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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 governmental activities, each major fund, and the fiduciary funds of the Spackenkill Union Free School District, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on the financial statements based on our audit.

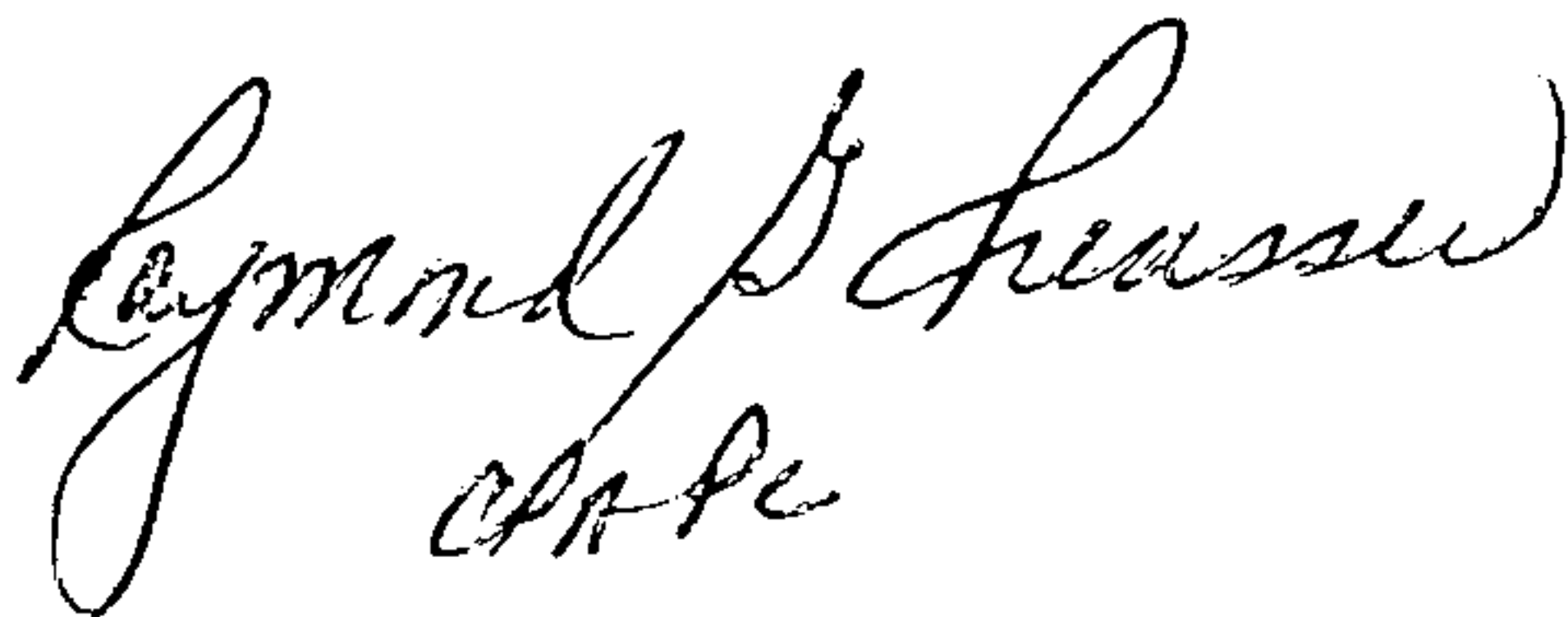
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and 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 respective financial position of the governmental activities, each major fund and the fiduciary funds of the Spackenkill Union Free School District as of June 30, 2010, and the respective changes in financial position thereof for the year then 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 September 29, 2010 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 and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Spackenkill Union Free School District's basic financial statements. The other supplementary information 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the other supplementary information. However, we did not audit the information and express no opinion on it.

Handwritten signature of Raymond J. Scussell in cursive script.

Claverack, New York
September 29, 2010

SPACKENKILL UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2010

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, 2010. 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.

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

Financial Statements

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, 2009 & 2010

	<u>Governmental Activities</u>		Variance Increase (Decrease)
	<u>2009</u>	<u>2010</u>	
Current Assets	\$12,462,060	\$12,698,099	236,039
Capital Assets	<u>10,162,894</u>	<u>10,474,018</u>	<u>311,124</u>
Total Assets	<u>22,624,954</u>	<u>23,172,117</u>	<u>547,163</u>
Current Liabilities	3,909,510	3,376,488	(533,022)
Long-term Obligations	<u>9,757,440</u>	<u>10,834,501</u>	<u>1,077,061</u>
Total Liabilities	<u>13,666,950</u>	<u>14,210,989</u>	<u>544,039</u>
Net Assets:			
Investments in capital assets, net of related debt	1,637,395	2,541,510	904,115
Restricted for encumbrances	216,159	124,529	(91,630)
Restricted for other specific purposes	6,397,972	6,412,903	14,931
Restricted for subsequent year's expenditures	802,250	2,255,598	1,453,348
Unrestricted (deficit)	<u>(95,772)</u>	<u>(2,373,412)</u>	<u>(2,277,640)</u>
Total Net Assets	<u>\$ 8,958,004</u>	<u>\$ 8,961,128</u>	<u>\$ 3,124</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.

For the period ending 2010, 27.74% of the District's Net Assets are associated with 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.

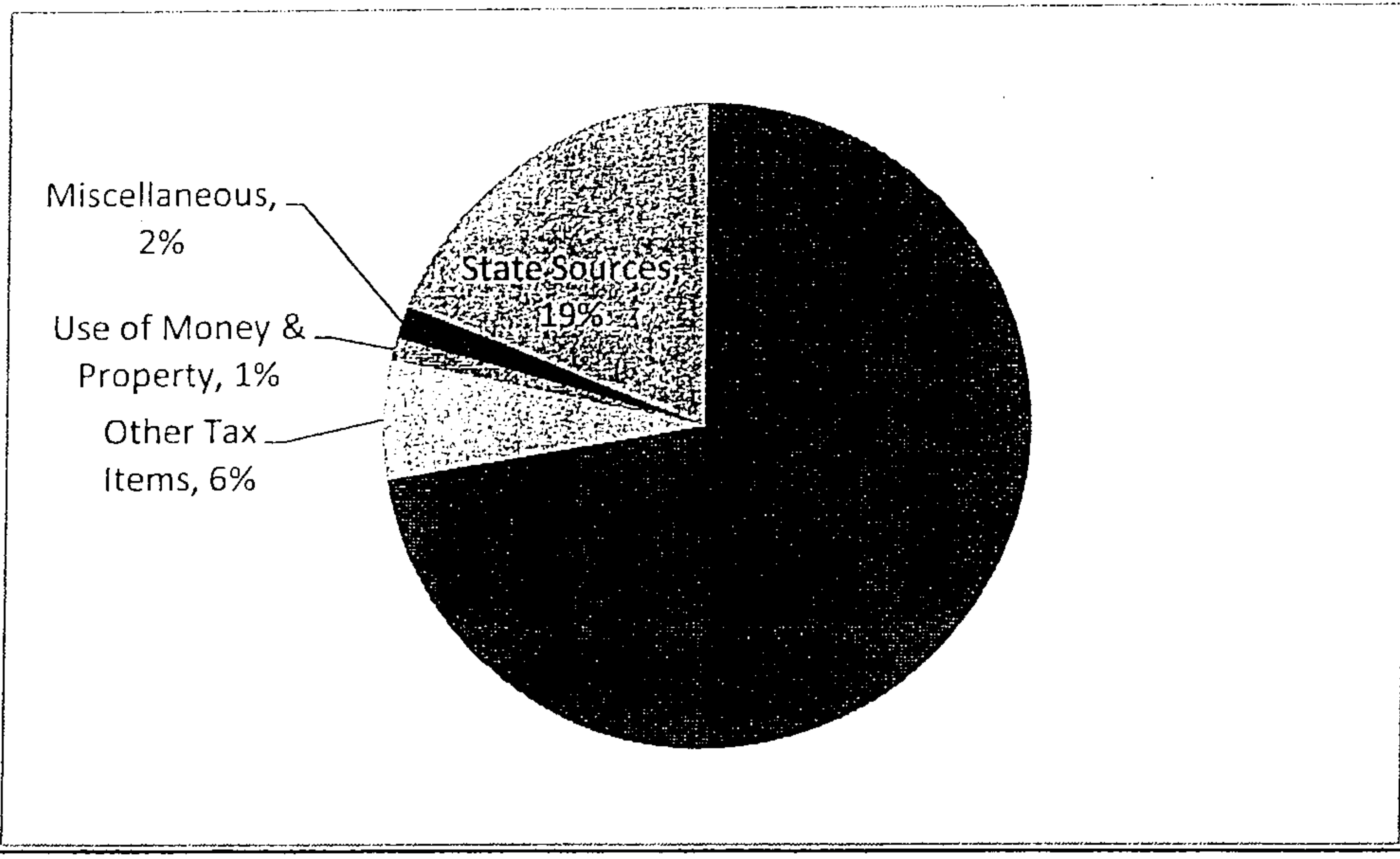
Of the remaining net assets for the period ending 2010, 96.19%, represents resources that are subject to external restrictions on how they may be used (e.g., tax certiorari decisions, capital projects, debt services and other specified purposes). Of the \$6,412,903 in restricted net assets, \$4,974,947 is restricted for tax certiorari purposes. Unrestricted net assets show a deficit of \$2,373,412 which includes long term obligations associated with post employment benefits in the amount of \$3,017,134. There are currently no provisions in state law permitting school districts to allocate reserve funds to offset this long term obligation.

**Spackenkill Union Free School District's
 Changes in Net Assets
 For the Years Ended June 30, 2009 & 2010**

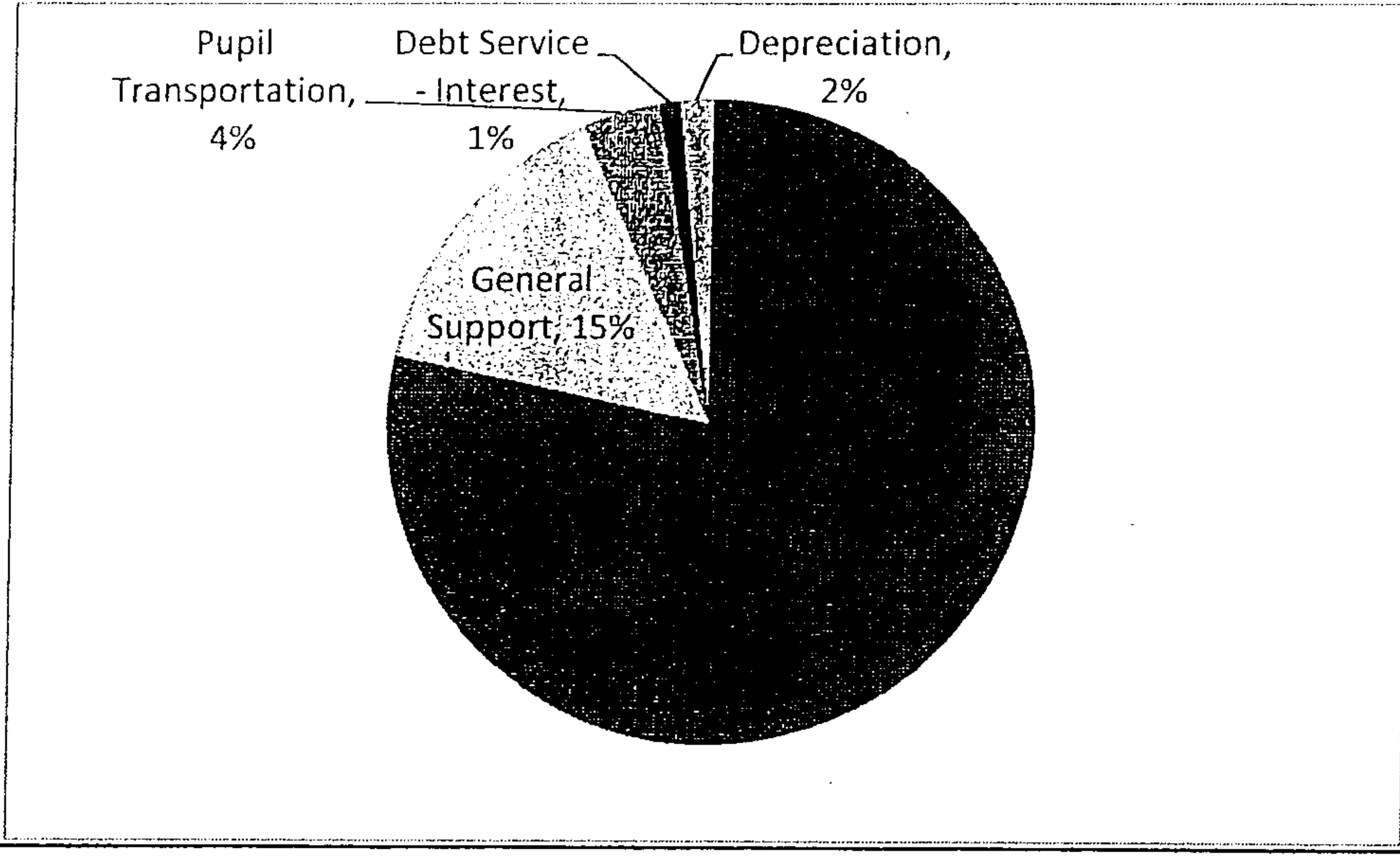
	<u>Governmental Activities</u>		Variance
	<u>2009</u>	<u>2010</u>	Increase (Decrease)
<u>Program Revenues:</u>			
Charges for Services	\$ 437,566	\$ 368,364	\$ (69,202)
Operating Grants and Contributions	<u>700,226</u>	<u>1,881,831</u>	<u>1,181,605</u>
Total Program Revenues	<u>\$ 1,137,792</u>	<u>\$ 2,250,195</u>	<u>\$ 1,112,403</u>
<u>General Revenues:</u>			
Real Property Taxes	\$24,456,919	\$ 25,333,403	876,484
Other Tax Items	2,006,760	2,077,676	70,916
Use of Money and Property	495,983	382,997	(112,986)
Sale of Property and Compensation for Loss	600	0	(600)
Miscellaneous	313,061	583,906	270,845
State Sources	7,862,444	6,619,319	(1,243,125)
Federal Sources-medicaid	<u>6,302</u>	<u>2,079</u>	<u>(4,223)</u>
Total General Revenues	<u>\$35,142,069</u>	<u>\$34,999,380</u>	<u>\$ (142,689)</u>
<u>Expenses:</u>			
Instruction	\$27,126,762	\$27,349,209	\$ 222,447
Support Services:			
General Support	4,854,206	5,249,559	395,353
Pupil Transportation	1,323,413	1,381,476	58,063
Debt Service- Interest	571,812	349,892	(221,920)
Depreciation – Unallocated	594,129	578,976	(15,153)
School Lunch	<u>62,675</u>	<u>87,144</u>	<u>24,469</u>
Total General Expenses	<u>34,532,997</u>	<u>34,996,256</u>	<u>463,259</u>
Change in Net Assets	<u>\$ 609,072</u>	<u>\$ 3,124</u>	<u>\$ 605,948</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, 2010**



**Districtwide Expenses by Function
For the Year Ended June 30, 2010**



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 \$10,011,088 an increase of \$743,839 over the prior year. Of the total combined fund balances, \$3,473,656 constitutes unreserved fund balance, of which \$2,255,598 has been designated for use in the 2010-2011 budget. The balance of \$1,527,493 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	\$ 124,529
Capital Reserve - Vehicles	\$ 250,000
Workmen's Compensation Reserve	\$ 204,784
Unemployment Insurance Reserve	\$ 108,172
Insurance Reserve	\$ 250,000
Reserve for Tax Certiorari	\$4,974,947
Reserve for Employee Benefits	<u>\$ 625,000</u>
	<u>\$6,537,432</u>

The General Fund is the chief operating fund of the School District. At the end of the current fiscal year, the total fund balance of the General Fund was \$10,320,523 of which \$1,527,493 was unreserved and undesignated. As previously mentioned, New York State Law limits the amount of unreserved fund balance that can be retained to 4% 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 \$1,452,040 during the current fiscal year. The general fund balance increase was driven primarily by several areas of expenditures that ended the year below their budgeted amounts. These included energy, salaries and benefits, special education costs, and transportation costs.

General Fund Budgetary Highlights

The difference between the general fund's original budget and final amended budget was \$668,411. This change is attributable to the carryover of encumbrances from 2008-2009 and the appropriation of reserves. Of the \$668,411, tax certiorari reserves represented \$434,332.

Capital Asset and Debt Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2010 are as follows:

	<u>June 30, 2010</u>
Land	\$ 121,545
Construction in Progress	\$ 938,799
Buildings & Improvements	\$ 9,024,690
Machinery & Equipment	\$ 89,325
Vehicles	\$ 299,659
	<u>\$ 10,474,018</u>

Obligations: The District had total debt including serial bonds, and other obligations outstanding of \$11,424,050 as of June 30, 2010 (an increase of \$1,074,515 over the previous year).

	<u>June 30, 2010</u>
Serial Bonds	\$ 7,915,000
Energy Performance Contract	\$ 382,639
OPEB	\$ 3,017,134
Compensated Absences	\$ 109,277

The District's current bond rating is Aa2, upgraded from Aaa. 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).

Factors Bearing on the District's Future

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

State Aid

New York State has significantly reduced aid to public schools in the form of state deficit reduction assessments. These assessments are being partially offset by the allocation of federal funds to schools. While federal programs offer additional aid for education at the local level, the extent to which these programs and the funding they represent will keep pace with reductions in state aid is uncertain. The District is prepared for state aid reductions in the short term and has the financial reserves necessary to gradually transition to sustained lower levels of state aid over the long term.

Tax certiorari liabilities and reserves

The recent re-evaluation of properties in the District has generated a significant level of tax certiorari activity. The District's tax certiorari reserve is sufficient to meet the majority of potential obligations. To the extent certiorari challenges are unsuccessful, funds in the reserve would be available to offset disruptions of District revenue streams.

Facilities

The District's high school is undergoing a substantial renovation that includes updates to major energy performance systems including new windows, electrical services, unit ventilators, and heating, cooling, and lighting controls. Upgraded systems should positively impact operating costs, particularly those associated with energy consumption.

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