applicable to the fiscal years ended June 30, 2002, 2001, and 2000 were .36%, .43% and 1.43%. For the New York State and Local Employees' Retirement System, Chapter 126 of the laws of 2000 provide for the cessation of the 3% employee contribution for those Tier 3 and 4 members who, as of October 1, 2001, have either 10 years of membership or credited service.

The required and actual contributions for the current year and two preceding years were:

<u>Year</u>	<u>ERS</u>	<u>TRS</u>
2002	\$ 13,886	\$ 163,116
2001	\$ 52,110	\$ 589,877
2000	\$ 1,946	\$ 545,963

The School District contributions made to the Systems were equal to 100% of the contributions required for each year.

SPACKENKILL UNION FREE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

V. **Liabilities (Continued)**

A. **Pension Plans and Post - Employment Benefits (Continued)**

4. **Post-Employment Benefits**

Post-employment benefits aggregated \$446,940 for 145 retirees.

B. **Indebtedness**

1. **Long-Term Debt**

a. **Debt Limit**

At June 30, 2002, the total outstanding indebtedness represented approximately 10% of the District's debt limit.

b. **Long-Term Interest**

Interest expense on long-term debt amounted to \$321,506 for 2001-2002.

c. **Changes**

The changes in the School District's indebtedness during the year ended June 30, 2002 are summarized as follows:

	<u>Balance</u> <u>7/1/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/02</u>
Serial Bonds	\$ 5,620,000	\$ 1,085,000	\$ 375,000	\$ 6,330,000
Compensated Absences	<u>4,737,917</u>	<u>69,083</u>	<u>0</u>	<u>4,807,000</u>
Total	<u>\$ 10,357,917</u>	<u>\$ 1,154,083</u>	<u>\$ 375,000</u>	<u>\$ 11,137,000</u>

Additions and deletions to compensated absences is shown net since it is impracticable to determine these amounts separately.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

V. **Liabilities (Continued)**

B. **Indebtedness (Continued)**

1. **Long-Term Debt (Continued)**

d. **Maturity**

1. The following is a summary of maturity of indebtedness:

<u>Serial Bonds Payable</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/02</u>
8 th issue	8/89	8/10	6.65%	\$ 275,000
10 th issue	9/94	9/14	5.70%	765,000
11 th issue	1/97	1/07	4.80%	500,000
12 th issue	4/99	4/19	4.25%	3,705,000
2001 issue	6/01	6/21	4.75-5%	<u>1,085,000</u>
				<u>\$ 6,330,000</u>

2. The following is a summary of long-term maturing principal debt service requirements in each of the next five fiscal years and thereafter:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 390,000	\$ 295,543	\$ 685,543
2004	395,000	276,146	671,146
2005	410,000	258,235	668,235
2006	395,000	238,711	633,711
2007	410,000	220,804	630,804
2008 and Thereafter	<u>4,330,000</u>	<u>1,448,835</u>	<u>5,778,835</u>
	<u>\$ 6,330,000</u>	<u>\$ 2,738,274</u>	<u>\$ 9,068,274</u>

VI. **Commitments and Contingencies**

A. **Litigation**

There are currently pending certiorari proceedings, the results of which could require the payment of future tax refunds by the School District if existing assessment rolls are modified based on the outcome of the litigation proceedings. However, the amount of these possible refunds cannot be determined at the present times. The School District has established a Tax Certiorari Reserve to cover adverse decisions. Any payment in excess of the reserve will be funded in the year the payment is made.

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

VI. Commitments and Contingencies (Continued)

B. Operating Lease

The School District leases copiers under an operating lease. The rental expenditure for the fiscal year ended June 30, 2002 was approximately \$ 11,489. The maximum future non-cancelable operating lease payments are as follows:

<u>Year Ended</u>	
2003	<u>\$ 5,745</u>

C. Risk Financing and Related Insurance

1. General Information

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

2. Workers' Compensation Insurance

The School District participates in a risk sharing pool, Dutchess County Schools Cooperative Self-Insurance Plan for Workers' Compensation, to insure workers' compensation claims. This is a public entity risk pool created under Article 5, Workers' Compensation Law, to finance liability and risks related to Workers' Compensation claims.

3. Health Insurance

The School District participates in the Dutchess Educational Health Insurance Consortium which is a Trust formed under New York State Insurance Law on June 30, 1988. The Consortium's purpose is to provide health insurance coverage at a lower rate for member educational institutions due to a larger participation pool.

VII. Deficit Fund Balance

The Capital Fund had a deficit fund balance at June 30, 2002 in the amount of \$ 33,730. Deficit will be eliminated as permanent financing is obtained.

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

VIII. Additional Disclosures

A. Interfund Transfer

The 2001-2002 interfund transfer increased as follows:

Original Budget	\$	0
Special Aid Funds-Districts share of Summer Handicap		<u>28,553</u>
		<u>\$ 28,553</u>

B. Other Items

The School District has received grants which are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds. Based on prior audits, the School District's administration believes disallowances, if any, will be immaterial.

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT
COMBINING SCHEDULE OF BALANCE SHEET -
SPECIAL REVENUE FUNDS
June 30, 2002

	<u>Special Aid</u>	<u>School Lunch</u>	<u>Total</u>
Assets			
Unrestricted Cash	\$156,390	\$41,845	\$198,235
State and Federal Aid Receivable	173,201	15,056	188,257
Accounts Receivable	0	4,716	4,716
Inventories	0	14,536	14,536
Total Assets	<u>\$329,591</u>	<u>\$76,153</u>	<u>\$405,744</u>
Liabilities			
Accounts Payable	\$0	\$8,760	\$8,760
Accrued Liabilities	0	8,404	8,404
Due to Other Funds	319,974	2,436	322,410
Due to Other Governments	729	622	1,351
Total Liabilities	<u>320,703</u>	<u>20,222</u>	<u>340,925</u>
Fund Equity			
Reserve for Encumbrances	8,888	0	8,888
Unreserved - Undesignated	0	55,931	55,931
Total Fund Equity	<u>8,888</u>	<u>55,931</u>	<u>64,819</u>
Total Liabilities and Fund Equity	<u>\$329,591</u>	<u>\$76,153</u>	<u>\$405,744</u>

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2002

	Special Aid	School Lunch	Total
Revenues			
Use of Money and Property	\$0	\$722	\$722
Miscellaneous	0	30,305	30,305
State Sources	114,211	11,037	125,248
Federal Sources	271,324	108,074	379,398
Sales	0	338,140	338,140
Total Revenues	385,535	488,278	873,813
Expenditures			
Instruction	371,326	0	371,326
Pupil Transportation	30,000	0	30,000
Employee Benefits	0	43,842	43,842
Cost of Sales	0	430,762	430,762
Total Expenditures	401,326	474,604	875,930
Excess (Deficiency) of Revenues Over Expenditures	(15,791)	13,674	(2,117)
Other Sources and Uses			
Operating Transfers In	28,553	0	28,553
Operating Transfers (Out)	(4,122)	0	(4,122)
Total Other Sources and Uses	24,431	0	24,431
Excess (Deficiency) Revenues and Other Sources Over Expenditures and Other Uses	8,640	13,674	22,314
Fund Equity, Beginning of Year	248	42,257	42,505
Fund Equity, End of Year	\$8,888	\$55,931	\$64,819

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT
SCHEDULE OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET - GENERAL FUND
For the Year Ended June 30, 2002

Original Budget	\$22,830,737
Additions	
Encumbrances	234,471
	234,471
Revised Budget	\$23,065,208

SCHEDULE OF USE OF FUND BALANCE AS OF THE BEGINNING OF YEAR - GENERAL FUND
For the Year Ended June 30, 2002

Total Fund Balance (Unreserved) as of Beginning of Year	\$1,821,065
Less:	
Appropriated Fund Balance Used For:	
Levy of Taxes	1,345,000
Capital Reserve	120,000
	1,465,000
Total Unreserved Undesignated Fund Balance	\$356,065

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
For the Year Ended June 30, 2002.

Project Title	Original Appropriation	Revised Appropriation	Prior Year's Expenditures	Current Year's Expenditures	Total Expenditures	Available Balance
High School	\$75,000	\$75,000	\$0	\$4,380	\$4,380	\$70,620
Building Improvements	1,190,000	1,190,000	88,083	1,092,061	1,180,144	9,856
Todd Middle School Expansion	3,989,000	3,989,000	3,856,415	66,791	3,923,206	65,794
	<u>\$5,254,000</u>	<u>\$5,254,000</u>	<u>\$3,944,498</u>	<u>\$1,163,232</u>	<u>\$5,107,730</u>	<u>\$146,270</u>

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT
SCHEDULE OF REVENUES, OTHER SOURCES, EXPENDITURES AND
OTHER USES COMPARED TO BUDGET - GENERAL FUND
For the Year Ended June 30, 2002

	Original Budget	Revised Budget	Current Year's Revenues	Over (Under) Amended Budget
Revenues				
Local Sources				
Real Property Taxes	\$15,489,510	\$15,489,510	\$15,489,510	\$0
Other Tax Items	1,574,227	1,574,227	1,590,157	15,930
Charges for Services	37,500	37,500	62,282	24,782
Use of Money and Property	575,000	575,000	386,265	(188,735)
Miscellaneous	87,500	87,500	235,388	147,888
State Sources	3,690,000	3,690,000	4,028,192	338,192
Federal Sources	0	0	31,623	31,623
Total Revenues	<u>21,453,737</u>	<u>21,453,737</u>	<u>21,823,417</u>	<u>369,680</u>
Other Sources				
Reserve Revenues	0	0	451	451
Operating Transfers In	32,000	32,000	36,122	4,122
Total Revenues and other Sources	<u>21,485,737</u>	<u>21,485,737</u>	<u>\$21,859,990</u>	<u>\$374,253</u>
Appropriated Fund Balance	<u>1,345,000</u>	<u>1,579,471</u>		
Total Revenues, Other Sources and Appropriated Fund Balance	<u>\$22,830,737</u>	<u>\$23,065,208</u>		

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT
SCHEDULE OF REVENUES, OTHER SOURCES, EXPENDITURES AND
OTHER USES COMPARED TO BUDGET - GENERAL FUND (CONTINUED)
For the Year Ended June 30, 2002

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Current Year's Expenditures</u>	<u>Encumbrances</u>	<u>Unencumbered Balance</u>
Expenditures					
General Support					
Board of Education	\$38,055	\$39,686	\$35,067	\$150	\$4,469
Central Administration	164,850	186,646	186,123	0	523
Finance	293,400	310,970	305,203	166	5,601
Staff	116,100	109,877	99,427	140	10,310
Central Services	1,854,580	1,891,320	1,616,033	34,098	241,189
Special Items	291,000	301,620	276,690	803	24,127
Instructional					
Instruction, Administration & Improvemen	967,600	901,404	885,248	76	16,080
Teaching - Regular School	9,049,059	9,129,932	8,765,048	145,442	219,442
Programs for Children with Handicapping					
Conditions	2,216,600	2,293,565	1,963,964	73,243	256,358
Occupational Education	215,000	262,500	261,075	0	1,425
Teaching - Special Schools	74,475	78,760	64,528	0	14,232
Instructional Media	795,500	818,526	677,924	8,589	132,013
Pupil Services	1,329,856	1,387,434	1,310,161	44,911	32,362
Pupil Transportation	971,500	971,958	864,923	7,901	99,134
Employee Benefits	3,741,580	3,647,330	3,528,953	500	117,877
Debt Service					
Debt Service Principal	375,000	375,000	375,000	0	0
Debt Service Interest	336,582	330,127	321,506	0	8,621
Total Expenditures	<u>22,830,737</u>	<u>23,036,655</u>	<u>21,536,873</u>	<u>316,019</u>	<u>1,183,763</u>
Other Uses					
Operating Transfers Out	<u>0</u>	<u>28,553</u>	<u>28,553</u>	<u>0</u>	<u>0</u>
Total Expenditures & Other Uses	<u>\$22,830,737</u>	<u>\$23,065,208</u>	<u>21,565,426</u>	<u>\$316,019</u>	<u>\$1,183,763</u>
Deficiency of Revenues and Other Sources Over Expenditures and Other Uses			<u>\$294,564</u>		

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT
SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES COMPARED TO ST-3 DATA
For the Year Ended June 30, 2002

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
Revenues			
Property Taxes	AT-1001	\$15,489,510	\$15,489,510
Non-Property Taxes	AT-1199	\$0	\$0
State Aid	AT-3999	\$4,028,192	\$4,028,192
Federal Aid	AT-4999	\$31,623	\$31,623
Total Revenues	AT-5999	\$21,859,539	\$21,859,539
Expenditures			
General Support	AT-1999	\$2,518,543	\$2,518,543
Pupil Transportation	AT-5599	\$864,923	\$864,923
Debt Service - Principal	AT-9798.6	\$375,000	\$375,000
Debt Service - Interest	AT-9798.7	\$321,506	\$321,506
Total Expenditures	AT-9999	\$21,565,426	\$21,565,426

See auditors' report.

RAYMOND G. PREUSSER, CPA, P.C.

Certified Public Accountant
P.O. Box 538
Claverack, New York 12513

Telephone: (518) 851-6650
Fax: (518) 851-6675

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the President and Board of Education of
Spackenkill Union Free School District:

We have audited the general-purpose financial statements of Spackenkill Union Free School District as of and for the year ended June 30, 2002 and have issued our report thereon dated August 8, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

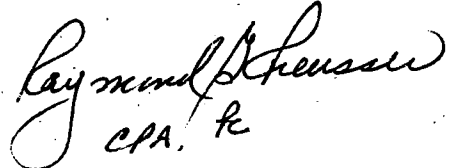
As part of obtaining reasonable assurance about whether Spackenkill Union Free School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in our accompanying management letter.

See auditors' report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spackenkill Union Free School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have communicated to management in the accompanying management letter.

This report is intended for the information and use of the Board of Education, management, New York State Education Department and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Claverack, New York
August 8, 2002

RAYMOND G. PREUSSER, CPA, P.C.

Certified Public Accountant

P.O. Box 538

Claverack, New York 12513

Telephone: (518) 851-6650

Fax: (518) 851-6675

To the Board of Education of the
Spackenkill Union Free School District:

We have examined the combined financial statements of the Spackenkill Union Free School District at June 30, 2002, and have reported thereon under date of August 8, 2002. As an inherent part of our examination, we reviewed those accounting procedures and internal controls used to effect the accurate and suitable recording and summarization of authorized financial transactions.

As a result of such review, we are submitting for your consideration a memorandum of suggestions intended to improve internal control and to achieve certain operating efficiencies. Such suggestions are listed by subject, rather than in order of importance, and refer exclusively to accounting principles and operating techniques. Please understand that our comments should not be construed as a reflection upon the integrity, competence or character of your personnel, but are made solely to assist you in improving operations.

After you have had an opportunity to review the accompanying comments, we shall be pleased to discuss any questions you might have.

Special Aid Fund:

During our audit of the Special Aid Fund, we noted the following:

1. The indebtedness to the General Fund increased from \$214,862 at June 30, 2001 to \$319,974 at June 30, 2002.
2. Not all of the applications for Monthly/Quarterly Request for Funds were filed during the fiscal year. As a result, the Fund had a receivable at June 30, 2002 in the amount of \$173,201.
3. The Special Aid Fund had a cash balance of \$156,390 that should have been returned to the General Fund to reduce the indebtedness.

We recommend that steps be taken to insure conformance with the reporting requirements for each federal project. In addition, steps should be taken to return the money to the General Fund as soon as possible.

See auditors' report.

Changes to Reporting Format – GASB #34:

GASB #34 makes significant changes to the reporting format for all governmental entities. The objective of this new financial reporting format is to enhance the understandability and usefulness of the general purpose external financial reports to the citizenry, legislative and oversight bodies, and investor and creditors. These statements attempts to establish a basic financial reporting model that results in greater accountability by providing relevant, reliable and understandable information to reasonably knowledgeable users.

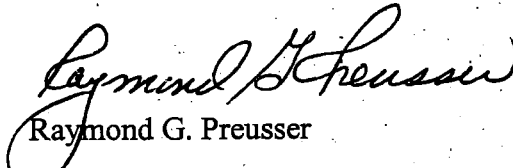
The new basic financial statements will include:

- Management's Discussion and Analysis (MD&A)
- Government-Wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements
- Required Supplementary Information (RSI)

This statement is effective for June 30, 2003. Therefore, beginning balances as of July 1, 2002 will have to be calculated by the new standards, and fixed assets will have to be capitalized and depreciated. Management has to develop an implementation plan, which includes consultation with their accounting firm as well as a detailed timetable for implementation.

We would like to thank all of the School District personnel for the courtesies and cooperation extended to us during the course of our audit.

Very truly yours,
RAYMOND G. PREUSSER, CPA, PC.



Raymond G. Preusser

RGP/srp

See auditors' report.