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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Spackenkill Union Free School District as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

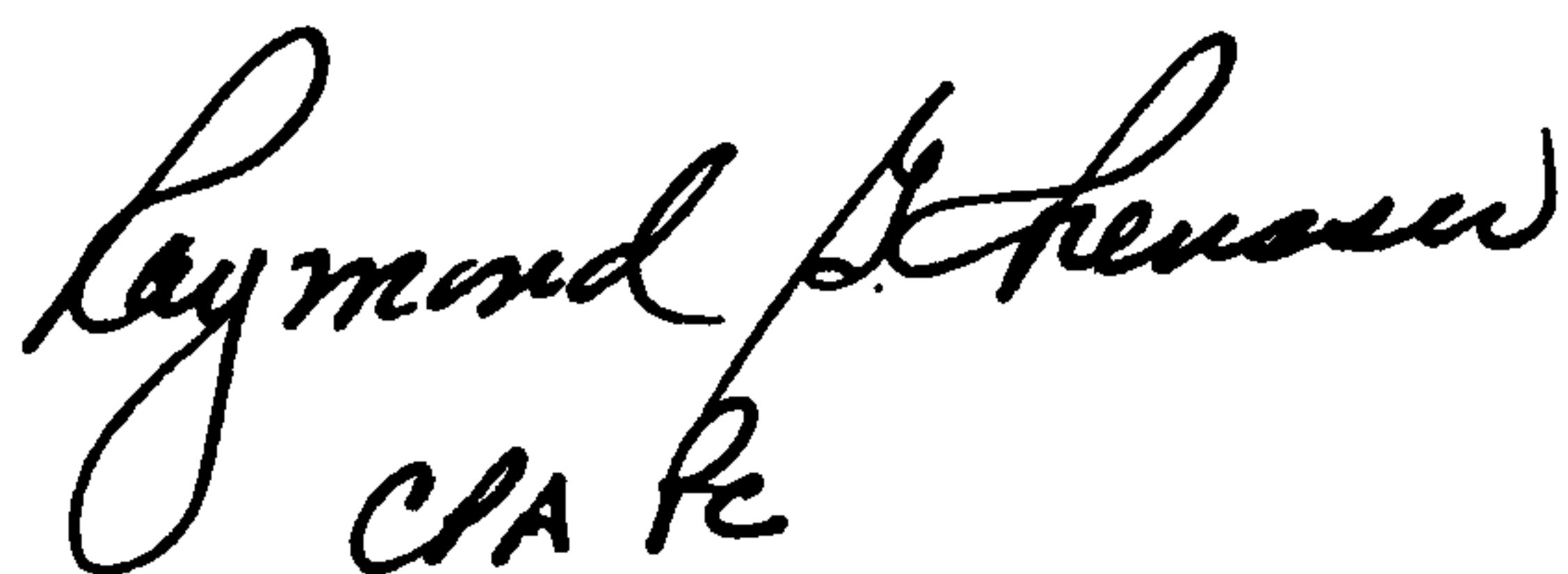
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Spackenkill Union Free School District as of June 30, 2007, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007 on our consideration of Spackenkill Union Free School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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


CPA PC

Claverack, New York
September 21, 2007

SPACKENKILL UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2007

INTRODUCTION

The Spackenkil Union Free School District (the District) offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. Please review it in conjunction with the District's financial statements and the accompanying notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENT

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

Financial Statements

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

Basic Financial Statements

**Districtwide
Financial Statements**

**Fund
Financial Statements**

Notes to the Basic Financial Statements

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

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

Districtwide Financial Statements

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

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

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

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

Districtwide Financial Analysis

Spackenkill Union Free School District's Net Assets
June 30, 2006 & 2007

	<u>Governmental Activities</u>		Variance Increase Decrease)
	<u>2006</u>	<u>2007</u>	
Current Assets	\$ 8,520,925	\$ 8,955,708	\$ 434,783
Capital Assets	<u>9,431,395</u>	<u>9,400,601</u>	<u>(30,794)</u>
Total Assets	<u>17,952,320</u>	<u>18,356,309</u>	<u>403,989</u>
Current Liabilities	3,429,383	3,691,435	262,052
Long-term Obligations	<u>8,352,761</u>	<u>8,235,573</u>	<u>(117,188)</u>
Total Liabilities	<u>11,782,144</u>	<u>11,927,008</u>	<u>144,864</u>
Net Assets:			
Investments in capital assets, net of related debt	1,418,959	1,774,138	355,179
Restricted for encumbrances	481,708	447,812	(33,896)
Restricted for other specific purposes	3,125,069	3,331,038	205,969
Restricted for subsequent year's expenditures	1,195,000	1,195,000	-
Unrestricted	<u>(50,560)</u>	<u>(318,687)</u>	<u>(268,127)</u>
Total Net Assets	<u>\$ 6,170,176</u>	<u>\$ 6,429,301</u>	<u>\$ 259,125</u>

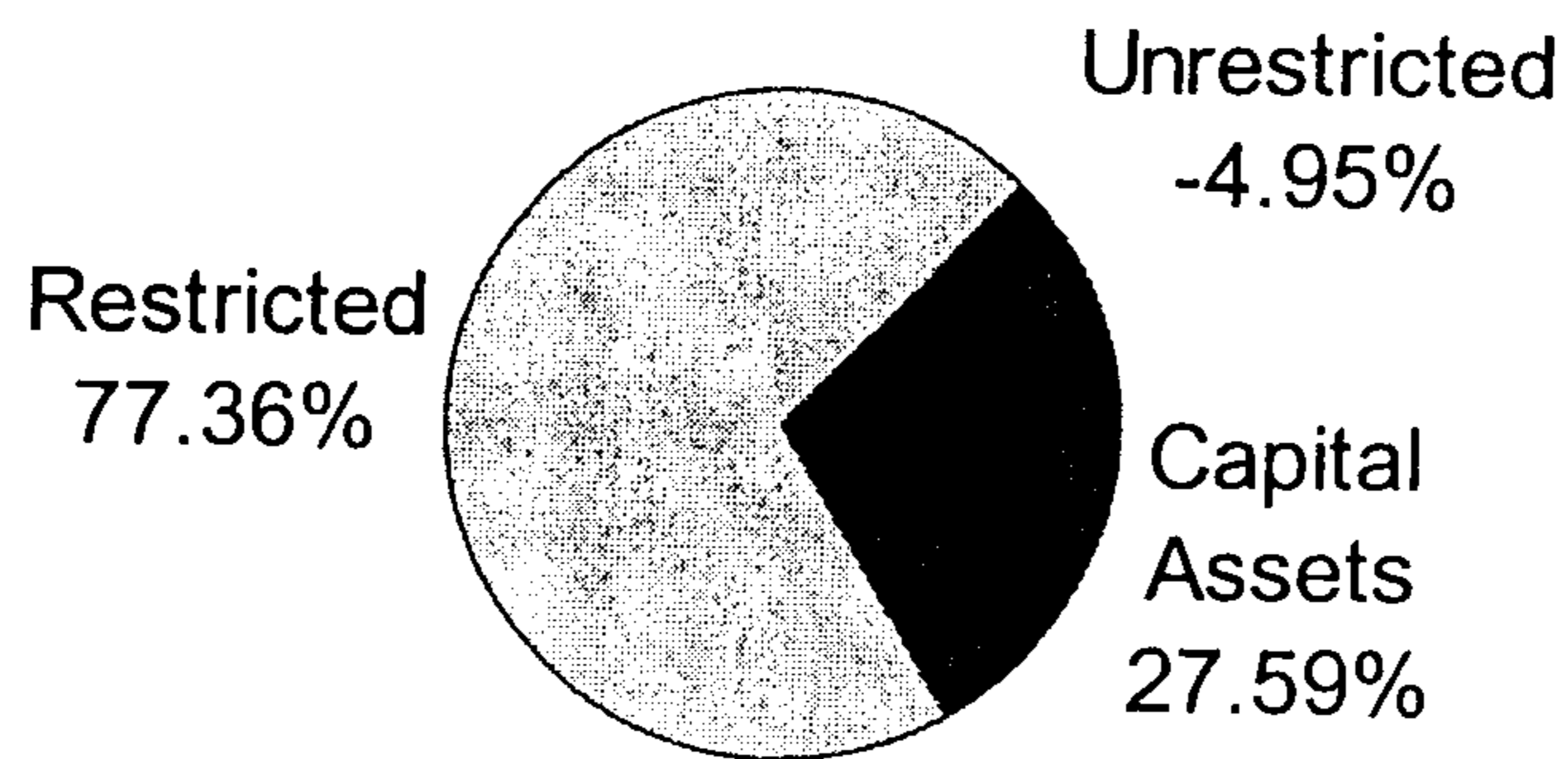
Maintaining adequate fund balance has several internal benefits. Fund balance can be provided for cash flow needs until major revenues are received (thereby reducing or eliminating the need for cash flow borrowing), provide funds to leverage state and federal grants, and provide for various contingencies.

As illustrated on the following page, of the District's change in net assets, 27.59% reflects its investment in capital assets (e.g., land, buildings, improvements, machinery, and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide educational services. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources. Capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's change in net assets, 77.36%, represents resources that are subject to external restrictions on how they may be used (e.g., capital projects, debt services and other specified purposes). The balance of the

change was in unrestricted net assets, -4.95%, which were used to meet the District's ongoing obligation to provide educational services.

Spackenkill Union Free School District's Net Assets

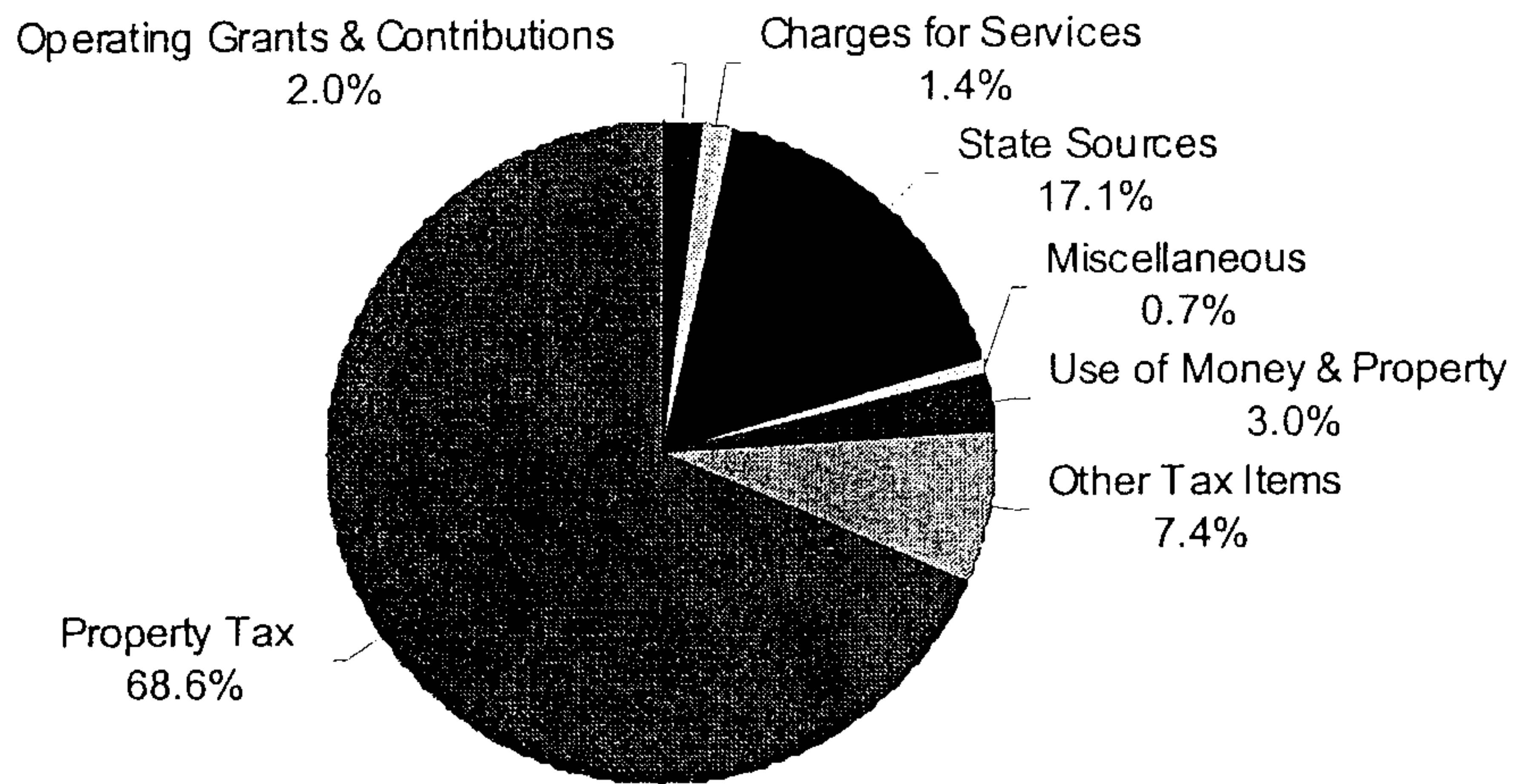


**Spackenkill Union Free School District's
Changes in Net Assets
For the Years Ended June 30, 2006 & 2007**

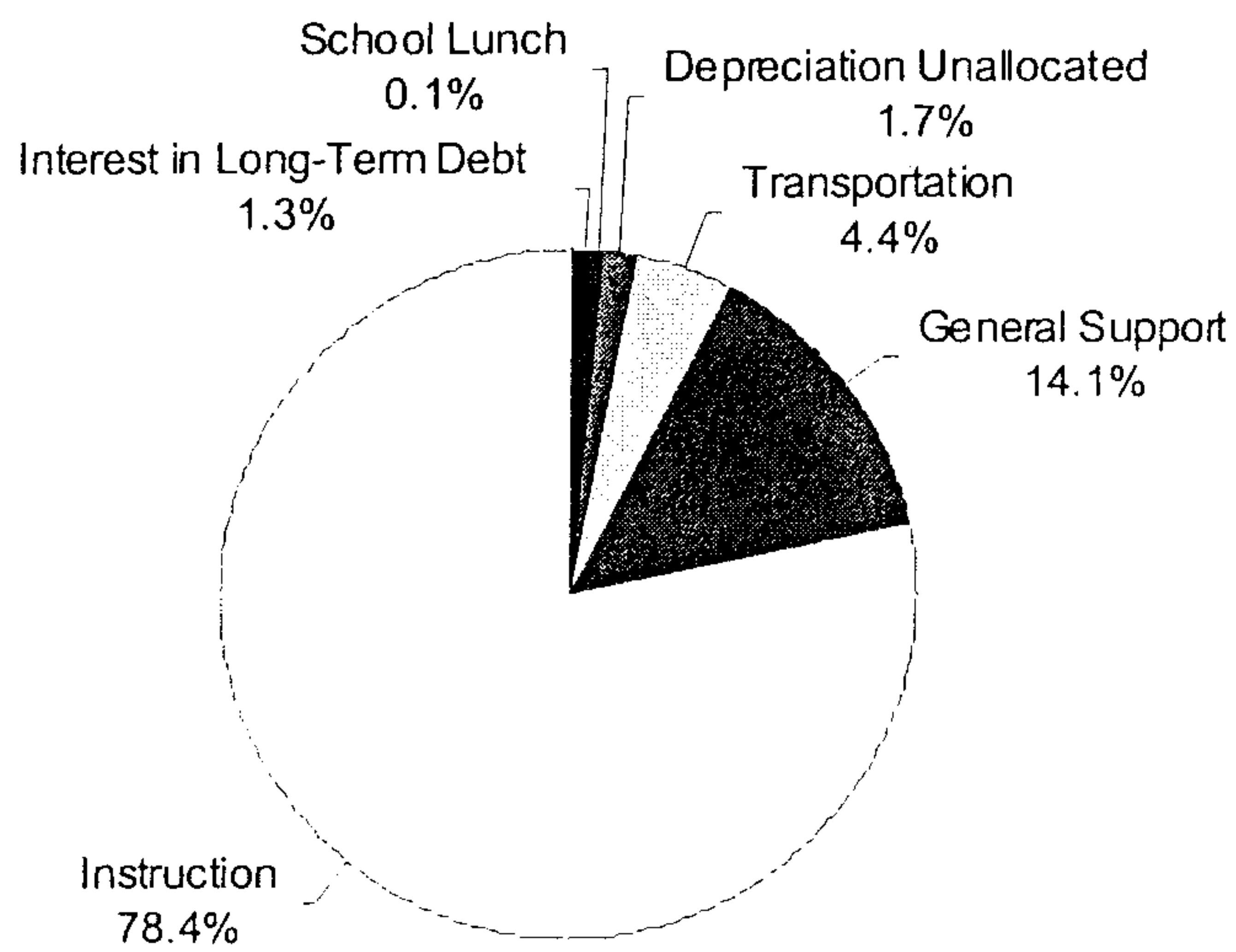
	<u>Governmental Activities</u>		Variance
	<u>2006</u>	<u>2007</u>	Increase (Decrease)
<u>Program Revenues:</u>			
Charges for Services	\$ 448,720	\$ 446,701	\$ (2,019)
Operating Grants and Contributions	<u>633,413</u>	<u>638,057</u>	<u>4,644</u>
Total Program Revenues	<u>\$ 1,082,133</u>	<u>\$ 1,084,758</u>	<u>\$ 2,625</u>
<u>General Revenues:</u>			
Real Property Taxes	\$21,154,248	\$ 22,214,284	\$ 1,060,036
Other Tax Items	2,256,985	2,388,990	132,005
Use of Money and Property	758,195	957,672	199,477
Sale of Property and Compensation for Loss	-	50	50
Miscellaneous	220,780	212,759	(8,021)
State Sources	4,901,105	5,528,771	627,666
Federal Sources	<u>22,050</u>	<u>4,430</u>	<u>(17,620)</u>
Total General Revenues	<u>\$29,313,363</u>	<u>\$31,306,956</u>	<u>\$ 1,993,593</u>
<u>Expenses:</u>			
Instruction	\$23,706,476	\$24,337,043	\$ 630,567
Support Services:			
General Support	4,287,026	4,371,782	84,756
Pupil Transportation	1,274,848	1,375,623	100,775
Debt Service- Interest	256,514	415,660	156,146
Depreciation – Unallocated	508,673	518,995	10,322
School Lunch	<u>35,708</u>	<u>30,328</u>	<u>(5,380)</u>
Total General Expenses	<u>30,069,245</u>	<u>31,049,431</u>	<u>980,186</u>
Change in Net Assets	<u>\$ (755,882)</u>	<u>\$ 257,525</u>	<u>\$ 1,013,407</u>

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

**Districtwide Revenues by Source
For the Year Ended June 30, 2007**



**Districtwide Expenses by Function
For the Year Ended June 30, 2007**



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

Governmental Funds

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

As of the end of the current fiscal year, the School District's governmental funds reported combined fund balances of \$5,706,875, an increase of \$141,885 over the prior year. Of the total combined fund balances, \$1,928,025 constitutes unreserved fund balance, of which \$1,195,000 has been designated for use in the 2007-2008 budget. The balance of \$733,025 is available for spending at the School District's discretion. The remainder of fund balance is reserved to indicate that is not available for new spending because it has already been committed. The reserves include the following:

Reserve for Encumbrances	\$ 447,812
Capital Reserve - Buses	\$ 165,641
Workmen's Compensation Reserve	\$ 454,783
Unemployment Insurance Reserve	\$ 130,000
Insurance Reserve	\$ 500,000
Reserve for Tax Certiorari	\$1,157,614
Reserve for Employee Benefits	<u>\$ 923,000</u>
	\$3,778,850

The General Fund is the chief operating fund of the School District. At the end of the current fiscal year, the total fund balance of the General Fund was \$5,957,181 of which \$983,331 was unreserved and undesignated. As previously mentioned, New York State Law limits the amount of unreserved fund balance that can be retained to 3% of the ensuing year's budget, exclusive of the amount designated for the subsequent year's budget.

The fund balance of the School District's General Fund increased by \$530,509 during the current fiscal year. Key factors in the increase were additional State Aid received, increased interest earnings over projections and savings in expenditures for health insurance due to a premium holiday.

Land	\$ 121,545
Work in Progress	\$ 315,395
Buildings & Improvements	\$8,573,233
Machinery & Equipment	\$ 180,085
Vehicles	<u>\$ 210,343</u>
	<u>\$9,400,601</u>

Obligations: The District had total debt including serial bonds, and other obligations outstanding of \$7,702,675 as of June 30, 2007 (a decrease of \$475,088 over the previous year).

	<u>June 30, 2007</u>
Serial Bonds	\$7,245,000
Energy Performance Contract	457,675

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

Notes to the Financial Statements

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

Supplementary Information

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

Requests for Information

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

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