

SPACKENKILL UNION FREE
SCHOOL DISTRICT

FINANCIAL STATEMENT
AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2005

SPACKENKILL UNION FREE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Spackenkill Union Free School District as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

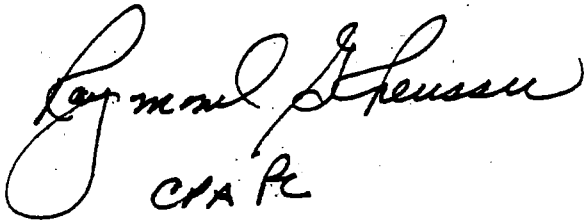
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and 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 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, 2005, 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 10, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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



Raymond J. Steussler
CPA PC

Claverack, New York
August 10, 2005

SPACKENKILL UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2005

INTRODUCTION

The Spackenkill Union Free School District (the District) offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. Please review it in conjunction with the District's financial statements and the accompanying notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENT

This Management's Discussion and Analysis narrative (required supplemental information) is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) districtwide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to these statements, this report also includes other supplemental information, as outlined on page 2.

Financial Statements

Required Supplemental Information (Part A)
Management's Discussion and Analysis (MD & A)

Basic Financial Statements

**Districtwide
Financial Statements**

**Fund
Financial Statements**

Notes to the Basic Financial Statements

Supplemental Information
General Fund Budget & Fund Balance Information
Capital Project Funds Schedule of Project Expenditures
General Fund Budget to Actual Schedule

Our auditor has provided assurance in his independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. A different degree of assurance is being provided by the auditor regarding the supplemental information identified above. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each part in the financial statements.

Districtwide Financial Statements

The districtwide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. certain federal/state grants and earned but unused vacation leave).

All of the District's services are reported in the districtwide financial statements as governmental activities, including general support, instruction, pupil transportation, community services, and school lunch. Property taxes, sales tax, state/federal aid, and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported here.

Districtwide Financial Analysis

**Spackenkill Union Free School District's Net Assets
June 30, 2004 & 2005**

	<u>Governmental Activities</u>		Variance Increase (Decrease)
	<u>2004</u>	<u>2005</u>	
Current Assets	\$ 5,929,944	\$ 7,438,716	\$ 1,508,772
Capital Assets	7,392,995	7,777,395	384,400
Total Assets	<u>13,322,939</u>	<u>15,216,111</u>	<u>1,893,172</u>
Current Liabilities	1,497,857	2,577,205	1,079,348
Long-term Obligations	5,135,000	5,224,685	89,685
Total Liabilities	<u>6,632,857</u>	<u>7,801,890</u>	<u>1,169,033</u>
Net Assets:			
Investment in capital assets, net of related debt	1,847,995	2,136,969	288,974
Restricted for encumbrances	264,681	458,258	193,577
Restricted for other specific purposes	2,802,783	3,322,783	520,000
Restricted for subsequent year's expenditures	1,195,000	1,195,000	-
Unrestricted	579,623	301,211	(278,412)
Total Net Assets	<u>\$ 6,690,082</u>	<u>\$ 7,414,221</u>	<u>\$ 724,139</u>

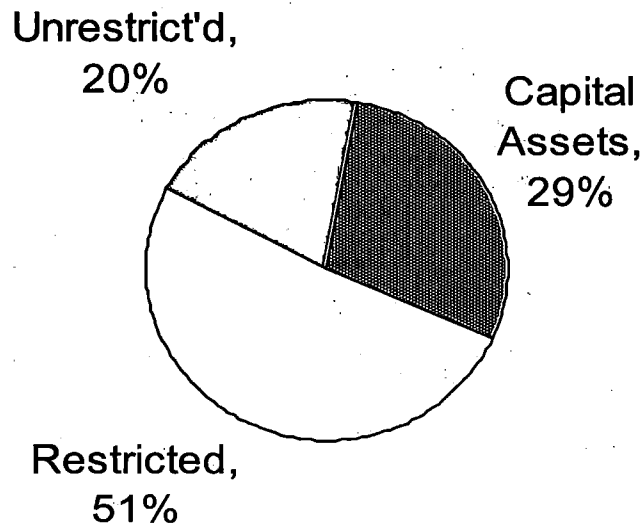
The \$1,496,211 in unrestricted net assets of the governmental activities represents the accumulated results of all past years' operations. It should be noted that \$1,195,000 of this amount is designated to fund the ensuing year's operations, leaving \$301,211 not specifically designated.

Maintaining adequate fund balance has several internal benefits. Fund balance can provide for cash flow needs until major revenues are received (thereby reducing or eliminating the need for cash flow borrowing), provide funds to leverage state and federal grants, and provide for various contingencies.

As illustrated below, of the District's net assets (29%) reflects its investment in capital assets (e.g., land, buildings, improvements, machinery, and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide educational services. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources. Capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (51%) represents resources that are subject to external restrictions on how they may be used (e.g., capital projects, debt services and other specified purposes). The remaining balance of unrestricted net assets (20%) may be used to meet the District's ongoing obligation to provide educational services.

Spackenkill Union Free School District's Net Assets

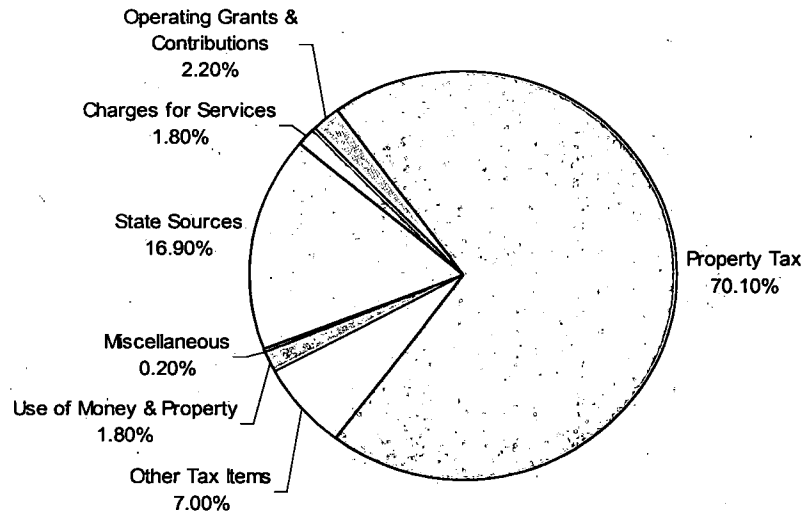


**Spackenkill Union Free School District's
Changes in Net Assets
For the Years Ended June 30, 2004 & 2005**

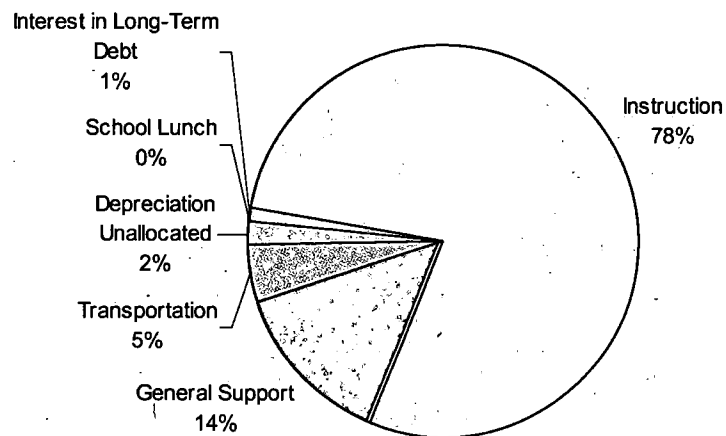
	Governmental Activities		Variance Increase (Decrease)
	2004	2005	
Revenues:			
Program Revenues:			
Charges for Services	\$ 458,138	\$ 504,025	\$ 45,887
Operating Grants and Contributions	700,221	622,554	(77,667)
Total Program Revenues	\$ 1,158,359	\$ 1,126,579	\$ (31,780)
General Revenues:			
Real Property Taxes	\$ 18,121,113	\$ 19,684,688	\$ 1,563,575
Other Tax Items	1,763,901	1,962,188	198,287
Use of Money and Property	368,522	486,164	117,642
Sale of Property and Compensation for Loss	-	1,300	1,300
Miscellaneous	61,777	51,138	(10,639)
State Sources	4,677,708	4,739,379	61,671
Federal Sources	6,177	10,811	4,634
Total General Revenues	24,999,198	26,935,668	1,936,470
Expenses:			
Instruction	18,885,904	20,524,999	1,639,095
Support Services:			
General Support	3,519,936	3,644,303	124,367
Pupil Transportation	1,071,026	1,215,753	144,727
Debt Service-Interest	283,999	271,148	(12,851)
Depreciation-Unallocated	456,803	497,072	40,269
School Lunch	14,801	58,254	43,453
Total Expenses	24,232,469	26,211,529	1,979,060
Change in Net Assets	\$ 766,729	\$ 724,139	\$ (42,590)

The following charts provide the percentage breakdowns of all revenues by source and all expenses by function for the entire District:

**Districtwide Revenues by Source
For the Year Ended June 30, 2005**



**Districtwide Expenses by Function
For the Year Ended June 30, 2005**



As noted earlier, the School District uses fund accounting to ensure and demonstrate compliance with finance legal requirements.

Governmental Funds

The focus of the School District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the School District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School District's governmental funds reported combined fund balances of \$5,277,252, an increase of \$435,165 over the prior year. Of the total combined fund balances, \$1,794,876 constitutes unreserved general fund balance, of which \$1,195,000 has been designated for use in the 2005-2006 budget. The balance of \$599,876 is available for spending at the School District's discretion. The remainder of fund balance is reserved to indicate that is not available for new spending because it has already been committed. The reserves include the following:

Reserve for Encumbrances	\$ 458,258
Capital Reserve - Buses	\$ 315,000
Workmen's Compensation Reserve	\$ 454,783
Unemployment Insurance Reserve	\$ 130,000
Insurance Reserve	\$ 500,000
Reserve for Tax Certiorari	\$1,400,000
Reserve for Employee Benefits	\$ 523,000
	<u>\$3,781,041</u>

The General Fund is the chief operating fund of the School District. At the end of the current fiscal year, the total fund balance of the General Fund was \$5,575,917 of which \$599,876 was unreserved and undesignated. As previously mentioned, New York State Law limits the amount of unreserved fund balance that can be retained to 2% of the ensuing year's budget, exclusive of the amount designated for the subsequent year's budget.

The fund balance of the School District's General Fund increased by \$762,363 during the current fiscal year. Key factors in the increase are the receipt of additional revenues other than budgeted and controlling expenditures.

General Fund Budgetary Highlights

The difference between the general fund's original budget and final amended budget was \$304,681. This change is attributable to the carryover of encumbrances from 2003-2004 and the appropriation of the Capital Bus Reserve.

Capital Asset and Debt Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2005 is as follows:

	<u>June 30, 2005</u>
Land	\$ 121,545
Construction in Progress	\$ 269,256
Buildings & Improvements	\$6,866,244
Machinery & Equipment	\$ 363,679
Vehicles	<u>\$ 156,671</u>
	<u>\$7,777,395</u>

Obligations: The District had long term debt of \$5,640,426 as of June 30, 2005 (a decrease of \$95,426 over the previous year).

	<u>June 30, 2005</u>
Serial Bonds	\$5,135,000
Energy Performance Contract	505,426

Our current bond rating is an A1. Section 104.00 of the Local Finance Law limits the amount of general obligation debt that a school district may issue to 10 percent of its total assessed valuation. The current debt limitation for the District is \$64 million, which is significantly in excess of the present outstanding general obligation debt.

Notes to the Financial Statements

The notes provide additional information that is essential in achieving a full understanding of the data provided in the districtwide and fund financial statements.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information (supplementary schedules).

Requests for Information

This financial report is designed to provide district residents, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Spackenkill Union Free School District
15 Croft Road
Poughkeepsie, New York 12603
Or visit our website at: www.spackenkillschools.org

SPACKENKILL UNION FREE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS

Current Assets:

Unrestricted cash	\$ 6,593,188
Restricted cash	138
State and federal aid receivable	393,442
Other receivables, net	119,889
Due from other governments	322,060
Inventories	9,999
Total Current Assets	<u>7,438,716</u>

Noncurrent Assets:

Capital assets, net depreciation	<u>7,777,395</u>
Total Noncurrent Assets	<u>7,777,395</u>

Total Assets

\$ 15,216,111

LIABILITIES

Current Liabilities:

Accounts payable	\$ 418,019
Accrued liabilities	448,602
Bond interest and matured bonds	138
Due to fiduciary funds	3,864
Due to other governments	279,589
Deferred revenues - other	56,894
Due to teachers' retirement system	874,686
Due to employees' retirement system	79,672
Bonds payable	390,000
Capital lease	25,741
Total Current Liabilities	<u>2,577,205</u>

Noncurrent Liabilities:

Bonds payable	4,745,000
Capital lease	479,685
Total Noncurrent Liabilities	<u>5,224,685</u>

Total Liabilities

7,801,890

NET ASSETS

Investment in capital assets, net of related debt	2,136,969
Restricted for:	
Encumbrances	458,258
Capital-buses	315,000
Tax certiorari	1,400,000
Employee benefits	523,000
Workers' comp., unemployment & insurance	1,084,783
Subsequent year's expenditures	1,195,000
Unrestricted	<u>301,211</u>

Total Net Assets

\$ 7,414,221

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For Year Ended June 30, 2005

	Expenses	Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants	
FUNCTIONS/PROGRAMS					
General support	\$ 3,073,415	\$ 582,056	\$ -	\$ 11,168	\$ (3,644,303)
Instruction	16,550,289	4,587,335	134,057	478,568	(20,524,999)
Pupil transportation	1,105,972	122,847	-	13,066	(1,215,753)
Depreciation, unallocated	497,072	-	-	-	(497,072)
Employee benefits	5,363,689	(5,363,689)	-	-	-
Debt service-Interest	271,148	-	-	-	(271,148)
School lunch program	476,523	71,451	369,968	119,752	(58,254)
Total Functions and Programs	\$ 27,338,108	\$ -	\$ 504,025	\$ 622,554	(26,211,529)
GENERAL REVENUES					
Real property taxes					19,684,688
Other tax items					1,962,188
Use of money and property					486,164
Sale of property and compensation for loss					1,300
Miscellaneous					51,138
State sources					4,739,379
Federal-medicaid reimbursement					10,811
Total General Revenues					26,935,668
Change in Net Assets					724,139
Total Net Assets - Beginning of year					6,690,082
Total Net Assets - End of year					\$ 7,414,221

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
NET ASSETS
June 30, 2005

	Total Governmental Funds	Long-term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS				
Unrestricted cash	\$ 6,593,188	\$ -	\$ -	\$ 6,593,188
Restricted cash	138	-	-	138
Accounts receivable	119,889	-	-	119,889
State and federal aid receivable	393,442	-	-	393,442
Due from other funds	735,937	-	(735,937)	-
Due from other governments	322,060	-	-	322,060
Inventories	9,999	-	-	9,999
Due from fiduciary funds	-	-	-	-
Capital assets, (net)	-	7,777,395	-	7,777,395
Total Assets	\$ 8,174,653	\$ 7,777,395	\$ (735,937)	\$ 15,216,111
LIABILITIES				
Accounts payable	\$ 418,019	\$ -	\$ -	\$ 418,019
Accrued liabilities	448,602	-	-	448,602
Bonds payable	-	5,135,000	-	5,135,000
Capital lease	-	505,426	-	505,426
Bond interest and matured bonds	138	-	-	138
Due to other funds	739,801	-	(739,801)	-
Due to fiduciary funds	-	-	3,864	3,864
Due to other governments	279,589	-	-	279,589
Due to teachers' retirement system	874,686	-	-	874,686
Due to employees' retirement system	79,672	-	-	79,672
Deferred revenues	56,894	-	-	56,894
Total Liabilities	2,897,401	5,640,426	(735,937)	7,801,890
FUND EQUITY/NET ASSETS				
Total Fund Equity/Net Assets	5,277,252	2,136,969	-	7,414,221
Total Liabilities, Equity and Other Credits	\$ 8,174,653	\$ 7,777,395	\$ (735,937)	\$ 15,216,111

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES
For Year Ended June 30, 2005

	Total Governmental Funds	Long-term Revenue, Expenses	Capital Related Items	Long-term Debt Transactions	Statement of Activities Totals
REVENUES					
Real property taxes	\$ 19,684,688	\$ -	\$ -	\$ -	\$ 19,684,688
Other tax items	1,962,188	-	-	-	1,962,188
Charges for services	134,057	-	-	-	134,057
Use of money and property	486,464	-	-	-	486,464
Sale of property and compensation for loss	1,300	-	-	-	1,300
Miscellaneous	84,332	-	-	-	84,332
State sources	4,845,678	-	-	-	4,845,678
Federal-medicaid reimbursement	10,811	-	-	-	10,811
Federal sources	516,255	-	-	-	516,255
Sales - school lunch	336,474	-	-	-	336,474
Total Revenues	28,062,247	-	-	-	28,062,247
EXPENDITURES					
General support	3,109,077	-	(35,662)	-	3,073,415
Instruction	16,566,378	-	(16,089)	-	16,550,289
Pupil transportation	1,145,987	-	(40,015)	-	1,105,972
Depreciation	-	-	497,072	-	497,072
Employee benefits	5,363,689	-	-	-	5,363,689
Debt service					
Principal	425,024	-	-	(425,024)	-
Interest	271,148	-	-	-	271,148
School lunch program	476,523	-	-	-	476,523
Capital outlay	789,706	-	(789,706)	-	-
Total Expenditures	28,147,532	-	(384,400)	(425,024)	27,338,108
Excess (Deficiency) of Revenues Over Expenditures	(85,285)	-	384,400	425,024	724,139
OTHER SOURCES AND USES					
Capital lease	520,450	-	-	(520,450)	-
Operating transfers in	26,909	(26,909)	-	-	-
Operating transfers (out)	(26,909)	26,909	-	-	-
Total Other Sources (Uses)	520,450	-	-	(520,450)	-
Net Change for the Year	\$ 435,165	\$ -	\$ 384,400	\$ (95,426)	\$ 724,139

See auditors' report. See notes to financial statements.

**SPACKENKILL UNION FREE SCHOOL DISTRICT
BALANCE SHEET- GOVERNMENTAL FUNDS**

June 30, 2005

	----- General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Unrestricted cash	\$ 6,325,550	\$ 244,633	\$ 12,865	\$ 1,647	\$ 8,493	\$ 6,593,188
Restricted cash	138	-	-	-	-	138
State and federal aid receivable	224,343	163,543	5,556	-	-	393,442
Due from other funds	735,631	-	-	306	-	735,937
Due from other governments	322,060	-	-	-	-	322,060
Accounts receivable	109,143	-	10,746	-	-	119,889
Inventories	-	-	9,999	-	-	9,999
Total Assets	\$ 7,716,865	\$ 408,176	\$ 39,166	\$ 1,953	\$ 8,493	\$ 8,174,653
LIABILITIES						
Accounts payable	\$ 408,048	\$ -	\$ 9,971	\$ -	\$ -	\$ 418,019
Accrued liabilities	440,452	-	8,150	-	-	448,602
Bonds interest & matured bonds payable	138	-	-	-	-	138
Due to other funds	4,230	405,937	52,123	-	277,511	739,801
Due to other governments	276,828	2,239	522	-	-	279,589
Due to employee retirement system	79,672	-	-	-	-	79,672
Due to teacher retirement system	874,686	-	-	-	-	874,686
Deferred revenues	56,894	-	-	-	-	56,894
Total Liabilities	2,140,948	408,176	70,766	-	277,511	2,897,401
FUND EQUITY						
Reserved for encumbrances	458,258	-	-	-	-	458,258
Reserved for insurance	500,000	-	-	-	-	500,000
Reserved for tax certiorari	1,400,000	-	-	-	-	1,400,000
Reserved for workers' compensation	454,783	-	-	-	-	454,783
Reserved for unemployment insurance	130,000	-	-	-	-	130,000
Reserved for employee benefits	523,000	-	-	-	-	523,000
Capital reserve	315,000	-	-	-	-	315,000
Unreserved - Designated for subsequent year's expenditures	1,195,000	-	-	-	-	1,195,000
Unreserved - Undesignated (deficit)	599,876	-	(31,600)	1,953	(269,018)	301,211
Total Fund Equity	5,575,917	-	(31,600)	1,953	(269,018)	5,277,252
Total Liabilities and Fund Equity	\$ 7,716,865	\$ 408,176	\$ 39,166	\$ 1,953	\$ 8,493	\$ 8,174,653

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY- GOVERNMENTAL
 FUNDS
 For Year Ended June 30, 2005

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 19,684,688	\$ -	\$ -	\$ -	\$ -	\$ 19,684,688
Other tax items	1,962,188	-	-	-	-	1,962,188
Charges for services	134,057	-	-	-	-	134,057
Use of money and property	485,852	-	300	312	-	486,464
Sale of property and compensation for loss	1,300	-	-	-	-	1,300
Miscellaneous	51,138	-	33,194	-	-	84,332
State sources	4,739,379	95,677	10,622	-	-	4,845,678
Federal sources	10,811	407,125	109,130	-	-	527,066
Sales	-	-	336,474	-	-	336,474
Total Revenues	<u>27,069,413</u>	<u>502,802</u>	<u>489,720</u>	<u>312</u>	<u>-</u>	<u>28,062,247</u>
EXPENDITURES						
General support	3,097,909	11,168	-	-	-	3,109,077
Instruction	16,072,465	493,913	-	-	-	16,566,378
Pupil transportation	1,132,921	13,066	-	-	-	1,145,987
Employee benefits	5,292,238	-	71,451	-	-	5,363,689
Debt service						
Principal	425,024	-	-	-	-	425,024
Interest	271,148	-	-	-	-	271,148
Cost of sales	-	-	476,523	-	-	476,523
Capital outlay	-	-	-	-	789,706	789,706
Total Expenditures	<u>26,291,705</u>	<u>518,147</u>	<u>547,974</u>	<u>-</u>	<u>789,706</u>	<u>28,147,532</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>777,708</u>	<u>(15,345)</u>	<u>(58,254)</u>	<u>312</u>	<u>(789,706)</u>	<u>(85,285)</u>
OTHER SOURCES AND USES						
Capital lease	-	-	-	-	520,450	520,450
Operating transfers in	5,782	21,127	-	-	-	26,909
Operating transfers (out)	(21,127)	(5,782)	-	-	-	(26,909)
Total Other Sources (Uses)	<u>(15,345)</u>	<u>15,345</u>	<u>-</u>	<u>-</u>	<u>520,450</u>	<u>520,450</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)	<u>762,363</u>	<u>-</u>	<u>(58,254)</u>	<u>312</u>	<u>(269,256)</u>	<u>435,165</u>
Fund Equity(deficit) - Beginning of year	<u>4,813,554</u>	<u>-</u>	<u>26,654</u>	<u>1,641</u>	<u>238</u>	<u>4,842,087</u>
Fund Equity (deficit) - End of year	<u>\$ 5,575,917</u>	<u>\$ -</u>	<u>\$ (31,600)</u>	<u>\$ 1,953</u>	<u>\$ (269,018)</u>	<u>\$ 5,277,252</u>

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS- FIDUCIARY FUNDS
 June 30, 2005

	Private Purpose Trusts	Agency
ASSETS		
Cash	\$ 28,911	\$ 107,505
Due from governmental funds	-	3,864
Total Assets	\$ 28,911	\$ 111,369
 LIABILITIES		
Extraclassroom activity balances	-	52,423
Other liabilities	-	58,946
Total Liabilities	-	\$ 111,369
 NET ASSETS		
Reserved for scholarships	\$ 28,911	

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS- FIDUCIARY FUNDS
 For Year Ended June 30, 2005

	<u>Private Purpose Trusts</u>
ADDITIONS	
Contributions	\$ <u>2,450</u>
DEDUCTIONS	
Scholarships and awards	<u>2,350</u>
Change in Net Assets	100
Net Assets - Beginning of year	<u>28,811</u>
Net Assets - End of year	<u><u>\$ 28,911</u></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 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 accepted standard setting body for establishing governmental accounting and financial reporting principles.

Certain significant accounting principles and policies utilized by the District are described below:

A. Reporting Entity

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, The Financial Reporting Entity, as amended by GASB Statement 39, Component Units. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. 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. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the School District's business office. The District accounts for assets held as an agent for various student organizations in an agency fund.

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

I. Summary of Significant Accounting Policies (Continued)

B. Joint Venture

The Spackenkill Union Free School District is one of 14 component school district's 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.

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, 2005, the Spackenkill Union Free School District was billed \$2,342,731 for BOCES administrative and program costs.

C. Basis of Presentation

1. Districtwide Statements

In the districtwide Statement of Net Assets and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State Aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

1. Districtwide Statements (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas.

2. Fund Financial Statements

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The District reports the following funds:

a. Major Governmental Funds

- (1) **General Fund-** This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.
- (2) **Special Aid Fund-** These funds account for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specified purposes and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

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

I. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

2. Fund Financial Statements (Continued)

a. Major Governmental Funds (Continued)

- (3) **School Lunch Fund-** Used to account for transactions of the District's lunch and breakfast programs.
- (4) **Capital Projects Fund-** This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.
- (5) **Debt Service Fund-** This fund accounts for the accumulation of resources and the payment of principal and interest on long-term obligations for governmental activities.

b. Fiduciary Funds

This fund is used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the Districtwide financial statements, because their resources do not belong to the District, and are not available to be used.

D. Measurement Focus and Basis of Accounting

The Districtwide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

D. **Measurement Focus and Basis of Accounting (Continued)**

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

E. **Cash and Investments**

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States 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 FDIC insurance. Investments are stated at fair value.

F. **Property Taxes**

1. **Calendar**

Real property taxes are levied annually by the Board of Education no later than September 1, and become a lien on August 23, 2004. Taxes are collected during the period September 7 to November 5, 2004.

2. **Enforcement**

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

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

G. Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

H. Inventories and Prepaid Items

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, and are considered immaterial in amount. Prepaid items represent payments made by the District for which benefits extend beyond year-end.

A reserve for these non-liquid assets (inventories and prepaid items) has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

I. Due To/From Other Funds

The amounts reported on the Governmental Funds Balance Sheet for due to and due from other funds represents amounts due between different fund types. Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

J. Capital Assets-Property, Plant and Equipment

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Donated assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets on the straight-line basis over the following useful lives:

<u>Class</u>	<u>Life in Years</u>
Buildings	15-50 Years
Machinery and Equipment	5-25 Years

See auditors' report.

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

I. Summary of Significant Accounting Policies (Continued)

K. Long-Term Obligations

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statement of Net Assets.

L. 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 long-term portion is accrued in the districtwide Statement of Net Assets as noncurrent liabilities.

M. Deferred Revenue

The District reports deferred revenues in its financial statements. 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 incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the School District has legal claims to the resources, the liability for deferred revenues is removed and revenues are recognized.

N. 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. 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 in the General Fund in the year paid.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

O. 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. Tax Certiorari Reserve

This reserve is used to accumulate funds to pay judgements and claims anticipated from tax certiorari proceedings. Any excess monies must be returned to the General Fund on or before the first day of the fourth fiscal year after the deposit of the monies. This reserve is accounted for in the General Fund.

2. Reserve for Encumbrances

This reserve represents the amount of outstanding encumbrances at the end of the fiscal year to be potentially expended in the subsequent year.

3. 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 the 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 the 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 for in the General Fund.

4. Unemployment Insurance Reserve

This reserve 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.

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

O. Fund Balance- Reservations and Designations (Continued)

4. 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 for in the General Fund.

5. Capital Reserve

This reserve 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 the reserve; the ultimate amount, its probable term and source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in 3651 of the Education Law. This reserve is accounted for in the General Fund.

6. 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 the 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 for in the General Fund.

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

I. Summary of Significant Accounting Policies (Continued)

O. Fund Balance- Reservations and Designations (Continued)

7. Employee Benefit Accrued Liability Reserve

This reserve is used to reserve funds for the payment of accrued employee benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the General Fund.

P. 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 is 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 a 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.

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 in the Schedule of Revenues and Expenditures-Budget and Actual, reflect budgeted and actual amounts for the general Fund which is a legally authorized (appropriated) budgets.

Special Aid Fund and School Lunch Fund have not been included in the comparison because they do not have legally authorized budgets.

See auditors' report.

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

II. Explanation of Certain Differences Between Governmental Fund Statements and Districtwide Statements

Due to differences in the measurement focus and basis of accounting used in the governmental fund statements and the Districtwide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

1. Total fund balances of governmental funds vs. net assets of governmental activities:

Total fund balances of the District's governmental funds differs from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the Governmental Fund Balance Sheets.

2. Statement of Revenues, Expenditures, and Changes in Fund Balance vs. Statement of Activities:

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories.

a. Long-term revenue differences:

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

b. Capital related differences:

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

c. Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. Explanation of Certain Differences Between Governmental Fund Statements and Districtwide Statements (Continued)

The costs of building and acquiring capital assets (land, buildings, and equipment) financed from governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually of their useful lives.

Original cost of capital assets	<u>\$ 17,239,298</u>
Accumulated depreciation	<u>\$ 9,461,903</u>

Long-term liabilities are reported in the Statement of Net Assets, but not in the governmental funds, because they are not due and payable in the current period. Balances at year-end were:

Bonds and notes payable	<u>\$ 5,135,000</u>
Capital lease	<u>\$ 505,426</u>

When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation of \$497,072 is less than capital expenditures of \$881,472 in the current year.

Repayment of bond and capital lease principal \$425,024 is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets, and does not affect the Statement of Activities.

III. Cash and Investments

A. Deposits

The Spackenkill Union Free School District's investment policies are governed by State statutes. The Spackenkill Union Free School District's monies must be deposited in FDIC-insured commercial banks or trust companies located within the 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 fore noted states and its agencies and obligations of the 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, 2005, the School District held \$2,032,498 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.

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

IV. Interfund Transaction

Interfund balances at June 30, 2005, are as follows:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	\$ 735,631	\$ 4,230	\$ 5,782	\$ 21,127
School Lunch Fund	-	52,123	-	5,782
Special Aid Fund	-	405,937	21,127	-
Capital Fund	-	277,511	-	-
Debt Service	306	-	-	-
Total governmental activities	735,937	739,801	\$ 26,909	\$ 26,909
Fiduciary Agency Fund	3,864	-		
Totals	\$ 739,801	\$ 739,801		

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Assets.

V. Capital Assets

A summary of changes in general fixed assets follows:

	Balance 7/1/2004	Additions	Deletions	Balance 6/30/2005
<u>Capital assets that are not depreciated:</u>				
Land	\$ 121,545	\$ -	\$ -	\$ 121,545
Construction in Progress	-	269,256	-	269,256
<u>Total capital assets that are not depreciated:</u>	<u>121,545</u>	<u>269,256</u>	<u>-</u>	<u>390,801</u>
<u>Other capital assets:</u>				
Buildings and improvements	13,639,687	520,450	-	14,160,137
Machinery and equipment	1,879,266	37,012	-	1,916,278
Buses	717,328	54,754	-	772,082
Total other capital assets	\$ 16,236,281	\$ 612,216	\$ -	\$ 16,848,497

See auditors' report.

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

V. Capital Assets (Continued)

	Balance 7/1/2004	Additions	Deletions	Balance 6/30/2005
<u>Less accumulated depreciation:</u>				
Buildings and improvements	\$ 6,971,354	\$ 322,539	\$ -	\$ 7,293,893
Machinery and equipment	1,437,136	115,463	-	1,552,599
Buses	556,341	59,070	-	615,411
Total accumulated depreciation	8,964,831	497,072	-	9,461,903
Other capital assets, net	7,271,450	115,144	-	7,386,594
Total	\$ 7,392,995	\$ 384,400	\$ -	\$ 7,777,395

Depreciation expense has been reported as unallocated in the Statement of Activities.

VI. Liabilities

A. Pension Plans and Post-Employment Benefits

1. General Information

The Spackenkil Union Free School District participates in the New York State Local Employees' Retirement System (ERS), and the New York State Teachers' and 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 makes contributions to the New York State Teachers' Retirement System (TRS), 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 benefit 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.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

VI. Liabilities (Continued)

A. Pension Plans and Post- Employment Benefits (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, 2005, 2004, and 2003 were 5.63%, 2.52%, and .36%. 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>
2005	\$ 296,901	\$ 441,372
2004	\$ 102,603	\$ 176,493
2003	\$ 25,792	\$ 162,874

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

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

VI. Liabilities (Continued)

B. Indebtedness

1. Long-Term Debt

a. Long-Term Debt Interest

Interest in long-term indebtedness amounted to \$271,148 for 2004-2005.

b. Changes

The changes in the School District's indebtedness during the year ended June 30, 2005, are summarized as follows:

	Balance 7/1/2004	Additions	Deletions	Balance 6/30/2005	Amounts Due Within One Year
Serial Bonds	\$ 5,545,000	\$ -	\$ 410,000	\$ 5,135,000	\$ 390,000
Energy Performance Contract	-	520,450	15,024	505,426	\$ 25,741
Totals	<u>\$ 5,545,000</u>	<u>\$ 520,450</u>	<u>\$ 425,024</u>	<u>\$ 5,640,426</u>	

c. Maturity

1. The following is a summary of the serial bonds issued:

Purpose	Issue Date	Final Maturity	Interest Rate	Outstanding 6/30/2005
Serial Bonds:				
8th Issue	1989	2010	6.65%	\$ 125,000
10th Issue	1994	2014	5.70%	600,000
11th Issue	1997	2007	4.80%	200,000
12th Issue	1999	2019	4.25%	3,235,000
2001 Issue	2001	2021	4.75-5%	975,000
Total				<u>\$ 5,135,000</u>
Energy Performance Contract	2004	2022	1.43%	<u>\$ 505,426</u>

See auditors' report.

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

VI. Liabilities (Continued)

B. Indebtedness (Continued)

1. Long-Term Debt (Continued)

c. Maturity (Continued)

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

Year	Principal	Interest	Total
2006	\$ 390,000	\$ 244,865	\$ 634,865
2007	410,000	225,786	635,786
2008	315,000	205,837	520,837
2009	330,000	190,511	520,511
2010 and thereafter	3,690,000	1,015,993	4,705,993
Total	<u>\$ 5,135,000</u>	<u>\$ 1,882,992</u>	<u>\$ 7,017,992</u>

C. Capital Lease

C. Capital Lease

The Spackenkill Union Free School District entered into an Energy Performance Contract which is accounted for as a capital lease. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of minimum lease payments as of June 30, 2005.

Year Ending June 30,	Long-Term Debt
2006	32,800
2007	32,800
2008	32,800
2009	32,800
2010-2012	440,076
Minimum Lease Payments- Capital Leases	571,276
Less: Amount representing interest 1.43% per annum	65,850
Present Value- Minimum Lease Payments	<u>\$ 505,426</u>

VII. 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 time. 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)

VII. **Commitments and Contingencies (Continued)**

B. Risk Financing and Related Insurance

1. General Information

The Spackenkill Union Free 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. Worker's Compensation Insurance

The Spackenkill Union Free School District participates in a risk-sharing pool, New York State Public Schools Statewide Workers' Compensation Trust, 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.

C. Operating Leases

The School District leased copiers under an operating lease. Total rental expenditures on such leases for the fiscal year ended June 30, 2005 were approximately \$4,595.

Other Items

D.

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

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

VII. **Commitments and Contingencies (Continued)**

E. **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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

VIII. **Additional Disclosures**

Interfund Transfer

The 2004-2005 interfund transfer budget was increased as follows:

Original Budget	\$	-
Revisions:		
Special Aid for Summer Handicap Program		22,000
Revised Budget	\$	<u>22,000</u>

IX. **Stewardship and Compliance**

The Capital Fund had a deficit fund balance at June 30, 2005 in the amount of \$269,018. The deficit will be eliminated when permanent financing is obtained.

The School Lunch Fund had a deficit fund balance at June 30, 2005 of \$31,600. The primary factor for the deficit was the cost of operations was greater than revenues in the amount of \$58,254 for the year ended June 30, 2005.

X. **Subsequent Event**

On July 15, 2005, the School District issued a serial bond totaling \$2,950,000. The proceeds of the bond is to finance the capital improvements project.

SPACKENKILL UNION FREE SCHOOL DISTRICT
 SCHEDULE OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET AND USE OF
 UNRESERVED FUND BALANCE- GENERAL FUND
 For Year Ended June 30, 2005

Original Budget	\$ 27,541,113
Additions:	
Prior year's encumbrances	264,681
Budget revision	<u>40,000</u>
Revised Budget	<u><u>\$ 27,845,794</u></u>

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -	
As of the beginning of the year	\$ 1,746,090
Less:	
Designated fund balance used for the levy of taxes - Original budget	<u>1,195,000</u>
Undesignated Fund Balance -	
As of the beginning of the year	<u><u>\$ 551,090</u></u>

SPACKENKILL UNION FREE SCHOOL DISTRICT
 SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
 For Year Ended June 30, 2005

PROJECT TITLE	Original Budget	Revised Budget	Expenditures			Unexpended Balance
			Prior Years	Current Year	Total	
Capital Improvement	\$ 2,950,000	\$ 2,950,000	\$ -	\$ 269,256	\$ 269,256	\$ 2,680,744
Energy Performance Contract	520,450	520,450	-	520,450	520,450	-
	<u>\$ 3,470,450</u>	<u>\$ 3,470,450</u>	<u>\$ -</u>	<u>\$ 789,706</u>	<u>\$ 789,706</u>	<u>\$ 2,680,744</u>

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
 SCHEDULE OF REVENUES COMPARED TO BUDGET- GENERAL FUND
 For Year Ended June 30, 2005

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local Sources				
Real property taxes	\$ 19,678,925	\$ 19,678,925	\$ 19,684,688	\$ 5,763
Other tax items	1,962,188	1,962,188	1,962,188	-
Charges for services	50,000	50,000	134,057	84,057
Use of money and property	385,000	385,000	485,852	100,852
Sale of property and compensation for loss	-	-	1,300	1,300
Miscellaneous	130,000	130,000	51,138	(78,862)
Total Local Sources	<u>22,206,113</u>	<u>22,206,113</u>	<u>22,319,223</u>	<u>113,110</u>
State Sources	4,140,000	4,140,000	4,739,379	599,379
Federal Sources	-	-	10,811	10,811
Total Revenues	<u>26,346,113</u>	<u>26,346,113</u>	<u>27,069,413</u>	<u>723,300</u>
OTHER FINANCING SOURCES				
Operating transfers in	-	-	5,782	5,782
Total Revenues and Other Financing Sources	<u>26,346,113</u>	<u>26,346,113</u>	<u>27,075,195</u>	<u>\$ 729,082</u>
Appropriated Reserve	-	40,000		
Appropriated Fund Balance	<u>1,195,000</u>	<u>1,459,681</u>		
Total Revenues, Other Financing Sources and Appropriated Reserve and Fund Balance	<u>\$ 27,541,113</u>	<u>\$ 27,845,794</u>		

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES, OTHER USES AND ENCUMBRANCES COMPARED TO
 BUDGET- GENERAL FUND
 For Year Ended June 30, 2005

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
EXPENDITURES					
General Support					
Board of education	\$ 49,854	\$ 54,949	\$ 50,637	\$ 373	\$ 3,939
Central administration	201,050	215,173	210,544	-	4,629
Finance	369,470	396,686	382,325	390	13,971
Staff	143,355	184,510	178,169	4,000	2,341
Central services	2,145,883	2,050,479	1,902,873	56,937	90,669
Special items	383,500	379,639	373,361	-	6,278
Total General Support	3,293,112	3,281,436	3,097,909	61,700	121,827
Instruction					
Instruction, administration and improvement	1,199,600	1,266,930	1,243,283	9,419	14,228
Teaching - regular school	10,003,245	9,774,933	9,479,312	203,092	92,529
Programs for children with handicapping Conditions	2,876,531	2,833,580	2,350,003	130,757	352,820
Occupational education	230,000	235,000	234,242	-	758
Teaching - special school	81,000	92,761	82,394	-	10,367
Instructional media	1,042,660	1,177,121	1,109,822	18,304	48,995
Pupil services	1,612,767	1,647,236	1,573,409	17,607	56,220
Total Instructional	17,045,803	17,027,561	16,072,465	379,179	575,917
Pupil Transportation	1,058,220	1,180,290	1,132,921	59	47,310
Employee Benefits	5,429,578	5,620,107	5,292,238	17,320	310,549
Debt Service					
Principal	450,000	440,000	425,024	-	14,976
Interest	264,400	274,400	271,148	-	3,252
Total Expenditures	27,541,113	27,823,794	26,291,705	458,258	1,073,831
OTHER USES					
Operating transfers out	-	22,000	21,127	-	873
Total Expenditures and Other Uses	\$ 27,541,113	\$ 27,845,794	26,312,832	\$ 458,258	\$ 1,074,704
Excess of Revenues and Other Sources Over Expenditures and Other Uses			\$ 762,363		

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
 SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES COMPARED TO ST-3 DATA
 For Year Ended June 30, 2005

	Code	ST-3 Amount	Audited Amount
REVENUES			
Real Property Taxes	A -1001	\$ 19,684,688	\$ 19,684,688
Non-Property Taxes	AT-1199	\$ -	\$ -
State Aid	AT-3999	\$ 4,739,379	\$ 4,739,379
Federal Aid	AT-4999	\$ 10,811	\$ 10,811
Total Revenues	AT-5999	\$ 27,075,195	\$ 27,075,195
EXPENDITURES			
General Support	AT-1999	\$ 3,097,909	\$ 3,097,909
Pupil Transportation	AT-5599	\$ 1,132,921	\$ 1,132,921
Debt Service - Principal	AT-9798.6	\$ 425,024	\$ 425,024
Debt Service - Interest	AT-9798.7	\$ 271,148	\$ 271,148
Total Expenditures	AT-9999	\$ 26,312,832	\$ 26,312,832

See auditors' report. See notes to financial statements.

RAYMOND G. PREUSSER, CPA, P.C.

Certified Public Accountants

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

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

We have audited the financial statements of Spackenkill Union Free School District as of and for the year ended June 30, 2005 and have issued our report thereon dated August 10, 2005. 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 and Other Matters

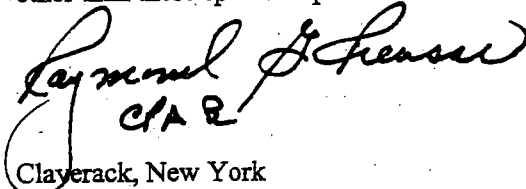
As part of obtaining reasonable assurance about whether Spackenkill Union Free School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters 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 an opinion 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 caused by error or fraud 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 our accompanying management letter.

This report is intended solely for the information and use of the Board of Education, management, the 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.


CFA R

Claverack, New York
August 10, 2005

RAYMOND G. PREUSSER, CPA, P.C.

Certified Public Accountants

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

We have audited the financial statements of the Spackenkill Union Free School District at June 30, 2005, and have reported thereon under date of August 10, 2005. As an inherent part of our audit, we reviewed those accounting procedures and internal controls used to affect 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 the opportunity to review the accompanying comments and recommendations, we shall be pleased to discuss any questions you might have.

School District's Financial Accountability:

During July 2005, the Governor signed into law a bill which is intended to improve School District's Financial Accountability. This legislation, commonly referred to as the "Five Point Plan" addresses the following five areas:

- Audit Committees
- Internal Claims Auditor
- Internal Audit Function
- Audit Services
- Board Training

Each item noted above has a different phase in date during the fiscal year. However, in order to implement this legislation, the State Education Department will be required to issue specific regulations to interpret the requirements of this law. As these regulations are clarified by SED, we will be available to assist the District with implementation.

See auditors' report.

Policies-Spending

As a result of recent events, the comptroller's office recommended that school districts need to strengthen its policies and oversight on spending. School districts need to adopt policies related to spending on travel (conferences), meals, and refreshments, cell phones, and credit cards.

The Board of Education should adopt written policies that provide direction for the above spending areas. Once these policies are adopted management should monitor the policies and procedures for compliance.

The Board of Education should review and update these policies and procedures to meet the changing needs of the District.

The Claims Auditor should obtain a copy of these policies to ensure that every claim contains sufficient documentation to determine that the claim is a necessary School District expense.

School Lunch Fund:

During our audit, we noted the following:

1. The Fund sustained an operating loss in the amount of \$58,254, which resulted in a deficit of \$31,600 at June 30, 2005. This represents three consecutive years of operating losses. It should be noted that there is no provision in law or regulation, which permits a school district to have a deficit fund balance. It is imperative that the cafeteria operation be maintained in a "break-even" profitable basis.
2. The Fund is indebted to the General Fund in the amount of \$52,123 at June 30, 2005, with insufficient funds to repay. The deficiency is computed as follows:

Cash	\$ 12,865
Receivables	16,302
Funds Available	<u>29,167</u>
Liabilities	<u>(70,766)</u>
Cash deficiency	<u>\$ (41,599)</u>

We urge the District to monitor the revenues and expenditures closely to eventually eliminate the deficit. We also recommend that the District establish a plan to eliminate the interfund payable to the General Fund.

Cash Management:

During our audit, we noted that the General Fund had outstanding advances at June 30, 2005.


Special Aid Fund	\$ 405,937
School Lunch Fund	52,123
Capital Fund	277,511
	<u>\$ 735,571</u>

We also noted that the Special Aid Fund had cash available to transfer to the General Fund.

We recommend on a monthly basis, the due from/ due to accounts should be reviewed and monies returned to respective funds in a timely manner.

We wish to take this opportunity to thank the personnel of the District for the courtesies and cooperation extended to us during our audit.

Very truly yours,
RAYMOND G. PREUSSER, CPA, P.C.


Raymond G. Preusser

See auditors' report.