

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

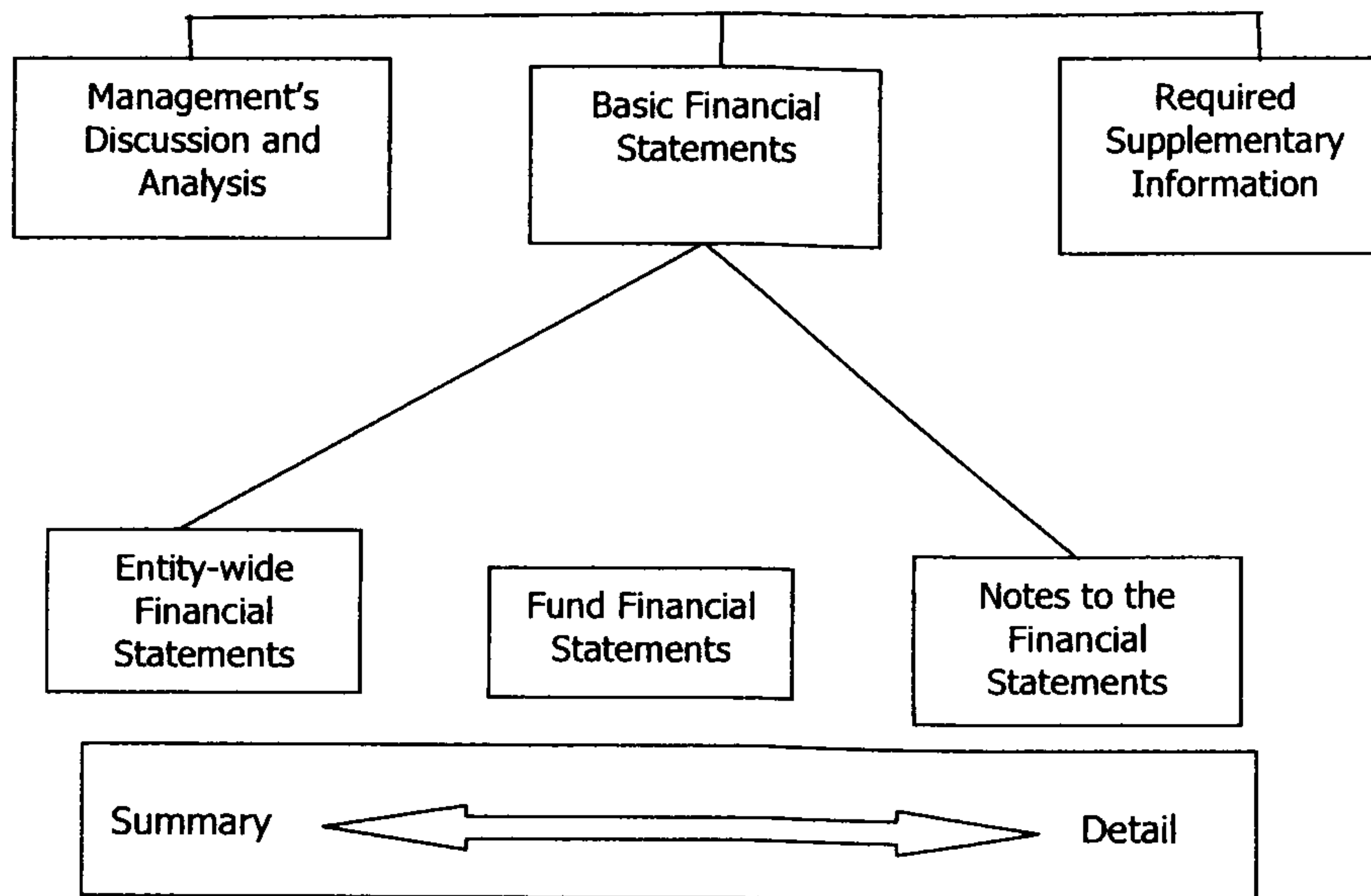
OVERVIEW OF THE FINANCIAL STATEMENTS

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	<u>0.6</u>	<u>0.6</u>	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	<u>0.5</u>	<u>0.5</u>	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

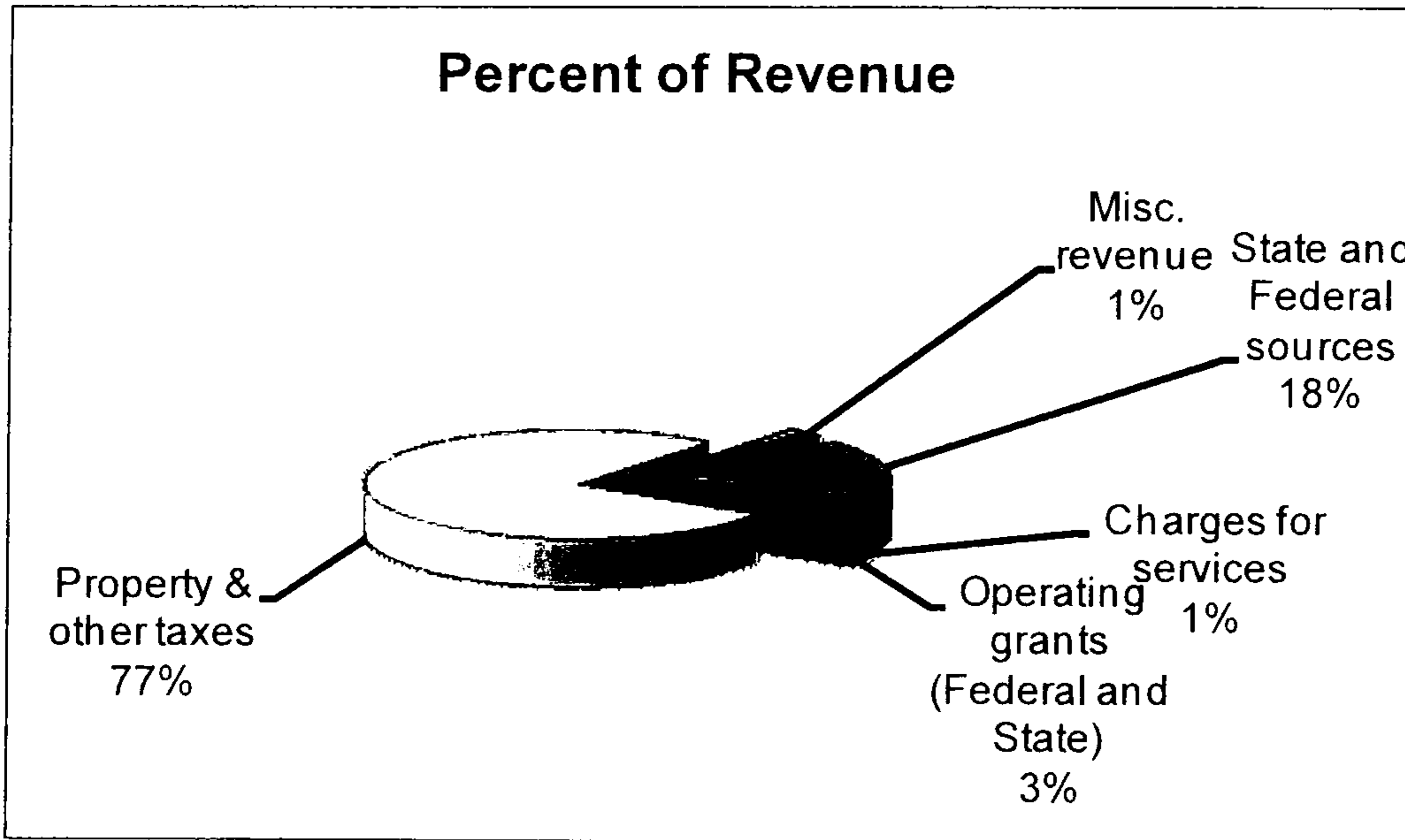
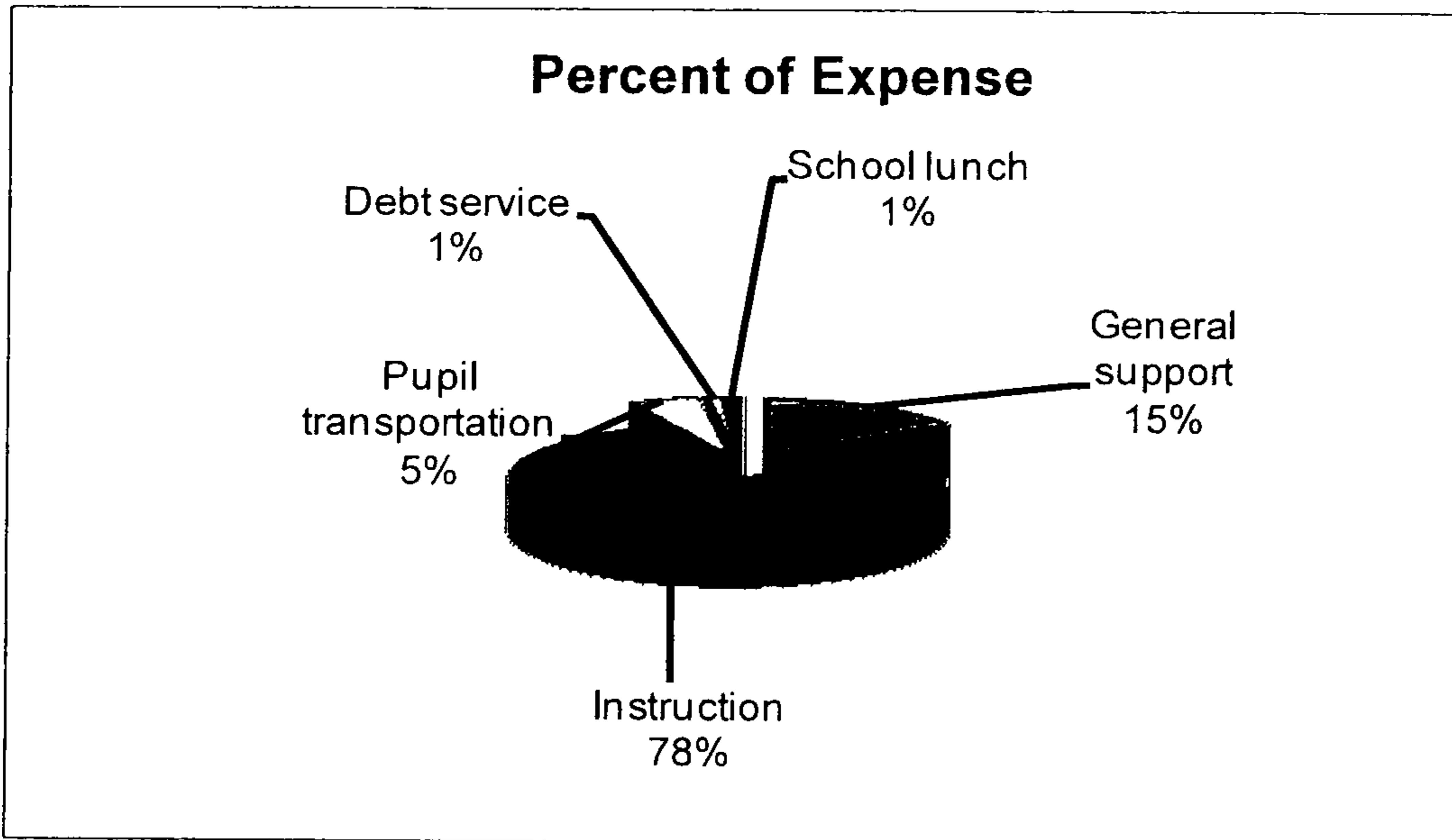


Table A-6 Expenditures for Fiscal Year 2011



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
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Poughkeepsie, NY 12601