

**SPACKENKILL UNION FREE
SCHOOL DISTRICT**

**FINANCIAL STATEMENT
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2006

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, 2006, 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, 2006, 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, 2006 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.

Claverack, New York
August 10, 2006

SPACKENKILL UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2006

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, 2006. 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, 2005 & 2006**

	<u>Governmental Activities</u>		Variance Increase (Decrease)
	<u>2005</u>	<u>2006</u>	
Current Assets	\$ 7,438,716	\$ 8,520,925	\$ 1,082,209
Capital Assets	7,777,395	9,431,395	1,654,000
Total Assets	<u>15,216,111</u>	<u>17,952,320</u>	<u>2,736,209</u>
Current Liabilities	2,577,205	3,429,383	852,178
Long-term Obligations	5,224,685	8,352,761	3,128,076
Total Liabilities	<u>7,801,890</u>	<u>11,782,144</u>	<u>3,980,254</u>
Net Assets:			
Investment in capital assets, net of related debt	2,136,969	1,418,959	(718,010)
Restricted for encumbrances	458,258	481,708	23,450
Restricted for other specific purposes	3,322,783	3,125,069	(197,714)
Restricted for subsequent year's expenditures	1,195,000	1,195,000	-
Unrestricted	301,211	(50,560)	(351,771)
Total Net Assets	<u>\$ 7,414,221</u>	<u>\$ 6,170,176</u>	<u>\$ (1,244,045)</u>

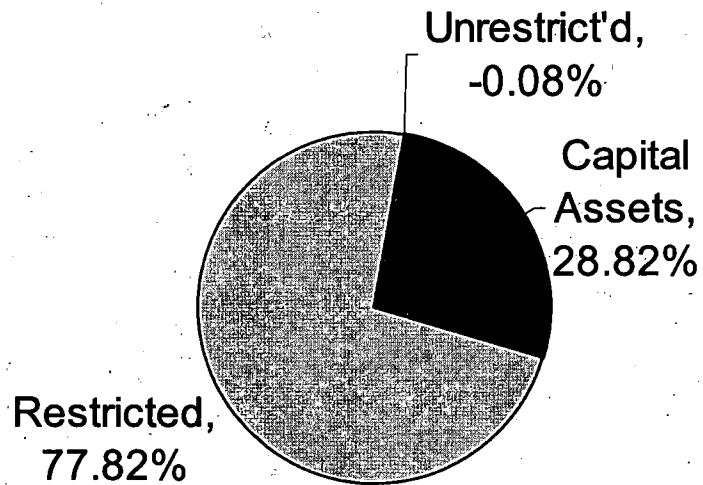
Maintaining adequate fund balance has several internal benefits. Fund balance can provide for cash flow needs until major revenues are received (thereby reducing or eliminating the need for cash flow borrowing), provide funds to leverage state and federal grants, and provide for various contingencies.

As illustrated on the following page, of the District's net assets (28.82%) 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 (77.82%) 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 (-.08%) may be used to meet the District's ongoing obligation to provide educational services.

Spackenkill Union Free School District's Net Assets

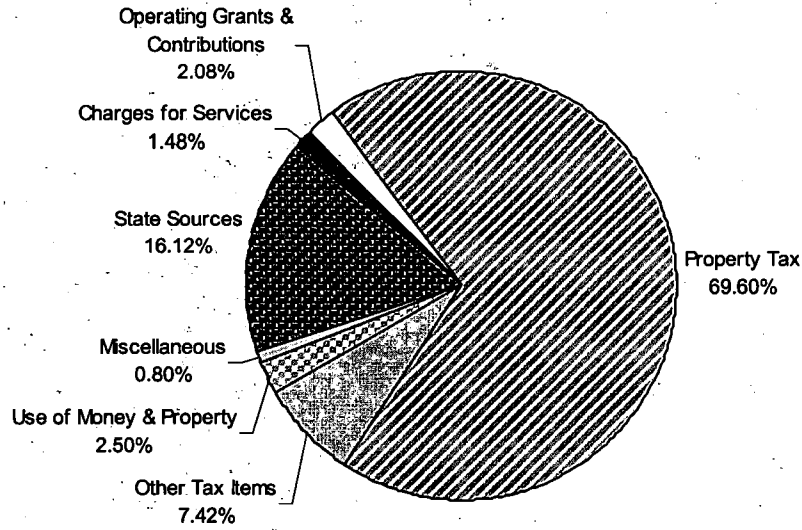


**Spackenkill Union Free School District's
Changes in Net Assets
For the Years Ended June 30, 2005 & 2006**

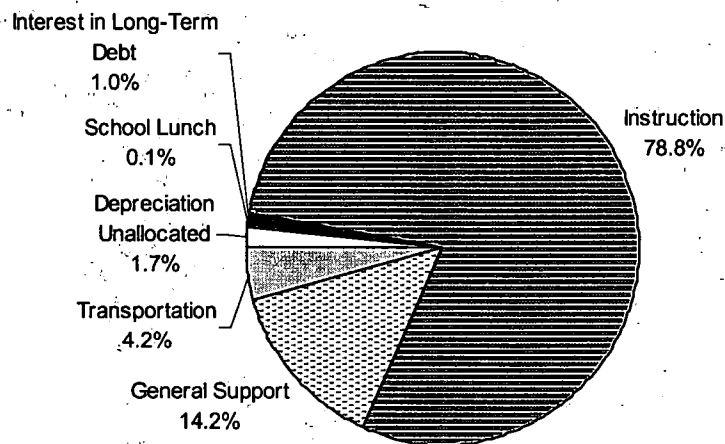
	Governmental Activities		Variance Increase (Decrease)
	2005	2006	
Revenues:			
Program Revenues:			
Charges for Services	\$ 504,025	\$ 448,720	\$ (55,305)
Operating Grants and Contributions	622,554	633,413	10,859
Total Program Revenues	<u>\$ 1,126,579</u>	<u>\$ 1,082,133</u>	<u>\$ (44,446)</u>
General Revenues:			
Real Property Taxes	\$ 19,684,688	\$ 21,154,248	\$ 1,469,560
Other Tax Items	1,962,188	2,256,985	294,797
Use of Money and Property	486,164	758,195	272,031
Sale of Property and Compensation for Loss	1,300	-	(1,300)
Miscellaneous	51,138	220,780	169,642
State Sources	4,739,379	4,901,105	161,726
Federal Sources	10,811	22,050	11,239
Total General Revenues	<u>26,935,668</u>	<u>29,313,363</u>	<u>2,377,695</u>
Expenses:			
Instruction	20,524,999	23,706,476	3,181,477
Support Services:			
General Support	3,644,303	4,287,026	642,723
Pupil Transportation	1,215,753	1,274,848	59,095
Debt Service-Interest	271,148	256,514	(14,634)
Depreciation-Unallocated	497,072	508,673	11,601
School Lunch	58,254	35,708	(22,546)
Total Expenses	<u>26,211,529</u>	<u>30,069,245</u>	<u>3,857,716</u>
Change in Net Assets	<u>\$ 724,139</u>	<u>\$ (755,882)</u>	<u>\$ (1,480,021)</u>

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, 2006**



**Districtwide Expenses by Function
For the Year Ended June 30, 2006**



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 \$5,564,990, an increase of \$287,738 over the prior year. Of the total combined fund balances, \$1,820,165 constitutes unreserved general fund balance, of which \$1,195,000 has been designated for use in the 2006-2007 budget. The balance of \$625,165 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	\$ 481,708
Capital Reserve - Buses	\$ 242,581
Workmen's Compensation Reserve	\$ 454,783
Unemployment Insurance Reserve	\$ 130,000
Insurance Reserve	\$ 500,000
Reserve for Tax Certiorari	\$1,274,435
Reserve for Employee Benefits	\$ 523,000
	<u>\$3,606,507</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 \$5,426,672 of which \$625,165 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 decreased by \$149,245 during the current fiscal year. The key factor in the decrease is the accrual for retiree health insurance.

General Fund Budgetary Highlights

The difference between the general fund's original budget and final amended budget was \$666,835. This change is attributable to the carryover of encumbrances from 2004-2005 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, 2006 is as follows:

	<u>June 30, 2006</u>
Land	\$ 121,545
Construction in Progress	\$ 515,823
Buildings & Improvements	\$8,388,855
Machinery & Equipment	\$ 224,687
Vehicles	<u>\$ 180,485</u>
	<u>\$9,431,395</u>

Obligations: The District had long term debt of \$8,177,763 as of June 30, 2006 (a decrease of \$2,537,337 over the previous year).

	<u>June 30, 2006</u>
Serial Bonds	\$7,695,000
Energy Performance Contract	482,763

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, 2006

ASSETS

Current Assets:

Unrestricted cash	\$ 7,843,229
Restricted cash	138
State and federal aid receivable	302,303
Other receivables, net	8,557
Due from other governments	356,813
Due from fiduciary funds	297
Inventories	9,588
Total Current Assets	8,520,925

Noncurrent Assets:

Capital assets, net depreciation	9,431,395
Total Noncurrent Assets	9,431,395

Total Assets

17,952,320

LIABILITIES

Current Liabilities:

Accounts payable	148,821
Accrued liabilities	1,186,490
Bond interest and matured bonds	138
Due to other governments	306,263
Deferred revenues - other	23,180
Due to teachers' retirement system	1,227,067
Due to employees' retirement system	63,976
Bonds payable	450,000
Capital lease	23,448
Total Current Liabilities	3,429,383

Noncurrent Liabilities:

Bonds payable	7,245,000
Compensated absences payable	648,446
Capital lease	459,315
Total Noncurrent Liabilities	8,352,761

Total Liabilities

11,782,144

NET ASSETS

Investment in capital assets, net of related debt	1,418,959
Restricted for:	
Encumbrances	481,708
Capital-buses	242,851
Tax certiorari	1,274,435
Employee benefits	523,000
Workers' comp., unemployment & insurance	1,084,783
Subsequent year's expenditures	1,195,000
Unrestricted (deficit)	(50,560)
Total Net Assets	\$ 6,170,176

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For Year Ended June 30, 2006

	Expenses	Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants	
FUNCTIONS/PROGRAMS					
General support	\$ 3,660,802	\$ 635,092	\$ -	\$ 8,868	\$ (4,287,026)
Instruction	18,313,170	5,921,841	43,944	484,591	(23,706,476)
Pupil transportation	1,171,544	127,184	-	23,880	(1,274,848)
Depreciation, unallocated	508,673	-	-	-	(508,673)
Employee benefits	6,769,445	(6,769,445)	-	-	-
Debt service-Interest	256,514	-	-	-	(256,514)
School lunch program	471,230	85,328	404,776	116,074	(35,708)
Total Functions and Programs	\$ 31,151,378	\$ -	\$ 448,720	\$ 633,413	(30,069,245)
GENERAL REVENUES					
Real property taxes					21,154,248
Other tax items					2,256,985
Use of money and property					758,195
Miscellaneous					220,780
State sources					4,901,105
Federal-medicaid reimbursement					22,050
Total General Revenues					29,313,363
Change in Net Assets					(755,882)
Total Net Assets - Beginning of year					6,926,058
Total Net Assets - End of year					\$ 6,170,176

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, 2006

	Total Governmental Funds	Long-term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS				
Unrestricted cash	\$ 7,843,229	\$ -	\$ -	\$ 7,843,229
Restricted cash	138	-	-	138
Accounts receivable	8,557	-	-	8,557
State and federal aid receivable	302,303	-	-	302,303
Due from other funds	176,979	-	(176,979)	-
Due from other governments	356,813	-	-	356,813
Inventories	9,588	-	-	9,588
Due from fiduciary funds	-	-	297	297
Capital assets, (net)	-	9,431,395	-	9,431,395
Total Assets	\$ 8,697,607	\$ 9,431,395	\$ (176,682)	\$ 17,952,320
LIABILITIES				
Accounts payable	\$ 148,821	\$ -	\$ -	\$ 148,821
Accrued liabilities	1,186,490	-	-	1,186,490
Bonds payable	-	7,695,000	-	7,695,000
Capital lease	-	482,763	-	482,763
Bond interest and matured bonds payable	138	-	-	138
Due to other funds	176,682	-	(176,682)	-
Due to other governments	306,263	-	-	306,263
Due to teachers' retirement system	1,227,067	-	-	1,227,067
Due to employees' retirement system	63,976	-	-	63,976
Compensated absences payable	-	648,446	-	648,446
Deferred revenues	23,180	-	-	23,180
Total Liabilities	3,132,617	8,826,209	(176,682)	11,782,144
FUND EQUITY\NET ASSETS				
Total Fund Equity\Net Assets	5,564,990	605,186	-	6,170,176
Total Liabilities, Equity and Other Credits	\$ 8,697,607	\$ 9,431,395	\$ (176,682)	\$ 17,952,320

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, 2006

	Total Governmental Funds	Long-term Revenue, Expenses	Capital Related Items	Long-term Debt Transactions	Statement of Activities Totals
REVENUES					
Real property taxes	\$ 21,154,248	\$ -	\$ -	\$ -	\$ 21,154,248
Other tax items	2,256,985	-	-	-	2,256,985
Charges for services	43,944	-	-	-	43,944
Use of money and property	758,857	-	-	-	758,857
Miscellaneous	256,381	-	-	-	256,381
State sources	4,968,773	-	-	-	4,968,773
Federal-medicaid reimbursement	22,050	-	-	-	22,050
Federal sources	565,745	-	-	-	565,745
Sales - school lunch	368,513	-	-	-	368,513
Total Revenues	30,395,496	-	-	-	30,395,496
EXPENDITURES					
General support	3,706,356	-	(45,554)	-	3,660,802
Instruction	17,714,724	648,446	(50,000)	-	18,313,170
Pupil transportation	1,211,409	-	(39,865)	-	1,171,544
Depreciation	-	-	508,673	-	508,673
Employee benefits	6,769,445	-	-	-	6,769,445
Debt service					
Principal	412,663	-	-	(412,663)	-
Interest	256,514	-	-	-	256,514
School lunch program	471,230	-	-	-	471,230
Capital outlay	2,515,417	-	(2,515,417)	-	-
Total Expenditures	33,057,758	648,446	(2,142,163)	(412,663)	31,151,378
Excess (Deficiency) of Revenues Over Expenditures	(2,662,262)	(648,446)	2,142,163	412,663	(755,882)
OTHER SOURCES AND USES					
Proceeds from debt	2,950,000	-	-	(2,950,000)	-
Operating transfers in	38,275	(38,275)	-	-	-
Operating transfers (out)	(38,275)	38,275	-	-	-
Total Other Sources (Uses)	2,950,000	-	-	(2,950,000)	-
Net Change for the Year	\$ 287,738	\$ (648,446)	\$ 2,142,163	\$ (2,537,337)	\$ (755,882)

See auditors' report. See notes to financial statements.

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

June 30, 2006

	-----					Total
	General	Special Aid	School Lunch	Debt Service	Capital Projects	Governmental Funds
ASSETS						
Unrestricted cash	\$ 7,618,114	\$ 32,887	\$ 6,602	\$ 1,964	\$ 183,662	\$ 7,843,229
Restricted cash	138	-	-	-	-	138
State and federal aid receivable	221,702	73,460	7,141	-	-	302,303
Due from other funds	148,004	-	10,878	18,097	-	176,979
Due from other governments	356,813	-	-	-	-	356,813
Accounts receivable	718	-	7,839	-	-	8,557
Inventories	-	-	9,588	-	-	9,588
Total Assets	\$ 8,345,489	\$ 106,347	\$ 42,048	\$ 20,061	\$ 183,662	\$ 8,697,607
LIABILITIES						
Accounts payable	\$ 137,623	\$ -	\$ 11,198	\$ -	\$ -	\$ 148,821
Accrued liabilities	1,177,817	-	8,673	-	-	1,186,490
Bonds interest & matured bonds payable	138	-	-	-	-	138
Due to other funds	10,878	78,724	68,983	-	18,097	176,682
Due to other governments	278,138	27,623	502	-	-	306,263
Due to employee retirement system	63,976	-	-	-	-	63,976
Due to teacher retirement system	1,227,067	-	-	-	-	1,227,067
Deferred revenues	23,180	-	-	-	-	23,180
Total Liabilities	2,918,817	106,347	89,356	-	18,097	3,132,617
FUND EQUITY						
Reserved for encumbrances	481,708	-	-	-	-	481,708
Reserved for insurance	500,000	-	-	-	-	500,000
Reserved for tax certiorari	1,274,435	-	-	-	-	1,274,435
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	242,581	-	-	-	-	242,581
Unreserved - Designated for subsequent year's expenditures	1,195,000	-	-	-	-	1,195,000
Unreserved - Undesignated (deficit)	625,165	-	(47,308)	20,061	165,565	763,483
Total Fund Equity	5,426,672	-	(47,308)	20,061	165,565	5,564,990
Total Liabilities and Fund Equity	\$ 8,345,489	\$ 106,347	\$ 42,048	\$ 20,061	\$ 183,662	\$ 8,697,607

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, 2006

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 21,154,248	\$ -	\$ -	\$ -	\$ -	\$ 21,154,248
Other tax items	2,256,985	-	-	-	-	2,256,985
Charges for services	43,944	-	-	-	-	43,944
Use of money and property	740,087	-	662	18,108	-	758,857
Miscellaneous	220,780	-	35,601	-	-	256,381
State sources	4,901,105	57,039	10,629	-	-	4,968,773
Federal sources	22,050	460,300	105,445	-	-	587,795
Sales	-	-	368,513	-	-	368,513
Total Revenues	29,339,199	517,339	520,850	18,108	-	30,395,496
EXPENDITURES						
General support	3,697,488	8,868	-	-	-	3,706,356
Instruction	17,224,322	490,402	-	-	-	17,714,724
Pupil transportation	1,187,529	23,880	-	-	-	1,211,409
Employee benefits	6,684,117	-	85,328	-	-	6,769,445
Debt service						
Principal	412,663	-	-	-	-	412,663
Interest	256,514	-	-	-	-	256,514
Cost of sales	-	-	471,230	-	-	471,230
Capital outlay	-	-	-	-	2,515,417	2,515,417
Total Expenditures	29,462,633	523,150	556,558	-	2,515,417	33,057,758
Excess (Deficiency) of Revenues Over Expenditures	(123,434)	(5,811)	(35,708)	18,108	(2,515,417)	(2,662,262)
OTHER SOURCES AND USES						
Proceeds from debt	-	-	-	-	2,950,000	2,950,000
Operating transfers in	6,232	12,043	20,000	-	-	38,275
Operating transfers (out)	(32,043)	(6,232)	-	-	-	(38,275)
Total Other Sources (Uses)	(25,811)	5,811	20,000	-	2,950,000	2,950,000
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)	(149,245)	-	(15,708)	18,108	434,583	287,738
Fund Equity(deficit) - Beginning of year	5,575,917	-	(31,600)	1,953	(269,018)	5,277,252
Fund Equity (deficit) - End of year	\$ 5,426,672	\$ -	\$ (47,308)	\$ 20,061	\$ 165,565	\$ 5,564,990

See auditors' report. See notes to financial statements:

**SPACKENKILL UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS- FIDUCIARY FUNDS**

June 30, 2006

	Private Purpose Trusts	Agency
ASSETS		
Cash	\$ 29,011	\$ 64,676
Total Assets	\$ 29,011	\$ 64,676
 LIABILITIES		
Extraclassroom activity balances	-	41,767
Due to governmental funds	-	297
Other liabilities	-	22,612
Total Liabilities	-	\$ 64,676
 NET ASSETS		
Reserved for scholarships	\$ 29,011	

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, 2006

	<u>Private Purpose Trusts</u>
ADDITIONS	
Contributions	<u>\$ 1,950</u>
DEDUCTIONS	
Scholarships and awards	<u>1,850</u>
Change in Net Assets	100
Net Assets - Beginning of year	<u>28,911</u>
Net Assets - End of year	<u><u>\$ 29,011</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 financial statements of Spackenkill Union Free School District have been prepared in conformity with generally accepted accounting principles (GAAP). Those principles are as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

A. Prior Period Adjustments

The reconciliation of restated amounts to the June 30, 2005 year-end balance is:

Beginning net assets	\$ 7,414,221
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The following adjustments are necessary to determine the beginning net assets for the Statement of Activities:

Capital Assets	<u>(488,163)</u>
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Beginning net assets reported on Statement of Activities for governmental activities, July 1, 2005	<u>\$ 6,926,058</u>
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B. Reporting Entity

The Spackenkill Union Free School District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of 5 members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

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 District is not a component unit of another 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:

See auditors' report.

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

I. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

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 are included in these financial statements. The District accounts for assets held as an agent for various student organizations in an agency fund.

C. Joint Venture

The Spackenkill Union Free School District participates in the Southern Westchester 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 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 districts 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 their 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, 2006, the Spackenkill Union Free School District was billed \$2,216,179 for BOCES administrative and program costs. The District's share of BOCES Aid amounted to \$680,894. Financial statements for the BOCES Aid are available from the BOCES administrative office.

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

I. Summary of Significant Accounting Policies (Continued)

D. Basis of Presentation

1. Districtwide Statements

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.

The Statement of Activities presents a comparison between program expenses and 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) **School Lunch Fund-** Used to account for transactions of the District's lunch and breakfast programs.

See auditors' report.

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

I. Summary of Significant Accounting Policies (Continued)

D. Basis of Presentation (Continued)

2. Fund Financial Statements (Continued)

a. Major Governmental Funds (Continued)

- (3) **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.
- (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

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. There are two classes of fiduciary funds:

- (1) **Private Purpose Trust Funds-** These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.
- (2) **Agency Funds-** These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

E. 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.

See auditors' report.

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

I. Summary of Significant Accounting Policies (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

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.

The 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.

F. 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. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and districts.

G. Property Taxes

Real property taxes are levied by the Board of Education no later than September 1, and become a lien on August 29, 2005. Taxes are collected during the period September 12 to November 10, 2005.

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.

H. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy concerning which to apply first varies with the intended use, and with the associated legal requirements, many of which are described elsewhere in these Notes.

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

I. Summary of Significant Accounting Policies (Continued)

I. Due To/From Other Funds

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services.

In the districtwide statements, the amounts reported on the Statement of Net Assets for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note V for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

K. 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.

L. 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.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

M. Capital Assets

Capital assets are reflected in the districtwide financial statements. Capital assets are reported at historical cost or estimated historical costs, based on appraisals conducted by independent third-party professionals. 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.

Capitalization thresholds, except land, are depreciated on a straight-line basis over their estimated useful lives. Estimated useful lives of capital assets reported in the districtwide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Site Improvements	\$ 5,000	20
Buildings and Improvements	\$ 5,000	15-50
Furniture and Equipment	\$ 5,000	5-20
Vehicles	\$ 5,000	5-8

N. Compensated Absences

Compensated absences consist of unpaid accumulated annual sick leave, vacation, and sabbatical time.

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

N. Compensated Absences (Continued)

Consistent with GASB Statement 16, Accounting for Compensated Absences, the liability has been calculated using the vested/termination method and an accrual for that liability is included in the districtwide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the fund statements only the amount of matured liabilities is accrued within the General Fund based upon expendable and available resources. These amounts are expensed on a pay-as-you-go basis.

O. Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the districtwide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

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

P. 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.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

Q. 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. Post-employment benefits aggregated \$774,039 for fiscal year ended June 30, 2006.

R. 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

This reserve represents the amount of outstanding encumbrances at the end of the fiscal year to be potentially expended in the subsequent 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 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 applied to the appropriations of the next succeeding fiscal year's budget. This reserve is accounted for in the General Fund.

3. 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. 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 applied to the appropriations of the next succeeding fiscal year's budget. 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)

R. Fund Balance- Reservations and Designations (Continued)

4. Employee Benefit Accrued Liability Reserve

This reserve is used to reserve funds for the payment of accrued employee benefits 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.

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. Expenditures 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.

7. Tax Certiorari Reserve

This reserve is used to accumulate funds to pay judgments 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.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

S. 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, reflects budgeted and actual amounts for the General Fund which is a legally authorized (appropriated) budget.

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

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.

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 (Continued)

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 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.

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 over their useful lives:

Original cost of capital assets	<u>\$ 18,292,687</u>
Accumulated depreciation	<u>\$ 8,861,292</u>

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 (Continued)

Because the governmental funds focus on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example receivables) are offset by deferred revenue in the governmental funds, and thus are not included in fund balance. They are, however, included in the net assets of the governmental activities.

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	\$ 7,695,000
Capital lease	\$ 482,763
Compensated absences payable	\$ 648,446

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 \$508,673 was less than capital expenditures of \$2,650,836 in the current year.

Repayment of bond principal of \$412,663 is an expenditure in the governmental funds, but it reduces the 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 United 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, 2006, the School District held \$1,846,259 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. The investment pool is categorically exempt from the New York State collateralization requirements.

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

IV. Stewardship, Compliance and Accountability

The School Lunch Fund had a deficit fund balance at June 30, 2006 of \$47,308. The primary factor for the deficit was that the cost of operations was greater than revenues in the amount of \$15,708 for the year ended June 30, 2006.

V. Interfund Transaction

Interfund balances at June 30, 2006, are as follows:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	\$ 148,004	\$ 10,878	\$ 6,232	\$ 32,043
Special Aid Fund	-	78,724	12,043	6,232
School Lunch Fund	10,878	68,983	20,000	-
Capital Fund	-	18,097	-	-
Debt Service Fund	18,097	-	-	-
Total governmental activities	176,979	176,682	\$ 38,275	\$ 38,275
Fiduciary Agency Fund	-	297		
Totals	\$ 176,979	\$ 176,979		

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

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

VI. Capital Assets

A summary of changes in general fixed assets follows:

	Balance 7/1/2005	Additions	Deletions	Balance 6/30/2006
<u>Capital assets that are not depreciated:</u>				
Land	\$ 121,545	\$ -	\$ -	\$ 121,545
Construction in progress	269,256	246,567	-	515,823
Total capital assets that are not depreciated	390,801	246,567	-	637,368
<u>Other capital assets:</u>				
Buildings and improvements	13,934,978	2,268,850	-	16,203,828
Machinery and equipment	706,065	63,000	-	769,065
Buses	610,007	72,419	-	682,426
Total other capital assets	15,251,050	2,404,269	-	17,655,319
<u>Less accumulated depreciation:</u>				
Buildings and improvements	7,406,511	408,462	-	7,814,973
Machinery and equipment	489,317	55,061	-	544,378
Buses	456,791	45,150	-	501,941
Total accumulated depreciation	8,352,619	508,673	-	8,861,292
Other capital assets, net	6,898,431	1,895,596	-	8,794,027
Total	\$ 7,289,232	\$ 2,142,163	\$ -	\$ 9,431,395

Depreciation expense for the period was reported as unallocated in the Statement of Activities.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

VII. Pension Plans and Post-Employment Benefits

1. General Information

The Spackenkill 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 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 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.

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.

TUCKAHOE UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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, 2006, 2005, and 2004 were 7.97%, 5.63%, and 2.52%. 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:

Year	ERS	TRS
2006	\$ 247,997	\$ 860,563
2005	\$ 296,901	\$ 441,372
2004	\$ 102,603	\$ 176,493

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

VIII. Long-Term Debt Obligations

Long-term liability balances and activity for the year are summarized below:

1. Long-Term Debt Interest

Interest Paid	\$ 256,514
Less interest accrued in the prior year	-
Plus interest accrued in the current year	-
Total expense	<u>\$ 256,514</u>

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

VIII. Long-Term Debt Obligations (Continued)

2. Changes

	Balance 7/1/2005	Additions	Deletions	Balance 6/30/2006	Amounts Due Within One Year
Serial Bonds	\$ 5,135,000	\$ 2,950,000	\$ 390,000	\$ 7,695,000	\$ 450,000
Compensated Absences	-	648,446	-	648,446	
Energy Performance Contract	505,426	-	22,663	482,763	\$ 23,448
Totals	\$ 5,640,426	\$ 3,598,446	\$ 412,663	\$ 8,826,209	

In prior years, the District defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

3. Maturity

a. The following is a summary of the debt issued:

Purpose	Issue Date	Final Maturity	Interest Rate	Outstanding 6/30/2006
Serial Bonds:				
8th Issue	1989	2010	6.65%	\$ 100,000
10th Issue	1994	2014	5.70%	545,000
11th Issue	1997	2007	4.80%	100,000
12th Issue	1999	2019	4.25%	3,065,000
2001 Issue	2001	2021	4.75-5%	935,000
2005 Issue	2005	2025	4.00%	2,950,000
				<u>\$ 7,695,000</u>
Energy Performance Contract	2004	2022	1.43%	\$ 482,763

b. The following is a summary of maturing principal debt service requirements:

Year	Principal	Interest	Total
2007	\$ 450,000	\$ 403,166	\$ 853,166
2008	420,000	320,923	740,923
2009	435,000	301,397	736,397
2010	455,000	280,705	735,705
2011	445,000	260,054	705,054
2012 and thereafter	5,490,000	1,517,467	7,007,467
Total	<u>\$ 7,695,000</u>	<u>\$ 3,083,712</u>	<u>\$ 10,778,712</u>

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

IX. 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, 2006.

Year Ending <u>June 30,</u>	Long-Term <u>Debt</u>
2007	36,429
2008	36,429
2009	36,429
2010	36,429
2011-2023	455,371
Minimum Lease Payments- Capital Leases	<u>601,087</u>
Less: Amount representing interest 1.43% per annum	<u>(118,324)</u>
Present Value- Minimum Lease Payments	<u>\$ 482,763</u>

X. Commitments and Contingencies

A. 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. Workers' 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.

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

X. Commitments and Contingencies (Continued)

B. Operating Leases

The School District leased storage containers under a year to year operating lease. Total rental expenditures on such leases for the fiscal year ended June 30, 2006 were approximately \$4,595.

C. Other Items

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.

D. 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

XI. Additional Disclosures

Interfund Transfer

The 2005-2006 interfund transfer budget was increased as follows:

Original Budget	\$ 20,000
Revisions:	
Special Aid- Summer Handicap Program	12,043
Revised Budget	\$ 32,043

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, 2006

Original Budget	\$ 29,506,236
Additions:	
Prior year's encumbrances	458,258
Budget revision	<u>208,577</u>
Revised Budget	<u>\$ 30,173,071</u>

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -	
As of the beginning of the year	\$ 1,794,876
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>\$ 599,876</u>

SPACKENKILL UNION FREE SCHOOL DISTRICT
 SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
 For Year Ended June 30, 2006

PROJECT TITLE	Original Budget	Revised Budget	Expenditures			Unexpended Balance	Methods of Financing		Fund Balance June 30, 2006
			Prior Years	Current Year	Total		Proceeds of Obligations	Total	
Capital Improvement	\$ 2,950,000	\$ 2,950,000	\$ 269,256	\$2,416,626	\$ 2,685,882	\$ 264,118	\$ 2,950,000	\$ 2,950,000	\$ 264,118
Capital Improvement-High School	2,150,000	2,150,000	-	98,791	98,791	2,051,209	-	-	(98,791)
Totals	\$ 5,100,000	\$ 5,100,000	\$ 269,256	\$2,515,417	\$ 2,784,673	\$ 2,315,327	\$ 2,950,000	\$ 2,950,000	\$ 165,327

See auditors' report.

SPACKENKILL UNION FREE SCHOOL DISTRICT
 SCHEDULE OF REVENUES COMPARED TO BUDGET- GENERAL FUND
 For Year Ended June 30, 2006

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local Sources				
Real property taxes	\$ 21,154,251	\$ 21,154,251	\$ 21,154,248	\$ (3)
Other tax items	2,256,985	2,256,985	2,256,985	-
Charges for services	50,000	50,000	43,944	(6,056)
Use of money and property	420,000	420,000	740,087	320,087
Miscellaneous	130,000	130,000	220,780	90,780
Total Local Sources	24,011,236	24,011,236	24,416,044	404,808
State Sources	4,300,000	4,300,000	4,901,105	601,105
Federal Sources	-	-	22,050	22,050
Total Revenues	28,311,236	28,311,236	29,339,199	1,027,963
OTHER FINANCING SOURCES				
Operating transfers in	-	-	6,232	6,232
Total Revenues and Other Financing Sources	28,311,236	28,311,236	29,345,431	\$ 1,034,195
Appropriated Reserve	-	197,984		
Appropriated Fund Balance	1,195,000	1,663,851		
Total Revenues, Other Financing Sources and Appropriated Reserve and Fund Balance	\$ 29,506,236	\$ 30,173,071		

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, 2006

	Original Budget	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
EXPENDITURES					
General Support					
Board of education	\$ 51,855	\$ 44,239	\$ 44,106	\$ -	\$ 133
Central administration	205,750	219,038	216,538	2,500	-
Finance	390,450	401,725	398,516	1,971	1,238
Staff	145,750	169,407	169,006	-	401
Central services	2,239,400	2,417,553	2,345,429	64,102	8,022
Special items	404,000	524,179	523,893	-	286
Total General Support	3,437,205	3,776,141	3,697,488	68,573	10,080
Instruction					
Instruction, administration and improvement	1,319,150	1,418,114	1,399,587	17,853	674
Teaching - regular school	10,423,282	10,395,374	10,116,809	253,602	24,963
Programs for children with handicapping Conditions	2,863,363	2,851,462	2,744,905	81,386	25,171
Occupational education	250,000	225,947	225,947	-	-
Teaching - special school	88,384	140,326	129,524	-	10,802
Instructional media	1,139,700	1,119,459	1,057,047	12,096	50,316
Pupil services	1,689,968	1,630,378	1,550,503	41,246	38,629
Total Instructional	17,773,847	17,781,060	17,224,322	406,183	150,555
Pupil Transportation	1,149,700	1,196,876	1,187,529	1,183	8,164
Employee Benefits	6,410,620	6,689,911	6,684,117	5,769	25
Debt Service					
Principal	450,000	434,400	412,663	-	21,737
Interest	264,864	262,640	256,514	-	6,126
Total Expenditures	29,486,236	30,141,028	29,462,633	481,708	196,687
OTHER USES					
Operating transfers out	20,000	32,043	32,043	-	-
Total Expenditures and Other Uses	\$ 29,506,236	\$ 30,173,071	29,494,676	\$ 481,708	\$ 196,687
Deficiency of Revenues and Other Sources Over Expenditures and Other Uses			\$ (149,245)		

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, 2006

	Code	ST-3 Amount	Audited Amount
REVENUES			
Real Property Taxes	A -1001	\$ 21,154,248	\$ 21,154,248
Non-Property Taxes	AT-1199	\$ -	\$ -
State Aid	AT-3999	\$ 4,901,105	\$ 4,901,105
Federal Aid	AT-4999	\$ 22,050	\$ 22,050
Total Revenues	AT-5999	\$ 29,345,431	\$ 29,345,431
EXPENDITURES			
General Support	AT-1999	\$ 3,697,488	\$ 3,697,488
Pupil Transportation	AT-5599	\$ 1,187,529	\$ 1,187,529
Debt Service - Principal	AT-9798.6	\$ 412,663	\$ 412,663
Debt Service - Interest	AT-9798.7	\$ 256,514	\$ 256,514
Total Expenditures	AT-9999	\$ 29,494,676	\$ 29,494,676

See auditors' report. See notes to financial statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2006

Capital assets, net		\$ 9,431,395
Deduct:		
Short-term portion of capital lease	\$ 23,448	
Long-term portion of capital lease	459,315	
Short-term portion of bonds payable	450,000	
Long-term portion of bonds payable	7,245,000	
Less: unspent bond proceeds	<u>(165,327)</u>	<u>8,012,436</u>
Investment in capital assets, net of related debt		<u>\$ 1,418,959</u>

See auditors' report. See notes to financial statements.

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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, 2006 and have issued our report thereon dated August 10, 2006. 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.

Claverack, New York
August 10, 2006

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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, 2006, and have reported thereon under date of August 10, 2006. As an inherent part of our audit, 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 the opportunity to review the accompanying comments and recommendations, we shall be pleased to discuss any questions you might have.

Internal Controls:

The internal controls of a school district are the checks and balances that exist within the business operations. The key element in any internal control system is the concept of **segregation of duties**. This concept ensures that one person can not execute a transaction without at least one other individual checking his or her work.

In addition, there are some important concepts that should be understood when reviewing internal controls. These concepts are:

- An internal control system is designed to provide reasonable but not absolute assurance in safeguarding the assets of the district.
- The concept of reasonable assurance recognizes that the cost of the internal control should not exceed the benefits derived.

See auditors' report.

Internal Controls: (Continued)

- There are inherent limitations that should be recognized in considering the potential effectiveness of any internal control system, e.g., errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. More importantly, it is **collusion** that poses the greatest threat to any internal control system. If two employees collude in order to circumvent the controls set up by the district, they could perpetrate a fraud.

The following comments are recommendations for consideration in the improvement of internal controls. As always, any enhancement of controls should be done after a careful cost-benefit analysis.

During our current audit, we noted that:

Journal Entries:

- Journal entries prepared by the Treasurer are not approved by another person.

We recommend that the Asst. Superintendent for Business approve the Treasurer's journal entries.

Salary Certification:

Charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the District.

During our audit, we determined that charges to federal awards for salaries and wages were not supported by periodic certifications signed by an employee or supervisory official having first hand knowledge of the work performed by the employee.

The District should identify a responsible employee or supervisor to monthly sign a certification attesting to the salaries and wages charged to each federal award.

Documentation of Invoice Processing:

An important element of the auditor's function is to perform a proper evaluation of the existing system of internal control in order to determine the degree of reliance which may be placed on the system in performing the various auditing procedures. As part of our audit of the School District's financial statements, we reviewed, evaluated and tested the controls with respect to purchasing.

During our audit, we noted that within the sample of transactions we tested:

1. One instance where the amount of the purchase order was increased without the signature of approval from the purchasing agent.
2. One instance of reimbursement for sales tax.
3. Several instances where invoices lacked the signature for receipt of goods and date indicating goods were received in the School Lunch Fund.
4. One instance where a reimbursement for internet services did not have the supporting invoice attached to the packet.
5. One instance where staff chaperones for an overnight field trip did not have itemized documentation attached to the invoice packet.

We recommend that each payment packet contains all necessary authorization and documentation to determine that the claim is a necessary school district expense.

Claims Auditor:

A claims auditor who is properly trained and motivated presents a protective shield for the District's resources. The claims auditing process is an integral part of the District's internal control, assuring that only claims that are proper charges against the District are paid. The Claims Auditor is directly responsible to the Board.

During our audit, we noted the Claims Auditor signed the individual warrants but not each invoice packet.

We recommend that the Claims Auditor signs each invoice packet.

Fraud Policy:

Our audit found that a Fraud Policy has not been adopted by the Board of Education.

We recommend that the Board develop and adopt a fraud policy. This policy would specify a confidential process for reporting and investigating suspected occurrences of fraud against the district.

Fraud Policy: (Continued)

A proven and effective deterrent to fraud and abuse is the establishment of an anti-fraud culture within the district. A strong and highly ethical tone at the top can provide significant strength to deter fraud. The following suggestions would assist management in communicating throughout the organization:

- Defining the role of the Board of Education and related committees as they relate to fraud and abuse.

Management and supervisory staff should set an example.

- Management and supervisors should be aware of fraud risks and indicators.
- Fraud related policies should be enforced.
- Internal controls should be given high priority.
- Reports of potential fraud and abuse should be investigated promptly.

School Lunch Fund:

During our audit, we noted the following:

1. The Fund had an operating loss, which resulted in a fund deficit of \$47,308, at June 30, 2006. This represents four 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 on a "break-even" or profitable basis.
2. The Fund is indebted to the General Fund in the amount of \$58,105 at June 30, 2006, with insufficient funds to repay. The deficiency is computed as follows:

Cash	\$ 6,602
Receivables	14,980
Funds Available	<u>21,582</u>
Liabilities	<u>(78,478)</u>
Cash deficiency	<u>\$ (56,896)</u>

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

See auditors' report.

Code of Ethics: (Continued)

School districts are required to comply with Section's 806 and 807 of the General Municipal Law which stipulates that a board of education must adopt a code of ethics for all its officers and employees setting forth the standards of conduct reasonably expected of them. In addition, the statute requires, that the Superintendent distribute a copy to every officer and employee of the school district. The statute further requires that a copy be posted in each building of the district.

We could find no evidence that a code of ethics posted in each building of the district.

We recommend the Superintendent should take the necessary action to assure compliance with that portion of Section 806 and 807 of the General Municipal Law which requires the posting of the code of ethics in each building of the district and distribution to all new officers and employees.

We would like to acknowledge the Business Office personnel for their courtesies received during the course of our audit.

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

Raymond G. Preusser

RGP/srp