

SPACKENKILL UNION FREE SCHOOL DISTRICT

**Financial Statements and
Independent Auditors' Reports
June 30, 2011**

Bonadio & Co., LLP
Certified Public Accountants

SPACKENKILL UNION FREE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

November 14, 2011

The Board of Education of
Spackenkill Union Free School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Spackenkill Union Free School District (the School District) as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Spackenkill Union Free School District's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Spackenkill Union Free School District as of June 30, 2011, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011, on our consideration of Spackenkill Union Free School District's internal control over financial reporting and on 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.

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INDEPENDENT AUDITORS' REPORT
(Continued)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 43 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Spackenkill Union Free School District's basic financial statements as a whole. The supplemental information on pages 44 through 47 is not a required part of the basic financial statements, but is supplementary information required by the New York State Education Department. We have applied certain limited procedures to the supplementary information required by the New York State Education Department in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bonadio & Co., LLP

SPACKENKILL UNION FREE SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) JUNE 30, 2011

This section of the Spackenkil Union Free School District's annual financial report presents its discussion and analysis of financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- In 2011 capital assets increased by \$7.5 million primarily related to an increase of \$8.0 million of Construction In Progress as the major school projects hit full stride. The increase in current assets was the result of debt financing providing cash to put in the bank for payment of construction projects. Total liabilities increased by \$12.2 million mainly as a result of recording the current year increase in the postemployment benefits obligation liability under GASB No. 45 of \$2.3 million. The Bonds Payable increase of \$9.5 million was the result of \$13.1 million in new bonds, relating to \$10.2 million for construction projects and \$2.9 million to refund Bonds payable yielding higher rates of interest. The District repaid \$3.6 million outstanding Bonds payable including bonds that were refunded.
- At June 30, 2011, the District in its governmental funds reported combined fund balances of \$13.5 million. All funds had a surplus for the year ended June 30, 2011, including the General Fund which has a \$86 thousand surplus and the Capital Projects Fund which had a \$2.3 million surplus primarily related to the issuance of a new \$10.2 million Serial bond offset by capital outlay expenses of \$8 million.
- The District's fiscal year 2011 revenue totaled \$37.3 million (see Table A-4), consistent with the prior year. It is noted that government funding did not increase in the current year due to budget concerns and the state of the economy.
- The total cost of all programs and services totaled \$39.6 million for fiscal year 2011. 78% of this amount is used predominantly to support general instruction, (see Table A-6). The District's board of education, administrative, and business activities accounted for 15% of total costs. The District's operating expenses increased by \$2.3 million primarily related to contractual benefit increases, including costs associated with New York State Retirement Systems

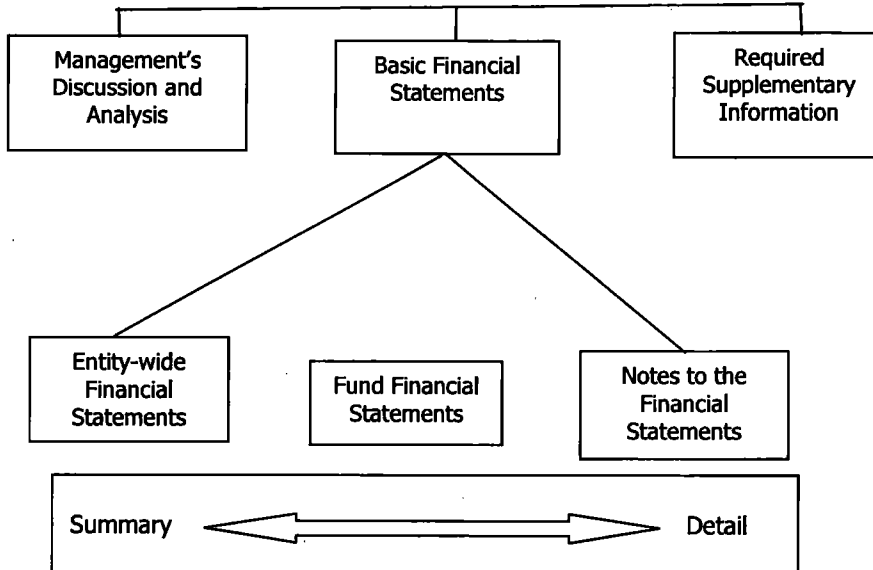
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are entity-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the operation in more detail than the entity-wide statements.
- The governmental fund statements tell how basic services, such as instruction and support functions, were financed in the short-term, as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of the District.

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Table A-1 shows how the various parts of this annual report are arranged and related to one another.

Table A-1 Organization of the District's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Table A-2 summarizes the major features of the School District's financial statements, including the portion of the School District's activities that they cover and the types of information that they contain. The remainder of this overview section highlights the structure and contents of each statement.

Table A-2 Major Features of the District-Wide and Fund Financial Statements

	District-Wide	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The day-to-day operating activities of the School District, such as instruction and special education.	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenue, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon after; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

District-Wide Statements

The District-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the School District's *net assets* and how they have changed. Net assets - the difference between the School District's assets and liabilities - is one way to measure the School District's financial health or *position*.

- Over time, increases or decreases in the School District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the School District, additional nonfinancial factors, such as changes in the property tax base and the condition of buildings and other facilities, should be considered.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

District-Wide Statements (Continued)

Net assets of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (dollars) are expended to purchase or build such assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. Principal and interest payments are considered expenditures when paid. Depreciation is not calculated. Capital assets and long-term debt are accounted for in account groups and do not affect the fund balances.

District-wide statements use an economic resources measurement focus and full accrual basis of accounting that involves the following steps to prepare the statement of net assets:

- Capitalize current outlays for capital assets.
- Report long-term debt as a liability.
- Depreciate capital assets and allocate the depreciation to the proper function.
- Calculate revenue and expenditures using the economic resources measurement focus and the full accrual basis of accounting.
- Allocate net assets balances as follows:
 - Investment in capital assets, net of related debt.
 - Restricted net assets are those with constraints placed on use by external sources or imposed by law.
 - Unrestricted net assets are net assets that do not meet any of the above restrictions.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds – not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs. The funds have been established by the State of New York.

The District has two kinds of funds:

- **Governmental Funds:** Most of the School District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The governmental funds statements focus primarily on current financial resources and often have a budgetary orientation. Governmental funds include the general fund, special aid fund, school lunch fund, debt service and the capital project fund. Required financial statements are the balance sheet and the statement of revenue, expenditures, and changes in fund balance.
- **Fiduciary Funds:** The School District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net assets and changes in net assets.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Financial Analysis of the District as a Whole

Our analysis below focuses on the net assets (Table A-3) and the change in net assets (Table A-4) of the District's governmental activities.

Table A-3 Condensed Statements of Net Assets - Governmental Activities (In Millions)

	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>	Percent <u>Change</u>
Current and other assets	\$ 16.2	\$ 12.7	27%
Capital assets	<u>18.0</u>	<u>10.5</u>	72%
Total assets	<u>\$ 34.2</u>	<u>\$ 23.2</u>	47%
Current liabilities	\$ 3.4	\$ 3.4	0%
Long-term liabilities	<u>23.0</u>	<u>10.8</u>	113%
Total liabilities	<u>\$ 26.4</u>	<u>\$ 14.2</u>	86%
Net assets:			
Investment in capital assets, net of related debt	\$ 2.3	\$ 2.5	-9%
Restricted	8.4	8.9	-6%
Unrestricted	<u>(2.8)</u>	<u>(2.4)</u>	17%
Total net assets	<u>\$ 7.8</u>	<u>\$ 9.0</u>	-13%

In Table A-3, capital assets increased by \$7.5 million primarily related to an increase of \$8.0 million of Construction In Progress as the major school projects hit full stride. The increase of current assets was the result of debt financing providing cash in the bank for payment of construction projects. Total liabilities increased by \$12.2 million mainly as a result of recording the current year increase in the postemployment benefits obligation liability under GASB No. 45 of \$2.3 million, and the increase in the Bond Payable Liability as a new \$10.2 Serial Bond was issued to help fund construction projects along with a new refunded bond of \$2.9 million issued to obtain a more favorable interest rate.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Financial Analysis of the District as a Whole (Continued)

Table A-4 Changes in Net Assets from Operating Results Governmental Activities Only (In Millions).

	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>	Total % <u>Change</u>
Revenue:			
Charges for services	\$ 0.4	\$ 0.4	8%
Operating grants	0.9	1.9	-53%
General revenue:			
Real property taxes	26.2	25.3	4%
Other tax items	2.4	2.1	14%
Use of money and property	0.3	0.4	-25%
State sources	6.1	6.6	-8%
Federal sources	0.4	-	NA
Other	0.6	0.6	0%
Total revenue	<u>\$ 37.3</u>	<u>\$ 37.3</u>	0%
Expenses:			
General support	\$ 6.0	\$ 4.4	36%
Instruction	30.7	30.6	0%
Pupil transportation	2.0	1.3	52%
Debt service	0.3	0.4	-25%
Cost of sales school lunch	0.5	0.5	2%
Total expenses	<u>\$ 39.5</u>	<u>\$ 37.2</u>	6%
(Decrease) in net assets	<u>\$ (2.2)</u>	<u>\$ 0.1</u>	-2300%

Changes in Net Assets

The District's fiscal year 2011 revenue totaled \$37.3 million (see Table A-4), consistent with the prior year. Government funding did not increase in the current year due to budget concerns and the state of the economy.

The total cost of all programs and services totaled \$39.5 million for fiscal year 2011. 78% of this amount is used predominantly to support general instruction, (see Table A-6). The District's board of education, administrative, and business activities accounted for 15% of total costs. The District's operating expenses increased by \$2.3 million primarily related to contractual benefit increases, including costs associated with New York State Retirement Systems.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Table A-5 Sources of Revenue for Fiscal Year 2011

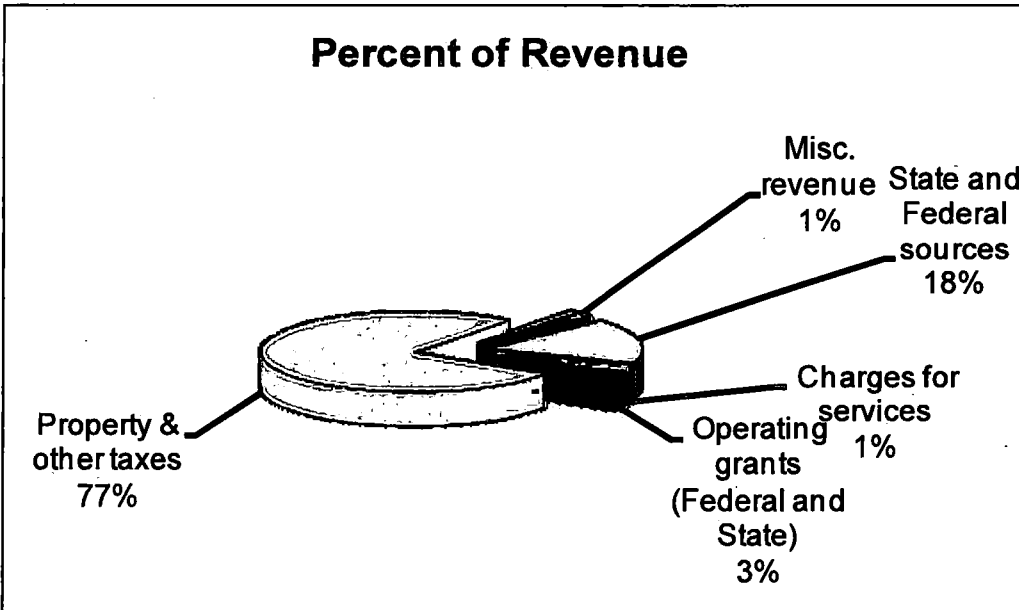
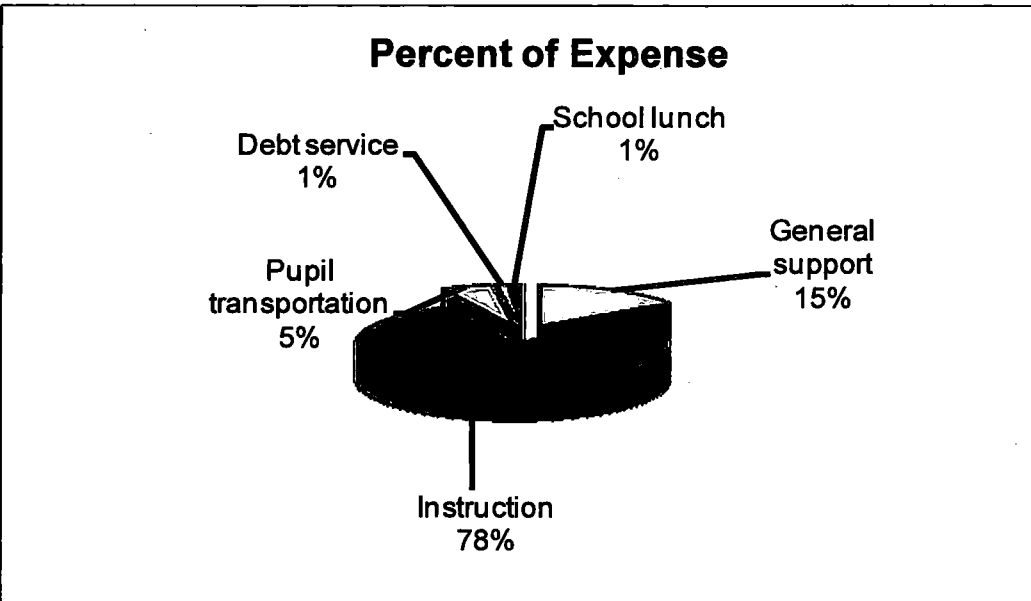


Table A-6 Expenditures for Fiscal Year 2011



OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Governmental Activities

Table A-7 presents the cost of five major District activities: General support (administration), instruction, pupil transportation, debt service and school lunch. The table also shows each activity's net cost (total cost less fees generated by the activities and aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Table A-7 Net Cost of Governmental Activities (In Millions)

<u>Category</u>	<u>Total Cost</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net Cost</u>
General support	\$ 6.0	\$ -	\$ -	\$ 6.0
Instruction	30.7	0.1	0.7	29.9
Pupil transportation	2.0	-	-	2.0
Debt service	0.4	-	-	0.4
School lunch	0.5	0.3	0.2	-
Total	<u>\$ 39.6</u>	<u>\$ 0.4</u>	<u>\$ 0.9</u>	<u>\$ 38.3</u>

As shown in Table A-7, the cost of all governmental activities this year was \$39.6 million, of which users and program operating grants from state and federal sources contributed \$1.3 million. The remainder of the costs of \$38.3 million was financed primarily by District taxpayers and general state aid.

Financial Analysis of the District's Funds

Variances between years for the governmental fund financial statements are not the same as variances between years for the District-wide financial statements. The District's governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Based on this presentation, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt.

At June 30, 2011, the District in its governmental funds reported combined fund balances of \$13.5 million. All funds operated at a surplus in 2011. The general fund operated at a \$86 thousand surplus for the year ended June 30, 2011 and the Capital projects fund operated at a \$2.3 million surplus primarily related to the issuance of a new \$10.2 million Serial bond to fund capital outlay expenses of \$8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

General Fund Budgetary Highlights

This section presents an analysis of significant variances between original and final budget amounts and between final budget amounts and actual results for the General Fund.

The General Fund is the only fund for which a budget is legally adopted. For the purposes of the above analysis, the budget columns do not include the appropriated fund balance.

Variances of \$210 thousand and 10% from final budget to actual are considered significant. For 2011, ARRA funding (Federal Sources) was budgeted for in the state sources category explaining the significant difference in budget vs. actual for both categories.

It is noted that for actual expenditures, instructional expenses were down significantly compared to the budgeted amounts due to the District taking a conservative budget approach with concerns over the NYS and Federal Budget crisis.

Actual vs. Budget (In Thousands of Dollars)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance (Actual/Budget)</u>
Revenue:					
Local sources	\$ 29,219	\$ 29,219	\$ 29,470	\$ -	\$ 251
State sources	6,713	6,713	6,133	-	(580)
Federal sources	-	-	436	-	436
Total	<u>35,932</u>	<u>35,932</u>	<u>36,039</u>	<u>-</u>	<u>107</u>
Expenses:					
General support	4,388	4,509	4,302	74	133
Instruction	22,513	22,525	20,466	113	1,946
Pupil Transportation	1,395	1,438	1,358	9	71
Employee benefits	8,971	8,964	8,745	2	217
Debt service	905	932	899	-	33
Transfers out	140	140	184	-	(44)
Total	<u>38,312</u>	<u>38,508</u>	<u>35,954</u>	<u>198</u>	<u>2,356</u>
Revenue over (under) expense	<u>\$ (2,380)</u>	<u>\$ (2,576)</u>	<u>\$ 85</u>	<u>\$ (198)</u>	<u>\$ 2,463</u>

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Capital Assets

By the end of 2011, the District had an investment of \$18 million in a broad range of capital assets. The District currently has \$8.8 million of construction in progress related to renovations to each of the schools in the District.

Table A-8 Capital Assets (net of depreciation) (In Millions)

	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>	Percent <u>Change</u>
Category:			
Land and land improvements	\$ 0.1	\$ 0.1	0%
Construction in progress	8.8	1.0	826%
Buildings and improvements	8.7	9.0	-3%
Furniture and equipment	<u>0.4</u>	<u>0.4</u>	0%
Total	<u>\$ 18.0</u>	<u>\$ 10.5</u>	72%

Long-Term Debt

At year-end, the District had \$17.4 million in general obligation bonds outstanding. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

Table A-9 Outstanding Long-Term Debt (In Millions)

	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>	Percent <u>Change</u>
Category:			
General obligation bonds	\$ 17.4	\$ 7.9	120%
Energy Performance Contract	0.4	0.4	-12%
Compensated absences	0.5	0.1	435%
Premium on Bonds Payable	0.3	-	NA
Other postemployment benefits obligation	<u>5.3</u>	<u>3.0</u>	77%
Total	<u>\$ 23.9</u>	<u>\$ 11.4</u>	110%

During 2011, the District repaid \$3.6 million of outstanding bonds and issued \$13.1 million of new debt

Factors Bearing on the Future of The District

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Increase in health insurance, retirement costs, and other post-retirement costs will continue to increase and could potentially affect the School District's financial health.
- The District receives approximately 22% of its funding through state and federal sources. Expected deficits in both Federal and New York State government finances could reduce future funding from these sources that could affect the School District's financial health. In addition, continued decline in the fair market value of real property tax assessments in New York State could also affect the District's long-term financial health.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the finances of the District and to demonstrate the District's accountability with the funds it receives. If you have any questions about this report or need additional financial information, please contact:

Michele Moloney, School Business Manager
Spackenkill Union Free School District
15 Croft Road
Poughkeepsie, NY 12601

SPACKENKILL UNION FREE SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Cash - unrestricted	\$ 7,093,906
Cash - restricted	7,541,827
State and federal aid receivable	1,113,276
Due from fiduciary funds	12,633
Other receivables	410,432
Inventory	10,891
Total current assets	16,182,965

NON-CURRENT ASSETS:

Capital assets, net	<u>18,035,847</u>
Total assets	<u>34,218,812</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	154,116
Accrued liabilities	333,526
Compensated absences due within one year	160,861
Retainages payable	347,726
Due to Teachers' Retirement System	1,541,265
Due to Employees' Retirement System	89,973
Due to other governments	316
Bonds payable due within one year	580,000
Energy performance liability due within one year	29,549
Deferred revenues	6,928
Accrued interest payable	97,273
Total current liabilities	<u>3,341,533</u>

LONG-TERM LIABILITIES:

Bonds payable	16,785,000
Other postemployment benefits obligation	5,302,196
Premium on Bonds Payable	254,659
Energy performance liability	323,135
Compensated absences liability	376,218
Total long-term liabilities	<u>23,041,208</u>
Total liabilities	<u>26,382,741</u>

NET ASSETS

Investment in capital assets, net of related debt	2,275,040
Restricted	8,373,917
Unrestricted	<u>(2,812,886)</u>
Total net assets	<u>\$ 7,836,071</u>

The accompanying notes are an integral part of these statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS/PROGRAMS:				
General support	\$ 6,046,515	\$ -	\$ -	\$ (6,046,515)
Instruction	30,690,487	59,764	768,181	(29,862,542)
Pupil transportation	1,981,091	-	-	(1,981,091)
Debt service- interest	350,424	-	-	(350,424)
Cost of sales - school lunch	510,159	301,131	159,315	(49,713)
	<u>\$ 39,578,676</u>	<u>\$ 360,895</u>	<u>\$ 927,496</u>	<u>(38,290,285)</u>
GENERAL REVENUE:				
Real property taxes				26,209,414
Other tax items				2,351,566
Use of money and property				345,877
Miscellaneous				575,081
State sources				6,133,000
Federal sources				436,293
				<u>36,051,231</u>
CHANGE IN NET ASSETS				(2,239,054)
TOTAL NET ASSETS - beginning of year, as previously reported				8,961,128
PRIOR PERIOD ADJUSTMENT				1,113,997
TOTAL NET ASSETS-beginning of year, as restated				10,075,125
CHANGE IN NET ASSETS				<u>(2,239,054)</u>
TOTAL NET ASSETS - end of year				<u>\$ 7,836,071</u>

The accompanying notes are an integral part of these statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

	Governmental Fund Types					Total Governmental Funds
	General	Special Aid	School Lunch	Debt Service	Capital Projects	
ASSETS						
Cash - unrestricted	\$ 4,479,881	\$ 93,338	\$ 51,674	\$ 63,869	\$ 2,405,144	\$ 7,093,906
Cash - restricted	7,541,827	-	-	-	-	7,541,827
State and federal aid receivable	661,423	442,955	8,898	-	-	1,113,276
Due from other funds	749,043	53,815	-	4,564	4,512	811,934
Other receivables	402,739	-	7,693	-	-	410,432
Inventory	-	-	10,891	-	-	10,891
Total assets	\$ 13,834,913	\$ 590,108	\$ 79,156	\$ 68,433	\$ 2,409,656	\$ 16,982,266
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	94,659	\$ -	\$ 6,940	\$ -	\$ 52,517	\$ 154,116
Accrued liabilities	333,526	-	-	-	-	333,526
Compensated absences	160,861	-	-	-	-	160,861
Due to other funds	93,114	585,193	68,458	-	52,536	799,301
Due to other governments	-	-	316	-	-	316
Due to Teachers' Retirement System	1,541,265	-	-	-	-	1,541,265
Due to Employees' Retirement System	89,973	-	-	-	-	89,973
Retainage payable	-	-	-	-	347,726	347,726
Deferred revenue	1,283	4,915	730	-	-	6,928
Total liabilities	2,314,681	590,108	76,444	-	452,779	3,434,012
FUND BALANCES:						
Nonspendable						
Inventory	-	-	10,891	-	-	10,891
Total Nonspendable	-	-	10,891	-	-	10,891
Restricted for:						
Unemployment	108,172	-	-	-	-	108,172
Worker's Comp	204,783	-	-	-	-	204,783
Tax certiorari	6,149,007	-	-	-	-	6,149,007
Capital	204,865	-	-	-	-	204,865
Insurance	250,000	-	-	-	-	250,000
Encumbrances	-	26,818	-	-	805,272	832,090
Employee benefits	625,000	-	-	-	-	625,000
Total Restricted	7,541,827	26,818	-	-	805,272	8,373,917
Assigned to:						
Designated for subsequent year's expenditures	2,200,000	-	-	-	-	2,200,000
Encumbrances	198,093	-	-	-	-	198,093
Total Assigned:	2,398,093	-	-	-	-	2,398,093
Unassigned	1,580,312	(26,818)	(8,179)	68,433	1,151,605	2,765,353
Total fund balances	11,520,232	-	2,712	68,433	1,956,877	13,548,254
Total liabilities and fund balance	\$ 13,834,913	\$ 590,108	\$ 79,156	\$ 68,433	\$ 2,409,656	\$ 16,982,266

The accompanying notes are an integral part of these statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

Amounts reported for *governmental activities* in the statement of net assets are different because:

Total governmental fund balances	\$ 13,548,254
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the government fund financial statements	18,035,847
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the government fund financial statements	(17,365,000)
Interest payable at June 30, 2011, reported in the district-wide statements under full accrual accounting	(97,273)
Other postemployment benefits obligation at June 30, 2011, in district-wide statements under full accrual accounting	(5,302,196)
Premium on bonds payable at June 30, 2011, in district-wide statements under full accrual accounting	(254,659)
Energy performance liability at June 30, 2011, in district-wide statements under full accrual accounting	(352,684)
Compensated absences at June 30, 2011, in district-wide statements under full accrual accounting	<u>(376,218)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 7,836,071</u>

The accompanying notes are an integral part of these statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	Governmental Fund Types					Total Government Funds
	General	Special Aid	School Lunch	Debt Service	Capital Projects	
REVENUE:						
Real property taxes	\$ 26,209,414	\$ -	\$ -	\$ -	\$ -	\$ 26,209,414
Other tax items	2,351,566	-	-	-	-	2,351,566
Charges for services	59,764	-	-	-	-	59,764
Use of money and property	323,630	-	19	4,438	-	328,087
Miscellaneous	525,372	-	30,609	-	19,100	575,081
State sources	6,133,000	177,203	9,056	-	-	6,319,259
Federal sources	436,293	590,978	150,259	-	-	1,177,530
Sales	-	-	301,131	-	-	301,131
Total revenue	36,039,039	768,181	491,074	4,438	19,100	37,321,832
EXPENDITURES:						
General support	4,302,102	-	-	-	-	4,302,102
Instruction	20,465,536	770,770	-	-	-	21,236,306
Pupil transportation	1,357,908	41,712	-	-	-	1,399,620
Employee benefits	8,744,923	-	134,498	-	-	8,879,421
Debt service -						
Principal	604,955	-	-	-	-	604,955
Interest	293,602	-	-	-	-	293,602
Cost of sales	-	-	393,864	-	-	393,864
Capital outlays	-	-	-	-	8,026,765	8,026,765
Total expenditures	35,769,026	812,482	528,362	-	8,026,765	45,136,635
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	270,013	(44,301)	(37,288)	4,438	(8,007,665)	(7,814,803)
OTHER SOURCES AND (USES):						
Proceeds from serial bonds issued	-	-	-	2,910,000	10,160,000	13,070,000
Payment to refunding bond escrow agents	-	-	-	(3,104,477)	-	(3,104,477)
Bond reoffering premium	-	-	-	194,477	77,972	272,449
Transfers in	-	44,301	40,000	-	100,000	184,301
Transfers out	(184,301)	-	-	-	-	(184,301)
Total other financing sources	(184,301)	44,301	40,000	-	10,337,972	10,237,972
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	85,712	-	2,712	4,438	2,330,307	2,423,169
FUND BALANCES - beginning of year, as previously reported	\$ 10,320,523	\$ -	\$ -	\$ 63,995	\$ (373,430)	\$ 10,011,088
PRIOR PERIOD ADJUSTMENT	1,113,997	-	-	-	-	1,113,997
FUND BALANCES - beginning of year, as restated	11,434,520	-	-	63,995	(373,430)	11,125,085
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	85,712	-	2,712	4,438	2,330,307	2,423,169
FUND BALANCES - end of year	\$ 11,520,232	\$ -	\$ 2,712	\$ 68,433	\$ 1,956,877	\$ 13,548,254

The accompanying notes are an integral part of these statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES-GOVERNMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

Net changes in fund balance - Total governmental funds	\$ 2,423,169
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net assets	8,140,485
Depreciation is not recorded as a expenditure in the governmental funds, but is recorded in the statement of activities	(578,656)
Repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net assets:	3,649,955
Proceeds from bonds payable are not recognized as revenue in the statement of activities in district-wide financial statements	(13,070,000)
Amortization of Bond premiums recognized as revenue in the governmental funds financial statements	(254,659)
Certain expenses in the statement of activities do not require the expenditure of current resources and are, therefore, not reported as expenditures in the governmental funds:	
Other postemployment benefits obligation	(2,285,062)
Accrued interest payable	2,655
Compensated absences	<u>(266,941)</u>
Change in net assets - Governmental activities	<u>\$ (2,239,054)</u>

The accompanying notes are an integral part of these statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	Private Purpose <u>Trusts</u>	Trust and <u>Agency</u>
ASSETS:		
Cash	\$ 96,665	\$ 514,875
Due from other funds	<u>-</u>	<u>289</u>
Total assets	<u>96,665</u>	<u>515,164</u>
LIABILITIES:		
Extraclassroom activity balances	-	69,407
Due to other funds	-	12,922
Other liabilities	<u>-</u>	<u>432,835</u>
Total liabilities	<u>-</u>	<u>515,164</u>
NET ASSETS:		
Reserved for scholarships	<u>\$ 96,665</u>	

The accompanying notes are an integral part of these statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Private Purpose Trusts</u>
ADDITIONS	
Gifts, contributions, fundraising and interest	\$ <u>10,363</u>
DEDUCTIONS	
Scholarships, activity expenditures and awards	<u>(1,466)</u>
NET INCREASE	8,897
NET ASSETS - beginning of year	<u>87,768</u>
NET ASSETS - end of year	<u>\$ 96,665</u>

The accompanying notes are an integral part of these statements.

SPACKENKILL UNION FREE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Spackenkil Union Free School District (School District or District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Those principles are 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 School District are described below:

Reporting Entity

The reporting entity of the School District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*. 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 School District. The School 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 description of an entity included in the School District's reporting entity.

- **Extraclassroom Activity Funds**

The extraclassroom activity funds of the 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 School District accounts for assets held as an agent for various student organizations in an agency fund.

Joint Venture

The School District participates in the Southern Westchester Board of Cooperative Education Services (BOCES). BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs which provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

BOCES are organized under §1950 of the New York State Education Law. A BOCES board is considered a corporate body. Members of a BOCES board are nominated and elected by their component member boards in accordance with provisions of §1950 of the New York State Education Law. All BOCES property is held by the BOCES board as a corporation (§1950(6)). In addition, BOCES boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n(a) of the New York State General Municipal Law.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint Venture (Continued)

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 the New York State Education Law, §1950(4)(b)(7). In addition, component school districts pay tuition or a service fee for programs in which its students participate.

Basis of Presentation

School District-Wide Statements

The statement of net assets and the statement of activities present financial information about the School 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 revenue, and other exchange and non-exchange 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 direct expenses and program revenue for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenue includes 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. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue.

Fund Financial Statements

The fund financial statements provide information about the School 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 determined based on criteria established by GASB, each displayed in a separate column.

The School District reports the following major governmental funds:

- **General Fund** This is the School District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.
- **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, school lunch operations, 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. The School District uses two special revenue type funds - special aid and school lunch.
- **Debt Service Fund** The debt service fund is used to account for and report on the accumulation of resources to be used for redemption of general long-term indebtedness.
- **Capital Projects Fund** These funds are used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District as an agent for individuals, private organizations, other governmental units, and/or other funds.

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

There are two classes' fiduciary funds:

- 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.
- 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.

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 revenue and expenditures 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, retirement liabilities, potential contingent liabilities, and useful lives of long-lived assets.

Measurement Focus and Basis of Accounting

The School District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions in which the School 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. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The School District considers all revenue reported in the governmental funds to be available if the revenue is expected to be collected within ninety 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.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

The School District's cash 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 School 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.

Property Taxes

Real property taxes are levied annually by the board of education no later than September 1, and become a lien on August 31. Taxes are collected during the period September 13 to November 3.

Uncollected real property taxes are subsequently enforced by the County of Dutchess, in which the School District is located. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the School District no later than the following April 1.

Accounts Receivable

The District records bad debts using the direct write-off method. Generally accepted accounting principals require that the allowance method be used to recognize bad debts; however the effect of using the direct write-off method is not materially different from the results that would be obtained under the allowance method.

Inventories

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

Interfund Transactions

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 revenue to provide financing or other services.

In the District-wide 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 the funds, with the exception of those due from or to the fiduciary funds.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions (Continued)

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.

A detailed description of the individual fund balances at year-end is provided subsequently in Note 10.

Capital Assets

Capital assets are reported at actual cost for acquisitions subsequent to July 1, 2002. For assets acquired prior to July 1, 2002, estimated historical costs, based on appraisals conducted by independent third-party professionals, were used. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the School District-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	N/A	N/A
Buildings and improvements	\$ 5,000	SL	15-50
Furniture and equipment	\$ 5,000	SL	5-20

Vested Employee Benefits

School 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.

Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts.

Upon retirement, resignation, or death, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

Consistent with generally accepted accounting principles, an accrual for accumulated sick leave is included in the compensated absences liability at year-end. The compensated absences liability is calculated based on the pay rates in effect at year-end.

School District employees participate in the New York State Employees' Retirement System and the New York State Teachers' Retirement System.

In addition to providing pension benefits, the School District provides health insurance coverage and survivor benefits for retired employees and their survivors in accordance with the provisions of the employment contracts negotiated between the School District and its employee groups. 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 postemployment benefits is shared between the School District and the retired employee. There are currently 144 retirees receiving benefits under the plan.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Procedures and Budgetary Accounting

The School District administration prepares a proposed budget for approval by the board of education for the governmental fund for which legal (appropriated) budgets are adopted.

The voters of the School District approved the proposed appropriation budget for the general fund.

Appropriations are adopted at the program line level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances lapse if not expended in the subsequent year. Supplemental appropriations may occur subject to legal restrictions, if the Board of Education approves them because of a need that exists which was not determined at the time the budget was adopted.

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

Deferred Revenue

Deferred revenue is reported when potential revenue does meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the School District before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the School District has legal claim to the resources, the liability for deferred revenue is removed and revenue is recorded.

Statute provides the authority for the School District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

Deferred revenue recorded in governmental funds is not recorded in the School District-wide statements, except for federal grant advances.

Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities, and long-term obligations are reported in the District-wide 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 fund 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 are reported as due in one year or due within more than one year in the Statement of Net Assets.

Restricted Resources

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

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications

District-wide statements

In the district-wide statements there are three classes of net assets:

Investment in capital assets, net of related debt - consists of net capital assets (cost less accumulated depreciation) plus unspent bond proceeds reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets.

Restricted net assets - reports net assets when constraints placed on the assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Restricted net assets consist of the following:

Unemployment	108,172
Worker's Comp	204,783
Tax certiorari	6,149,007
Capital	204,865
Insurance	250,000
Encumbrances	832,090
Employee benefits	625,000
Total restricted net assets	<u>\$ 8,373,917</u>

Unrestricted net assets - reports all other net assets that do not meet the definition of the above two classifications and are deemed to be available for general use by the District.

Governmental Fund Statements

In the fund basis statements there are five classifications of fund balance:

Nonspendable fund balance - Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually are required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the school lunch fund.

Restricted fund balance - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The School District has available the following restricted fund balances:

Capital

Capital reserve (Education Law §3651) 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 the 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 under restricted fund balance.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Governmental Fund Statements (Continued)

Repair

Repair reserve (GML §6-d) is used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. The board of education, without voter approval, may establish a repair reserve fund by a majority vote of its members. Voter approval is required to fund this reserve (opinion of the New York State Comptroller 81-401). Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years. This reserve is accounted for in the general fund under restricted fund balance.

Workers' Compensation

Workers' compensation reserve (GML §6-j) is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. The reserve is accounted for in the general fund under restricted fund balance.

Unemployment Insurance

Unemployment insurance reserve (GML §6-m) 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 the excess applied to the appropriations of the next succeeding fiscal year's budget. If the School District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. The reserve is accounted for in the general fund under restricted fund balance.

Debt Service

Mandatory reserve for debt service (GML §6-l) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of School District property or capital improvement that was financed by obligations which remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of School District property or capital improvement.

Insurance

Insurance 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 (for example, for unemployment compensation insurance). The reserve may be established by Board action, and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the insurance reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. The reserve is accounted for in the general fund under restricted fund balance.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Governmental Fund Statements (Continued)

Liability Claims and Property Loss

Property loss reserve and liability reserve (Education Law §1709(8)(c)) are used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than 125,000. These reserves are accounted for in the general fund under restricted fund balance.

Tax Certiorari

Tax certiorari reserve (Education Law §3651.1-a) is used to establish a reserve fund for tax certiorari and to expend from the fund without voter approval. The monies held in the reserve shall not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings. Any resources deposited to the reserve which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the general fund on or before the first day of the fourth fiscal year after deposit of these monies. The reserve is accounted for in the general fund under restricted fund balance.

Employee Benefit Accrued Liability

Reserve for employee benefit accrued liability (GML §6-p) 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. The reserve is accounted for in the general fund under restricted fund balance.

Retirement Contribution

Retirement contribution reserve (GML §6-r) is used for the purpose of financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of operation and condition of the fund must be provided to the board. This reserve is accounted for in the general fund under restricted fund balance.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the general fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

Committed fund balance - Includes amounts that can be used for the specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision making authority, i.e., the Board of Education. The School District has no committed fund balances as of June 30, 2011.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Governmental Fund Statements (Continued)

Assigned fund balance - Includes amounts that are constrained by the School District's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the general fund are classified as assigned fund balance in the general fund. There was an amount designated for subsequent year's expenditures in the general fund of \$2,200,000. Encumbrances reported in the general fund amounted to \$198,093. As of June 30, 2011, the School District's encumbrances were classified as follows:

General Support	\$	73,575
Instruction		112,891
Pupil Transportation		9,527
Employee Benefits		<u>2,100</u>
Total General Fund encumbrances	\$	<u>198,093</u>

Unassigned fund balance - Includes all other general fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the School District.

New York State Real Property Tax Law §1318 limits the amount of unexpended surplus funds the School District can retain to no more than 4% of the School District's budget for the general fund for the ensuing fiscal year. Non-spendable and restricted fund balance of the general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation.

Order of Fund Balance Spending Policy

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the general fund are classified as restricted fund balance. In the general fund, committed fund balance is determine next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND SCHOOL DISTRICT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the School District-wide 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.

Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities

Total fund balances of the School District's governmental funds differ 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. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND SCHOOL DISTRICT-WIDE STATEMENTS (Continued)

Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities (Continued)

The "excess of revenues and other sources over expenditures and other uses" of the School District's governmental funds differ from the "change in net assets" of governmental activities reported on the Statement of Activities. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus on the governmental funds.

Long-Term Revenue and Expense Differences

Long-term revenue differences arise because governmental funds report revenue only when it is considered "available", whereas the statement of activities reports revenue 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.

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.

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.

3. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2011, District Administration and the Board determined that a financial reporting error was made related to the accruing of health insurance liabilities to employees in its statement of net assets and the statement of revenue, expenditures, and changes in fund balance-governmental funds. In accordance with Generally Accepted Accounting Principles, corrections of financial reporting errors are made as an adjustment to the opening net assets for the year in which the error is identified. Accordingly, the District made a prior period adjustment to eliminate this liability and to reduce net assets at June 30, 2010 in the amount \$1,113,997.

4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted:

The voters of the District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures, (and encumbrances), that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year.

4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgets (Continued)

Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved the Board of Education as a result of selected new revenue sources not included in the original budget, (when permitted by law). These 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.

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

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

5. CASH AND EQUIVALENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. While the District does not have a specific policy for custodial credit risk, New York State statutes govern the District's investment policies, as discussed in Note 1.

Custodial Credit Risk - Deposits

As of June 30, 2011, the carrying amount of the District's cash and cash equivalents was \$15,247,273 and was exposed to custodial credit risk as follows:

<u>Fund</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents, including trust funds	<u>\$ 15,728,087</u>	<u>\$ 15,247,273</u>
Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name	\$ 15,293,495	
Covered by FDIC insurance	<u>500,000</u>	
Total	<u>\$ 15,793,495</u>	

Collateral is required for time deposits and certificates of deposit at 100% of all deposits not covered by the 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 towns.

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes.

5. CASH AND EQUIVALENTS (Continued)

Restricted Cash

Restricted cash consists of the following:

Unemployment reserve	\$ 108,172
Worker's compensation reserve	204,783
Tax certiorari reserve	6,149,007
Capital projects reserve	204,865
Insurance reserve	250,000
Employee benefits reserve	<u>625,000</u>
 Total restricted cash	 <u>\$ 7,541,827</u>

6. PARTICIPATION IN BOCES

During the year, the School District was billed \$2,406,218 for BOCES administrative and program costs. The School District's share of BOCES aid amounted to \$1,152,514. Financial statements for BOCES are available from the BOCES administrative office.

7. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2011, were as follows:

	July 1, 2010 <u>Balance</u>	Additions or <u>Transfers in</u>	Disposals or <u>Transfers out</u>	June 30, 2011 <u>Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 121,545	\$ -	\$ -	\$ 121,545
Construction in process	<u>938,799</u>	<u>8,005,284</u>	<u>151,930</u>	<u>8,792,153</u>
 Total nondepreciable cost	 <u>1,060,344</u>	 <u>8,005,284</u>	 <u>151,930</u>	 <u>8,913,698</u>
Buildings and improvements	18,669,846	164,005	-	18,833,851
Furniture and equipment	<u>1,690,925</u>	<u>123,126</u>	<u>-</u>	<u>1,814,051</u>
 Total depreciable historical cost	 <u>20,360,771</u>	 <u>287,131</u>	 <u>-</u>	 <u>20,647,902</u>
Less accumulated depreciation:				
Buildings	9,645,156	490,581	-	10,135,737
Furniture and equipment	<u>1,301,941</u>	<u>88,075</u>	<u>-</u>	<u>1,390,016</u>
 Total accumulated depreciation	 <u>10,947,097</u>	 <u>578,656</u>	 <u>-</u>	 <u>11,525,753</u>
 Total depreciable cost - Net	 <u>\$ 10,474,018</u>	 <u>\$ 7,713,759</u>	 <u>\$ 151,930</u>	 <u>\$ 18,035,847</u>

7. CAPITAL ASSETS (Continued)

Depreciation expense for the year ended June 30, 2011 was allocated to specific functions as follows:

General support	\$ 86,798
Instruction	457,138
Pupil transportation	28,933
Cost of sales	<u>5,787</u>
Total depreciation	<u>\$ 578,656</u>

8. SHORT-TERM DEBT

The School District may issue revenue anticipation notes (RAN) or tax anticipation notes (TAN), in anticipation of the receipt of revenue. These notes are recorded as a liability in the fund that will actually receive the proceeds from the issuance of the notes. The RANs and TANs represent a liability that will be extinguished by the use of expendable, available resources of the fund.

The School District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which an insufficient or no provision is made in the annual budget. The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued.

The School District may issue bond anticipation notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

It is noted that no short-term debt was outstanding for the District at June 30, 2011.

9. LONG-TERM DEBT

Interest on all debt for the year was composed of:

Interest paid - Long-term debt	\$ 353,079
Less: Interest accrued in the prior year	(99,928)
Plus: Interest accrued in the current year	<u>97,273</u>
Total Expense	<u>\$ 350,424</u>

9. LONG-TERM DEBT (Continued)

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

	Beginning <u>Balance</u>	<u>Issued</u>	<u>Redeemed</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Government activities:					
Bonds and notes payable:					
General obligation debt:					
Serial bonds	\$ 7,915,000	\$ 13,070,000	\$ 3,620,000	\$ 17,365,000	\$ 580,000
Other liabilities:					
Energy Performance Contract	382,639	-	29,955	352,684	-
Unamortized Bond Premiums	-	272,449	17,790	254,659	-
Other post employment benefits	3,017,134	3,486,903	1,201,841	5,302,196	-
Compensated absences	<u>109,277</u>	<u>427,802</u>	<u>-</u>	<u>537,079</u>	<u>160,861</u>
Total long-term liabilities	<u>\$ 11,424,050</u>	<u>\$ 17,257,154</u>	<u>\$ 4,869,586</u>	<u>\$ 23,811,618</u>	<u>\$ 740,861</u>

Issue dates, maturities, and interest rates on outstanding debt are as follows:

<u>Bond Issue</u>	<u>Issued</u>	<u>Maturity</u>	<u>Interest Rate</u>	June 30, 2011 <u>Balance</u>
Serial Bond	9/15/1994	2016	5.70-6.125%	\$ 235,000
Serial Bond	7/15/2005	2026	4.00-4.125%	2,475,000
Serial Bond	7/15/2007	2023	4.125-4.250%	1,865,000
Serial Bond	11/17/2010	2021	2.00-4.00%	2,630,000
Serial Bond	9/23/2010	2026	2.00-3.00%	<u>10,160,000</u>
Total bond issue				<u>\$ 17,365,000</u>
Energy Performance Contract:	2004	2022	0.60%	<u>\$ 352,684</u>

9. LONG-TERM DEBT (Continued)

The following is a summary of the maturity of bonds payable:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	580,000	655,597	1,235,597
2013	1,200,000	507,766	1,707,766
2014	1,225,000	472,973	1,697,973
2015	1,255,000	434,470	1,689,470
2016	1,240,000	396,632	1,636,632
2017-2221	6,350,000	1,395,491	7,745,491
2022-thereafter	<u>5,515,000</u>	<u>440,153</u>	<u>5,955,153</u>
Totals	<u>\$ 17,365,000</u>	<u>\$ 4,303,082</u>	<u>\$ 21,668,082</u>

Energy Performance Payable

During 2004, the School District entered into an Energy Performance Contract financing arrangement with a bank for the acquisition of energy efficient equipment to assist the School District in reducing its ongoing energy costs. The financing agreement qualifies as a capital lease with annual installments estimated at \$29,000-\$33,000 per year, including a variable interest rate, currently 0.60% for the year ended 6/30/11.

The following is the net present value of minimum lease payments as of June 30, 2011:

<u>Year Ending June 30,</u>	<u>Long-Term Debt Date</u>
2012	\$ 31,829
2013	31,829
2014	31,829
2015	31,829
2016 - 2022	<u>251,982</u>
Minimum Lease Payment- Capital Leases	379,298
Less: Amount representing 0.60% per annum	<u>26,434</u>
Present Value- Minimum Lease Payments	<u>\$ 352,864</u>

10. INTERFUND BALANCES AND ACTIVITY

	Interfund		Transfers	
	<u>Payable</u>	<u>Receivable</u>	<u>In</u>	<u>Out</u>
General fund	\$ 93,114	\$ 749,043	\$ -	\$ 184,301
Special aid fund	585,193	53,815	44,301	-
School lunch	68,458	-	40,000	-
Debt service fund	-	4,564	-	-
Capital fund	52,536	4,512	100,000	-
Trust and agency fund	12,922	289	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total government activities	<u>\$ 812,223</u>	<u>\$ 812,223</u>	<u>\$ 184,301</u>	<u>\$ 184,301</u>

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the statement of net assets.

The School District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

All interfund payables are expected to be repaid within one year.

11. PENSION PLANS

The School District participates in the New York State Employees' Retirement System (NYSERS) and the New York State Teachers' Retirement System (NYSTRS). These 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.

The New York State Teachers' Retirement Board administers NYSTRS. The system provides 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. NYSTRS 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 NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

NYSERS provides retirement benefits, as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and benefits to employees. The system issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Governor Alfred E. Smith State Office Building, Albany, New York 12244.

The Systems are noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in NYSERS contribute 3% of their salary throughout their active membership and those in NYSTRS contribute 3.5% throughout their active membership. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS

11. PENSION PLANS (Continued)

The School District is required to contribute at an actuarially determined rate. The School District contributions made to the systems were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

	<u>TRS</u>	<u>ERS</u>
2011	\$ 1,541,265	\$ 320,913
2010	\$ 1,421,824	\$ 244,093
2009	\$ 1,324,041	\$ 238,488

12. POSTEMPLOYMENT BENEFITS

Plan Description

The District provides for postretirement medical benefits to retiring employees after 5 years of service. When a retiree reaches age 65, Medicare will provide primary coverage, except as otherwise provided by law. Dental and life insurance benefits are available with select individuals and classes of employees. The Plan can be amended by action of the District through agreements with different bargaining units. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Health Insurance Benefits

The district provides post-employment coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels and employee contributions and employer contributions are governed by the District's contractual agreements.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year plus the amortization of the unfunded actuarial accrued liability over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation:

Annual required contribution	\$ 3,118,143
Interest on net OPEB obligation	181,028
Adjustment to ARC	<u>187,532</u>
Annual OPEB cost	3,486,703
Contributions made	<u>(1,201,841)</u>
Increase in net OPEB obligation	2,285,062
Net OPEB obligation - beginning of year	<u>3,017,134</u>
Net OPEB obligation - end of year	<u>\$ 5,302,196</u>
Percentage of Annual OPEB Cost Contributed	34.7%

12. POSTEMPLOYMENT BENEFITS (Continued)

Trend Information

The School District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>OPEB Cost Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 3,486,957	\$ 1,201,841	35%	\$ 5,302,196
6/30/2010	\$ 2,665,975	\$ 1,107,746	39%	\$ 3,017,134
6/30/2009	\$ 2,397,250	\$ 938,345	42%	\$ 1,458,905

Funded Status and Funding Progress

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

As of the date of these financial statements, New York State did not yet have legislation that would enable government entities to establish a Governmental Accounting Standards Board (GASB) qualifying trust for the purpose of funding OPEB benefits.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (ALL) - Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2010	\$ -	\$ 41,993,197	\$ 41,993,197	0%	\$ 20,375,947	206%
7/1/2009	\$ -	\$ 36,736,651	\$ 36,736,351	0%	\$ 19,940,122	184%
7/1/2008	\$ -	\$ 34,562,900	\$ 34,562,900	0%	\$ 18,999,609	182%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

12. POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

In the July 1, 2010 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	6.0%
Medical care cost trend rate	9.0% initially. The rate is reduced by decrements to an ultimate rate of 5.0%.
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Open

* As the plan is unfunded, the assumed discount rate considers that the District's investment assets are low risk in nature, such as money market funds or certificates of deposit.

13. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks are expected to exceed commercial insurance coverage.

Health Insurance

The School District participates in a Health Consortium, a non-risk retained public entity risk pool for its employee health and accident insurance coverage. The pool is operated for the benefit of 27 individual governmental units located within the pool's geographic area, as is considered a self-sustaining risk pool that will provide coverage for its members. The pool obtains independent coverage for insured events and the District has essentially transferred all related risk to the pool. The District also offers to its employees and eligible retirees community rated insurance programs through commercial carriers.

Workers Compensation

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 risk related to workers' compensation claims.

14. CONTINGENCIES AND COMMITMENTS

Litigation

The School District has been named as defendant in several tax certiorari cases. A review by management and the School District's attorneys indicate that the total projected settlement during the 2010-2011 fiscal year, or to be settled during the 2011-2012 and 2012-2013 fiscal years, is approximately \$6 million, including a settlement to one tax payer who makes up approximately 18% of the District's tax levy.

14. CONTINGENCIES AND COMMITMENTS (Continued)

Other Contingencies

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

Commitments

The School District has major construction projects underway, in various stages of completion. The future expenditures to complete these projects are expected to be approximately \$1.9 million.

REQUIRED REPORTS

SPACKENKILL UNION FREE SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Encumbrances	Final Budget Variance with Budgetary Actual
REVENUE					
LOCAL SOURCES:					
Real property taxes	26,211,156	26,211,156	26,209,414	\$ -	\$ (1,742)
Other tax items	2,377,721	2,377,721	2,351,566	-	(26,155)
Charges for services	160,000	160,000	59,764	-	(100,236)
Use of money and property	280,000	280,000	323,630	-	43,630
Medical Reimbursement	19,988	19,988	-	-	(19,988)
Miscellaneous	170,000	170,000	525,372	-	355,372
Total local sources	29,218,865	29,218,865	29,469,746	-	250,881
State sources	6,712,839	6,712,839	6,133,000	-	(579,839)
Federal sources	-	-	436,293	-	436,293
Total revenue	35,931,704	35,931,704	36,039,039	-	107,335
EXPENDITURES					
GENERAL SUPPORT:					
Board of education	62,190	60,274	54,985	381	4,908
Central administration	258,793	261,209	344,263	-	(83,054)
Finance	476,600	480,103	492,224	25	(12,146)
Staff	186,000	186,000	129,086	-	56,914
Central services	2,867,928	2,832,372	2,652,997	42,803	136,572
Special items	536,200	689,080	628,547	30,366	30,167
Total general support	4,387,711	4,509,038	4,302,102	73,575	133,361
INSTRUCTION:					
Instruction, administration, and improvement	1,656,496	1,660,502	1,530,866	19,660	109,976
Teaching - regular school	12,687,522	12,691,129	12,121,745	25,960	543,424
Programs for children with handicapping conditions	4,057,015	4,039,953	3,160,142	7,582	872,229
Occupational education	320,000	328,400	328,375	-	25
Teaching - special school	168,990	168,990	70,423	-	98,567
Instructional media	1,435,089	1,433,585	1,251,773	13,524	168,288
Pupil services	2,188,334	2,202,880	2,002,212	46,165	154,503
Total instruction	22,513,446	22,525,439	20,465,536	112,891	1,947,012
Pupil transportation	1,394,861	1,438,197	1,357,908	9,527	70,762
Employee benefits	8,970,843	8,963,743	8,744,923	2,100	216,720
Debt service	905,000	931,520	898,557	-	32,963
Total expenditures	38,171,861	38,367,937	35,769,026	198,093	2,400,818
Excess (deficiency) of revenue over expenditures	(2,240,157)	(2,436,233)	270,013	(198,093)	2,508,153
OTHER FINANCING SOURCES (USES):					
Transfers out	(140,000)	(140,000)	(184,301)	-	(44,301)
Total other financing sources	(140,000)	(140,000)	(184,301)	-	(44,301)
NET CHANGE IN FUND BALANCES	(2,380,157)	(2,576,233)	85,712	(198,093)	2,463,852
FUND BALANCES - beginning of year, as previously reported	10,320,523	10,320,523	10,320,523	-	-
PRIOR PERIOD ADJUSTMENT	-	-	1,113,997	-	1,113,997
FUND BALANCES - beginning of year, as restated	-	-	11,434,520	-	-
FUND BALANCE - ending	\$ 7,940,366	\$ 7,744,290	\$ 11,520,232	\$ (198,093)	\$ 3,577,849

The accompanying notes are an integral part of these schedules.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**SCHEDULE OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET
AND USE OF UNRESERVED FUND BALANCE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET

Adopted budget	\$ 38,187,332
Add: Prior year's encumbrances	<u>124,529</u>
Original budget	38,311,861
Budget revision	<u>196,076</u>
Final budget	<u>\$ 38,507,937</u>

USE OF UNRESERVED FUND BALANCE

Unreserved fund balance - as of the beginning of the year	\$ 3,783,091
Less: Designated fund balance used for the levy of taxes - original budget	<u>2,255,598</u>
Undesignated fund balance - as of the beginning of the year	<u>\$ 1,527,493</u>

The accompanying notes are an integral part of these schedules.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Authorization		Expenditures and Transfers to Date			Methods of Financing			Fund Balance at 2011	
	Original Appropriation	Revised Appropriation	Prior Years' Expenditures	Current Year's Expenditures	Total Expenditures	Available Balance	Proceeds of Obligations	Local Sources		Total
Capital Improvement	\$ 2,950,000	\$ 2,950,000	\$ 2,930,396	\$ -	\$ 2,930,396	\$ 19,604	\$ 2,950,000	\$ -	2,950,000	\$ 19,604
Capital Improvement- High School	2,150,000	2,150,000	1,804,473	-	1,804,473	345,527	2,150,000	-	2,150,000	345,527
Capital Improvement- Hagan	100,000	100,000	79,746	4,512	84,258	15,742	-	100,000	100,000	15,742
Capital Improvement- Todd MS	100,000	100,000	11,324	77,065	88,389	11,611	-	100,000	100,000	11,611
Capital Improvement- High School	<u>13,934,000</u>	<u>13,934,000</u>	<u>847,729</u>	<u>7,945,188</u>	<u>8,792,917</u>	<u>5,141,083</u>	<u>10,237,972</u>	<u>119,338</u>	<u>10,357,310</u>	<u>1,564,393</u>
Total	<u>\$19,234,000</u>	<u>\$19,234,000</u>	<u>\$ 5,673,668</u>	<u>\$ 8,026,765</u>	<u>\$13,700,433</u>	<u>\$ 5,533,567</u>	<u>\$15,337,972</u>	<u>\$ 319,338</u>	<u>\$15,657,310</u>	<u>\$ 1,956,877</u>

The accompanying notes are an integral part of this schedule.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**SCHEDULE OF CERTAIN REVENUE AND EXPENDITURES COMPARED TO ST-3 DATA
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Account Code</u>	<u>Audited ST-3 Amount</u>	<u>Audited Amount</u>
REVENUE:			
Real property taxes	AT-1001	\$ 26,209,414	\$ 26,209,414
Other Tax Items	AT-1099	2,351,566	2,351,566
State aid	AT-3999	6,133,000	6,133,000
Total revenue	AT-5999	36,039,039	36,039,039
EXPENDITURES:			
General support	AT-1999	4,302,102	4,302,102
Pupil transportation	AT-5599	1,357,908	1,357,908
Debt service - principal	AT-9798.6	604,955	604,955
Debt service - interest	AT-9798.7	293,602	293,602
Total expenditures	AT-9999	35,769,026	35,769,026

The accompanying notes are an integral part of these schedules.

SPACKENKILL UNION FREE SCHOOL DISTRICT

**SCHEDULE OF INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2011**

Capital assets - net	<u>\$ 18,035,847</u>
Deduct:	
Short-term portion of capital lease	29,549
Long-term portion of capital lease	323,135
Short-term portion of bonds payable	580,000
Long-term portion of bonds payable	16,785,000
Less: Unspent bond proceeds	<u>(1,956,877)</u>
	<u>15,760,807</u>
Investment in capital assets - net of related debt	<u>\$ 2,275,040</u>

The accompanying notes are an integral part of these schedules.

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

November 14, 2011

The Board of Education of
Spackenkill Union Free School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Spackenkill Union Free School District (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 14, 2011. 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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(Continued)

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

(Continued)

Internal Control Over Financial Reporting (Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2011-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic 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*.

We noted certain other matters that we have reported to the management of the District in a separate letter dated November 14, 2011.

This report is intended solely for the information and use of Board of Education, Audit Committee, Administration, federal awarding agencies, pass-through entities and others within the School District, and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

SPACKENKILL UNION FREE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2011

MATERIAL WEAKNESS

2011-1 Finding

PRIOR PERIOD ADJUSTMENT

Criteria: The District is responsible for establishing and maintaining effective internal control over financial reporting to ensure that financial statements are prepared in accordance with generally accepting accounting principles.

Condition: During the year ended June 30, 2011, District Administration and the Board determined that a financial reporting error was made related to the accruing of health insurance liabilities to employees in its statement of net assets and the statement of revenue, expenditures, and changes in fund balance-governmental funds. In accordance with Generally Accepted Accounting Principles, corrections of financial reporting errors are made as an adjustment to the opening net assets for the year in which the error is identified. Accordingly, the District made a prior period adjustment to eliminate this liability and to reduce net assets at June 30, 2010 in the amount \$1,113,997

Cause: The health insurance related accrued liability was recorded on the District-wide statement of net assets as well as on the Government fund statement of revenue, expenditures, and changes in fund balance maintained by the prior auditor. It is noted that the recording of this liability did not adhere to Generally Accepted Accounting Principles.

Effect: Prior year net assets were understated by \$1,113,997 on the District-wide statement of net assets as well as on the Government fund statement of revenue, expenditures, and changes in fund balance.

Recommendation: Since the correction of the error was made and the District is now compliant with Generally Accepted Accounting Principals, no further action is required by the District.

Management Comments: We agree with the above fully and have implemented new accounting procedures to ensure compliance with current accounting standards.