

**HORSEHEADS CENTRAL SCHOOL DISTRICT**

**Financial Statements  
For the Year Ended June 30, 2011  
Together with  
Independent Auditors' Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

# HORSEHEADS CENTRAL SCHOOL DISTRICT

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## **INDEPENDENT AUDITORS' REPORT**

September 29, 2011

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, 2011, 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011, 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.

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(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 41 through 42 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Horseheads Central School District's basic financial statements, as a whole. The supplemental information on pages 43 through 45 is not a required part of the basic financial statements, but is supplementary information required by the New York State Education Department. We have applied certain limited procedures to the supplementary information required by the New York State Education Department in accordance with auditing standards generally accepted in the United States of America, which consisted of 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Horseheads Central School District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

# HORSEHEADS CENTRAL SCHOOL DISTRICT

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

**JUNE 30, 2011**

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*The following is a discussion and analysis of the Horseheads Central School District's financial performance for the fiscal year ended June 30, 2011. The section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.*

### FINANCIAL HIGHLIGHTS

- The District experienced a decrease of \$6.8 million in total net assets during the course of the year. The decrease in net assets was caused primarily by the District's recognition of an additional accrual for other postemployment benefit (OPEB) obligations of \$7.8 million during the 2010-2011 fiscal year.
- In the District-wide financial statements for 2010-2011, total revenue decreased by \$4.4 million to \$66.1 million from 2009-2010. Expenses for the District decreased by \$4.3 million to \$72.9 million during 2010-2011.
- Capital asset additions during 2011 amounted to \$2.3 million, primarily due to the purchase of buses and capital project activity.
- The District issued no additional long-term obligations during the year.
- The District's 2011 total revenue in the District's General Fund was below its budgeted revenue by \$546k due primarily to lower than expected miscellaneous revenue and state aid, offset by higher actual funding through the ARRA stabilization grants than that which was included in the budget.
- At June 30, 2011, the District's Governmental Fund financial statements reported combined fund balances of \$33.6 million, an increase of \$656k from June 30, 2010.

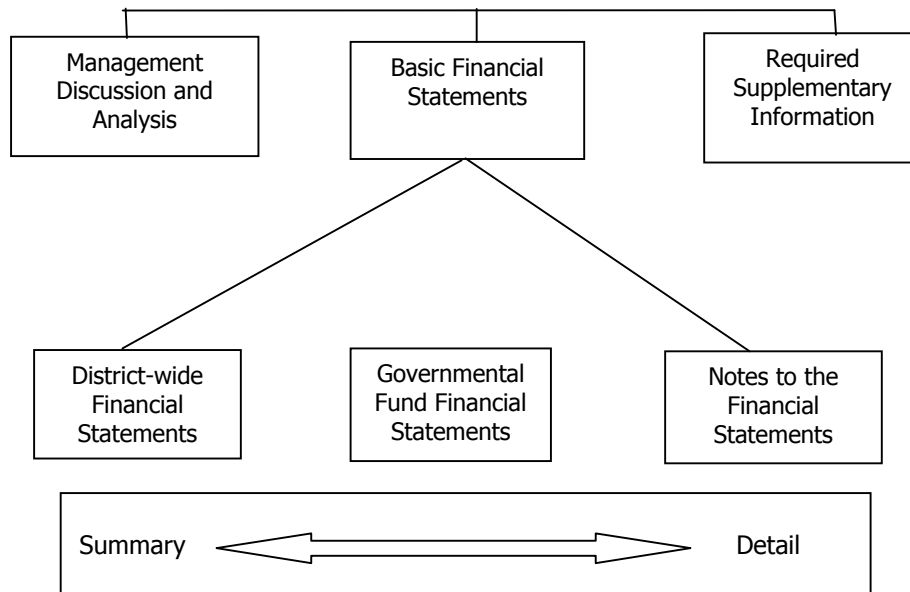
## OVERVIEW OF THE FINANCIAL STATEMENTS

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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenue, expenditures, and changes in fund balance</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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:
  - Investment in capital assets, net of related debt.
  - Restricted net assets are those with constraints placed on use by external sources or imposed by law.
  - Unrestricted net assets are net assets that do not meet any of the above restrictions.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the 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, rounding differences may occur)

	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>	Percent <u>Change</u>
Current assets	\$ 39.9	\$ 39.9	0.1%
Capital assets, net	<u>45.5</u>	<u>46.4</u>	-2.1%
Total assets	<u>\$ 85.4</u>	<u>\$ 86.3</u>	-1.1%
Current liabilities	\$ 9.2	\$ 8.4	10.5%
Long-term liabilities	<u>45.9</u>	<u>40.9</u>	12.2%
Total liabilities	<u>\$ 55.2</u>	<u>\$ 49.3</u>	11.9%
Net assets:			
Investment in capital assets, net of related debt	\$ 21.6	\$ 19.7	9.6%
Restricted	20.0	20.8	-3.8%
Unrestricted	<u>(11.5)</u>	<u>(3.6)</u>	-220.7%
Total net assets	<u>\$ 30.2</u>	<u>\$ 37.0</u>	-18.4%

In Table A-3, total assets at June 30, 2011, remained consistent as at June 30, 2010. State and Federal aid receivables increased approximately \$1.4 million from \$3.0 million to \$4.4 million. Capital assets decreased approximately \$1 million primarily due to depreciation expense exceeding capital additions during the year.

Total liabilities increased by \$5.9 million primarily related to the recognition of an additional OPEB obligation of \$7.8 million. In 2009, the District adopted GASB 45 accounting for its OPEB liability which resulted in the District recording an initial liability of \$8.1 million. The total OPEB liability as of June 30, 2011 is \$24.4 million. This increase is offset by the repayment on long-term debt of \$2.9 million.

## 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, rounding differences may occur)

	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>	Percent <u>Change</u>
Revenue:			
Charges for services	\$ 1.2	\$ 1.3	-3.3%
Operating grants	3.5	3.8	-6.1%
General revenue:			
Real property taxes	25.8	25.0	3.0%
Other tax items	6.1	6.2	-2.2%
Use of money and property	0.6	0.7	-6.8%
Federal and state sources	27.7	32.0	-13.2%
Other	<u>1.0</u>	<u>1.6</u>	-34.5%
Total revenue	<u>66.1</u>	<u>70.5</u>	-6.4%
Expenses:			
General support	\$ 11.4	\$ 13.5	-15.7%
Instruction	54.1	56.9	-5.0%
Pupil transportation	4.8	4.0	22.5%
Debt service	0.9	1.6	-40.6%
Cost of sales	<u>1.6</u>	<u>1.2</u>	31.5%
Total expenses	<u>72.9</u>	<u>77.2</u>	-5.6%
Decrease in net assets	<u>\$ (6.8)</u>	<u>\$ (6.6)</u>	2.7%

#### Changes in Net Assets

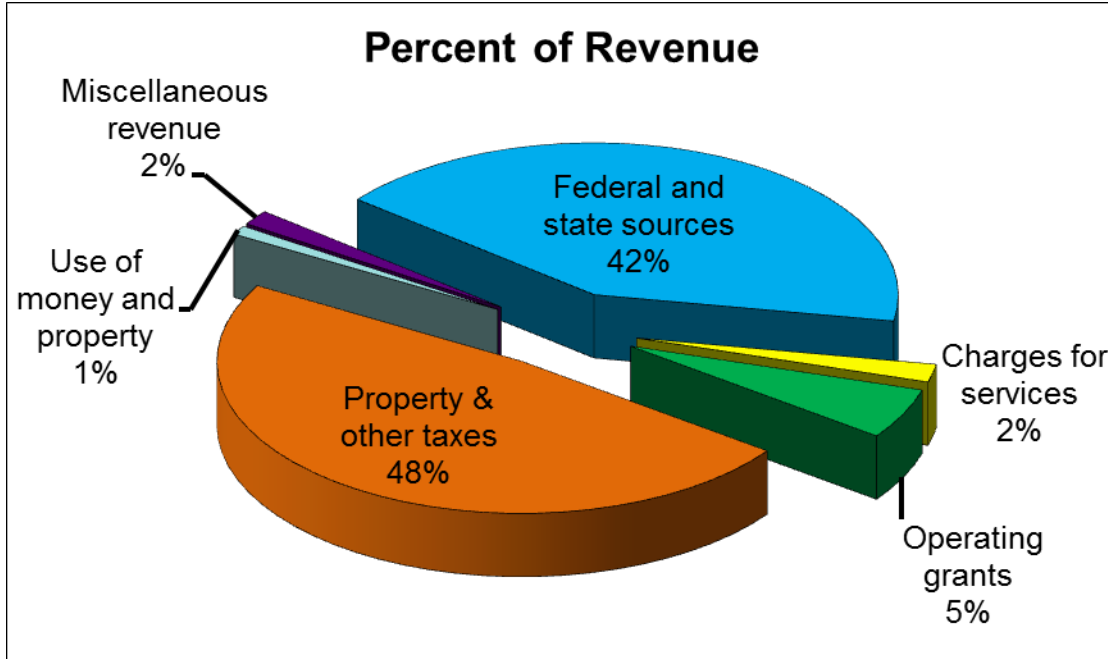
In Table A-4 the District's fiscal year revenue for 2010-2011 totaled \$66.1 million, a decrease of 6.4%. The decrease in revenue was related to a \$1.2 million decrease in Federal aid due to the receipt of \$2.0 million of American Recovery and Reinvestment Act (ARRA) funding in 2011, compared to \$3.2 million in 2010. In addition, state aid decreased by \$1.1 million from the prior year, which is attributed to New York State's budget crisis. These decreases were offset by an increase in revenues from real property taxes of \$753k. Federal and state sources and property and other taxes accounted for 90% 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 \$72.9 million for fiscal year 2011, a decrease of 5.6% over fiscal 2010. 81% 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 16% of total costs.

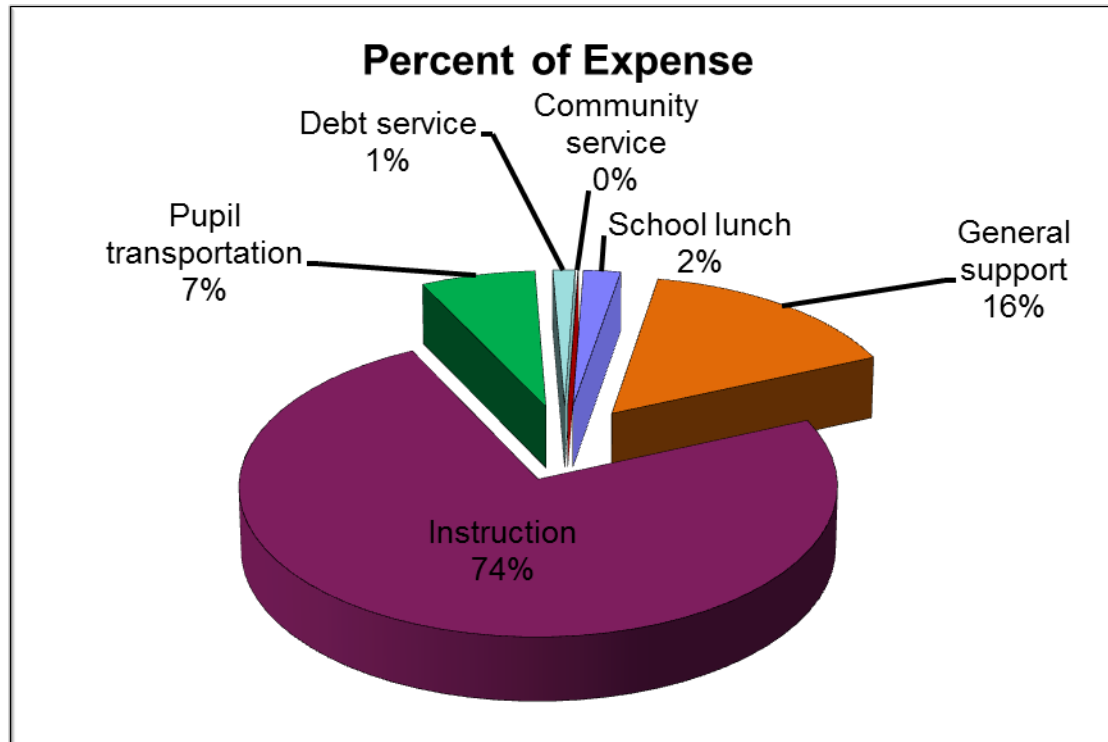
**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

**Financial Analysis of the District as a Whole (Continued)**

**Table A-5** Sources of Revenue for Fiscal Year 2011



**Table A-6** Expenditures for Fiscal Year 2011



## 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, 2011, the District, in its governmental funds, reported combined fund balances of \$33.6 million, an increase of \$656k over the prior year. The District's governmental funds, except for the School Lunch fund, operated at a surplus in fiscal 2011, which contributed to the increase in total fund balance. The General fund was the only fund to generate a significant surplus totaling \$714k primarily due to the second year of additional federal funding through the American Recovery and Reinvestment Act (ARRA) program, which ended during the 2011 fiscal year. The District, through cost savings measures, was able to spend less than was originally budgeted during the year.

### 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-7** Results vs. Budget (In Millions, rounding differences may occur)

	Original Budget	Final Budget	Actual	Encumbrances	Variance Positive/ (Negative)
Revenue:					
Local sources	\$ 35.8	\$ 35.9	\$ 34.5	\$ -	\$ (1.4)
Federal and state sources	<u>28.6</u>	<u>28.6</u>	<u>29.5</u>	<u>-</u>	<u>0.9</u>
Total	<u>64.5</u>	<u>64.6</u>	<u>64.0</u>	<u>-</u>	<u>(0.5)</u>
Expenses:					
Instruction	32.8	33.2	30.7	(0.0)	2.5
Employee benefits	18.8	18.2	16.2	-	2.0
General support	9.6	9.8	8.1	(0.1)	1.6
Transportation	2.7	2.8	2.6	-	0.2
Other	0.7	0.8	0.7	-	0.1
Net transfers	<u>4.0</u>	<u>4.9</u>	<u>4.9</u>	<u>-</u>	<u>0.0</u>
Total	<u>68.5</u>	<u>69.8</u>	<u>63.3</u>	<u>(0.1)</u>	<u>6.5</u>
Revenue over (under) expense	<u>\$ (4.0)</u>	<u>\$ (5.2)</u>	<u>\$ 0.7</u>	<u>\$ (0.1)</u>	<u>\$ 5.9</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 2011:

- 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. The District received 19% less Basic State Aid than in 2010. This reduction was offset by additional state aid received through Lottery funding, as well as BOCES and other aid.
- Federal sources of revenue were higher than expected due to the second year of funding through the American Recovery and Reinvestment Act (ARRA), which allowed New York State to restore state aid cuts back to districts. However, funding received in 2011 through the ARRA grants was 35% lower than in 2010.
- Central services expenses were lower than expected due to the District changing its energy purchasing practice in 2010.
- 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 lower than budgeted health related claims.
- The District encumbered funds for purchases that had not yet been acquired as budgeted totaling \$90,938.

### Capital Assets

As of June 30, 2011, the District had an investment of \$45.5 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, rounding differences may occur)

	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>	Percent <u>Change</u>
Category:			
Land	\$ 0.4	\$ 0.5	-16.5%
Construction in progress	0.8	1.1	-28.7%
Buildings and improvements	39.8	40.2	-1.0%
Equipment and furniture	<u>4.5</u>	<u>4.6</u>	-3.4%
Total	<u>\$ 45.5</u>	<u>\$ 46.4</u>	-2.1%

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### Long-Term Debt

At year-end, the District had \$23.8 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, rounding differences may occur)

Category:	Fiscal Year <u>2011</u>	Fiscal Year <u>2010</u>	Percent <u>Change</u>
General obligation bonds	\$ 23.8	\$ 26.7	-10.7%
Compensated absences	1.5	1.5	-5.0%
Other postemployment benefit obligation	<u>24.4</u>	<u>16.6</u>	47.0%
	<u>\$ 49.7</u>	<u>\$ 44.8</u>	

During the year the District issued no new general obligation bonds and repaid debt by retiring \$2.85 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:

- A continuing challenge facing the District is the state of the economy and its negative effect on state aid funding levels. Furthermore the tax cap that will take effect for the 2012-2013 budget will make appropriation reductions a reality that can no longer be avoided. The 2% tax cap will also make it very difficult to continue the level of instructional programs that are currently offered. The tax cap coupled with the elimination of Education Job Funds money will continue to have a negative effect on schools through; increased class sizes, reduction of class offerings and the elimination or reductions of after school programs etc.
- The District will be entering into negotiations with the teachers union whose current contract expires June 30, 2010. The District will look to the union to begin discussions early and hopefully reach an agreement as soon as possible to allow the district to budget accordingly now and going forward as we face these unprecedented economic challenges.
- The continued increases in health insurance, ERS and TRS contributions will continue to be a major factor in the budgeting woes of public schools. With the tax cap at 2% and double digit increases in employee benefits our educational program will be crippled.

### 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, 2011

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### ASSETS

#### CURRENT ASSETS:

Cash - unrestricted	\$ 15,039,852
Cash - restricted	20,032,536
State and federal aid receivable	4,437,140
Due from other governments	252,046
Other receivables, net	7,009
Inventory	<u>131,849</u>

Total current assets 39,900,432

#### NON-CURRENT ASSETS:

Capital assets - net	<u>45,460,381</u>
----------------------	-------------------

Total assets 85,360,813

### LIABILITIES

#### CURRENT LIABILITIES:

Accounts payable	814,893
Accrued liabilities	2,078,418
Due to other governments	280
Due to Teachers' Retirement System	2,138,549
Due to Employees' Retirement System	261,608
Bonds payable due within one year	2,810,000
Compensated absences due within one year	956,566
Bond interest accrued	176,526
Deferred revenue	<u>1,925</u>

Total current liabilities 9,238,765

#### LONG-TERM LIABILITIES:

Bonds payable	21,015,000
Other postemployment benefits obligation	24,412,027
Compensated absences payable	<u>496,099</u>

Total long-term liabilities 45,923,126

Total liabilities 55,161,891

### NET ASSETS

Investment in capital assets, net of related debt	21,635,381
Restricted	20,032,912
Unrestricted	<u>(11,469,371)</u>

Total net assets \$ 30,198,922

The accompanying notes are an integral part of these statements.

# HORSEHEADS CENTRAL SCHOOL DISTRICT

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

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
<b>FUNCTIONS/PROGRAMS:</b>				
General support	\$ 11,414,544	\$ -	\$ -	\$ (11,414,544)
Instruction	54,070,561	433,607	2,831,221	(50,805,733)
Pupil transportation	4,846,687	-	-	(4,846,687)
Debt service	930,751	-	-	(930,751)
Community service	20,104	-	-	(20,104)
Cost of sales - school lunch	<u>1,570,220</u>	<u>812,246</u>	<u>718,395</u>	<u>(39,579)</u>
Total functions/programs	<u>\$ 72,852,867</u>	<u>\$ 1,245,853</u>	<u>\$ 3,549,616</u>	<u>(68,057,398)</u>
<b>GENERAL REVENUE:</b>				
Real property taxes				25,777,857
Other tax items				6,077,847
State sources				25,594,368
Federal sources				2,086,008
Medicaid reimbursement				52,028
Use of money and property				626,793
Miscellaneous				1,596,198
Loss on disposal of capital assets				<u>(554,944)</u>
Total general revenue				<u>61,256,155</u>
CHANGE IN NET ASSETS				(6,801,243)
NET ASSETS - beginning of year				<u>37,000,165</u>
TOTAL NET ASSETS - end of year				<u>\$ 30,198,922</u>

The accompanying notes are an integral part of these statements.



**HORSEHEADS CENTRAL SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	Government Fund Types					Total Non-Major Governmental Fund	Total Government Funds
	General	Special Aid	School Lunch	Debt Service	Capital Projects		
<b>ASSETS</b>							
Cash - unrestricted	\$ 14,343,310	\$ 418,686	\$ 218,682	\$ -	\$ 7,110	\$ 52,064	\$ 15,039,852
Cash - restricted	15,478,662	-	-	3,562,015	991,859	-	20,032,536
Due from other funds	1,612,040	119,351	-	376	-	-	1,731,767
State and federal aid receivable	3,306,667	1,077,246	53,227	-	-	-	4,437,140
Due from other governments	252,046	-	-	-	-	-	252,046
Other receivables	5,241	-	1,768	-	-	-	7,009
Inventory	-	-	131,849	-	-	-	131,849
Total assets	<u>\$ 34,997,966</u>	<u>\$ 1,615,283</u>	<u>\$ 405,526</u>	<u>\$ 3,562,391</u>	<u>\$ 998,969</u>	<u>\$ 52,064</u>	<u>\$ 41,632,199</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES:</b>							
Accounts payable	\$ 653,128	\$ 1,294	\$ 1,950	\$ -	\$ 6,734	\$ -	\$ 663,106
Accrued liabilities	2,078,334	84	-	-	-	-	2,078,418
Due to other funds	271,198	1,611,980	-	-	376	-	1,883,554
Due to Teachers' Retirement System	2,138,549	-	-	-	-	-	2,138,549
Due to Employees' Retirement System	261,608	-	-	-	-	-	261,608
Due to other governments	-	-	280	-	-	-	280
Compensated absences	945,075	-	11,491	-	-	-	956,566
Deferred revenue	-	1,925	-	-	-	-	1,925
Total liabilities	<u>6,347,892</u>	<u>1,615,283</u>	<u>13,721</u>	<u>-</u>	<u>7,110</u>	<u>-</u>	<u>7,984,006</u>
<b>FUND BALANCES:</b>							
Nonspendable -							
Inventory	-	-	131,849	-	-	-	131,849
Restricted for -							
Employee benefit accrued liability	10,946,977	-	-	-	-	-	10,946,977
Tax certiorari	1,832,663	-	-	-	-	-	1,832,663
Capital	1,364,050	-	-	-	991,859	-	2,355,909
Retirement contributions	505,932	-	-	-	-	-	505,932
Tax reduction	314,534	-	-	-	-	-	314,534
Workers' compensation	279,420	-	-	-	-	-	279,420
Repair	174,693	-	-	-	-	-	174,693
Insurance	60,393	-	-	-	-	-	60,393
Debt service	-	-	-	3,562,391	-	-	3,562,391
Committed for -							
Transportation and technology	2,413,594	-	-	-	-	-	2,413,594
Retirement incentives	994,750	-	-	-	-	-	994,750
Assigned to -							
Unappropriated	-	-	259,956	-	-	52,064	312,020
Appropriated for subsequent years' expenditures	5,295,000	-	-	-	-	-	5,295,000
Appropriated for bond refunding	1,600,000	-	-	-	-	-	1,600,000
Appropriated for encumbrances	90,938	-	-	-	-	-	90,938
Unassigned	2,777,130	-	-	-	-	-	2,777,130
Total fund balances	<u>28,650,074</u>	<u>-</u>	<u>391,805</u>	<u>3,562,391</u>	<u>991,859</u>	<u>52,064</u>	<u>33,648,193</u>
Total liabilities and fund balance	<u>\$ 34,997,966</u>	<u>\$ 1,615,283</u>	<u>\$ 405,526</u>	<u>\$ 3,562,391</u>	<u>\$ 998,969</u>	<u>\$ 52,064</u>	<u>\$ 41,632,199</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, 2011

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

Fund balance - total Governmental funds	\$ 33,648,193
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	45,460,381
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	(23,825,000)
Other postemployment benefits liability	(24,412,027)
Interest payable on bonds at June 30, 2011, in the district-wide statements under full accrual accounting	(176,526)
Compensated absences at June 30, 2011, in district-wide statements under full accrual accounting	<u>(496,099)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 30,198,922</u>

The accompanying notes are an integral part of these statements.

**HORSEHEADS CENTRAL SCHOOL DISTRICT**

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

	Governmental Fund Types					Total Non-Major Governmental Funds	Total Government Funds
	General	Special Aid	School Lunch	Debt Service	Capital Projects		
REVENUE:							
Real property taxes	\$ 25,777,857	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,777,857
Other tax items	6,077,847	-	-	-	-	-	6,077,847
Charges for services	433,607	-	-	-	-	-	433,607
Use of money and property	607,091	-	1,519	18,183	-	-	626,793
Sale of property and compensation for loss	20,176	-	-	-	-	-	20,176
Miscellaneous	1,584,567	2,000	5	-	-	9,626	1,596,198
State sources	27,382,898	605,153	39,247	-	-	-	28,027,298
Medicaid reimbursement	52,028	-	-	-	-	-	52,028
Federal sources	2,086,008	2,226,068	679,148	-	-	-	4,991,224
Sales	-	-	812,246	-	-	-	812,246
Total revenue	<u>64,022,079</u>	<u>2,833,221</u>	<u>1,532,165</u>	<u>18,183</u>	<u>-</u>	<u>9,626</u>	<u>68,415,274</u>
EXPENDITURES:							
General support	8,131,002	-	-	-	-	-	8,131,002
Instruction	30,694,161	2,920,972	-	-	-	-	33,615,133
Pupil transportation	2,595,619	29,639	-	-	-	-	2,625,258
Employee benefits	16,203,546	-	400,000	-	-	-	16,603,546
Debt service -							
Principal	680,300	-	-	2,170,000	-	-	2,850,300
Interest	58,643	-	-	1,128,198	-	-	1,186,841
Community service	7,500	-	-	-	-	9,067	16,567
Cost of sales	-	-	1,130,755	-	-	-	1,130,755
Capital outlays	-	-	-	-	1,599,781	-	1,599,781
Total expenditures	<u>58,370,771</u>	<u>2,950,611</u>	<u>1,530,755</u>	<u>3,298,198</u>	<u>1,599,781</u>	<u>9,067</u>	<u>67,759,183</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>5,651,308</u>	<u>(117,390)</u>	<u>1,410</u>	<u>(3,280,015)</u>	<u>(1,599,781)</u>	<u>559</u>	<u>656,091</u>
OTHER FINANCING SOURCES AND (USES):							
Transfers in	126,089	117,390	-	3,303,038	1,642,716	-	5,189,233
Transfers out	<u>(5,063,144)</u>	<u>-</u>	<u>(126,089)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,189,233)</u>
Total other financing sources	<u>(4,937,055)</u>	<u>117,390</u>	<u>(126,089)</u>	<u>3,303,038</u>	<u>1,642,716</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	714,253	-	(124,679)	23,023	42,935	559	656,091
FUND BALANCES - beginning of year	<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>
FUND BALANCES - end of year	<u>\$ 28,650,074</u>	<u>\$ -</u>	<u>\$ 391,805</u>	<u>\$ 3,562,391</u>	<u>\$ 991,859</u>	<u>\$ 52,064</u>	<u>\$ 33,648,193</u>

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, 2011

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Net changes in fund balance - total Governmental funds	\$ 656,091
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net assets	2,304,260
Depreciation is not recorded as a expenditure in the governmental funds, but is recorded in the statement of activities	(2,693,150)
Loss on disposal of property is not recorded in the governmental funds, but is recorded in the statement of activities	(575,120)
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	2,850,300
Increase in other postemployment benefits liability	(7,807,021)
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.	(1,788,530)
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	256,090
Decrease in compensated absences	<u>(4,163)</u>
Change in net assets - governmental activities	<u>\$ (6,801,243)</u>

# HORSEHEADS CENTRAL SCHOOL DISTRICT

## STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS JUNE 30, 2011

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	Private Purpose <u>Trusts</u>	<u>Agency</u>
ASSETS:		
Cash	\$ 75,962	\$ 1,006,998
Investments	2,988	-
Accounts receivable	<u>-</u>	<u>151,847</u>
Total assets	<u>\$ 78,950</u>	<u>\$ 1,158,845</u>
LIABILITIES:		
Extraclassroom activity balances	\$ -	\$ 164,912
Other liabilities	<u>-</u>	<u>993,933</u>
Total liabilities	<u>-</u>	<u>\$ 1,158,845</u>
NET ASSETS:		
Restricted for scholarships	<u>\$ 78,950</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, 2011

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	Private Purpose <u>Trusts</u>
ADDITIONS:	
Gifts and contributions	\$ 2,794
Investment earnings	<u>2,159</u>
Total additions	4,953
DEDUCTIONS:	
Scholarships and awards	<u>15,725</u>
NET DECREASE	(10,772)
NET ASSETS - beginning of year	<u>89,722</u>
NET ASSETS - end of year	<u><u>\$ 78,950</u></u>

The accompanying notes are an integral part of these statements.

# HORSEHEADS CENTRAL SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### 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**

The District's financial statements consist of school district-wide financial statements, including a Statement of Net Assets and a Statement of Activities, and fund level financial statements which provide more detailed information.

### **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 District uses funds to maintain its accounting records. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

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 accounts of the District are organized into funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenue, and expenditures. The various funds are summarized by type in the financial statements. Significant transactions between funds within a fund type have been eliminated. The fund types and account groups used by the District are as follows:

- **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.



## 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fund Financial Statements (Continued)

- **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.
- **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 Funds

These funds are 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.

There are two classes of fiduciary funds:

- **Private purpose trust funds:** These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.
- **Agency funds:** These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenue and expenditures during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities, and useful lives of long-lived assets.

### Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured, whereas basis of accounting refers to when revenues and expenditures are recognized. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

## 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Measurement Focus and Basis of Accounting (Continued)**

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.

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.

### **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.

## 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Interfund Transactions

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenue to provide financing or other services.

In the District-wide statements, the amounts reported on the Statement of Net Assets for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

See Note 8 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenue activity.

### 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:

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

### 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.

## 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Vested Employee Benefits (Continued)**

In the funds statements only the amount of matured liabilities is accrued within the General fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

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, 2011 by recording \$2,612,199, 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 \$24,412,027 as of June 30, 2011. See note 10 for additional information regarding postemployment benefits.

### **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.

### **Accrued Liabilities and Long-Term Obligations**

Payables, accrued liabilities, and long-term obligations are reported in the District-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year.

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statement of Net Assets.

## 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 Schuyler, 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.

### 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**  
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.

### Governmental Fund Financial Statements - Equity classifications

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

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

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

- **Capital**  
Capital reserve (Education Law §3651) is used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term, and the source of the funds. Expenditures may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the General and Capital Projects funds under restricted fund balance.

## 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Governmental Fund Financial Statements - Equity classifications (Continued)

- **Repair**

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

- **Workers' Compensation**

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

- **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. This reserve is accounted for in the General fund under restricted fund balance.

- **Debt Service**

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

- **Insurance**

Insurance reserve is used to pay liability, casualty, and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value, and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action, and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the insurance reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. The reserve is accounted for in the General fund under restricted fund balance.

## 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Governmental Fund Financial Statements - Equity classifications (Continued)

- **Tax Certiorari**

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

- **Employee Benefit Accrued Liability**

Reserve for employee benefit accrued liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the General fund under restricted fund balance.

- **Retirement Contributions**

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

- **Encumbrances**

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

Committed fund balance - Includes amounts that can be used for the specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision making authority, i.e., the Board of Education.

Assigned fund balance - Includes amounts that are constrained by the School District's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the General fund are classified as assigned fund balance in the General fund. Encumbrances reported in the General fund amounted to \$90,938.

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

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

## 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Order of Fund Balance Spending Policy**

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

## 2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND 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**

Differences between the governmental funds statement of revenue, expenditures, and changes in fund balance and the statement of activities fall into one of three broad categories.

- **Long-Term Revenue and Expense Differences**

Long-term revenue differences arise because governmental funds report revenue only when it is considered "available," whereas the statement of activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the statement of activities.

- **Capital Related Differences**

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the statement of activities.

- **Long-Term Debt Transaction Differences**

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the statement of activities as incurred, and principal payments are recorded as a reduction of liabilities in the statement of net assets.



### **3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **Budgets**

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

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

Appropriations are adopted at the program line item level.

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

#### **Fund Balance**

The District's unrestricted fund balance in its General fund 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.

Portions of the fund balances are restricted and are not available for current expenditures or expenses, as reported in the governmental funds balance sheet.

### **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, 2011, 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	\$ 36,693,524	\$ 36,155,348
Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name	35,693,524	
Covered by FDIC insurance	<u>1,000,000</u>	
Total	<u>\$ 36,693,524</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 accrued liability	\$ 10,946,977
Tax certiorari	1,832,663
Capital	2,355,909
Retirement contributions	505,932
Tax reduction	314,534
Workers' compensation	279,420
Repair	174,693
Insurance	60,393
Restricted for debt service	<u>3,562,015</u>
Total restricted cash	<u>\$ 20,032,536</u>

## 5. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2011 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	\$ -	\$ (75,558)	\$ 382,622
Construction in process	<u>1,137,259</u>	<u>757,064</u>	<u>(1,083,356)</u>	<u>810,967</u>
Total nondepreciable cost	<u>1,595,439</u>	<u>757,064</u>	<u>(1,158,914)</u>	<u>1,193,589</u>
Capital assets that are depreciated:				
Buildings and improvements	60,868,243	1,339,097	(490,380)	61,716,960
Furniture and equipment	<u>12,636,065</u>	<u>1,291,455</u>	<u>(1,060,436)</u>	<u>12,867,084</u>
Total depreciable historical cost	<u>73,504,308</u>	<u>2,630,552</u>	<u>(1,550,816)</u>	<u>74,584,044</u>
Less accumulated depreciation:				
Buildings and improvements	(20,660,967)	(1,254,475)	-	(21,915,442)
Furniture and equipment	<u>(8,014,389)</u>	<u>(1,438,675)</u>	<u>1,051,254</u>	<u>(8,401,810)</u>
Total accumulated depreciation	<u>(28,675,356)</u>	<u>(2,693,150)</u>	<u>1,051,254</u>	<u>(30,317,252)</u>
Total depreciable cost - net	<u>\$ 46,424,391</u>	<u>\$ 694,466</u>	<u>\$ (1,658,476)</u>	<u>\$ 45,460,381</u>

Depreciation expense of \$2,693,150 for the year ended June 30, 2011, was allocated to specific functions as follows:

General support	\$ 1,272,044
Instruction	511,418
Pupil transportation	906,151
Community service	<u>3,537</u>
Total depreciation	<u>\$ 2,693,150</u>

## 6. PARTICIPATION IN BOCES

During the year ended June 30, 2011, the District's share of BOCES income amounted to \$5,578,779. The District was billed \$8,660,105 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	\$ 1,186,841
Less: Interest accrued in the prior year	(432,616)
Plus: Interest accrued in the current year	<u>176,526</u>
Total expense	<u><u>\$ 930,751</u></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	\$ 900,000	\$ -	\$ 300,000	\$ 600,000	\$ 300,000
Capital Improvement	1,325,000	-	325,000	1,000,000	325,000
Capital Improvement	10,310,000	-	890,000	9,420,000	930,000
Capital Improvement	11,915,000	-	655,000	11,260,000	680,000
Buses #354 - 361	150,000	-	150,000	-	-
Buses #362 - 369	280,000	-	140,000	140,000	140,000
Buses #370 - 377	450,000	-	150,000	300,000	150,000
Buses #378 - 385	600,000	-	120,000	480,000	150,000
Buses #394 - 401	<u>745,300</u>	<u>-</u>	<u>120,300</u>	<u>625,000</u>	<u>135,000</u>
Total bonds	<u>\$ 26,675,300</u>	<u>\$ -</u>	<u>\$ 2,850,300</u>	<u>\$ 23,825,000</u>	<u>\$ 2,810,000</u>
Other liabilities:					
Compensated absences	<u>\$ 1,528,938</u>	<u>\$ -</u>	<u>\$ 76,273</u>	<u>\$ 1,452,665</u>	<u>\$ 956,566</u>
Other postemployment benefits	<u>\$ 16,605,006</u>	<u>\$ 11,297,121</u>	<u>\$ 3,490,100</u>	<u>\$ 24,412,027</u>	<u>\$ -</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, 2011 <u>Balance</u>
Capital Improvement	1998	2013	4.35-4.375%	\$ 600,000
Capital Improvement	1999	2014	5.00-5.25%	1,000,000
Capital Improvement	2004	2020	3.00-5.00%	9,420,000
Capital Improvement	2008	2023	3.875-5.75%	11,260,000
Buses #362 - 369	2007	2012	4.25%	140,000
Buses #370 - 377	2007	2013	4.20%	300,000
Buses #378 -385	2008	2014	3.65%	480,000
Buses #394 -401	2010	2015	2.25-2.375%	625,000
Total bond issue				<u>\$ 23,825,000</u>

The following is a summary of the maturity of long-term indebtedness as of June 30, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,890,000	668,338	2,558,338
2017-2021	8,795,000	1,918,425	10,713,425
2022-2024	3,120,000	259,300	3,379,300
Totals	<u>\$ 23,825,000</u>	<u>\$ 6,487,748</u>	<u>\$ 30,312,748</u>

**8. INTERFUND BALANCES AND ACTIVITY**

	Interfund		Transfers	
	<u>Payable</u>	<u>Receivable</u>	<u>In</u>	<u>Out</u>
General	\$ 271,198	\$ 1,612,040	\$ 126,089	\$ 5,063,144
Special aid	1,611,980	119,351	117,390	-
Debt service	-	376	3,303,038	-
School lunch	-	-	-	126,089
Capital projects	376	-	1,642,716	-
Agency	60	151,847	-	-
Total	<u>\$ 1,883,614</u>	<u>\$ 1,883,614</u>	<u>\$ 5,189,233</u>	<u>\$ 5,189,233</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.

**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>
2011	\$ 2,138,549	\$ 261,608
2010	\$ 1,701,968	\$ 179,133
2009	\$ 2,157,169	\$ 481,513

**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.

**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	\$ 11,962,940
Interest on net OPEB obligation	649,142
Annual required contribution adjustment	<u>(1,314,961)</u>
Annual OPEB cost	11,297,121
Contributions made	<u>(3,490,100)</u>
Increase in net OPEB obligation	7,807,021
Net OPEB obligation - beginning of year	<u>16,605,006</u>
Net OPEB obligation - end of year	<u>\$ 24,412,027</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 2011 and the preceding year were as follows:

Fiscal Year End	Annual OPEB Cost	Contribution (ARC)	OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 11,297,121	\$11,962,940	\$3,490,100	30.9%	\$ 24,412,027
6/30/2010	\$ 11,329,451	\$10,674,216	\$ 2,846,130	26.7%	\$ 16,605,006

### Funded Status and Funding Progress

As of July 1, 2010 the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$125,151,689. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$30 million, and the ratio of the UAAL to the covered payroll was 4.2 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.

### Schedule of Funding Progress for the District's Plan

Actuarial Valuation Date	Actuarial Value of Assets	AAL	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
7/1/2008	\$ -	\$108,912,854	\$108,912,854	0.0%	N/A	N/A
7/1/2010	\$ -	\$125,151,689	\$125,151,689	0.0%	N/A	N/A

### 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.



## 10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

### Actuarial Methods and Assumptions (Continued)

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

Actuarial cost method	Projected unit credit
Discount rate	4.0%
Medical care cost trend rate	10.0% for fiscal year 2011. 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. The District has recorded approximately \$970,000 as of June 30, 2011 for accrued healthcare costs.

## 12. FUND BALANCES

Portions of fund balances are restricted and not available for current expenses or expenditures, as reported in the governmental funds balance sheet.

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.

#### **Other Contingencies**

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

**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, 2011**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Encumbrances	Final Budget Variance with Budgetary Actual
<b>REVENUE</b>					
Real property taxes	\$ 25,607,554	\$ 25,607,554	\$ 25,777,857	\$ -	\$ 170,303
Other tax items	6,344,000	6,344,000	6,077,847	-	(266,153)
Charges for services	475,500	475,500	433,607	-	(41,893)
Use of money and property	682,174	682,174	607,091	-	(75,083)
Sale of property and compensation for loss	23,050	23,050	20,176	-	(2,874)
Miscellaneous	2,691,901	2,803,781	1,584,567	-	(1,219,214)
State sources	28,211,630	28,211,630	27,382,898	-	(828,732)
Federal sources	420,000	420,000	2,138,036	-	1,718,036
Total revenue	64,455,809	64,567,689	64,022,079	-	(545,610)
<b>EXPENDITURES</b>					
GENERAL SUPPORT:					
Board of education	45,492	39,954	14,645	335	24,974
Central administration	306,469	302,859	288,466	-	14,393
Finance	680,558	639,197	583,319	-	55,878
Staff	560,020	583,938	548,710	-	35,228
Central services	6,243,007	6,573,465	5,078,326	86,883	1,408,256
Special items	1,721,061	1,707,362	1,617,536	-	89,826
Total general support	9,556,607	9,846,775	8,131,002	87,218	1,628,555
INSTRUCTION:					
Instruction, administration, and improvement	2,507,848	2,629,957	2,384,661	80	245,216
Teaching - regular school	19,505,175	19,966,327	19,321,353	3,640	641,334
Programs for children with handicapping conditions	6,264,551	5,910,492	4,659,519	-	1,250,973
Occupational education	515,324	521,837	507,365	-	14,472
Instructional media	1,021,811	1,072,354	968,274	-	104,080
Pupil services	3,019,462	3,118,124	2,852,989	-	265,135
Total instruction	32,834,171	33,219,091	30,694,161	3,720	2,521,210
Pupil transportation	2,674,458	2,843,848	2,595,619	-	248,229
Community services	11,000	13,152	7,500	-	5,652
Employee benefits	18,773,525	18,174,902	16,203,546	-	1,971,356
Debt service	657,010	788,993	738,943	-	50,050
Total expenditures	64,506,771	64,886,761	58,370,771	90,938	6,425,052
Excess (deficiency) of revenue over expenditures	(50,962)	(319,072)	5,651,308	(90,938)	5,879,442
OTHER FINANCING SOURCES (USES):					
Transfers in	173,000	173,000	126,089	-	46,911
Transfers out	(4,167,038)	(5,063,144)	(5,063,144)	-	-
Total other financing sources	(3,994,038)	(4,890,144)	(4,937,055)	-	46,911
NET CHANGE IN FUND BALANCES	(4,045,000)	(5,209,216)	714,253	(90,938)	5,926,353
FUND BALANCE - beginning	27,935,821	27,935,821	27,935,821	-	-
FUND BALANCE - ending	\$ 23,890,821	\$ 22,726,605	\$ 28,650,074	\$ (90,938)	\$ 5,926,353

The accompanying notes are an integral part of these schedules.

# 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, 2011

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### CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET

Adopted budget	\$ 68,500,809
Add: Prior year's encumbrances	<u>1,164,216</u>
Original budget	69,665,025
Budget revisions:	
Computer hardware	64,992
Science and technology	39,333
Advanced based learning	4,000
Arts in Learning	2,240
Supplies	<u>1,315</u>
Total budget revisions	<u>111,880</u>
Final budget	<u>\$ 69,776,905</u>
Next year's budget is a voter approved budget	<u>\$ 69,329,181</u>

### USE OF UNRESERVED FUND BALANCE

Unreserved fund balance - beginning of the year	\$ 9,572,398
Less: Designated fund balance for subsequent years expenditures	3,128,000
Designated fund balance for retirement incentives	1,400,000
Designated fund balance for transportation and technology	<u>2,413,594</u>
Undesignated fund balance - as of the beginning of the year	<u>\$ 2,630,804</u>

The accompanying notes are an integral part of these schedules.

**HORSEHEADS CENTRAL SCHOOL DISTRICT**

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

	Authorization		Expenditures and transfers to date			Methods of financing					Fund Balance at 2011
	Original Appropriation	Revised Appropriation	Prior Years' Expenditures	Current Year's Expenditures	Total Expenditures	Available Balance	Proceeds of Obligations	Local Sources	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 402-409	842,717	842,717	-	842,717	842,717	-	-	842,717	-	842,717	-
\$15.3m Capital Projects	15,489,900	15,489,900	15,350,294	-	15,350,294	139,606	12,260,468	1,707,982	1,389,514	15,357,964	7,670
2007-08 Capital Projects	700,000	700,000	538,157	-	538,157	161,843	-	700,000	-	700,000	161,843
2008-09 Capital Projects	800,000	800,000	770,467	-	770,467	29,533	-	800,000	-	800,000	29,533
2009-10 Capital Projects	800,000	800,000	54,083	703,790	757,873	42,127	-	800,000	-	800,000	42,127
2010-11 Capital Projects	800,000	800,000	-	53,274	53,274	746,726	-	800,000	-	800,000	746,726
<b>Total</b>	<b>\$ 20,751,229</b>	<b>\$ 20,751,229</b>	<b>\$ 18,031,613</b>	<b>\$ 1,599,781</b>	<b>\$ 19,631,394</b>	<b>\$ 1,119,835</b>	<b>\$ 13,543,468</b>	<b>\$ 5,690,271</b>	<b>\$ 1,389,514</b>	<b>\$ 20,623,253</b>	<b>\$ 991,859</b>

The accompanying notes are an integral part of these schedules.

# HORSEHEADS CENTRAL SCHOOL DISTRICT

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

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	Account Code	* <u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUE:			
Real property taxes	AT-1001	\$ <u>25,777,857</u>	\$ <u>25,777,857</u>
Nonproperty taxes	AT-1199	\$ <u>-</u>	\$ <u>-</u>
State aid	AT-3999	\$ <u>27,382,898</u>	\$ <u>27,382,898</u>
Federal aid	AT-4999	\$ <u>2,138,036</u>	\$ <u>2,138,036</u>
Total revenue	AT-5999	\$ <u>64,126,861</u>	\$ <u>64,022,079</u>
EXPENDITURES:			
General support	AT-1999	\$ <u>8,127,217</u>	\$ <u>8,131,002</u>
Pupil transportation	AT-5599	\$ <u>2,594,031</u>	\$ <u>2,595,619</u>
Debt service - principal	AT-9798.6	\$ <u>680,300</u>	\$ <u>680,300</u>
Debt service - interest	AT-9798.7	\$ <u>58,643</u>	\$ <u>58,643</u>
Total expenditures	AT-9999	\$ <u>63,412,609</u>	\$ <u>63,433,915</u>

\* 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, 2011

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Capital assets - net	<u>\$ 45,460,381</u>
Deduct:	
Short-term portion of bonds payable	2,810,000
Long-term portion of bonds payable	<u>21,015,000</u>
	<u>23,825,000</u>
Investment in capital assets - net of related debt	<u><u>\$ 21,635,381</u></u>

The accompanying notes are an integral part of these schedules.



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

September 29, 2011

To the Board of Education of  
Horseheads Central School District:

We have audited the 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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 Questioned Costs, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as 2011-1 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below:

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.

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

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 29, 2011

To the Board of Education of  
Horseheads Central School District:

**Compliance**

We have audited Horseheads Central School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

**Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

**HORSEHEADS CENTRAL SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Grantor's Number	Expenditures
U.S. Department of Agriculture:			
Pass-Through New York State Dept. of Education			
School Breakfast Program	10.553	^	\$ 113,559
National School Lunch Program	10.555	^	478,272
Pass-Through New York State Office of General Services (Division of Donated Foods) - Surplus Food Distribution			<u>87,317</u>
Total U.S. Department of Agriculture			<u>679,148</u>
U.S. Department of Education:			
Pass-Through New York State Dept. of Education			
Title I Grants to Local Education Agencies	84.010	0021-10-0415	28,010
Title I Grants to Local Education Agencies	84.010	0021-11-0415	396,218
Title I Grants to Local Education Agencies	84.010	0011-10-2080	9,383
Title I Grants to Local Education Agencies	84.010	0011-11-2080	48,964
Title I Grants to Local Education Agencies, ARRA	84.389	5021-11-0415	<u>125,590</u>
			<u>608,165</u>
Enhancing Education Through Technology Program	84.318	0292-11-0415	<u>494</u>
Special Education - Grants to States (IDEA, Part B)	84.027	* 0032-11-0121	767,434
Special Education - Grants to States (IDEA, Part B), ARRA	84.391	* 5032-11-0121	<u>667,288</u>
			<u>1,434,722</u>
Special Education - Preschool Grants (IDEA Preschool)	84.173	* 0033-11-0121	25,043
Special Education - Preschool Grants (IDEA Preschool), ARRA	84.392	* 5033-11-0121	<u>23,033</u>
			<u>48,076</u>
Improving Teacher Quality State Grant	84.367	0147-10-0415	8,111
Improving Teacher Quality State Grant	84.367	0147-11-0415	<u>116,119</u>
			<u>124,230</u>
English Language Acquisition Grant	84.365	0149-11-0415	<u>10,381</u>
State Fiscal Stabilization Fund - Education State Grants, ARRA	84.394	5000-11-0415	<u>2,086,008</u>
Total U.S. Department of Education			<u>4,312,076</u>
Total expenditures of federal awards			<u>\$ 4,991,224</u>

^ Child nutrition cluster  
\* Special education cluster

# **HORSEHEADS CENTRAL SCHOOL DISTRICT**

## **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011**

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### **1. BASIS OF PRESENTATION**

The preceding Schedule of Expenditures of Federal Awards presents the activity of federal award programs administered by the Horseheads Central School District (the District), which is described in Note 1 to the District's basic financial statements. Federal awards included in the schedule may be received directly from federal agencies, as well as passed through other government agencies. The information presented in accordance with OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Accordingly, some amounts in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

### **2. SUBRECIPIENTS**

No amounts were provided to subrecipients.

### **3. NON-MONETARY FEDERAL PROGRAM**

The District is the recipient of a federal financial award program that does not result in receipts of disbursements termed a "non-monetary" program. During the year ended June 30, 2011, the District received food commodities, the fair market value of which is presented in the accompanying Schedule of Expenditures of Federal Awards as Food Distribution and was considered in the District's single audit.

### **4. OTHER DISCLOSURES**

No insurance is carried specifically to cover equipment purchased with federal awards. Any equipment purchased with federal funds has only a nominal value and is covered by the District's insurance policies.

There were no loans or loan guarantees outstanding at year-end.

# HORSEHEADS CENTRAL SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

---

### A. SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report expresses an unqualified opinion on the basic financial statements of Horseheads Central School District (the District).
2. One material weakness relating to the audit of the basic financial statements is reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. One instance of noncompliance material to the basic financial statements of the District was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The report on compliance for the major federal award programs for the District expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the District.
7. The programs/clusters tested as a major programs were as follows:
  - Special Education Cluster:
    1. CFDA #84.027 Special Education - Grants to States (IDEA, Part B)
    2. CFDA #84.173 Special Education - Preschool Grants (IDEA Preschool)
    3. CFDA #84.391 Special Education - Grants to States (IDEA, Part B), ARRA
    4. CFDA #84.392 Special Education - Preschool Grants (IDEA Preschool), ARRA
  - Child Nutrition Cluster:
    1. CFDA #10.553 - School Breakfast Program
    2. CFDA #10.555 - National School Lunch Program
  - CFDA #84.010 - Title I Grants to Local Education Agencies
  - CFDA #84.389 - Title I Grants to Local Educational Agencies, ARRA
  - CFDA #84.394 - State Fiscal Stabilization Fund - Education State Grants, ARRA
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The District did not qualify as a low-risk auditee.

## B. FINDINGS - FINANCIAL STATEMENT AUDIT

### Material Weakness

#### 2011-1 Finding

**Criteria, Condition, Cause, Effect:** During our audit process, we experienced difficulty in obtaining an accurate listing of the District's capital assets as of June 30, 2011. We understand that the District converted its capital asset records to a new capital asset tracking system, Real Asset Management, Inc. (RAMI), in fiscal 2011. The new capital asset tracking system has different reporting capabilities than the District's prior software.

During our discussions with the District's management, we noted that it is possible that the new reporting system may contain duplicate asset entries and data for asset entries that may be incorrectly stated. We determined that we would not be able to solely rely on the new system reports in order to satisfy ourselves as to the valuation of the District's capital assets. Rather, we performed alternate procedures to satisfy ourselves as to the activity related to these balances that occurred during the year. In certain cases, the District's report reflected amounts that reduced net book value. In these cases, we adjusted our expectations to reflect these lower amounts. The consequence of this approach is that the District's capital assets may be understated. However, we believe this understatement is not material to the District-wide financial statements.

In addition, we noted that a procedure for reconciling detailed fixed asset records to the general ledger on a regular basis does not exist. Also, construction in progress activity is not routinely added to the capital asset tracking software concurrently with the closing of projects in the Capital Projects Fund. The lack of procedures in this area may lead to the inaccurate reporting of capital asset cost and depreciation expense in the District's financial statements.

#### **Recommendation**

To prevent the need for major adjustments to the capital asset accounts at the end of each fiscal year, we recommend the District:

- Utilize the new system to periodically produce detailed capital asset reports that assist in the accurate accounting of capital assets.
- Reconcile the underlying fixed asset detail to the related general ledger activity on at least a quarterly basis. Particular emphasis should be placed on making sure that all assets acquired are reported and reflected consistently in both the general ledger and the RAMI software. Investigate significant variances from budgets and expected results.
- Make every effort to track all land, buildings, building improvements, furniture and equipment in the RAMI software in accordance with the District's capitalization policy.
- Continue to conduct periodic physical inventories, especially of moveable equipment. This process should include periodically routing capital asset listings to appropriate members of the District's administration/departments to review the listings for possible impairments and to verify that assets physically exist.
- Begin a process of tagging equipment purchases to improve the matching of the capital asset detail to the actual equipment. In addition, provide sufficient detail in the software's asset description to further facilitate asset identification.
- Develop a policy so that the estimated useful lives used for similar types of assets are consistent and reasonable.
- Ensure that depreciation is accurately and consistently calculated by the new software and is reviewed for reasonableness.

**Management Comments:** We agree with the above fully and have implemented new accounting procedures to ensure the District's financial results are accurately projected and reported.



**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

None

**D. SUMMARY OF PRIOR YEAR FINDINGS**

**2010-1 Finding**

**Criteria:** The District's School Business Administrator should be able to accurately project and report the District's financial results.

**Condition:** During our audit process, we identified the following:

- 1) A significant projection error was made in the spring of 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.

**Cause:** 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.

**Effect:** 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 with the necessary resources, 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.

**D. 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 Comments:** We agree with the above fully and have implemented new accounting procedures to ensure the District's financial results are accurately projected and reported.

**Status:** This District has implemented this recommendation during 2011.