

September 30, 2010

To the Board of Education of the Horseheads Central School District:

We have audited the financial statements of Horseheads Central School District (the District), for the year ended June 30, 2010, and issued our report thereon dated September 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our meeting about planning matters on June 1, 2010.

A. Our Responsibility Under Auditing Standards Generally Accepted in the United States and *Government Auditing Standards*

As stated in our engagement letter dated May 10, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States. Our audit of the financial statements does not relieve you or management of your responsibilities.

B. Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the District.

Our audit fieldwork was completed the week of August 16, 2010.

Professional standards also require that we communicate to you the following information related to our audit.

C. Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

- a. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements.

No new accounting policies were adopted by the District and the application of existing policies was not changed during 2010. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

- b. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- *Revenue recognition from state and other sources*
- *Actuarial assumptions related to TRS/ERS (retirement) and OPEB (post-employment) liabilities (GASB)*
- *Estimates for self insured risks*
- *Estimates for compensated absences*
- *Accrued payroll and related liabilities*
- *Asset lives for depreciable fixed assets*

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

- c. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive disclosure affecting the financial statements was the Postemployment Benefits disclosure in Note 9 to the financial statements.

2. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Adjustments that arose in connection with our audit, both from client analysis and from our audit review, were recorded and are set forth in Exhibit I.

C. Significant Audit Findings (Continued)

3. *Difficulties Encountered in Performing the Audit*

The auditor is required to communicate any serious difficulties encountered in dealing with management related to the performance of the audit.

We encountered no significant difficulties in dealing with management in performing and completing our audit.

4. *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

5. *Management Representations*

The auditor is required to obtain certain representations from management.

We will request certain representations from management that will be included in the management representation letter.

6. *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To the best of our knowledge, there were no such consultations with other accountants.

7. *Other Audit Findings or Issues*

Material Change in projected June 30, 2010 General Fund Financial Results

During the District's annual budgeting process, the School Business Administrator routinely makes projections of the General Fund surplus (deficit) for the current school year. This projected surplus (deficit) serves as the baseline information for the subsequent year's District budget which is subject to voter approval in May. We noted during our June 30, 2010 audit process that a material error was made in projecting the June 30, 2010 General Fund surplus (deficit). Unfortunately, the School Business Administrator did not identify the material error in the projected General Fund surplus (deficit) until August 2010, while in the process of completing the year end financial statement close.

7. *Other Audit Findings or Issues (Continued)*

The magnitude of the projection error was significant and can be summarized as follows:

Projected General Fund deficit estimated in May 2010 for the June 30, 2010 fiscal year	\$ 2,100,000*
Actual General Fund surplus based on audited financial statements for the June 30, 2010 fiscal year	<u>564,000</u>
Difference in projected deficit to actual General Fund surplus	<u>\$ 2,664,000</u>

* The District's budget for the fiscal year ended June 30, 2010 anticipated an appropriation from the General Fund's fund balance of approximately \$1,000,000. Therefore, in the budget presentations for fiscal year end June 30, 2011, the District's budget presentations reflected an estimated deficit for June 30, 2010 of (\$1,100,000). However, based on actual audited financial results for the fiscal year, there was no need for utilizing an appropriation of prior fund balance since the General Fund had an audited surplus for the year.

The variance between the projected General Fund deficit and the actual surplus generated for the fiscal year end June 30, 2010 results in a credibility and communication issue for the District Administration and Board. The \$2,664,000 variance between the projected deficit and the actual surplus indicates a serious lack of ability and competence for the District Business Office to accurately project District financial results.

Upon further investigation, the variance was due to a number of errors made in estimating District General Fund expenses in which actual results were significantly below the projected estimates of expense. In addition, there were two primary projected revenue estimates (Special Education funding and ARRA funding) which demonstrated a failure to properly recognize expected District revenues for the June 30, 2010 fiscal year.

We have reported the matter described above as a material weakness in District internal controls in our June 30, 2010 Management Letter. The details above, provided directly to the District Board, are intended as supplementary information for the Board's full knowledge and awareness of the situation that occurred. During the audit process, we had several conversations and meetings with the District Board Audit Committee to discuss this situation and the projection errors which occurred during the Spring 2010 budget development process for the fiscal year ending June 30, 2011.

This information is intended solely for the use of the Board of Education and Administration of the Horseheads Central School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Bonadio & Co., LLP

HORSEHEADS CENTRAL SCHOOL DISTRICT

Exhibit I

**SUMMARY OF AUDIT ADJUSTMENTS - FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

Audit adjustments:

	Increase (Decrease) to Fund Net Assets
Change in Governmental Fund balance - unadjusted	\$ 1,460,344
General Fund	
To record additional accrual for healthcare claims	(638,209)
To reserve for receivable recorded for special ed. 05-06 recal.	(607,745)
To accrue for retiree deposits	(282,628)
To record interfund transfer to Federal Fund for special ed. grant deficit	(98,754)
To transfer transportation expenses to Federal Fund	30,839
To remove smoothing effect of TRS reserve	555,599
To remove smoothing effect of ERS reserve	119,487
Immaterial adjustment to roll fund balance	<u>(882)</u>
	<u>(922,293)</u>
Federal Fund	
To remove PY special ed. A/R	(251,384)
To record special ed. revenue/receivable	210,021
To transfer transportation costs to special ed. expense	(30,839)
To remove unreconciled A/R	(47,605)
To record interfund transfer from General Fund for special ed.	<u>98,754</u>
	<u>(21,053)</u>
School Lunch Fund	
Immaterial adjustment to roll fund balance	<u>49</u>
 Change in net assets - adjusted	 <u>\$ 517,047</u>

Note 1: The adjustments listed above do not include adjustments provided to B&Co by District personnel after the final audit field work commenced. In addition, certain adjustments were made by B&Co that did not directly affect the Fund net assets.

**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**Financial Statements
as of June 30, 2010
Together with
Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

September 30, 2010

To the Board of Education of the
Horseheads Central School District:

We have audited the statement of cash and fund balances resulting from cash transactions of the Extraclassroom Activity Funds of the Horseheads Central School District (the District) for the year ended June 30, 2010 and the related statement of cash receipts and disbursements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express our opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Internal accounting controls are limited over the cash receipts from the point of collection to the time of submission to the Central Treasurer. Accordingly, it was impracticable to extend our audit of such receipts beyond the amounts recorded.

As described in Note 1, the financial statements referred to above are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, except for the effect of any adjustments that might have been determined to be necessary had we been able to perform adequate auditing procedures in regards to the cash receipts referred to in the third paragraph, the financial statements referred to above presents fairly, in all material respects, the cash and fund balances resulting from cash transactions and the cash receipts and disbursements of the Extraclassroom Activity Funds of the Horseheads Central School District as of and for the year ended June 30, 2010, on the basis of accounting described in Note 1.

**HORESHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**STATEMENT OF CASH AND FUND BALANCES RESULTING FROM
CASH TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 2010**

ASSETS

Cash	\$ <u>196,221</u>
Total assets	\$ <u>196,221</u>

FUND BALANCES

Fund balances	\$ <u>196,221</u>
Total fund balances	\$ <u>196,221</u>

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The accompanying notes are an integral part of these statements.

**HORESHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

	Fund Balance <u>July 1, 2009</u>	Cash <u>Receipts</u>	Cash <u>Disbursements</u>	Fund Balance <u>June 30, 2010</u>
MIDDLE SCHOOL				
Library	\$ 227	\$ 562	\$ 469	\$ 320
School Store	4,763	4,518	2,379	6,902
Student Council	1,763	2,616	2,027	2,352
Student Funds	<u>12,053</u>	<u>13,906</u>	<u>15,290</u>	<u>10,669</u>
Sub-total - Middle School	<u>18,806</u>	<u>21,602</u>	<u>20,165</u>	<u>20,243</u>
HIGH SCHOOL				
Class of 2009	49,623	224	49,847	-
Class of 2010	14,285	130,367	142,785	1,867
Class of 2011	6,497	57,914	44,313	20,098
Class of 2012	1,845	24,103	8,671	17,277
Class of 2013	-	18,768	4,945	13,823
Academic Challenge	146	-	-	146
Art Club	1,040	99	1,000	139
Band Trip	21,206	56,965	41,953	36,218
Choir	7,600	33,785	35,060	6,325
Debate Club	190	-	-	190
Drama Club	10,198	20,715	24,910	6,003
Hero/FHA	481	-	-	481
Interact Club	1,674	2,459	2,953	1,180
Interest	654	138	653	139
Language Club	904	4	875	33
Multi-Media Club	94	-	94	-
National Honor Society	1,838	5,598	6,030	1,406
Orchestra	686	1,577	1,234	1,029
Sales Tax	1,086	6,768	6,195	1,659
Schoolstore	3,128	14	-	3,142
Science Club	1,086	205	270	1,021
Student Council	2,363	2,852	3,416	1,799
Yearbook - Equestrian	<u>19,776</u>	<u>18,032</u>	<u>14,382</u>	<u>23,426</u>
Sub-total - High School	<u>146,400</u>	<u>380,587</u>	<u>389,586</u>	<u>137,401</u>

(Continued)

**HORESHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASROOM ACTIVITY FUNDS**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

(Continued)

	<u>Fund Balance July 1, 2009</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Fund Balance June 30, 2010</u>
ATHLETICS				
Athletic Association	19,679	65,230	62,153	22,756
Horseheads Varsity Association	961	44,334	42,004	3,291
Sales Tax	846	2,388	2,710	524
Summer Camps	12,965	53,670	54,640	11,995
Student Athletics	3,295	29,282	32,566	11
	<u>37,746</u>	<u>194,904</u>	<u>194,073</u>	<u>38,577</u>
Sub-total - Athletics	37,746	194,904	194,073	38,577
Sub-total - Schools	<u>165,206</u>	<u>402,189</u>	<u>409,751</u>	<u>157,644</u>
Total - Schools and Athletics	<u>\$ 202,952</u>	<u>\$ 597,093</u>	<u>\$ 603,824</u>	<u>\$ 196,221</u>

The accompanying notes are an integral part of these statements.

HORSEHEADS CENTRAL SCHOOL DISTRICT EXTRACLASSROOM ACTIVITY FUNDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Extraclassroom Activity Funds of the Horseheads Central School District (the District) is prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The cash basis of accounting, therefore, does not recognize receivables and payables, inventories, long-lived assets, and accrued income and expenses, which would be recognized under accounting principles generally accepted in the United States. The significant principles and policies used by the District are described below.

Reporting Entity

The transactions of the Extraclassroom Activity Funds are included in the reporting entity of the District. Such transactions are included in the combined financial statements of the District and reported in the Trust and Agency Fund as cash and extraclassroom activity fund balances. Exclusion from the District's financial statements, due to their nature and significance of their relationship with the primary government, would cause the reporting entity's financial statements to be misleading or incomplete.

The Extraclassroom Activity Funds represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. The activities included in this report were formed only for educational and school activity purposes in accordance with District rules and regulations for the conduct, operation, and maintenance of the extraclassroom activities.

Cash

The District's cash consists of cash on hand and demand deposit accounts. At times, the District may use savings accounts and short-term certificates of deposit with original maturities of three months or less from the date of acquisition.

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State or its localities.

Demand deposits, savings accounts and short-term certificates of deposit at year-end were entirely covered by FDIC insurance on accounts deposited in trust companies located within the State. At June 30, 2010, cash and cash equivalents are entirely composed of demand deposit accounts, savings accounts, and certificates of deposit. All deposits including certificates of deposit are carried at cost, which approximates fair market value.

Equity Classification - Fund Balance

Unreserved fund balance consists of the portion of fund balance that has not been designated or reserved.

**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
September 2010**

DRAFT

September 2010

To the Board of Education of the
Horseheads Central School District:

In planning and performing our audit of the financial statements of the Extraclassroom Activity Funds of the Horseheads Central School District (the District) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified deficiencies in internal control that we consider to be significant deficiencies.

A **material weakness** is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

This communication is intended solely for the information and use of the Board of Education, the Audit Committee, management, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

**HORSEHEADS CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS**

**COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL
REPORTING AND OTHER MATTERS
SEPTEMBER 2010**

A. INTRODUCTION AND STATUS OF PRIOR YEAR RECOMMENDATIONS

During our financial statement audit of the Extraclassroom Activities Funds of Horseheads Central School District (the District) as of June 30, 2010, we identified a number of internal control recommendations. We are encouraged by the District's management and Board's willingness to accept and address our recommendations each year.

In connection with our fiscal year end 2010 audit, we reviewed the status of our prior year's recommendations with management.

<u>Prior Year Recommendations</u>	<u>Completed</u>	<u>In-Process</u>
Accounting policies and procedures manual	X	
Segregation of duties		X
Receipts procedures and documentation		X
Disbursements procedures and documentation		X
Missing documentation	X	
Clubs not clearly identified with student involvement		X
Sales tax	X	
Club financial statements		X

This report should be read with the understanding that the District was implementing internal control procedural improvements throughout the 2009-2010 school year. Our audit testing and related samples included transactions from the entire school year. As a result, certain of the exceptions noted in the following recommendations may have occurred prior to a procedural improvement change implemented by the District.

Our suggestions from the prior year that have not been addressed completely are restated below.

We recommend that a formal written District response and implementation plan related to each of these recommendations be prepared and reviewed with the Audit Committee within sixty days of the date of this report.

The following recommendations represent internal control matters which we identified during the course of our audit which we believe require review, assessment and corrective action by the District.

B. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS

We have identified the following deficiencies in internal controls that we consider to be significant deficiencies in internal controls.

1. SEGREGATION OF DUTIES

Observation

Extraclassroom activity funds operate independently of the District, and therefore deposits and disbursements are not subject to the same degree of review as that of the District's governmental fund activities. During the course of our examination, we noted limited segregation of duties with regard to the Extraclassroom activity fund operations, as follows:

- Bank statements are addressed and delivered directly to the Central Treasurers of the High School, Middle School and Athletics Extraclassroom clubs.
- Bank reconciliations are prepared by the Central Treasurers without independent review and approval.
- Not all student treasurers have maintained student books to reconcile with that of the Central Treasurers, as required by State regulations.

We believe the District should strive for effective segregation of incompatible duties with respect to all Extraclassroom activities.

Recommendation

We recommend that the District's Administration review the above items and evaluate whether it is practical to reallocate any of the above responsibilities within the respective main offices of each school location. At a minimum, all Extraclassroom bank statements should be given, unopened, to a responsible school staff member who is independent of the Extraclassroom receipts and disbursements functions for their review prior to completion of the bank reconciliation. This review should be evidenced by their initialing and dating the statement.

We also recommend that the same individual review and approve the Extraclassroom bank reconciliations in a timely manner, including a review of outstanding items. This review should also be evidenced by their initialing and dating the reconciliation.

Further, all Extraclassroom activities should be clearly documented by an elected student treasurer. These student books should be maintained and reconciled to the Central Treasurer's records, on a periodic basis.

B. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

2. RECEIPTS PROCEDURES AND DOCUMENTATION

Observation

We reviewed the cash receipt collection procedures and documentation of the High School, Middle School and Athletics Extraclassroom clubs. Our audit procedures included selecting a sample of fifteen cash receipts to review, in which we noted the following:

- Not all clubs involved with fundraising events prepared profit and loss statements.
- In eight (8) instances, we were unable, based on the supporting documentation, to determine if the collections were presented for deposit with the Central Treasurer in a timely manner or if the collections were held longer than best practice would suggest (i.e. within 3 – 5 business days).
- Six (6) deposits were not supported with sufficient documentation (e.g. range of tickets sold) to support that the deposits were presented intact as collected.
- For one (1) deposit the reported amount to be deposited and the bank tellers' receipt were not in agreement.
- No budgets of planned expenses or anticipated revenues, tally sheets, or inventory documentation for sales and fees received for fundraising events were available for our review.
- No lists of students or attendees were attached to field trips/outings reports.

Recommendation

We recommend that all receipt postings into the accounting records be documented as to the amount collected with copies of checks received, receipts for cash received and, where appropriate, a reconciliation of items sold or other indication that all funds collected are being presented for deposit. We further recommend that all collections be deposited with the Central Treasurer within three business days. Funds not presented for deposit can easily be lost, stolen or forgotten.

Clubs hosting fundraising events should prepare profit and loss statements for each event, as well as a budget of planned expenses and anticipated revenues. These statements should be reconciled to the receipts and expenditures related to the event. For events where tickets are sold, the beginning and ending ticket numbers of the range(s) of tickets sold should be reconciled to the cash receipts. For events where items are sold, such as candy sales, cash receipts should be reconciled to the number of items sold.

A listing of attendees should accompany field trip/outing reports along with the related cash receipts.

B. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

3. DISBURSEMENTS PROCEDURES AND DOCUMENTATION

Observation

We reviewed disbursement procedures and documentation of the High School, Middle School, and Athletics Extraclassroom clubs. Our audit procedures included selecting a sample of fifteen cash disbursements to review, in which we noted the following:

- Six (6) transactions did not have sufficient documentation to support the disbursement.
- Two (2) transactions lacked the required appropriate signatures.
- One (1) disbursement was made as a donation to a family; however there was no support in the form of a copy of meeting minutes or similar documentation that the membership of the club agreed with the transaction.

Recommendation

We recommend that all disbursements be supported with original invoices, properly signed payment vouchers, check copies, and student activity minutes attached for significant purchases prior to submitting for payment by the Central Treasurers. Donations or other disbursements not initiated by an invoice should be supported with a copy of meeting minutes of the activity.

4. CLUBS NOT CLEARLY IDENTIFIED WITH STUDENT INVOLVEMENT

Observation

We noted during the testing of transactions that the "Student Funds" account at the Middle School was primarily used by the school for cash donations to charitable causes such as Haiti relief. The account is administered exclusively by faculty and staff of the Middle School. Since there is neither direct student involvement nor benefit, this account can not be considered a valid Extraclassroom account.

Recommendation

We recommend that the "Student Funds" account at the Middle School be reclassified as an account within the Trust and Agency funds of the District. We further recommend that new clubs be approved by the District's Board of Education in accordance with the Commissioner of New York State Education Regulations.

B. INTERNAL CONTROL - OPERATIONAL RELATED MATTERS (Continued)

We consider the following matters to represent deficiencies in internal control as defined in the cover letter to this report.

5. OPENING BALANCE VARIANCE

Observation

We noted in our testing of the trial balances for the schools that there was an aggregate opening balance variance of \$500 for the High School. Since the variance amount is not considered to be significant no further testing was required.

Recommendation

We recommend that Central Treasurers verify that the beginning balances agree to prior period audit reports. Any variances noted should be identified and corrected.

6. CLUB FINANCIAL STATEMENTS

Observation

The Extraclassroom Central Treasurers do not prepare financial statements on a monthly basis for Administration or the Audit Committee's review.

Recommendation

We recommend that the Central Treasurer for each school prepare financial statements for the District Administration on a monthly basis and this information is reviewed with the Audit Committee on a quarterly or semi-annual basis.

HORSEHEADS CENTRAL SCHOOL DISTRICT

**Financial Statements
For the Year Ended June 30, 2010
Together with
Independent Auditors' Report**

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HORSEHEADS CENTRAL SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

September 30, 2010

To the Board of Education of
Horseheads Central School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Horseheads Central School District (the 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 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 the 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 30, 2010, on our consideration of the 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.

(Continued)

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 12 and 39 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 inquiries 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.

The supplementary information on pages 40 through 44 are not a required part of the basic financial statements, but are 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 supplementary information. However, we did not audit the information and express no opinion on it.

HORSEHEADS CENTRAL SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2010

This section of the Horseheads Central School District's (the District) annual financial report presents the District's discussion and analysis of financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

- The District experienced a decrease of \$6.6 million in total net assets during the course of the year. The decrease in net assets was caused by the District's recognition of an accrual for other postemployment benefit (OPEB) obligations of \$8.5 million during 2010.
- Capital asset additions during 2010 amounted to \$2.1 million, primarily due to the purchase of buses and capital project activity.
- The District issued \$745k in general obligation bonds during the year. These bonds were issued as a financing source for the purchase of buses.
- In the District-wide financial statements for 2010, total revenue increased by \$2.0 million to \$70.6 million from 2009. Expenses for the District increased by \$2.5 million to \$77.0 million during 2010.
- The District's 2010 total revenue on the District's Governmental Fund financial statements was below its budgeted revenue by \$273k due primarily to decreased interest rates resulting in lower than expected interest income.
- At June 30, 2010, the District's Governmental Fund financial statements reported combined fund balances of \$33.0 million, an increase of \$517k from June 30, 2009.

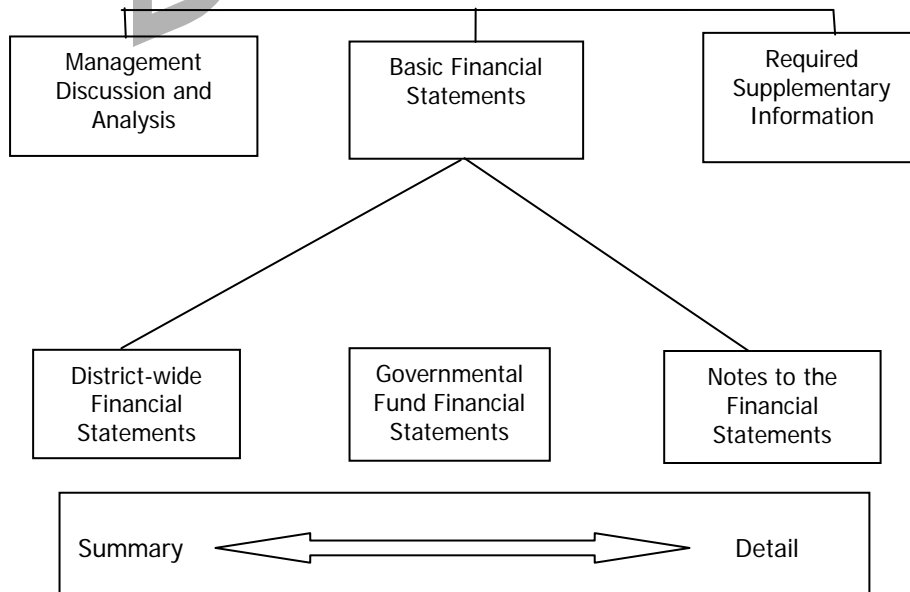
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: Management 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 District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are Governmental fund financial statements that focus on individual activities of the District, reporting the operation in more detail than the District-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 fund statements provide information about 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 to 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 District's financial statements, including the portion of the 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 District, such as instruction and special education	Instances in which the 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 District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the 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 District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the 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 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 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 asset balances as follows:
 - Net assets invested in capital assets, net of 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 District's funds, not the District as a whole. Funds are accounting devices the 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 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 of the District and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund 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 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 fund statements explain the relationship (or differences) between them. The governmental fund 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 fund and the capital projects fund. Required financial statements are the balance sheet and the statement of revenue, expenditures, and changes in fund balance.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The 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 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-wide governmental activities.

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

	Fiscal Year <u>2010</u>	Fiscal Year <u>2009</u>	Percent <u>Change</u>
Current assets	\$ 39.9	\$ 39.1	1.9%
Capital assets, net	<u>46.4</u>	<u>46.8</u>	-0.8%
Total assets	<u>\$ 86.3</u>	<u>\$ 85.9</u>	0.4%
Current liabilities	\$ 8.4	\$ 7.6	10.0%
Long-term liabilities	<u>40.9</u>	<u>34.6</u>	18.3%
Total liabilities	<u>\$ 49.3</u>	<u>\$ 42.2</u>	16.8%
Net assets:			
Investment in capital assets, net of related debt	\$ 19.7	\$ 19.5	1.3%
Restricted for debt	3.5	3.5	1.1%
Unrestricted	<u>13.8</u>	<u>20.7</u>	-33.3%
Total net assets	<u>\$ 37.0</u>	<u>\$ 43.7</u>	-15.3%

In Table A-3, total assets at June 30, 2010, remained consistent as at June 30, 2009. State and Federal aid receivables increased approximately \$1.8 million due to additional federal funding for 2010 not yet received by June 30, offset by decreases in the District's cash reserves of \$990k and decreases in net capital assets of \$329k.

Total liabilities increased by \$7.1 million primarily related to the recognition of an additional OPEB obligation of \$8.5 million. In 2009, the District adopted GASB 45 accounting for its OPEB liability which resulted in the District recording a liability of \$8.1 million. The total OPEB liability as of June 30, 2010 is \$16.6 million. This increase is offset by the repayment on long-term debt of \$2.3 million and reduced accruals for the Teachers' and Employees' retirement systems of approximately \$300k.

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 (In Millions)

	Fiscal Year <u>2010</u>	Fiscal Year <u>2009</u>	Percent <u>Change</u>
Revenue:			
Charges for services	\$ 1.3	\$ 1.3	-0.9%
Operating grants	3.8	2.8	35.1%
General revenue:			
Real property taxes	25.0	24.8	0.9%
Other tax items	6.2	5.9	5.3%
Use of money and property	0.7	0.9	-25.3%
Federal and state sources	32.0	31.8	0.5%
Other	1.6	1.1	42.1%
Total revenue	<u>\$ 70.6</u>	<u>\$ 68.6</u>	2.9%
Expenses:			
General support	\$ 13.5	\$ 12.6	7.4%
Instruction	56.9	55.0	3.5%
Pupil transportation	3.9	4.2	-8.2%
Debt service	1.5	1.2	22.3%
Cost of sales	1.2	1.5	-20.4%
Total expenses	<u>\$ 77.0</u>	<u>\$ 74.5</u>	3.4%
Decrease in net assets	<u>\$ (6.6)</u>	<u>\$ (5.9)</u>	12.6%

Changes in Net Assets

In Table A-4 the District's fiscal year revenue for 2010 totaled \$70.6 million, an increase of 2.9%. The increase in revenue was related to a \$3.2 million increase in Federal aid due to the receipt of \$3.1 million of American Recovery and Reinvestment Act (ARRA) funding, offset by reductions in state aid attributed to New York State's budget crisis. Federal and state sources and property and other taxes accounted for 89% of every dollar raised (see Table A-5). The remainder came from operating grants, fees charged for services, tuition for foster students, interest earnings, and other miscellaneous sources.

The total cost of all programs and services totaled \$77.1 million for fiscal year 2010, an increase of 3.6% over fiscal 2009. 78% of this amount is used primarily to support general instruction, the provision of services to students with disabilities, and student transportation (see Table A-6). The District's Board of Education, administrative, and business activities accounted for 18% of total costs.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Financial Analysis of the District as a Whole (Continued)

Table A-5 Sources of Revenue for Fiscal Year 2010

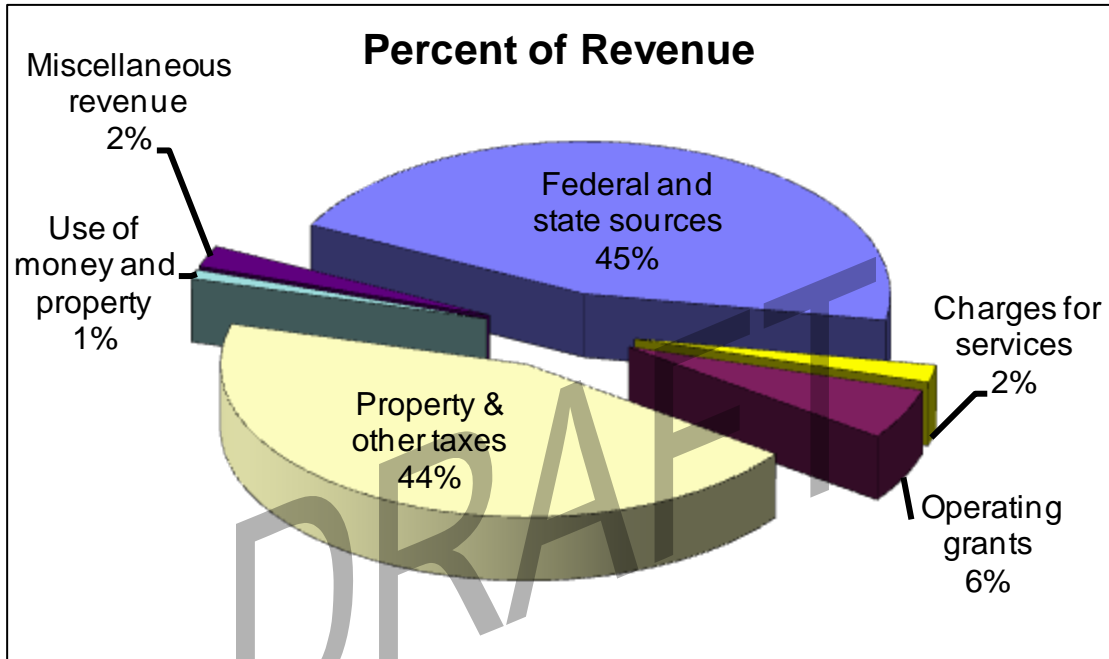
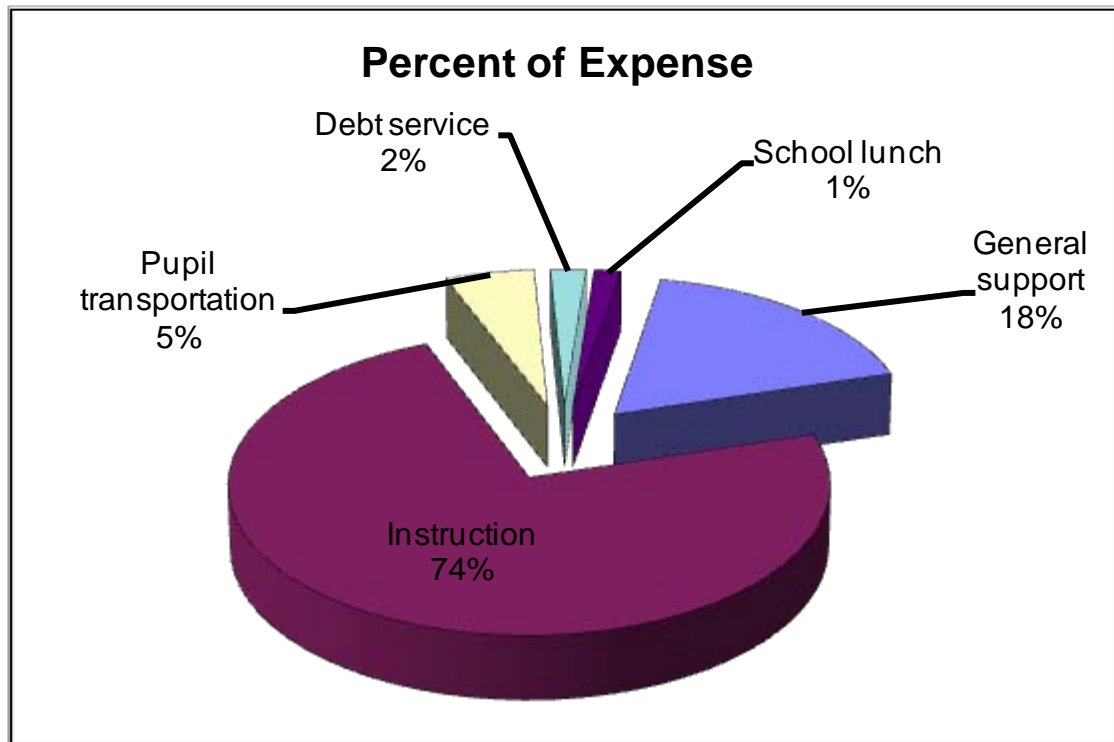


Table A-6 Expenditures for Fiscal Year 2010



OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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, 2010, the District, in its governmental funds, reported combined fund balances of \$33.0 million, an increase of \$517k over the prior year. The District's governmental funds, except for the school lunch and capital projects funds, operated at a surplus in fiscal 2010, which contributed to the increase in total fund balance. The general fund was the only fund to generate a significant surplus totaling \$565k primarily due to the addition of new federal funding through the American Recovery and Reinvestment Act (ARRA) program. In 2010, the District recognized \$3.1 million of ARRA funds.

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.

Table A-6 Results vs. Budget (In Thousands)

	Original Budget	Final Budget	Actual	Encumbrances	Variance Positive/(Negative)
Revenue:					
Local sources	\$ 34,250	\$ 34,293	\$ 33,902	\$ -	\$ (390)
Federal and state sources	31,875	31,875	31,993	-	118
Total	<u>66,125</u>	<u>66,167</u>	<u>65,895</u>	<u>-</u>	<u>(273)</u>
Expenses:					
General support	9,446	9,881	8,761	205	915
Instruction	34,306	34,260	32,461	63	1,736
Transportation	2,682	3,505	2,437	897	173
Community service	11	8	-	-	8
Employee benefits	17,189	17,506	17,062	-	444
Debt service	641	641	591	-	50
Net transfers	3,995	3,996	4,018	-	(23)
Total	<u>68,270</u>	<u>69,797</u>	<u>65,330</u>	<u>1,164</u>	<u>3,303</u>
Revenue over (under) expense	<u>\$ (2,145)</u>	<u>\$ (3,630)</u>	<u>\$ 565</u>	<u>\$ (1,164)</u>	<u>\$ 3,030</u>

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 appropriated fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The following significant variances between budget and actual occurred during fiscal 2010:

- The District's use of money and property was lower than anticipated primarily because of lower interest rates resulting in lower returns.
- State revenue sources were lower than expected as the approved NYS Budget reduced aid to all school districts and there was a mid-year aid reduction as well.
- Federal sources of revenue were higher than expected due to the passage by the Federal Government of the American Recovery and Reinvestment Act (ARRA), which allowed New York State to restore state aid cuts back to districts.
- Central services expenses were lower than expected due to the District changing its energy purchasing practice.
- Teaching - regular school expenses were lower than expected due to the District applying Federal grants monies to offset costs.
- Programs for children with handicapping conditions expenses were lower than expected due to Federal Grant and ARRA funding.
- Employee Benefit expenses were lower than expected due to the TRS and ERS accruals reducing the anticipated total expenses and claims were down relating to workers' compensation and disability insurances.
- The District encumbered funds for purchases that had not yet been acquired as budgeted totaling \$1.2 million.

Capital Assets

As of June 30, 2010, the District had an investment of \$46.4 million in a broad range of capital assets including land, buildings, buses, athletics facilities, computers and other educational equipment.

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

Category:	Fiscal Year <u>2010</u>	Fiscal Year <u>2009</u>	Percent <u>Change</u>
Land	\$ 0.5	\$ 0.5	0%
Construction in progress	1.1	0.3	251%
Land improvements	0.1	0.2	-35%
Buildings and improvements	40.1	41.1	-2%
Equipment and furniture	<u>4.6</u>	<u>4.7</u>	-1%
Total	<u>\$ 46.4</u>	<u>\$ 46.8</u>	

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Long-Term Debt

At year-end, the District had \$26.7 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>2010</u>	Fiscal Year <u>2009</u>	Percent <u>Change</u>
Category:			
General obligation bonds	\$ 26.7	\$ 28.3	-6%
Compensated absences	1.5	1.5	1%
Other postemployment benefit obligation	<u>16.6</u>	<u>8.1</u>	105%
	<u>\$ 44.8</u>	<u>\$ 37.9</u>	

During the year the District issued approximately \$745k in general obligation bonds and repaid debt by retiring \$2.3 million of outstanding bonds.

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:

- Health insurance, retirement, and other post-retirement costs will continue to increase and could potentially affect the District's financial health.
- The District receives approximately 50% of its funding through state and Federal sources. Expected deficits in both Federal and New York State government finances could reduce future funding available to the District and affect its financial health.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, 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: Horseheads Central School District Office, One Raider Lane, Horseheads, New York 14845.

HORSEHEADS CENTRAL SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2010

ASSETS

CURRENT ASSETS:

Cash - unrestricted	\$ 14,679,710
Cash - restricted	20,121,499
State and federal aid receivable	4,800,196
Due from other governments	150,912
Other receivables, net	18,658
Inventory	89,226

Total current assets 39,860,201

NON-CURRENT ASSETS:

Capital assets - net	<u>46,424,391</u>
----------------------	-------------------

Total assets \$ 86,284,592

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 618,212
Accrued liabilities	1,524,121
Due to other governments	525
Due to Teachers' Retirement System	1,701,968
Due to Employees' Retirement System	179,133
Bonds payable due within one year	2,850,300
Compensated absences due within one year	1,037,002
Bond interest accrued	432,616
Deferred revenue	18,608

Total current liabilities 8,362,485

LONG-TERM LIABILITIES:

Bonds payable	23,825,000
Other postemployment benefits obligation	16,605,006
Compensated absences payable	<u>491,936</u>

Total long-term liabilities 40,921,942

Total liabilities \$ 49,284,427

NET ASSETS

Investment in capital assets, net of related debt	\$ 19,749,091
Restricted for debt	3,539,368
Unrestricted	<u>13,711,706</u>

Total net assets \$ 37,000,165

The accompanying notes are an integral part of these statements.

HORSEHEADS CENTRAL SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

	<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	\$ 13,532,572	\$ -	\$ -	\$ (13,532,572)
Instruction	56,898,893	415,625	2,980,616	(53,502,652)
Pupil transportation	3,954,980	-	-	(3,954,980)
Debt service	1,567,742	-	-	(1,567,742)
Community service	8,786	-	-	(8,786)
Cost of sales - school lunch	1,193,853	872,089	801,016	479,252
Total functions/programs	\$ 77,156,826	\$ 1,287,714	\$ 3,781,632	(72,087,480)
GENERAL REVENUE:				
Real property taxes				25,023,908
Other tax items				6,214,812
Use of money and property				672,510
Sale of property and compensation for loss				25,743
Miscellaneous				1,563,064
State sources				28,506,010
Federal sources				3,219,886
Medicaid reimbursement				237,564
Total general revenue				65,463,497
CHANGE IN NET ASSETS				(6,623,983)
NET ASSETS - beginning of year				43,624,148
TOTAL NET ASSETS - end of year				\$ 37,000,165

The accompanying notes are an integral part of these statements.

HORSEHEADS CENTRAL SCHOOL DISTRICT

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Government Fund Types					Total Non-Major Governmental Fund	Total Government Funds
	General	Special Aid	School Lunch	Debt Service	Capital Projects		
ASSETS							
Cash - unrestricted	\$ 13,379,473	\$ 134,264	\$ 250,858	\$ -	\$ 863,610	\$ 51,505	\$ 14,679,710
Cash - restricted	17,199,207	-	-	1,984,170	938,122	-	20,121,499
Due from other funds	2,660,273	1,433,642	118,000	1,609,664	10,802	-	5,832,381
State and federal aid receivable	1,721,967	1,224,796	64,903	-	-	-	3,011,666
Due from other governments	150,912	-	-	-	-	-	150,912
Other receivables	16,900	-	1,758	-	-	-	18,658
Inventory	-	-	89,226	-	-	-	89,226
Total assets	<u>\$ 35,128,732</u>	<u>\$ 2,792,702</u>	<u>\$ 524,745</u>	<u>\$ 3,593,834</u>	<u>\$ 1,812,534</u>	<u>\$ 51,505</u>	<u>\$ 43,904,052</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 597,199	\$ 15,988	\$ 25	\$ -	\$ 5,000	\$ -	\$ 618,212
Accrued liabilities	1,519,281	-	-	4,840	-	-	1,524,121
Due to other funds	2,166,218	2,757,927	-	49,626	858,610	-	5,832,381
Due to Teachers' Retirement System	1,701,968	-	-	-	-	-	1,701,968
Due to Employees' Retirement System	179,133	-	-	-	-	-	179,133
Due to other governments	-	179	346	-	-	-	525
Compensated absences	1,029,112	-	7,890	-	-	-	1,037,002
Deferred revenue	-	18,608	-	-	-	-	18,608
Total liabilities	<u>7,192,911</u>	<u>2,792,702</u>	<u>8,261</u>	<u>54,466</u>	<u>863,610</u>	<u>-</u>	<u>10,911,950</u>
FUND BALANCES							
Fund balances - reserved:							
Reserve for encumbrances	1,164,216	8,591	-	-	609,663	-	1,782,470
Reserve for inventories	-	-	89,226	-	-	-	89,226
Reserve for debt service	-	-	-	3,539,368	-	-	3,539,368
Reserve for workers' compensation	278,874	-	-	-	-	-	278,874
Reserve for repairs	161,325	-	-	-	-	-	161,325
Reserve for retirement contributions	504,072	-	-	-	-	-	504,072
Capital reserve	1,358,136	-	-	-	-	-	1,358,136
Reserve for tax certiorari	2,420,952	-	-	-	-	-	2,420,952
Reserve for tax reduction	463,110	-	-	-	-	-	463,110
Reserve for insurance	60,279	-	-	-	-	-	60,279
Reserve for employee benefit accrued liability	11,952,459	-	-	-	-	-	11,952,459
Total reserved	<u>18,363,423</u>	<u>8,591</u>	<u>89,226</u>	<u>3,539,368</u>	<u>609,663</u>	<u>-</u>	<u>22,610,271</u>
Unreserved - designated for subsequent years expenditures	3,128,000	-	-	-	-	-	3,128,000
Unreserved - designated for retirement incentives	1,400,000	-	-	-	-	-	1,400,000
Unreserved - designated for transportation and technology	2,413,594	-	-	-	-	-	2,413,594
Unreserved - undesignated	2,630,804	(8,591)	427,258	-	339,261	51,505	3,440,237
Total unreserved	<u>9,572,398</u>	<u>(8,591)</u>	<u>427,258</u>	<u>-</u>	<u>339,261</u>	<u>51,505</u>	<u>10,381,831</u>
Total fund balances	<u>27,935,821</u>	<u>-</u>	<u>516,484</u>	<u>3,539,368</u>	<u>948,924</u>	<u>51,505</u>	<u>32,992,102</u>
Total liabilities and fund balance	<u>\$ 35,128,732</u>	<u>\$ 2,792,702</u>	<u>\$ 524,745</u>	<u>\$ 3,593,834</u>	<u>\$ 1,812,534</u>	<u>\$ 51,505</u>	<u>\$ 43,904,052</u>

The accompanying notes are an integral part of these statements.

HORSEHEADS CENTRAL SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2010

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

Fund balance - total Governmental funds	\$ 32,992,102
Receivables recognized in the district-wide financial statements, using the full accrual method of accounting, not recognized on the fund financial statements, which use the modified accrual method of accounting	1,788,530
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	46,424,391
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds payable	(26,675,300)
Other postemployment benefits liability	(16,605,006)
Interest payable on bonds at June 30, 2010, in the district-wide statements under full accrual accounting	(432,616)
Compensated absences at June 30, 2010, in district-wide statements under full accrual accounting	<u>(491,936)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 37,000,165</u>

HORSEHEADS CENTRAL SCHOOL DISTRICT

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	Governmental Fund Types					Total Non-Major Governmental Funds	Total Government Funds
	General	Special Aid	School Lunch	Debt Service	Capital Projects		
REVENUE:							
Real property taxes	\$ 25,023,908	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,023,908
Other tax items	6,214,812	-	-	-	-	-	6,214,812
Charges for services	415,625	-	-	-	-	-	415,625
Use of money and property	651,171	-	2,192	19,147	-	-	672,510
Sale of property and compensation for loss	25,743	-	-	-	-	-	25,743
Miscellaneous	1,569,956	1,262	-	-	-	5,320	1,576,538
State sources	28,536,015	612,273	34,819	-	-	-	29,183,107
Medicaid reimbursement	237,564	-	-	-	-	-	237,564
Federal sources	3,219,886	2,368,343	766,197	-	-	-	6,354,426
Sales	-	-	872,089	-	-	-	872,089
Total revenue	65,894,680	2,981,878	1,675,297	19,147	-	5,320	70,576,322
EXPENDITURES:							
General support	8,760,860	-	-	-	-	-	8,760,860
Instruction	32,461,022	3,049,793	-	-	-	-	35,510,815
Pupil transportation	2,437,479	30,839	-	-	-	-	2,468,318
Employee benefits	17,061,922	-	378,188	-	-	-	17,440,110
Debt service -							
Principal	510,000	-	-	1,820,486	-	-	2,330,486
Interest	80,898	-	-	1,507,608	-	-	1,588,506
Community service	370	-	-	-	-	8,416	8,786
Cost of sales	-	-	1,137,319	-	-	-	1,137,319
Capital outlays	-	-	-	-	1,559,375	-	1,559,375
Total expenditures	61,312,551	3,080,632	1,515,507	3,328,094	1,559,375	8,416	70,804,575
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	4,582,129	(98,754)	159,790	(3,308,947)	(1,559,375)	(3,096)	(228,253)
OTHER FINANCING SOURCES AND (USES):							
Bonds issued	-	-	-	-	745,300	-	745,300
Transfers in	210,039	98,754	-	3,328,094	800,650	-	4,437,537
Transfers out	(4,227,498)	-	(210,039)	-	-	-	(4,437,537)
Total other financing sources	(4,017,459)	98,754	(210,039)	3,328,094	1,545,950	-	745,300
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	564,670	-	(50,249)	19,147	(13,425)	(3,096)	517,047
FUND BALANCES - beginning of year	27,371,151	-	566,733	3,520,221	962,349	54,601	32,475,055
FUND BALANCES - end of year	\$ 27,935,821	\$ -	\$ 516,484	\$ 3,539,368	\$ 948,924	\$ 51,505	\$ 32,992,102

The accompanying notes are an integral part of these statements.

HORSEHEADS CENTRAL SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Net changes in fund balance - total Governmental funds	\$	517,047
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net assets		2,064,308
Depreciation is not recorded as a expenditure in the governmental funds, but is recorded in the statement of activities		(2,379,891)
Loss on disposal of property is not recorded in the governmental funds, but is recorded in the statement of activities		(13,474)
Issuance of bonds payable recorded as revenue in the governmental funds, but recorded as an increase in bonds payable in the statement of net assets		(745,300)
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		2,330,486
Increase in other postemployment benefits liability		(8,483,321)
Certain revenue from governmental sources is recognized in the governmental funds because it is not received soon enough to pay for current period expenditures. However, on the accrual basis of accounting used in the statement of activities, the revenue is recognized when it is earned.		(30,005)
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:		
Decrease in accrued interest payable		20,764
Decrease in compensated absences		95,403
		<hr/>
Change in net assets - governmental activities	\$	<u>(6,623,983)</u>

HORSEHEADS CENTRAL SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	Private Purpose <u>Trusts</u>	<u>Agency</u>
ASSETS:		
Cash	\$ 86,682	\$ 726,195
Investments	3,040	-
Accounts receivable	<u>-</u>	<u>315,512</u>
Total assets	<u>\$ 89,722</u>	<u>\$ 1,041,707</u>
LIABILITIES:		
Extraclassroom activity balances	\$ -	\$ 196,221
Other liabilities	<u>-</u>	<u>845,486</u>
Total liabilities	<u>-</u>	<u>1,041,707</u>
NET ASSETS:		
Reserved for scholarships	<u>\$ 89,722</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

HORSEHEADS CENTRAL SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS FOR THE YEAR ENDED JUNE 30, 2010

	Private Purpose <u>Trusts</u>
ADDITIONS:	
Gifts and contributions	\$ 5,445
Investment earnings	<u>2,577</u>
Total additions	8,022
DEDUCTIONS:	
Scholarships and awards	<u>7,877</u>
NET INCREASE	145
NET ASSETS - beginning of year	<u>89,577</u>
NET ASSETS - end of year	<u><u>\$ 89,722</u></u>

The accompanying notes are an integral part of these statements.

HORSEHEADS CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Horseheads Central School District (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 District are described below:

Reporting Entity

The reporting entity of the District is based upon criteria set forth by GAAP. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the 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 District's reporting entity.

- **Extraclassroom Activity Funds**

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the 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 District's business office. The District accounts for assets held as an agent for various student organizations in an agency fund.

Joint Venture

The District is a component school district in The Greater Southern Tier 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

District-Wide Statements

The statement of net assets and the statement of activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental 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 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 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 as determined based on criteria set forth by the GASB, each displayed in a separate column.

The District reports the following major governmental funds:

- **General Fund:** This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.
- **Special Revenue Funds:** 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 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 Funds:** 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)

Fund Financial Statements (Continued)

- **Non-Major Fund:** This fund accounts for the proceeds of fundraisers, small private events and donations for specific purposes such as scholarships and school related events.

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

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

Measurement Focus and Basis of Accounting

The 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 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 District considers all revenue reported in the governmental funds to be available if the revenue is collected within six-months after the end of the fiscal year, except for certain State and BOCES aid, which are accrued only if collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Cash

The District's cash and cash equivalents consist of cash on hand, demand deposits and certificates of deposit with original maturities of three months or less from date of acquisition. New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements, and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Certificates of deposit are stated at cost plus accrued interest.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Real property taxes are levied annually by the Board of Education no later than September 1, and become a lien on September 1. Taxes are collected during the period September 1 to October 31.

Uncollected real property taxes are subsequently enforced by the Counties of Chemung and Schuylar, in which the District is located. The counties pay an amount representing uncollected real property taxes transmitted to each county for enforcement to the 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 have been 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.

A reserve for inventories has been recognized to signify that a portion of the fund balance is not available for other subsequent expenditures.

Due To/From Other Funds

The amounts reported on the statement of net assets for due to and due from other funds represents amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

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 District-wide statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 1,000	N/A	N/A
Buildings and improvements	\$ 1,000	SL	40
Furniture and equipment	\$ 1,000	SL	5-15

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vested Employee Benefits

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, employees may receive a credit towards their retirement health insurance or a lump sum settlement based on unused accumulated sick leave, based on contractual provisions.

Consistent with GAAP, 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 contractual rates in effect at year-end.

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

Other Postemployment Benefits

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits to retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure. At the fund level, the District recognized the current cost of providing benefits for June 30, 2010 by recording \$2,846,130, which is its share of insurance premiums for the currently enrolled retirees, as an expenditure for the current year.

In accordance with the provisions of generally accepted accounting principles, the District has recorded the government-wide statement of net assets the required other postemployment benefits totaling \$16,605,006 as of June 30, 2010. See note 10 for additional information regarding postemployment benefits.

Budgetary Procedures and Budgetary Accounting

The District administration prepares a proposed budget for approval by the board of education for the following governmental fund 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 level.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Procedures and Budgetary Accounting

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. No supplemental appropriations occurred during the year.

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 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 District has legal claim to the resources, the liability for deferred revenue is removed and revenue is recorded.

Statute provides the authority for the 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 District-wide statements, except for federal grant advances.

Restricted Resources

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

District-Wide Statements - Equity Classifications

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

- **Invested in capital assets, net of related debt**
This consists of net capital assets (cost less accumulated depreciation) and unspent bond proceeds reduced by outstanding balances of related debt obligations from the acquisition, construction, or improvement of those assets.
- **Restricted for debt**
This includes net assets when constraints placed in the assets are either imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets**
This includes 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.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Financial Statements - Equity classifications

Appropriated Reserved Fund Balance

This indicates the planned use of the resources in the subsequent year's budget.

Undesignated Unreserved Fund Balance

This includes remaining balance that has not been designated or reserved.

Fund Balance - Reservations and Designations

The following reserve funds are available to school districts. Any capital gains or interest earned on reserve fund resources becomes part of the respective reserve fund. While a separate bank account is not necessary for each reserve fund, a separate identity for each reserve fund must be maintained.

Capital Reserve

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.

Repair Reserve

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.

Workers' Compensation Reserve

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.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance - Reservations and Designations (Continued)

Reserve for Tax Reduction

Reserve for tax reduction (Education Law §1604(36) and §1709(37)) is used for the gradual use of the proceeds of the sale of District real property where such proceeds are not required to be placed in a mandatory reserve for debt service. Specifically, the District is permitted to retain the proceeds of the sale for a period not to exceed ten years, and to use them during that period for tax reduction. The reserve is accounted for in the general fund.

Reserve for 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 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 District property or capital improvement. The reserve is accounted for in the debt service fund.

Insurance Reserve

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.

Tax Certiorari Reserve

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.

Reserve for Encumbrances

Reserve for encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year. These reserves are accounted for in the general fund, special aid fund, and capital projects fund.

Reserve for Inventories

Reserve for inventory is used to restrict that portion of fund balance, which is not available for appropriation. This reserve is accounted for in the school lunch fund.

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Financial Statements - Equity classifications

Employee Benefit Accrued Liability Reserve

Reserve for employee benefit accrued liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefits due to 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.

Retirement Contribution Reserve

Reserve for retirement contribution (GMU S 6-r) is used for the purpose of financing the employer's retirement system contributions. 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.

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

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

Statement of Revenue, Expenditures, and Changes in Fund Balance vs. Statement of Activities

The excess revenues and other sources over expenditures and other uses of the 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.

3. 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.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgets (Continued)

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. 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.

Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as reservations of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

Fund Balance

The District's unreserved undesignated fund balance was in excess of the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year. Actions the District plans to pursue to address this issue include reducing future tax levies.

4. CASH

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 the notes.

4. CASH (Continued)

Custodial Credit Risk - Deposits

As of June 30, 2010, the carrying amount of the District's cash and cash equivalents in the governmental and fiduciary funds 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	\$ 36,518,165	\$ 35,614,085
Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name	35,386,492	
Covered by FDIC insurance	<u>1,131,673</u>	
Total	\$ <u>36,518,165</u>	

Collateral is required for time deposits and certificates of deposit at 100 percent 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

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.

Restricted cash consists of the following:

Employee benefit reserve	\$ 11,952,459
Tax certiorari reserve	2,420,952
Capital reserve	1,358,136
Tax reduction reserve	463,110
Retirement contribution reserve	504,072
Workers' compensation reserve	278,874
Repair reserve	161,325
Health insurance reserve	60,279
Restricted for debt service	1,984,170
Restricted for capital projects	<u>938,122</u>
Total restricted cash	\$ <u>20,121,499</u>

5. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2010 were as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	Ending <u>Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 458,180	\$ -	\$ -	\$ 458,180
Construction in process	<u>323,834</u>	<u>813,425</u>	<u>-</u>	<u>1,137,259</u>
Total nondepreciable cost	<u>782,014</u>	<u>813,425</u>	<u>-</u>	<u>1,595,439</u>
Capital assets that are depreciated:				
Buildings and improvements	60,847,143	21,100	-	60,868,243
Furniture and equipment	<u>12,406,408</u>	<u>1,229,783</u>	<u>(1,000,126)</u>	<u>12,636,065</u>
Total depreciable historical cost	<u>73,253,551</u>	<u>1,250,883</u>	<u>(1,000,126)</u>	<u>73,504,308</u>
Less accumulated depreciation:				
Buildings and improvements	(19,485,410)	(1,175,557)	-	(20,660,967)
Furniture and equipment	<u>(7,796,707)</u>	<u>(1,204,334)</u>	<u>986,652</u>	<u>(8,014,389)</u>
Total accumulated depreciation	<u>(27,282,117)</u>	<u>(2,379,891)</u>	<u>986,652</u>	<u>(28,675,356)</u>
Total depreciable cost - net	<u>\$ 46,753,448</u>	<u>\$ (315,583)</u>	<u>\$ (13,474)</u>	<u>\$ 46,424,391</u>

Depreciation expense of \$2,379,891 for the year ended June 30, 2010, was allocated to specific functions as follows:

General support	\$ 435,486
Instruction	1,765,176
Pupil transportation	122,695
Cost of sales	<u>56,534</u>
Total depreciation	<u>\$ 2,379,891</u>

6. PARTICIPATION IN BOCES

During the year ended June 30, 2010, the District's share of BOCES income amounted to \$3,789,341. The District was billed \$9,019,371 for BOCES administrative and program costs. Financial statements for Greater Southern Tier BOCES are available from the BOCES Administrative Office, 459 Philo Road, Elmira, New York, 14903.

7. LONG-TERM DEBT

Interest on all debt for the year was composed of:

Interest paid - Long-term debt	\$ 1,588,506
Less: Interest accrued in the prior year	(453,380)
Plus: Interest accrued in the current year	<u>432,616</u>
Total expense	<u>\$ 1,567,742</u>

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government activities:					
Serial Bonds:					
Capital Improvement	\$ 1,200,000	\$ -	\$ 300,000	\$ 900,000	\$ 300,000
Capital Improvement	1,650,000	-	325,000	1,325,000	325,000
Capital Improvement	11,160,000	-	850,000	10,310,000	890,000
Capital Improvement	12,260,486	-	345,486	11,915,000	655,000
Buses #354 - 361	300,000	-	150,000	150,000	150,000
Buses #362 - 369	400,000	-	120,000	280,000	140,000
Buses #370 - 377	575,000	-	125,000	450,000	150,000
Buses #378 - 385	715,000	-	115,000	600,000	120,000
Buses #394 - 401	<u>-</u>	<u>745,300</u>	<u>-</u>	<u>745,300</u>	<u>120,300</u>
Total bonds	28,260,486	745,300	2,330,486	26,675,300	2,850,300
Other liabilities:					
Compensated absences	<u>1,513,794</u>	<u>15,144</u>	<u>-</u>	<u>1,528,938</u>	<u>1,037,002</u>
Total long-term liabilities	<u>\$ 29,774,280</u>	<u>\$ 760,444</u>	<u>\$ 2,330,486</u>	<u>\$ 28,204,238</u>	<u>\$ 3,887,302</u>

7. LONG-TERM DEBT (Continued)

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, 2010 <u>Balance</u>
Capital Improvement	1998	2013	4.35-4.375%	\$ 900,000
Capital Improvement	1999	2014	5.00-5.25%	1,325,000
Capital Improvement	2004	2020	3.00-5.00%	10,310,000
Capital Improvement	2008	2023	3.875-5.75%	11,915,000
Buses #354 - 361	2005	2011	3.40%	150,000
Buses #362 - 369	2007	2012	4.25%	280,000
Buses #370 - 377	2007	2013	4.20%	450,000
Buses #378 -385	2008	2014	3.65%	600,000
Buses #394 -401	2010	2015	2.25-2.375%	745,300
Total bond issue				<u>\$ 26,675,300</u>

The following is a summary of the maturity of long-term indebtedness as of June 30, 2010:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,850,300	\$ 1,191,731	\$ 4,042,031
2012	2,810,000	1,080,782	3,890,782
2013	2,795,000	964,000	3,759,000
2014	2,425,000	847,928	3,272,928
2015	1,990,000	748,975	2,738,975
2016-2020	9,725,000	2,396,163	12,121,163
2021-2024	4,080,000	449,900	4,529,900
Totals	<u>\$ 26,675,300</u>	<u>\$ 7,679,479</u>	<u>\$ 34,354,779</u>

8. INTERFUND BALANCES AND ACTIVITY

	Interfund		Transfers	
	<u>Payable</u>	<u>Receivable</u>	<u>In</u>	<u>Out</u>
General	\$ 2,166,218	\$ 2,660,273	\$ 210,039	\$ 4,227,498
Special aid	2,757,927	1,433,642	98,754	-
Debt service	49,626	1,609,664	3,328,094	-
School lunch	-	118,000	-	210,039
Capital projects	<u>858,610</u>	<u>10,802</u>	<u>800,650</u>	<u>-</u>
Total government activities	<u>\$ 5,832,381</u>	<u>\$ 5,832,381</u>	<u>\$ 4,437,537</u>	<u>\$ 4,437,537</u>

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

9. PENSION PLANS

The 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 retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. 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, except for employees who joined the systems after July 27, 1976, who contribute 3% of their salary, except that employees in the systems more than ten years are no longer required to contribute. 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, currently 6.19% of the annual covered payroll for the fiscal year ended June 30, 2010. NYSTRS rates applicable to the fiscal years ended June 30, 2010 and 2009 were 7.63% and 8.73%, respectively.

9. PENSION PLANS (Continued)

The District is required to contribute at an actuarially determined rate. The 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>NYSTRS</u>	<u>NYSERS</u>
2010	\$ 1,701,968	\$ 466,815
2009	\$ 2,157,169	\$ 481,513
2008	\$ 2,090,189	\$ 544,580

10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District provides for postretirement medical benefits to retiring employees after 10 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.

Funding Policy

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. Currently, the District has not adopted a formal funding policy.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, 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	\$ 10,674,216
Interest on net OPEB obligation	324,867
Annual required contribution adjustment	<u>330,368</u>
Annual OPEB cost	11,329,451
Contributions made	<u>(2,846,130)</u>
Increase in net OPEB obligation	8,483,321
Net OPEB obligation - beginning of year	<u>8,121,685</u>
Net OPEB obligation - end of year	<u>\$ 16,605,006</u>

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the preceding year were as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Contribution (ARC)</u>	<u>OPEB Cost Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 11,329,451	\$10,674,216	\$ 2,846,130	26.7%	\$ 16,605,006
6/30/2009	\$ 10,674,216	\$10,674,216	\$ 2,552,531	23.9%	\$ 8,121,685

Funded Status and Funding Progress

As of June 12, 2009, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$108,912,854. The covered payroll (annual payroll of active employees covered by the plan) was \$31,147,814, and the ratio of the UAAL to the covered payroll was 3.5 to 1. Actuarial valuations of an ongoing plan involve 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.

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.

In the June 12, 2009 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate	4.0%
Medical care cost trend rate	12.0% 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.

11. RISK MANAGEMENT

General Information

The 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 not expected to exceed commercial insurance coverage.

Health Insurance

The District has a District-wide self insured Health Insurance Plan administered through a third party insurance carrier. The District's Health Insurance Plan uses a reimbursement agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the District as direct insurer of the risks reinsured.

The District's Health Insurance Plan establishes a liability for both reported and unreported insured events, which includes estimated of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an extra amount. Such claims are based on the ultimate costs of claims (including future claims adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claim liabilities are charged or credited to expense in the periods which they are made.

12. FUND BALANCES

Portions of fund balances are reserved and not available for current expenses or expenditures, as reported in the governmental funds balance sheet. The General Fund over expended its budget for operating transfers by \$58,754. The expenditure was due to an unanticipated transfer to the Special Aid Fund, related to the District's share of summer school program costs for students enrolled in its special education programs.

Unreserved fund balance exceeded 4% of the subsequent year's budget, therefore, not complying with Section 318 of the New York State Real Property Tax Law.

13. CONTINGENCIES AND COMMITMENTS

Litigation

The District has been named as defendant in several tax certiorari cases. A review by management and the District's attorneys indicate these actions are not substantial enough to materially affect the financial position of the District.

The District has also been named as a defendant in certain other actions. The District intends to defend itself vigorously in each of these cases. Accordingly, no loss contingency has been accrued.

14. FUTURE CHANGES IN ACCOUNTING STANDARDS

GASB has issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The District is currently studying the statement and plans on adoption with the June 30, 2011 financial statements.

GASB has issued Statement 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investments pools for which significant issues have been identified in practice. The District is currently studying the statement and plans on adoption if and when required, which will be for the June 30, 2011 financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

HORSEHEADS CENTRAL 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, 2010

	Original Budget	Final Budget	Actual (Budgetary Basis)	Encumbrances	Final Budget Variance with Budgetary Actual
REVENUE					
Real property taxes	\$ 25,105,445	\$ 25,105,445	\$ 25,023,908	\$ -	\$ (81,537)
Other tax items	6,205,000	6,205,000	6,214,812	-	9,812
Charges for services	455,000	455,000	415,625	-	(39,375)
Use of money and property	959,740	959,740	651,171	-	(308,569)
Sale of property and compensation for loss	23,050	23,050	25,743	-	2,693
Miscellaneous	1,502,000	1,544,325	1,569,956	-	25,631
State sources	31,454,696	31,454,696	28,536,015	-	(2,918,681)
Federal sources	420,000	420,000	3,457,450	-	3,037,450
Total revenue	<u>66,124,931</u>	<u>66,167,256</u>	<u>65,894,680</u>	<u>-</u>	<u>(272,576)</u>
EXPENDITURES					
GENERAL SUPPORT:					
Board of education	59,648	78,468	73,278	248	4,942
Central administration	269,888	294,618	286,485	1,262	6,871
Finance	657,148	693,793	650,359	4,350	39,084
Staff	571,671	554,171	541,267	-	12,904
Central services	6,214,402	6,593,375	5,543,159	198,784	851,432
Special items	1,672,556	1,667,027	1,666,312	-	715
Total general support	<u>9,445,313</u>	<u>9,881,452</u>	<u>8,760,860</u>	<u>204,644</u>	<u>915,948</u>
INSTRUCTION:					
Instruction, administration, and improvement	2,358,146	2,492,511	2,398,463	9,337	84,711
Teaching - regular school	20,952,930	20,685,604	19,949,651	40,400	695,553
Programs for children with handicapping conditions	6,314,206	6,195,127	5,399,768	7,558	787,801
Occupational education	584,883	594,820	585,934	350	8,536
Instructional media	1,041,008	1,106,832	1,094,265	544	12,023
Pupil services	3,055,202	3,184,879	3,032,941	4,375	147,563
Total instruction	<u>34,306,375</u>	<u>34,259,773</u>	<u>32,461,022</u>	<u>62,564</u>	<u>1,736,187</u>
Pupil transportation	2,682,254	3,504,561	2,437,479	897,008	170,074
Community services	11,000	8,821	370	-	8,451
Employee benefits	17,188,997	17,505,681	17,061,922	-	443,759
Debt service	640,898	640,898	590,898	-	50,000
Total expenditures	<u>64,274,837</u>	<u>65,801,186</u>	<u>61,312,551</u>	<u>1,164,216</u>	<u>3,324,419</u>
Excess (deficiency) of revenue over expenditures	<u>1,850,094</u>	<u>366,070</u>	<u>4,582,129</u>	<u>(1,164,216)</u>	<u>3,051,843</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	173,000	173,000	210,039	-	37,039
Transfers out	(4,168,094)	(4,168,744)	(4,227,498)	-	(58,754)
Total other financing sources	<u>(3,995,094)</u>	<u>(3,995,744)</u>	<u>(4,017,459)</u>	<u>-</u>	<u>(21,715)</u>
NET CHANGE IN FUND BALANCES	<u>(2,145,000)</u>	<u>(3,629,674)</u>	<u>564,670</u>	<u>(1,164,216)</u>	<u>3,030,128</u>
FUND BALANCE - beginning	<u>27,371,151</u>	<u>27,371,151</u>	<u>27,371,151</u>	<u>-</u>	<u>-</u>
FUND BALANCE - ending	<u>\$ 25,226,151</u>	<u>\$ 23,741,477</u>	<u>\$ 27,935,821</u>	<u>\$ (1,164,216)</u>	<u>\$ 3,030,128</u>

The accompanying notes are an integral part of this schedule.

HORSEHEADS CENTRAL 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, 2010**

CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET

Adopted budget	\$ 68,269,931
Add: Prior year's encumbrances	<u>1,484,666</u>
Original budget	69,754,597
Budget revision	<u>42,333</u>
Final budget	<u>\$ 69,796,930</u>
Next year's budget is a voter approved budget	<u>\$ 68,673,809</u>

USE OF UNRESERVED FUND BALANCE

Unreserved fund balance - beginning of the year	\$ 9,262,536
Less: Designated fund balance used for the levy of taxes - original budget	<u>3,128,000</u>
Undesignated fund balance - as of the beginning of the year	<u>\$ 6,134,536</u>

HORSEHEADS CENTRAL SCHOOL DISTRICT

**SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	Authorization		Expenditures and transfers to date			Available Balance	Methods of financing				Fund Balance at 2010
	Original Appropriation	Revised Appropriation	Prior Years' Expenditures	Current Year's Expenditures	Total Expenditures		Proceeds of Obligations	Local Sources	State Aid	Total Financing	
Buses 362-369	\$ 646,427	\$ 646,427	\$ 646,427	\$ -	\$ 646,427	\$ -	\$ 608,000	\$ 39,572	\$ -	\$ 647,572	\$ 1,145
Buses 370-377	672,185	672,185	672,185	-	672,185	-	675,000	-	-	675,000	2,815
Buses 378-385	715,000	715,000	715,000	-	715,000	-	715,000	-	-	715,000	-
Buses 386-393	734,223	734,223	734,223	-	734,223	-	-	734,223	-	734,223	-
Buses 394-401	745,950	745,950	-	745,950	745,950	-	745,300	650	-	745,950	-
School construction and renovation project	<u>22,724,200</u>	<u>23,397,030</u>	<u>22,491,388</u>	<u>813,425</u>	<u>23,304,813</u>	<u>92,217</u>	<u>15,054,306</u>	<u>7,500,768</u>	<u>1,694,703</u>	<u>24,249,777</u>	<u>944,964</u>
Total	<u>\$ 26,237,985</u>	<u>\$ 26,910,815</u>	<u>\$ 25,259,223</u>	<u>\$ 1,559,375</u>	<u>\$ 26,818,598</u>	<u>\$ 92,217</u>	<u>\$ 17,797,606</u>	<u>\$ 8,275,213</u>	<u>\$ 1,694,703</u>	<u>\$ 27,767,522</u>	<u>\$ 948,924</u>

The accompanying notes are an integral part of this schedule.

HORSEHEADS CENTRAL SCHOOL DISTRICT

SCHEDULE OF CERTAIN REVENUE AND EXPENDITURES COMPARED TO ST-3 DATA FOR THE YEAR ENDED JUNE 30, 2010

	Account Code	* Audited ST-3 Amount	Audited Amount
REVENUE:			
Real property taxes	AT-1001	\$ 25,023,908	\$ 25,023,908
Nonproperty taxes	AT-1199	\$ 6,214,812	\$ 6,214,812
State aid	AT-3999	\$ 28,536,015	\$ 28,536,015
Federal aid - Medicaid reimbursements	AT-4999	\$ 237,564	\$ 237,564
Total revenue	AT-5999	\$ 65,894,680	\$ 65,894,680
EXPENDITURES:			
General support	AT-1999	\$ 8,760,860	\$ 8,760,860
Pupil transportation	AT-5599	\$ 2,437,479	\$ 2,437,479
Debt service - principal	AT-9798.6	\$ 510,000	\$ 510,000
Debt service - interest	AT-9798.7	\$ 80,898	\$ 80,898
Total expenditures	AT-9999	\$ 57,085,053	\$ 57,085,053

* These are the ST-3 amounts as last reported (i.e. amended amounts, if applicable).

HORSEHEADS CENTRAL SCHOOL DISTRICT

**SCHEDULE OF INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2010**

Capital assets - net	\$ 46,424,391
Deduct:	
Short-term portion of bonds payable	2,850,300
Long-term portion of bonds payable	<u>23,825,000</u>
	<u>26,675,300</u>
Investment in capital assets - net of related debt	<u>\$ 19,749,091</u>

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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

September 30, 2010

To the Board of Education of
Horseheads Central School District:

We have audited the financial statements of the Horseheads Central School District (the District) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. 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

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 significant deficiencies or material weaknesses 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 responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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 item 2010-1, described in the accompanying schedule of findings and responses, to be a material weakness.

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)

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 grants, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2010-2.

We also noted certain other matters that we have reported to the management of the District in a separate letter dated September 2010.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

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 District, and is not intended to be and should not be used by anyone other than these specified parties.

HORSEHEADS CENTRAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2010

A. FINDINGS - FINANCIAL STATEMENT AUDIT

2010-1 Finding

Criteria, Condition, Cause, Effect:

During our audit process, we identified the following:

- 1) A significant projection error was made in the Spring 2010 by the School Business Administrator in projecting the General Fund surplus (deficit) for the year ending June 30, 2010. During the annual budget process, the General Fund was projected to have a deficit of (\$2,100,000). However, the audited General Fund surplus for the year ended June 30, 2010 was approximately \$564,000, a variance of \$2,664,000 between the projected deficit and the actual surplus reported for the General Fund.
- 2) During our year-end audit process, we identified a number of material audit adjustments which significantly reduced the District's pre-audit June 30, 2010 General Fund surplus from \$1,456,000 to the audited surplus of approximately \$564,000.

Each of the matters described above provide evidence of the inability for the School Business Administrator to accurately project and report the District's financial results. Accordingly, we believe these matters represent a material weakness in the District's internal controls over financial reporting.

Recommendation:

We believe that the District Board and Administration should seriously consider implementing the necessary personnel and procedural changes to reduce the risk of recurring errors related to District budget projections and financial reporting. Specifically, we believe that consideration should be given to the following recommendations:

- 1) Based on the facts described above, the School Business Administrator has not demonstrated the ability to accurately project year-end financial results or close the District's financial records accurately. Accordingly, we believe that additional people resources with the necessary expertise and experience in school district finances and accounting should be identified to take primary responsibility for these very important areas.
- 2) During the annual budget process and the development of projected financial results for the District General Fund, the Board should consider whether a third party independent review of the projected financial results and budget assumptions would be appropriate to mitigate the risk of similar errors occurring in the future.
- 3) We understand that the Greater Southern Tier (GST) BOCES has developed resources to provide additional expertise and support to member districts in the area of budgeting and financial reporting. The District Board and Administration may want to consider contracting with the GST BOCES for additional people resources in this area.

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2010-1 Finding (Continued)

Recommendation (Continued):

The credibility of the District Board and administration is heavily dependent upon the District's ability to estimate, calculate and report accurate financial information and budget estimates. The errors which occurred in fiscal year 2010 in the budgeting and financial reporting areas clearly demonstrate that changes must be implemented to reduce or eliminate the risk of errors, omissions and inaccuracies in the District's financial reporting.

Management Response:

2010-2 Finding

Criteria, Condition, Cause, Effect:

Section 318 of the New York State Real Property Tax Law requires that the unreserved fund balance of the District not exceed 4% of the subsequent year's budget. The 2010 - 2011 budget is approximately \$68,700,000, 4% of which is approximately \$2,700,000. However, at June 30, 2010 the District's unreserved fund balance is \$9,572,398. In prior periods, budgeted expenditures were lower than anticipated and/or budgeted revenues were greater than expected, which caused the unreserved fund balance to exceed the 4% threshold.

Recommendation:

We understand the District intends to utilize the excess unreserved fund balance and has designated \$6,941,594 to reduce future tax levies, leaving \$2,630,804 as unreserved, undesignated fund balance. Designations include subsequent years expenditures, retirement incentives, and transportation and technology. Further, we recommend the District review its unreserved fund balance and designations in order to responsibly become compliant with state law.

Management Response:

B. PRIOR YEAR FINDINGS

2009-1 Finding

Criteria, Condition, Cause, Effect:

During the year ended June 30, 2009, District Administration and Board determined that certain financial reporting errors were made for the year ended June 30, 2008 and previous years. In accordance with Generally Accepted Accounting Principles, the correction of financial reporting errors is reflected as an adjustment to the opening fund balance for the year in which the error is identified and corrected.

B. PRIOR YEAR FINDINGS (Continued)

2009-1 Finding (Continued)

Criteria, Condition, Cause, Effect (Continued):

Accordingly, the accompanying financial statements reflect the following prior period adjustments reported as adjustments to the previously reported fund balances as of June 30, 2008:

<u>Description of Restatement</u>	<u>Effect on Governmental Fund Balance</u>	<u>Effect on District-wide Net Assets</u>
To restate compensated absences liability in accordance with GASB 16, Accounting for Compensated Absences	\$ 3,128,000	\$ 2,519,838
To reverse current liability for other postemployment benefits not recognized in accordance with Generally Accepted Accounting Principles.	3,813,594	3,813,594
To reverse long term liability for other postemployment benefits not recognized in accordance with Generally Accepted Accounting Principles.	-	9,644,501
	<u>\$ 6,941,594</u>	<u>\$ 15,977,433</u>

The prior period adjustments were made to ensure compliance with current accounting standards.

Recommendation: We recommend the District implement new accounting procedures to stay in compliance with current accounting standards.

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

HORSEHEADS CENTRAL SCHOOL DISTRICT

**Communication of Matters Related to Internal Control Over
Financial Reporting and Other Matters
September 2010**

DRAFT

September 2010

To the Board of Education of the
Horseheads Central School District:

In planning and performing our audit of the financial statements of the Horseheads Central School District (the District) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, we did identify a deficiency in internal control that we consider to be a material weaknesses as described in the following report.

This communication is intended solely for the information and use of the Board of Education, Audit Committee, Administration, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

HORSEHEADS CENTRAL SCHOOL DISTRICT

COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS SEPTEMBER 2010

A. INTRODUCTION AND STATUS OF PRIOR YEAR RECOMMENDATIONS

During our financial statement audit of the District as of June 30, 2010, we identified a number of internal control recommendations. We are encouraged by the District's Administration and Board willingness to accept and address our previous recommendations.

In connection with our 2010 audit, we reviewed the status of our prior year's recommendations with Administration. Our suggestions resulting from the 2009 financial statement audit and Administration's status are as follows:

	<u>Completed</u>	<u>In-Process</u>
Prior period adjustments	X	
Current year adjustments		X
Payroll certification	X	
Fixed assets - capital projects accounting and reconciliation		X
Payroll processing - segregation of incompatible duties	X	
Cash receipt processing	X	

B. INTERNAL CONTROL RELATED MATTERS

We have identified the following deficiency in internal control that we consider to be a material weakness:

1. PROJECTION ERROR IN FISCAL 2010 GENERAL FUND OPERATING RESULTS AND YEAR-END AUDIT ADJUSTMENTS - MATERIAL WEAKNESS

Observation

During our audit process, we identified the following:

- 1) A significant projection error was made in the Spring 2010 by the School Business Administrator in projecting the General Fund surplus (deficit) for the year ending June 30, 2010. During the annual budget process, the General Fund was projected to have a deficit of (\$2,100,000). However, the audited General Fund surplus for the year ended June 30, 2010 was approximately \$564,000, a variance of \$2,664,000 between the projected deficit and the actual surplus reported for the General Fund.
- 2) During our year-end audit process, we identified a number of material audit adjustments which significantly reduced the District's pre-audit June 30, 2010 General Fund surplus from \$1,456,000 to the audited surplus of approximately \$564,000.

B. INTERNAL CONTROL RELATED MATTERS (Continued)

1. PROJECTION ERROR IN FISCAL 2010 GENERAL FUND OPERATING RESULTS AND YEAR-END AUDIT ADJUSTMENTS - MATERIAL WEAKNESS (Continued)

Observation (Continued)

Each of the matters described above provide evidence of the inability for the School Business Administrator to accurately project and report the District's financial results. Accordingly, we believe these matters represent a material weakness in the District's internal controls over financial reporting.

Recommendations

We believe that the District Board and Administration should seriously consider implementing the necessary personnel and procedural changes to reduce the risk of recurring errors related to District budget projections and financial reporting. Specifically, we believe that consideration should be given to the following recommendations:

- 1) Based on the facts described above, the School Business Administrator has not demonstrated the ability to accurately project year-end financial results or close the District's financial records accurately. Accordingly, we believe that additional people resources with the necessary expertise and experience in school district finances and accounting should be identified to take primary responsibility for these very important areas.
- 2) During the annual budget process and the development of projected financial results for the District General Fund, the Board should consider whether a third party independent review of the projected financial results and budget assumptions would be appropriate to mitigate the risk of similar errors occurring in the future.
- 3) We understand that the Greater Southern Tier (GST) BOCES has developed resources to provide additional expertise and support to member districts in the area of budgeting and financial reporting. The District Board and Administration may want to consider contracting with the GST BOCES for additional people resources in this area.

The credibility of the District Board and administration is heavily dependent upon the District's ability to estimate, calculate and report accurate financial information and budget estimates. The errors which occurred in fiscal year 2010 in the budgeting and financial reporting areas clearly demonstrate that changes must be implemented to reduce or eliminate the risk of errors, omissions and inaccuracies in the District's financial reporting.

B. INTERNAL CONTROL RELATED MATTERS (Continued)

We have identified the following deficiency in internal control that we do not consider to be a material weakness:

2. CAPITAL ASSET DISPOSAL APPROVAL

Observation

We noted during the audit that the disposal of capital assets does not require a formal, written request for the disposal, supported by appropriate supervisory approval.

Recommendation

We recommend that the District develop and incorporate formal documentation for the approval of disposals of capital assets into its capital assets disposal policy. Documentation may include purchase offer, justification for disposal, evidence of Board and department approval, and documentation of value received, if sold. The requirement of this documentation will strengthen the District's oversight over its capital assets.

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