

**Salmon River Central School District
Annual Report
June 30, 2009**

Salmon River Central School District

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Independent Auditors' Report

To the Board of Education
Salmon River Central School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salmon River Central School District, as of and for the year ended June 30, 2009 which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited the aggregate nonmajor governmental funds, and each fiduciary fund type of Salmon River Central School District, as of and for the year ended June 30, 2009, as displayed in the District's basic financial statements. These financial statements are the responsibility of Salmon River Central School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

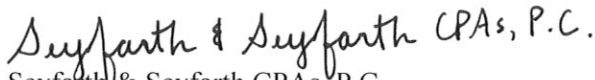
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information, as well as of the aggregate nonmajor governmental funds, and each fiduciary fund type of Salmon River Central School District as of June 30, 2009, 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 November 2, 2009 on our consideration of Salmon River Central School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 48 through 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salmon River Central School District's basic financial statements. The accompanying supplementary information as contained in the Reference Manual for Audits of General Purpose Financial Statements of New York State School Districts and the combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of Salmon River Central School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Seyfarth & Seyfarth CPAs, P.C.

November 2, 2009

Salmon River Central School District
Management's Discussion and Analysis
June 30, 2009

The following is a discussion and analysis of the School District's financial performance for the fiscal year ended June 30, 2009. This section is a summary of the School 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 prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section.

SCHOOL DISTRICT OVERVIEW/HIGHLIGHTS

The Salmon River Central School District, centralized in 1953, provides a public education to approximately 1,700 students from the towns of Bangor, Bombay, Fort Covington and Westville in Franklin County, the town of Brasher in St. Lawrence County and the Saint Regis Mohawk Indian Reservation. It encompasses an area of approximately 128 square miles with an estimated population of 6,800. The School District is located between the foothills of the Adirondack Mountains and the St. Lawrence River Valley. The District is a mixture of residential and agricultural areas, with many of its residents commuting to Malone, Massena and Potsdam for employment.

Our District operates two (2) facilities: the Campus School (pre k-12th grade) located in the town of Fort Covington and the St. Regis Mohawk School (pre k - 6th grade) located in the town of Bombay. Approximately 56% of the School District population is comprised of students from families living on the St. Regis Mohawk Reservation and 64% of the student body is of Native American heritage. Salmon River is also unique in that we educate Canadian and New York children from the Reservation via contracts with the State of New York to provide transportation and education for these students.

Our St. Regis Mohawk School is owned by the State of New York, but leased to and operated by the District. As per our ten (10) year reservation school contract with the State, all expenses generated by the St. Regis Mohawk School are funded through state formula aid with the balance due billed to and paid for with special State purpose monies.

The funds generated from these contracts in conjunction with New York State Aid to School Districts, the State's School Tax Relief (STAR) program and our local school tax contributions provides the basis for the School District's financial structure. Access to State and Federal grants, along with Native American Aid has assisted the District in maintaining a very reasonable five (5) year average tax rate per thousand dollars of \$13.80 on full property value.

The State of New York has calculated our combined wealth measure to be 0.148. This number continues to place us as the absolute poorest school district in the State. In 2008-2009, the state average property value and income behind each pupil was \$532,200 and \$165,000 respectfully. In this District our corresponding figures were \$63,765 and \$29,579. As a result of our lack of local financial resources, Salmon River receives most of its monies from State and Federal sources. The district remains hopeful that New York State will remain true to its recent commitment to share more educational resources with districts like ours that have minimal financial resources. Although the State is struggling to balance its budget during challenging economic times, we trust that the State will remain true to its promise to provide equitable educational funding for all of our children. By honoring this promise, increased aid in the coming years will result in proportionately more fiscal equity for the children of our District. To date,

this has not come to pass. During the economic crisis last year, Salmon River received less funding than the year prior. Although the foundation Aid formula promised to make our funding more equitable over the course of four years, the State postponed its implementation for two years. While our educational funding decreased, our enrollment and poverty increased. Still the State has recommitted to continue the foundation aid program within two years time.

The School District employs approximately 354 full and part time professional and support staff. These employees are organized into three (3) collective bargaining units (teaching staff, support staff and middle administration). The teaching staff contract's 5-year agreement lasts until June 30, 2011. The middle administrator's contract also lasts until June 30, 2011. The support staff contract is in effect until June 30th, 2010. Average salary increases for all units remain near 4.0 % for the 2008-09 school year.

Student enrollment increased again this school year from 1,629 to 1,637. The reason for this steady enrollment growth is due in part to the construction of a new casino, hotels and other businesses on the St. Regis Mohawk Reservation. Also, a revitalization of agriculture in the area is increasing our population in the local townships of the district. Enrollment projections based on data from an outside agency confirm continued steady enrollment growth for several years to come. This enrollment growth should increase the amount of State aid we receive, but some aid formulas are frozen. This has an unjust effect on Districts like ours who are growing in student population. Our continued growth has also necessitated an ambitious building project in our District.

After the voters approved a proposition for a \$50,000,000 building project, we completed phase one of the construction. Phase one refurbished our ice arena. Our second and third phases are just beginning. This project is upgrading and expanding the infrastructure of the Campus school with a new middle school wing, new classrooms, a BOCES trades academy, cafeterias and a new gymnasium. Also, our bus garage will be expanded.

A new geothermal heating/cooling system is being installed in the new sections of the campus. Geothermal heating passively draws heat out of the earth, instead of burning fossil fuels. Our Geothermal system makes heating these sections economically efficient. It will also have a positive effect on our environment and serve as an example to our children on how to be good stewards of the Earth. Other 'Green' initiatives are planned at Salmon River for future phases of our continuing capital project. They include wood pellet heating, solar panel arrays and small wind turbines.

Various other improvements and renovations will enhance our instructional program by providing improved facilities for our growing district. The District purchased 53 acres of agricultural property and woodland area. With assistance from BOCES, this new land will be used to expand our agricultural technology programs. Our BOCES construction trades academy is currently being built too. This will allow us to graduate skilled tradesman from Salmon River Central. Advanced computer technology is at the heart of the project as well. Our classrooms are being equipped with Multimedia Smart boards that can access the Internet and sound enhancement systems to improve instruction. Zero interest Qualified Zone Academy Bonds will be used to finance a large portion of our construction project. Also, the District has a 98% Building Aid ratio and \$1.2 million of NYS Excel money to apply to the local share. Additionally, we will receive Native American Building Aid for a significant portion of the project's cost.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (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 School District:

- The first two statements are *district-wide* financial statements that provide both *short-term and long-term* information about the School District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School District, reporting the School District's operations in *more detail than the* district-wide statements. The fund financial statements concentrate on the School District's most significant funds with all other non-major funds listed in total in one column.
- *The governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds statements* provide information about the financial relationships in which the School District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District's budget for the year.

Figure A-1 summarizes the major features of the School District's financial statements, including the portion of the School District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

Figure A-1 Major Features of the District-Wide and Fund Financial Statements			
		Fund Financial Statements	
	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; 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 revenues and expenses during year, regardless of when cash is received or paid	Revenues 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

The district-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the School District's *net assets* and how they have changed. Net assets - the difference between the School District's assets and liabilities - is one way to measure the School District's financial health *or position*.

- Over time, increases or decreases in the School District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the School District's overall health, you need to consider additional nonfinancial factors such as changes in the School District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the School District's activities are shown as *Governmental activities*: Most of the School District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The School District establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal grants).

The District has two kinds of funds:

- **Governmental Funds:** Most of the School District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- **Fiduciary Funds:** The School District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Net assets:

Net assets may serve over time as a useful indicator of a District's financial position. In our case combined net assets from June 30, 2008 to 2009 changed dramatically from \$8,005,376 to \$599,603 (See Figure A-2). Our total Liabilities were affected in a similar way. They changed from \$16,742,846 to \$27,349,052. This was due primarily to the implementation of new GASB 45 rules requiring Districts to show long-term employment benefits as a liability. Health insurance costs accounts for most of this liability. Many Districts are showing a similar liability in their statements as well. The District will ask our unions to consider a more cost effective PPO option for these benefits in the future. This would help reduce the overall cost of employee health insurance.

Figure A-2

Condensed Statement of Net Assets June 30, 2009			
	<u>Governmental Activities and Total School District</u>		<u>Total Percentage Change</u>
	<u>2007-2008</u>	<u>2008-2009</u>	
Assets:			
1) Current and Other Assets	\$ 11,002,709	\$ 11,093,150	0.82%
2) Capital Assets	\$ 13,745,513	\$ 16,855,505	22.62%
Total Assets:	\$ 24,748,222	\$ 27,948,655	12.93%
Liabilities			
3) Long-Term Debt Outstanding	\$ 8,389,089	\$ 8,802,853	4.93%
4) Other Liabilities	\$ 8,353,757	\$ 18,546,199	122.01%
Total Liabilities:	\$ 16,742,846	\$ 27,349,052	63.34%
Net Assets:			
5) Invested in Capital Assets, Net of Related Debt	\$ 4,748,184	\$ 4,777,062	0.60%
6) Restricted	\$ 1,297,928	\$ 711,548	-45.17%
7) Unrestricted	\$ 1,959,264	\$ (4,889,007)	-349.53%
Total Net Assets	\$ 8,005,376	\$ 599,603	-92.50%

Our District's expenses are predominantly related to instruction, which represents 73% of our total costs. (See Figure A-5) Also, like most districts, our rising employee benefits fees, increasing energy costs and under-funded school lunch program continue to be financial challenges to our budget.

Costs for fuel and energy went down to reasonable levels this year. Employee benefit cost increases were also modest this year. However, State Foundation Aid increases were not received as promised. To manage this loss of revenue, we have refocused our purchasing, limiting it to essential items. We have also reduced the amount of employee training as well as eliminated some teaching staff positions.

To manage our future energy costs, the District included a geo-thermal heating/cooling system in our building project. Also, passive solar lighting and energy efficient building materials will improve our campus' energy efficiency. Our transportation department is also looking at ways to curb our bus miles. However, in a rural district, distance driving is necessary.

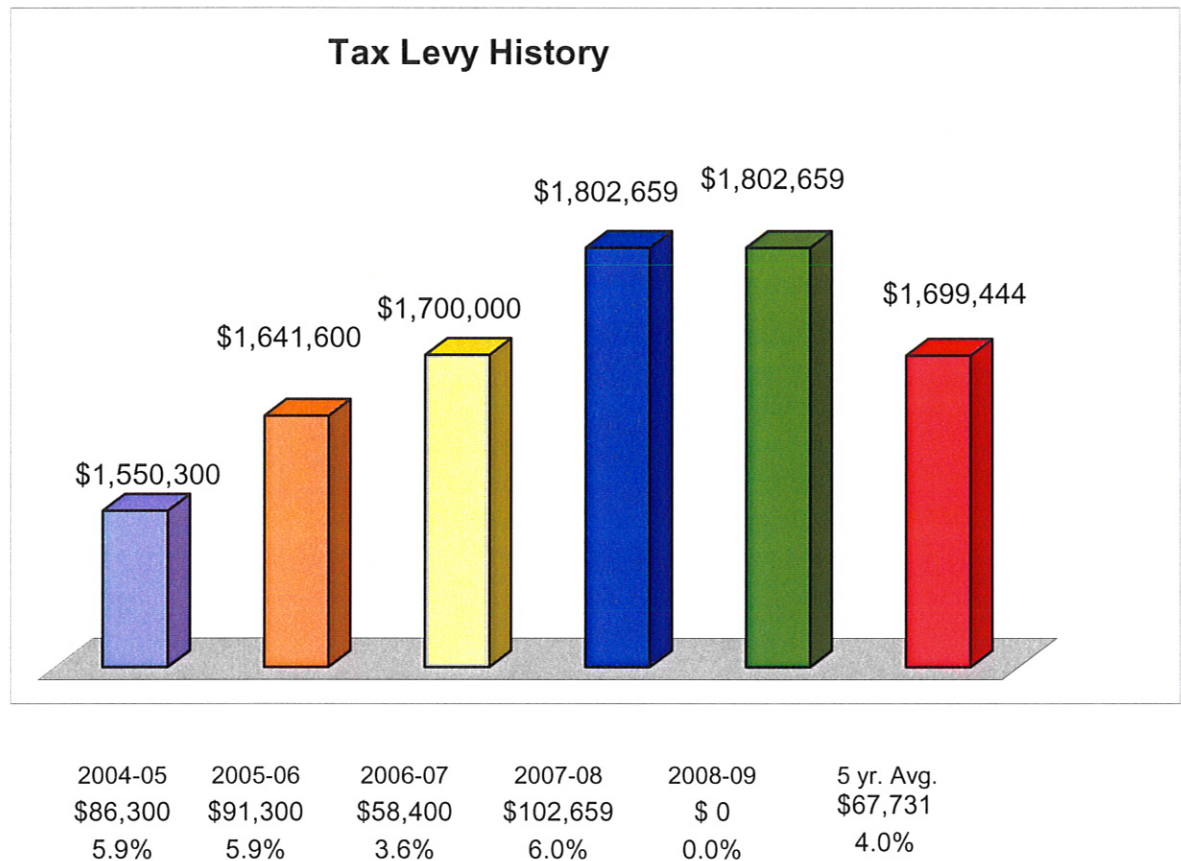
The District has a locked-in bid price for fuel oil and purchases electricity through cooperative purchasing, but prices for these commodities rise every year. Also, the expenses relating to our school lunch program continue to increase as a result of our decision to purchase higher quality foods.

Figure A-3

Changes in Net Assets from Operating Results

<u>Governmental and Total School District</u>			
	<u>2007-08</u>	<u>2008-09</u>	<u>Percent Change</u>
Revenues			
Use of Money and Property	\$ 137,706	\$ 79,772	-42.0%
Sale of Property and Compensation for loss	\$ 6,839	\$ 247,210	3514.7%
Property Taxes	\$ 1,821,252	\$ 1,809,241	-0.7%
State Formula Aid	\$ 22,005,599	\$ 22,947,352	4.3%
Federal	\$ 2,732,083	\$ 2,091,487	-23.4%
Medicaid Reimbursement	\$ 165,936	\$ 147,069	-11.4%
Miscellaneous	\$ 142,671	\$ 327,615	129.6%
Total Revenues	\$ 27,012,086	\$27,649,746	2.36%
Expenses			
General Support	\$ 4,633,152	\$ 5,646,881	21.9%
Instruction	\$ 19,600,279	\$ 25,883,659	32.1%
Transportation	\$ 2,389,853	\$ 2,510,885	5.1%
Community Service	\$ 24,717	\$ 33,433	35.3%
Debt Service	\$ 557,027	\$ 605,337	8.7%
Capital Outlay – Mohawk School	\$ -	\$ 105,163	100.0%
Other Expenditures	\$ 13,832	\$ 15,427	11.5%
School Lunch Program	\$ 224,267	\$ 254,734	13.6%
Total Expenses	\$ 27,443,127	\$ 35,055,519	27.7%

Figure A-3a



As depicted by figure A-4 the School District is heavily dependent on State, Federal and Native American aid for its funding. Together they account for 95% of our total revenue dollar.

It should be noted that the district's tax levy contributes only 5% of our total revenues or \$1,809,241 with the STAR program. We held the tax levy amount at the same level as the previous year to help our community during these tough economic times. Our District has always made a strong effort to keep taxes at a reasonable level. Our five-year average tax increase is just 4%. (See figure A-3a above)

FIGURE A-4

Sources of Revenues for fiscal year 2008-09

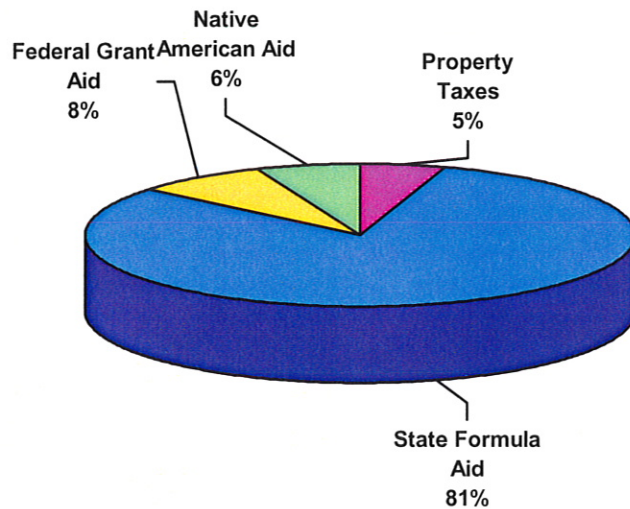
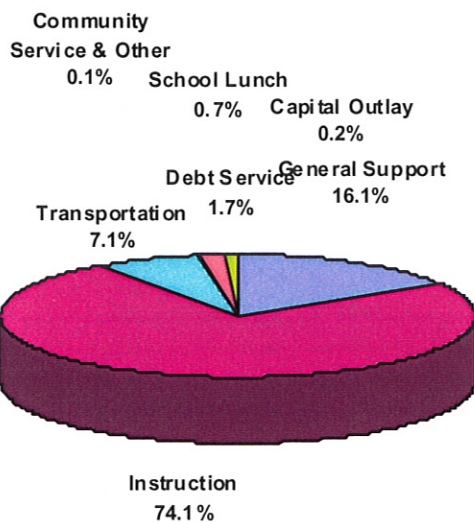


Figure A-5

Expenses for fiscal year 2008-09



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a General fund balance of \$3,547,932. This amount is near the 4% limit specified by Real Property Tax Law. However, as our salary and operating expenses increase, we will find it increasingly difficult to maintain a strong fund balance. We are planning to use limited amounts from our reserves in the coming years to offset the loss of the Foundation Aid increases promised by the State.

The school lunch program continues to be supported by funds from the General Fund because it does not support itself. Revenues generated from the National School Lunch Program and the District's lunch program is stable with healthy student participation, but does not meet expenses. It should be noted that labor, employees' retirement and health insurance costs continue to increase each year. The lack of financial resources in the community and our District's commitment to preparing quality food limit this program's ability to be self-sustaining.

The Board of Education and the community have been very generous in approving financial assistance from the general fund. This is a commitment that is likely to continue for the foreseeable future. In fact, in the 2009-10 school year, the District will be offering free lunch and breakfast to all students. Since nearly 85% of our children qualify for free/reduced lunch, we believe we will capture the same amount of revenue by offering the meals for free. By driving up our participation in the student body, we should capture the same or more revenue from charging for the meals. Also, the students will be fed more efficiently. Our overcrowded cafeteria lines will be at twice the speed. Also, more children will eat breakfast in the morning.

The special aid fund provides the district with a variety of instructional programs supported by state and federal grants. Title I and Title VII provide significant revenue for the district. These grants allow us to create programs that complement the district's educational objectives while allowing it to be sensitive to our culturally diverse student population.

The revenues for our Native American transportation contract are included in this fund as well. This contract with the State provides revenue to the District to cover the cost of transporting Native American students to and from the reservation. The amount of funds provided is meant to cover all expenses related to this service. However, it is questionable whether the amounts we have received meet our actual costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

By the end of June 2009, the District had invested approximately \$16,855,505 in a broad range of capital assets including school buildings, the bus garage, school buses, computers, audio-visual and classroom equipment. The District also purchased two (2) 66-passenger school buses and one smaller SUV mini bus. We also completed phase 1 of our capital project and embarked on phase 2 of our building project this year. The 2009-2010 school year will bring even more new construction as the project moves forward.

General Fund Budgetary Highlights

It should be explained that the District's general fund is comprised of two (2) individual budgets. The first is approved by the voters in May and totals \$24,097,974. It covers the children living on the taxable property within the boundaries of the school district and those Native American children living on the Saint Regis Mohawk Reservation that elect to attend the campus school in pre-K–12th grade.

Traditionally, the District under-expends its overall budget. In essence, we plan for the worst and hope for the best. When the budget was developed, the administration factored in teaching staff positions that we did not fill due to shortfalls in revenue. When additional revenues are provided from the State, our District plans to hire additional staff in areas that will benefit student achievement. Creating a budget that is larger than our conservative revenue estimates gives us the flexibility to benefit when we have more funds.

The second budget is for the operation of the St. Regis Mohawk Elementary School. This is a pre-K–6th grade building educating only Native American children living on the St. Regis Mohawk Reservation. This budget is negotiated annually with the State of New York and totaled \$9,061,947. The revenues to support this building/program are totally funded with state aid. Unfortunately the formula aid that is attributable to the attendance of students at the St. Regis Mohawk School is very difficult to compute in a timely manner, causing local cash flow problems and making it difficult to accurately report fund balance. Each year we take out a RAN to cover our spending, in anticipation of the Native American aid for the Mohawk School, Native American tuition, and Native American transportation

This administration is challenged in its ability to accurately predict state aid. Late state budgets that cause unknown aid figures are the major reason for our difficulty. This is directly associated with estimating state tuition payments on eligible Native American student educated at the campus school. The District and State representatives are scheduled to review the tuition formula and pertinent data in an attempt to better identify a just and realistic amount for this service. As our percentage of Native American students increase, so will our difficulty to predict revenues from this source. We must also remain vigilant in our effort to make sure educational funding for Salmon River is both adequate and equitable for our unique District.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Currently, all employment contracts are settled until June 30, 2010. We are just beginning to plan our CSEA contract negotiations with bus drivers, maintenance, food service and clerical staff. There are no major frictions between management and employees. We anticipate the negotiations will go smoothly. The teachers and administrators contracts are settled until June 30, 2011. These long-term contracts will bring stability and predictability to our budgetary process. It will also strengthen our positive relationship with our instructional staff.
- Salmon River is in the midst of a badly needed building project to accommodate our growing district and improve our aging facility. Building “21st Century classrooms” and a new agricultural and industrial technology wing will prepare our graduates for future employment. The District hopes to achieve fuel and energy savings through green design and the use of renewable energy for heat and power. We intend to heat sections of our building with a geothermal system and supplement electrical power with wind towers before the project is finished. This will lower our yearly operating costs.
- The District is currently supporting our programs by committing approximately 18% of our fund balance to support our current level of staffing. We have reduced our staff by not replacing retired staff and cutting a few teaching positions. Providing quality education with a shrinking staff and growing student population is posing challenges to our future success.
- As mentioned above, this District is very heavily dependent on State Aid. During state budget preparations for next year, most formula aids were frozen, including Foundation Aid. Foundation Aid is meant to promote educational equity between the poor and wealthy school districts. The significant increases promised by the State through Foundation Aid have been put off for at least two years. We trust that they will hold true to their promise.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Salmon River Central School, Fort Covington, New York 12937.

Salmon River Central School District

Statement of Net Assets

June 30, 2009

ASSETS

Cash	
Unrestricted	\$ 3,912,096
Restricted	45,314
Receivables	
Taxes	-
Other	985,108
Due from fiduciary funds	336
State and Federal aid	5,765,198
Inventories	26,552
Deferred expenditures	358,546
Capital assets, net	16,855,505
Total Assets	<u>27,948,655</u>

LIABILITIES

Payables	
Accounts payable	381,065
Accrued expenses	25,549
Due to other governments	112,637
Accrued interest	68,052
Retainage payable	20,224
Overpayments and collections in advance	1,636
Notes payable	
Bond anticipation	2,607,900
Revenue anticipation	5,500,000
Long-term liabilities	
Due and payable within one year	
Bonds payable	1,026,236
Compensated absences payable	78,800
Due to Teachers' Retirement System	960,930
Due to Employees' Retirement System	55,706
Due and payable after one year	
Bonds payable	8,802,853
Compensated absences payable	606,751
Other post employment benefits	7,100,713
Total Liabilities	<u>27,349,052</u>

NET ASSETS

Investment in capital assets, net of related debt	4,777,062
Restricted for:	
Capital projects	50,341
Reserve for debt	661,207
Unrestricted	(4,889,007)
Total Net Assets	<u>\$ 599,603</u>

Salmon River Central School District

Statement of Activities

For the Year Ended June 30, 2009

		Program Revenues		Net
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS				
General support	\$5,969,913	\$ 323,032	\$ -	\$5,646,881
Instruction	29,857,365	3,973,706	-	25,883,659
Pupil transportation	2,529,246	18,361	-	2,510,885
Community service	33,433	-	-	33,433
Debt service	605,337	-	-	605,337
Capital outlay - Mohawk School	105,163	-	-	105,163
Other expenditures	15,427	-	-	15,427
School lunch program	536,897	241,107	41,056	254,734
Total Functions and Programs	<u>39,652,781</u>	<u>4,556,206</u>	<u>41,056</u>	<u>35,055,519</u>
GENERAL REVENUES				
Real property taxes				1,279,440
Other tax items				529,801
Use of money and property				79,772
Sale of property and compensation for loss				247,210
Miscellaneous				327,615
State sources				22,947,352
Federal sources				2,091,487
Medicaid reimbursement				147,069
Total General Revenues				<u>27,649,746</u>
Change in Net Assets				(7,405,773)
Total Net Assets-Beginning of year				<u>8,005,376</u>
Total Net Assets-End of year				<u>\$ 599,603</u>

See notes to financial statements.

Salmon River Central School District
Balance Sheet - Governmental Funds
June 30, 2009

	General	Special Aid	Main Campus Capital Project	Non-Major	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 3,635,821	\$ -	\$ -	\$ 276,275	\$ 3,912,096
Restricted	44,984	-	-	330	45,314
Receivables					
Taxes	-	-	-	-	-
Other	966,424	-	-	18,684	985,108
Due from other funds	1,388,767	-	687,055	202,679	2,278,501
State and Federal aid	5,157,752	552,384	-	55,062	5,765,198
Inventories	-	-	-	26,552	26,552
Deferred expenditures	-	-	-	-	-
Total Assets	<u>\$ 11,193,748</u>	<u>\$ 552,384</u>	<u>\$ 687,055</u>	<u>\$ 579,582</u>	<u>\$ 13,012,769</u>
LIABILITIES					
Payables					
Accounts payable	\$ 211,274	\$ 14,793	\$ 99,956	\$ 55,042	\$ 381,065
Accrued liabilities	24,211	431	-	907	25,549
Accrued interest	3,946	-	39,056	6,928	49,930
Due to other funds	775,605	537,160	872,035	93,365	2,278,165
Due to other governments	112,508	-	-	129	112,637
Retainage payable	-	-	20,224	-	20,224
Due to Teachers' Retirement System	960,930	-	-	-	960,930
Due to Employees' Retirement System	55,706	-	-	-	55,706
Overpayments and collections in advance	1,636	-	-	-	1,636
Notes payable					
Bond anticipation	-	-	2,250,000	357,900	2,607,900
Revenue anticipation	5,500,000	-	-	-	5,500,000
Total Liabilities	<u>7,645,816</u>	<u>552,384</u>	<u>3,281,271</u>	<u>514,271</u>	<u>11,993,742</u>
FUND BALANCES					
Reserve for encumbrances	28,268	-	2,614,744	15,000	2,658,012
Capital reserve	50,011	-	-	330	50,341
Reserve for debt	661,207	-	-	-	661,207
Reserve for employee benefits and accrued liabilities	1,374,767	-	-	-	1,374,767
Workers' compensation reserve	44,984	-	-	-	44,984
Reserve for inventory	-	-	-	26,552	26,552
Unreserved-Designated for subsequent year's expenditures	579,165	-	-	5,000	584,165
Unreserved-Undesignated	809,530	-	(5,208,960)	18,429	(4,381,001)
Total Fund Balances	<u>3,547,932</u>	<u>-</u>	<u>(2,594,216)</u>	<u>65,311</u>	<u>1,019,027</u>
Total Liabilities and Fund Balances	<u>\$ 11,193,748</u>	<u>\$ 552,384</u>	<u>\$ 687,055</u>	<u>\$ 579,582</u>	<u>\$ 13,012,769</u>

Salmon River Central School District

Statement of Revenues, Expenditures and Changes in Fund Equity - Governmental Funds
For the Year Ended June 30, 2009

	General	Special Aid	Main Campus Capital Project	Non-Major	Total Governmental Funds
REVENUES					
Real property taxes	\$ 1,279,440	\$ -	\$ -	\$ -	\$ 1,279,440
Other tax items	529,801	-	-	-	529,801
Charges for services	662,729	-	-	-	662,729
Use of money and property	408,340	-	-	1,417	409,757
Sale of property and compensation for loss	247,420	-	-	-	247,420
Miscellaneous	317,318	-	-	-	317,318
State sources	23,857,815	1,745,791	648,000	28,218	26,279,824
Medicaid reimbursement	147,069	-	-	-	147,069
Federal sources	-	1,494,848	-	596,639	2,091,487
Surplus food	-	-	-	41,056	41,056
Sales - school lunch	-	-	-	241,107	241,107
Total Revenues	<u>27,449,932</u>	<u>3,240,639</u>	<u>648,000</u>	<u>908,437</u>	<u>32,247,008</u>
EXPENDITURES					
General support	3,704,250	-	-	334,457	4,038,707
Instruction	15,624,932	1,967,503	-	-	17,592,435
Pupil transportation	597,404	1,275,670	-	-	1,873,074
Community service	19,296	-	-	-	19,296
Employee benefits	6,752,457	-	-	284,014	7,036,471
Debt service					
Principal	885,646	39,760	-	-	925,406
Interest	576,509	6,070	-	-	582,579
Cost of sales	-	-	-	536,897	536,897
Capital outlay	-	-	3,593,889	360,173	3,954,062
Total Expenditures	<u>28,160,494</u>	<u>3,289,003</u>	<u>3,593,889</u>	<u>1,515,541</u>	<u>36,558,927</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(710,562)</u>	<u>(48,364)</u>	<u>(2,945,889)</u>	<u>(607,104)</u>	<u>(4,311,919)</u>
OTHER FINANCING SOURCES AND USES					
Operating transfers in	-	48,364	-	529,587	577,951
Operating transfers out	(577,951)	-	-	-	(577,951)
Proceeds from debt	-	-	1,440,000	-	1,440,000
Total Other Sources and Uses	<u>(577,951)</u>	<u>48,364</u>	<u>1,440,000</u>	<u>529,587</u>	<u>1,440,000</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(1,288,513)	-	(1,505,889)	(77,517)	(2,871,919)
Fund Balances - Beginning of year	4,836,445	-	(1,088,327)	142,828	3,890,946
Fund Balances - End of year	<u>\$ 3,547,932</u>	<u>\$ -</u>	<u>\$ (2,594,216)</u>	<u>\$ 65,311</u>	<u>\$ 1,019,027</u>

Salmon River Central School District
Statement of Fiduciary Net Assets - Fiduciary Funds
June 30, 2009

	Private Purpose Trusts	Agency
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 111,749	\$ 77,546
Due from governmental funds	-	-
Total Assets	<u>\$ 111,749</u>	<u>\$ 77,546</u>
LIABILITIES		
Due to governmental funds	\$ -	\$ 336
Extraclassroom activity balances	-	76,187
Other liabilities	-	1,023
Total Liabilities	<u>-</u>	<u>\$ 77,546</u>
NET ASSETS		
Restricted for other purposes	<u>\$ 111,749</u>	

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
For the Year Ended June 30, 2009

	Private Purpose Trusts
	<u> </u>
ADDITIONS	
Investment earnings	\$ 1,942
DEDUCTIONS	
Contractual and other	<u>425</u>
Change in Net Assets	1,517
Net Assets - Beginning of year	<u>110,232</u>
Net Assets - End of year	<u>\$ 111,749</u>

Salmon River Central School District
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
June 30, 2009

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS				
Cash	\$ 3,957,410	\$ -	\$ -	\$ 3,957,410
Taxes receivable	-	-	-	-
Other receivables	985,108	-	-	985,108
Due from other funds	2,278,501	-	(2,278,165)	336
State and Federal aid	5,765,198	-	-	5,765,198
Inventories	26,552	-	-	26,552
Deferred expenditures	-	358,546	-	358,546
Capital assets, net	-	16,855,505	-	16,855,505
Total Assets	<u>\$ 13,012,769</u>	<u>\$ 17,214,051</u>	<u>\$ (2,278,165)</u>	<u>\$ 27,948,655</u>
LIABILITIES				
Accounts payable	\$ 381,065	\$ -	\$ -	\$ 381,065
Accrued liabilities	25,549	-	-	25,549
Due to other funds	2,278,165	-	(2,278,165)	-
Due to other governments	112,637	-	-	112,637
Accrued interest	49,930	18,122	-	68,052
Retainage payable	20,224	-	-	20,224
Overpayments and collections in advance	1,636	-	-	1,636
Due to Teachers' Retirement System	960,930	-	-	960,930
Due to Employees' Retirement System	55,706	-	-	55,706
Bond anticipation note	2,607,900	-	-	2,607,900
Revenue anticipation note	5,500,000	-	-	5,500,000
Compensated absences payable	-	685,551	-	685,551
Bonds payable	-	9,829,089	-	9,829,089
Other post employment benefits	-	7,100,713	-	7,100,713
Total Liabilities	<u>11,993,742</u>	<u>17,633,475</u>	<u>(2,278,165)</u>	<u>27,349,052</u>
FUND EQUITY/NET ASSETS	<u>1,019,027</u>	<u>(419,424)</u>	<u>-</u>	<u>599,603</u>
Total Liabilities, Equity and Other Credits	<u>\$ 13,012,769</u>	<u>\$ 17,214,051</u>	<u>\$ (2,278,165)</u>	<u>\$ 27,948,655</u>

Salmon River Central School District
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
June 30, 2009

Fund Balances - total governmental funds		\$ 1,019,027
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	30,648,757	
Less: accumulated depreciation	<u>(13,793,252)</u>	16,855,505
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Bond issue costs	601,282	
Less: accumulated amortization	<u>(242,736)</u>	358,546
Interest payable used in governmental activities is not payable from current resources and therefore not reported in the governmental funds		(18,122)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		(10,514,640)
Other post employment benefits are not due and payable in the current period and therefore are not reported in the funds		<u>(7,100,713)</u>
Net Assets of Governmental Activities		<u><u>\$ 599,603</u></u>

Salmon River Central School District

Reconciliation of Governmental Funds Revenues, Expenditures, and Changes in Fund Equity to Statement of Activities For the Year Ended June 30, 2009

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities Totals
REVENUES				
Real property taxes	\$ 1,279,440	\$ -	\$ -	\$ 1,279,440
Other tax items	529,801	-	-	529,801
Charges for services	662,729	-	-	662,729
Use of money and property	409,757	-	-	409,757
Sale of property and compensation for loss	247,420	-	-	247,420
Miscellaneous	317,318	-	-	317,318
State sources	26,279,824	-	-	26,279,824
Medicaid reimbursement	147,069	-	-	147,069
Federal sources	2,091,487	-	-	2,091,487
Surplus food	41,056	-	-	41,056
Sales - school lunch and store	241,107	-	-	241,107
Total Revenues	<u>32,247,008</u>	<u>-</u>	<u>-</u>	<u>32,247,008</u>
EXPENDITURES				
General support	4,038,707	483,558	1,447,648	5,969,913
Instruction	17,592,435	51,817	12,213,113	29,857,365
Pupil transportation	1,873,074	193,886	462,286	2,529,246
Community service	19,296	-	14,137	33,433
Employee benefits	7,036,471	7,100,713	(14,137,184)	-
Debt service	1,507,985	(902,648)	-	605,337
Unallocated depreciation	-	-	-	-
Cost of sales	536,897	-	-	536,897
Other expenditures	-	15,427	-	15,427
Capital outlay	3,954,062	(3,848,899)	-	105,163
Total Expenditures	<u>36,558,927</u>	<u>3,093,854</u>	<u>-</u>	<u>39,652,781</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,311,919)</u>	<u>(3,093,854)</u>	<u>-</u>	<u>(7,405,773)</u>
OTHER SOURCES AND USES				
Proceeds from debt	1,440,000	(1,440,000)	-	-
Operating transfers in	577,951	-	(577,951)	-
Operating transfers out	(577,951)	-	577,951	-
Total Other Sources and Uses	<u>1,440,000</u>	<u>(1,440,000)</u>	<u>-</u>	<u>-</u>
Net Change for the Year	<u><u>\$(2,871,919)</u></u>	<u><u>\$(4,533,854)</u></u>	<u><u>\$ -</u></u>	<u><u>\$(7,405,773)</u></u>

Salmon River Central School District

Reconciliation of Governmental Funds Revenues, Expenditures, and Changes in Fund Equity to
Statement of Activities
For the Year Ended June 30, 2009

Net Change in Fund Balances - total governmental funds \$ (2,871,919)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities, the cost of those assets is depreciated
over their estimated useful lives:

Expenditures for capital assets	3,831,862	
Less: current year depreciation	<u>(721,870)</u>	3,109,992

Bond proceeds provide current financial resources to governmental
funds, but issuing debt increases long-term liabilities in the Statement
of Net Assets. Repayment of bond principal is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities in
the Statement of Net Assets. Other costs related to debt issuance and
retirement are expenditures in the governmental funds, but are deferred
and amortized on the Statement of Net Assets

Bond issuance costs	25,537	
Bond issuance cost amortization	(42,057)	
Bond proceeds	(1,440,000)	
Repayment of bonds	<u>925,406</u>	(531,114)

Interest expense reported in the Statement of Activities does not
require the use of current financial resources and is therefore
not reported as an expenditure in governmental funds 3,872

Compensated absences in the Statement of Activities does not
require the use of current financial resources and is therefore
not reported as an expenditure in governmental funds (15,891)

Other post employment benefits in the Statement of Activities does not
require the use of current resources and are therefore not reported as
expenditures in the governmental funds (7,100,713)

Change in Net Assets of Governmental Funds \$ (7,405,773)

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

Note 1 – Summary of certain significant accounting policies:

The financial statements of the Salmon River Central School District (the “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:

A) Reporting Entity:

The Salmon River Central School District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of 9 members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, The Financial Reporting Entity, as amended by GASB Statement 39, Component Units. 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 certain entities included in the District’s reporting entity.

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

i) 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.

B) Joint Venture:

The Salmon River Central School District is one of 11 component school districts in the Franklin-Essex-Hamilton BOCES. A 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 are also 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.

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component 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 districts pay tuition or a service fee for programs in which its students participate.

C) Basis of Presentation:

i) 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 revenues, and other exchange and nonexchange transactions.

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

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 program expenses and program revenues 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. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include 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. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

ii) Fund Financial Statements:

The fund 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, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

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

Special Revenue Funds: These funds account for the proceeds of specific revenue sources, such as federal and State grants, that are legally restricted to expenditures for specified purposes, child nutrition and school store operations or 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.

Capital Projects Funds: These funds are used to account for the financial resources used for acquisition, construction, or major repair of capital facilities. For these funds, each capital project is assessed to determine whether it is a major or non-major fund. Those capital projects that are determined to be major are reported in separate columns in the financial statements. Those that are determined to be non-major are reported in the supplemental schedules either separately or in the aggregate.

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

The District reports the following fiduciary funds:

Fiduciary Funds

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.

D) Measurement Focus and Basis of Accounting:

The District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange 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, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after the end of the fiscal year.

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

E) Cash and Investments:

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

Investments are stated at fair value.

F) Property Taxes:

Real property taxes are levied annually by the Board of Education no later than September 1, and became a lien on August 11, 2008. Taxes are collected during the period September 1, 2008 to November 3, 2008.

Uncollected real property taxes are subsequently enforced by the County in which the District is located. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following April 1.

G) Accounts Receivable:

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

H) Inventories:

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase and are considered immaterial in amount.

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

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

I) Due to/from Other Funds:

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 expenditure and revenues to provide financing or other services.

In the district-wide statements, the amounts reported on the Statement of Net Assets for interfund receivable 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.

Refer to Note 10 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

J) Capital Assets:

Capital assets are reported at historical cost if actual historical cost is available, or estimated historical cost if actual historical cost is not available. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 15,000	Straight-line	50 years
Building Improvements	15,000	Straight-line	20 years
Furniture and Equipment	5,000	Straight-line	15 years
Vehicles	5,000	Straight-line	8 years

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

K) Other Assets:

In the district-wide financial statements, bond issuance costs are capitalized and amortized over the life of the debt issue. In the funds statements, these same costs are netted against bond proceeds and recognized in the period of issuance.

L) Vested Employee Benefits:

Compensated absences

Compensated absences consist of unpaid accumulated annual sick leave, vacation and sabbatical time.

Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

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.

Consistent with GASB Statement 16, Accounting for Compensated Absences, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

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

M) Other benefits:

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

In addition to providing pension benefits, the District provides health insurance coverage and survivor benefits for 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 cost of providing post-retirement benefits is covered by the District. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

N) Budgetary Procedures and Budgetary Accounting:

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) which 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 by 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. No supplemental appropriations occurred during the year.

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

Encumbrances

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

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

O) Deferred Revenue:

Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise 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 revenues is removed and revenues are 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.

Many deferred revenues recorded in governmental funds are not recorded in the District-wide statements.

P) Restricted Resources:

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

Q) Equity classifications:

District-wide statements:

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

Invested in capital assets, net of related debt – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of those assets.

Restricted net assets – reports net assets when constraints placed on the assets are either externally 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 – reports 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.

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

Fund statements:

Unreserved fund balance consists of two classifications. A designation of unreserved fund balance indicates the planned use of these resources in the subsequent years' budget. The undesignated portion reports remaining fund balance that has not been designated or reserved. NYS Real Property Tax Law restricts the unreserved, undesignated fund balance of the General Fund to an amount not greater than 4% of the District's budget for the ensuing fiscal year.

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. The following reserve funds are available to school districts within the State of New York. These reserve funds are established through Board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become a part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund. Fund balance reserves currently in use by the District include the following:

Capital Reserve

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

Reserve for Debt Service

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

Reserve for Encumbrances

Reserve for Encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year.

Reserve for Inventory

This reserve is used to limit the investment in inventory and to restrict that portion of fund balance which is unavailable for appropriation. This reserve is accounted for in the Other Non Major Fund.

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

Workers' Compensation Reserve

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

Employee Benefit Accrued Liability Reserve

Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefits due 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.

R) 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 funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

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.

Note 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.

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

A) 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.

B) Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities:

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories. The amounts shown below represent:

i) Long-term revenue differences:

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues 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.

ii) 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.

iii) 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.

Note 3 – Stewardship, compliance and accountability:

The District's unreserved and undesignated fund balance was not in excess of the New York State Real Property Tax Law limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year.

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

Note 4 – Custodial credit and concentration of credit:

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. 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 previously in these Notes.

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 as of year-end includes \$ 45,314 within the governmental funds and \$110,232 in the fiduciary funds.

Note 5 – Participation in BOCES:

During the year ended June 30, 2009, the District was billed \$3,958,541 for BOCES administrative and program costs.

Participating school districts issue debt on behalf of BOCES. During the year ended June 30, 2009, the District did not issue serial bonds on behalf of BOCES.

The District's share of BOCES aid amounted to \$1,406,811.

Financial statements for the BOCES are available from the BOCES administrative office.

Note 6 – Investments:

The District did not hold any investments during the year.

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

Note 7 - Capital assets:

Capital asset balances and activity for the year ended June 30, 2009 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassific.</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 38,577	\$ 80,665	\$ -	\$ 119,242
Construction in progress	1,088,326	3,510,921	(1,310,821)	3,288,426
Total nondepreciable historical cost	<u>1,126,903</u>	<u>3,591,586</u>	<u>(1,310,821)</u>	<u>3,407,668</u>
Capital assets that are depreciated:				
Buildings	18,241,734	-	1,310,821	19,552,555
Machinery and equipment	7,489,484	240,276	41,226	7,688,534
Total depreciable historical cost	<u>25,731,218</u>	<u>240,276</u>	<u>1,352,047</u>	<u>27,241,089</u>
Less accumulated depreciation:				
Buildings	7,966,098	369,907	-	8,336,005
Machinery and equipment	5,146,510	351,963	41,226	5,457,247
Total accumulated depreciation	<u>13,112,608</u>	<u>721,870</u>	<u>41,226</u>	<u>13,793,252</u>
Total depreciable historical cost, net	<u>\$13,745,513</u>	<u>\$ 3,109,992</u>	<u>\$ -</u>	<u>\$16,855,505</u>

Depreciation expense was charged to governmental activities as follows:

Administrative services	\$ 483,558
Regular instruction	44,426
Pupil transportation	193,886
	<u>\$ 721,870</u>

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

Note 8 – Short-term debt:

The District may issue Revenue Anticipation Notes and Tax Anticipation Notes, in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RANs and TANs represent a liability that will be extinguished by the use of expendable, available resources of the fund.

The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which an insufficient or no provision is made in the annual budget. The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued.

The District may issue Bond Anticipation Notes, in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

Transactions in short-term debt for the year are summarized below:

	Beginning Balance	Issued	Redeemed	Ending Balance
RAN Maturing 6/19/09 at 2.58%	\$ 4,500,000	\$ -	\$ 4,500,000	\$ -
RAN Maturing 6/17/10 at 2.02%	-	4,500,000	-	4,500,000
RAN Maturing 6/17/10 at 2.75%	-	1,000,000	-	1,000,000
BAN Maturing 11/13/08 at 3.27%	57,900	-	57,900	-
BAN Maturing 11/12/09 at 3.07%	-	357,900	-	357,900
BAN Maturing 7/20/09 at 2.92%	-	2,250,000	-	2,250,000

Interest on short-term debt for the year was composed of:

Interest paid	\$ 116,504
Less interest accrued in the prior year	3,181
Plus interest accrued in the current year	<u>49,930</u>
Total expense	<u><u>\$ 163,253</u></u>

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

Note 9 – Long-term debt:

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

	Beginning Balance	Issued	Redeemed	Ending Balance	Amounts Due Within One Year
Government activities:					
Serial Bonds 2003	3,400,000	-	400,000	3,000,000	415,000
Energy Performance	1,350,153	-	100,923	1,249,230	104,785
Serial Bonds 2005	4,005,000	-	275,000	3,730,000	285,000
Bus Bond 2006	99,000	-	33,000	66,000	33,000
Lease-purchase oblig. 07	205,377	-	65,243	140,134	68,408
Lease-purchase oblig. 08	62,684	-	13,959	48,725	15,043
Bus Bond 2008	192,281	-	37,281	155,000	35,000
Serial Bonds 2008	-	1,440,000	-	1,440,000	70,000
Total bonds payable	9,314,495	1,440,000	925,406	9,829,089	1,026,236
Other liabilities					
Compensated absences	669,660	15,891	-	685,551	78,800
Total long-term liabilities	<u>\$ 9,984,155</u>	<u>\$ 1,455,891</u>	<u>\$ 925,406</u>	<u>\$ 10,514,640</u>	<u>\$ 1,105,036</u>

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences.

Existing serial and statutory bond obligations:

Description of issue	Issue Date	Final Maturity	Interest Rate	Outstanding June 30, 2009
Serial Bonds	2003	2017	3.80%	\$ 3,000,000
Energy Performance	2003	2018	3.79%	1,249,230
Serial Bonds	2005	2020	3.75%	3,730,000
Bus Bond	2006	2011	4.69%	66,000
Lease-purchase Obligation	2007	2012	4.85%	140,134
Lease-purchase Obligation	2008	2013	7.77%	48,725
Bus Bond	2008	2013	3.19%	155,000
Serial Bonds	2008	2024	4.25%	1,440,000
				<u>\$ 9,829,089</u>

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

The following is a summary of debt service requirements:

	Serial Bonds		Other Debt	
	Principal	Interest	Principal	Interest
Fiscal year ended June 30,				
2010	770,000	322,341	256,236	64,982
2011	700,000	293,116	269,730	53,824
2012	730,000	265,679	170,426	42,100
2013	760,000	237,053	157,278	35,145
2014	795,000	207,267	121,765	29,382
2015-2019	3,595,000	557,739	683,654	71,935
2020-2024	820,000	85,583	-	-
	<u>\$ 8,170,000</u>	<u>\$ 1,968,778</u>	<u>\$ 1,659,089</u>	<u>\$ 297,368</u>

Other debt consists of the Energy Performance debt, Bus Bond and installment purchase obligation.

Interest on long-term debt for the year was composed of:

Long-term debt

Interest paid	\$ 416,147
Amortized bond premium	26,630
Less interest accrued in the prior year	18,813
Plus interest accrued in the current year	<u>18,122</u>
Total expense	<u>\$ 442,086</u>

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

Note 10 – Interfund balances and activity:

	Interfund Receivable	Interfund Payable
General Fund	\$1,388,767	\$ 775,605
Special Aid Fund	-	537,160
School Lunch Fund	-	60,619
Capital Projects Fund	889,734	904,781
Total Government Agencies	2,278,501	2,278,165
Fiduciary Agency Fund	-	336
Totals	<u>\$2,278,501</u>	<u>\$2,278,501</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.

Note 11 – Post-employment (health insurance) benefits:

The District provides post-employment health insurance coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District's contractual agreements.

The District implemented GASB Statement #45, Accounting and Financial Reporting by employers for Post-employment Benefits Other than Pensions, in the school year ended June 30, 2009. This required the District to calculate and record a net other post-employment benefit obligation at year-end. The net other post-employment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

Currently, no retired employees have elected to use accumulated sick pay to finance health insurance payments under the District's group plans.

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the funds financial statements as payments are made. For the year ended June 30, 2009, the District recognized \$1,013,016 for its share of insurance premiums for currently enrolled retirees.

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

The District has obtained an actuarial valuation report as of June 30, 2009, which indicates that the total liability for other post employment benefits is \$7,100,713, which is reflected in the Statement of Net Assets.

Plan Description

The District participates in the Franklin-Essex-Hamilton BOCES Health Insurance Consortium, a non-risk-retained public entity risk pool for its employee health and accident insurance coverage. The pool is operated for the benefit of 11 individual governmental units located within the pool's geographic area and is considered a self-sustaining risk pool that will provide unlimited coverage for its members per insured event. The pool obtains independent coverage for insured events, and the District has essentially transferred all related risk to the pool.

Annual OPEB Cost and Net OPEB Obligation:

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) 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 changes in the District's net OPEB obligation to the health insurance plan:

Annual required contribution	\$ 8,665,016
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>8,665,016</u>
Contributions made	<u>(1,564,303)</u>
Increase in net OPEB obligation	7,100,713
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ 7,100,713</u></u>

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the two preceding years were as follows (dollar amounts in thousands):

<u>Year End*</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
6/30/2009	\$ 8,665,016	18.1%	\$ 7,100,713

*Data not available for two preceding years.

Funded Status and Funding Progress

As of the most recent actuarial valuation date, the plan was unfunded. The status as of June 30, 2009, was as follows:

Actuarial valuation date	7/1/2008
Actuarial accrued liability (AAL)	\$ 80,178,446
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 80,178,446</u>

Actuarial Value of Assets as a % of the AAL	
Covered payroll (active members)	\$ 13,861,977

UAAL as a percentage of covered payroll	17%
---	-----

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each 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.

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

In the July 1, 2008, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included an annual healthcare cost trend rate of 11% initially and then reduced by decrements to an ultimate rate of 5% after 12 years. Rates included a 4% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 29 years.

Note 12 – Pension plans:

General information:

The District participates in the New York State Teachers' Retirement System (NYSTRS) and the New York State Employees' Retirement System (NYSERS). 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.

Provisions and administration:

The New York State Teachers' Retirement Board administers NYSTRS. The System provides 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.

Funding policies:

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.

Salmon River Central School District

Notes to Financial Statements

June 30, 2009

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>Year</u>	<u>TRS</u>	<u>ERS</u>
June 30, 2009	\$1,054,168	\$267,796
June 30, 2008	957,052	330,913
June 30, 2007	858,336	251,846

Since 1989, the NYSERS billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability. The Salmon River Central School District elected to make the full payment.

The State Legislature authorized local governments to make available retirement incentive programs. Nothing was charged to expenditures in the Governmental Funds in the current fiscal year.

Note 13 – Risk management:

The Salmon River Central School 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 have not exceeded commercial insurance coverage for the past two years.

The District participates in the Franklin-Essex-Hamilton BOCES Workers' Compensation Insurance Consortium, a risk-sharing pool, to insure Workers' Compensation claims. This is a public entity risk pool created under Article 5 of the Workers' Compensation Law, to finance liability and risks related to Workers' Compensation claims. The School District has no liability as of June 30, 2009.

Note 14 – Contingencies and commitments:

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 upon prior audits, the District's administration believes disallowances, if any, will be immaterial.

Salmon River Central School District
Notes to Financial Statements
June 30, 2009

Note 15 – Fund balances:

Portions of fund balances are reserved and not available for current expenses or expenditures, as reported in the Governmental Funds Balance Sheet.

The main campus capital project fund had a deficit fund balance. This will be funded when the District obtains permanent financing for its current construction project.

Note 16 – 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 statement and the reported revenues and expenses 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.

Salmon River Central School District
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund
For the Year Ended June 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Variance With Budgetary Actual
REVENUES				
Local Sources				
Real property taxes	\$ 1,222,799	\$ 1,222,799	\$ 1,279,440	\$ 56,641
Other tax items	605,000	605,000	529,801	(75,199)
Charges for services	3,420,000	3,420,000	662,729	(2,757,271)
Use of money and property	235,000	235,000	408,340	173,340
Sale of property and compensation for loss	6,000	6,000	247,420	241,420
Miscellaneous	300,000	300,000	315,238	15,238
Interfund revenues	-	-	2,080	2,080
Total Local Sources	<u>5,788,799</u>	<u>5,788,799</u>	<u>3,445,048</u>	<u>(2,343,751)</u>
State Sources	25,998,957	25,998,957	23,857,815	(2,141,142)
Federal Sources	<u>193,000</u>	<u>193,000</u>	<u>147,069</u>	<u>(45,931)</u>
Total Revenues	<u>31,980,756</u>	<u>31,980,756</u>	<u>27,449,932</u>	<u>(4,530,824)</u>
OTHER FINANCING SOURCES				
Transfers from other funds	-	-	-	-
Total Revenues and Other Financing Sources	<u>31,980,756</u>	<u>31,980,756</u>	<u>27,449,932</u>	<u>(4,530,824)</u>

See paragraph on supplementary schedules included in auditors' report.

Salmon River Central School District
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund
For the Year Ended June 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-end Encumbrances	Final Budget Variance With Budgetary Actual And Encumbrances
EXPENDITURES					
Board of education	22,370	22,370	7,907	-	14,463
Central administration	192,550	192,050	168,724	-	23,326
Finance	366,465	349,815	287,671	9,200	52,944
Staff	171,030	288,710	220,782	-	67,928
Central services	3,238,050	3,249,477	2,636,206	7,471	605,800
Special items	439,040	452,578	382,957	-	69,621
Total General Support	4,429,505	4,555,000	3,704,247	16,671	834,082
Instruction, administration and improvement	1,021,500	1,064,558	913,924	-	150,634
Teaching - regular school	7,207,350	7,198,543	6,944,520	1,332	252,691
Programs for children with handicapping conditions	5,629,300	4,987,763	4,523,606	1,201	462,956
Occupational education	916,000	906,000	820,348	-	85,652
Teaching - special school	294,950	334,162	197,641	400	136,121
Instructional media	1,292,200	1,283,676	976,638	6,689	300,349
Pupil services	1,139,120	1,357,491	1,248,255	-	109,236
Total Instruction	17,500,420	17,132,193	15,624,932	9,622	1,497,639
Pupil transportation	1,471,100	1,472,100	597,404	1,975	872,721
Community services	16,650	23,650	19,296	-	4,354
Employee benefits	8,058,166	8,025,470	6,752,458	-	1,273,012
Debt service	1,690,000	1,655,413	1,462,157	-	193,256
Total Expenditures	33,165,841	32,863,826	28,160,494	28,268	4,675,064
OTHER FINANCING USES					
Transfers to other funds	282,000	596,587	577,951		18,636
Total Expenditures and Other Uses	33,447,841	33,460,413	28,738,445	\$ 28,268	\$ 4,693,700
Net change in fund balances	\$ (1,467,085)	\$ (1,479,657)	(1,288,513)		
Fund balance - beginning			4,836,445		
Fund balance - ending			\$ 3,547,932		

See paragraph on supplementary schedules included in auditors' report.

Salmon River Central School District

Schedules of Change from Original Budget to Revised Budget and Use of Unreserved Fund Balance -
General Fund
For the Year Ended June 30, 2009

CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET

Adopted budget	\$ 33,447,841
Add: Prior year's encumbrances	12,572
Original budget	<u>33,460,413</u>
Budget revision	<u>-</u>
Final budget	<u><u>\$ 33,460,413</u></u>

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -	
As of the beginning of the year	\$ 1,982,933
Less:	
Designated fund balance used for the levy of taxes - original budget	<u>579,165</u>
Undesignated Fund Balance -	
As of the beginning of the year	<u><u>\$ 1,403,768</u></u>

Salmon River Central School District
Schedule of Project Expenditures - Capital Projects Fund
For the Year Ended June 30, 2009

Project Title	Original Appropriation	Revised Appropriation	Prior Years' Expenditures	Current Year Expenditures	Total Expenditures	Available Balance
Ice Rink	1,440,000	1,440,000	374,440	936,381	1,310,821	129,179
Main Campus Phase 2	4,528,584	4,828,584	173,125	691,251	864,376	3,964,208
Main Campus Phase 3	43,882,648	43,582,648	540,761	1,966,257	2,507,018	41,075,630
Mohawk Addition	308,843	308,843	155,386	105,163	260,549	48,294
Mohawk Addition #2	457,771	757,749	468,169	-	468,169	289,580
Buses	-	300,000	-	231,775	231,775	68,225
WWTF Emergency	400,000	400,000	-	23,235	23,235	376,765
	<u>\$ 51,017,846</u>	<u>\$ 51,617,824</u>	<u>\$ 1,711,881</u>	<u>\$ 3,954,062</u>	<u>\$ 5,665,943</u>	<u>\$ 45,951,881</u>

See paragraph on supplementary schedules included in auditors' report.

Salmon River Central School District
Schedule of Certain Revenues and Expenditures Compared to ST-3 Data
For the Year Ended June 30, 2009

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Real Property Taxes	A-1001	1,279,440	1,279,440
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	23,857,815	23,857,815
Federal Aid	AT-4999	147,069	147,069
Total Revenues	AT-5999	27,449,932	27,449,932
EXPENDITURES			
General Support	AT-1999	3,704,250	3,704,250
Pupil Transportation	AT-5599	597,404	597,404
Debt Service - Principal	AT-9798.6	885,646	885,646
Debt Service - Interest	AT-9798.7	576,509	576,509
Total Expenditures	AT-9999	28,738,445	28,738,445

Salmon River Central School District

Schedule of Revenues and Expenditures for the Mohawk School - General Fund
For the Year Ended June 30, 2009

REVENUES

Charges for services	\$ 7,615
Use of money and property	5,940
Sale of property and compensation for loss	815
Miscellaneous	27,325
State sources	7,829,554
Total Revenues	<u>7,871,249</u>

EXPENDITURES

General support	1,049,553
Instruction	4,148,226
Employee benefits	2,141,699
Debt service	157,511
Total Expenditures	<u>7,496,989</u>

Excess of Revenues Over Expenditures	<u>374,260</u>
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OTHER FINANCING SOURCES AND USES

Operating transfer out	<u>(374,260)</u>
Total Other Sources and Uses	<u>(374,260)</u>

Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>
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Salmon River Central School District
 Combined Balance Sheet-Non-Major Governmental Funds
 June 30, 2009

	School Lunch	Non-Major Capital Projects	Total Non-Major Funds
ASSETS			
Cash			
Unrestricted	\$ -	\$ 276,275	\$ 276,275
Restricted	-	330	330
Receivables			
Other	18,684	-	18,684
Due from other funds	-	202,679	202,679
State and Federal aid	55,062	-	55,062
Inventories	26,552	-	26,552
Total Assets	<u>\$ 100,298</u>	<u>\$ 479,284</u>	<u>\$ 579,582</u>
LIABILITIES			
Payables			
Accounts payable	\$ 832	\$ 54,210	\$ 55,042
Accrued liabilities	907	-	907
Accrued interest	-	6,928	6,928
Due to other funds	60,619	32,746	93,365
Due to other governments	129	-	129
Notes payable			
Bond anticipation notes	-	357,900	357,900
Total Liabilities	<u>62,487</u>	<u>451,784</u>	<u>514,271</u>
FUND BALANCES			
Reserve for encumbrances	-	15,000	15,000
Capital reserve	-	330	330
Reserve for inventory	26,552	-	26,552
Unreserved-Designated for subsequent year's expenditures	5,000	-	5,000
Unreserved-Undesignated	6,259	12,170	18,429
Total Fund Balances	<u>37,811</u>	<u>27,500</u>	<u>65,311</u>
Total Liabilities and Fund Balances	<u>\$ 100,298</u>	<u>\$ 479,284</u>	<u>\$ 579,582</u>

See paragraph on supplementary schedules included in auditors' report.

Salmon River Central School District

Combined Statement of Revenues, Expenditures and Changes in Fund Equity-Non-Major Governmental Funds
For the Year Ended June 30, 2009

	<u>School Lunch</u>	<u>Non-Major Capital Projects</u>	<u>Total Non-Major Funds</u>
REVENUES			
Use of money and property	\$ 1,417	\$ -	\$ 1,417
State sources	28,218	-	28,218
Federal sources	596,639	-	596,639
Surplus food	41,056	-	41,056
Sales - school lunch	241,107	-	241,107
Total Revenues	<u>908,437</u>	<u>-</u>	<u>908,437</u>
EXPENDITURES			
General support	334,457	-	334,457
Instruction	-	-	-
Pupil transportation	-	-	-
Employee benefits	284,014	-	284,014
Cost of sales	536,897	-	536,897
Capital outlay	-	360,173	360,173
Total Expenditures	<u>1,155,368</u>	<u>360,173</u>	<u>1,515,541</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(246,931)</u>	<u>(360,173)</u>	<u>(607,104)</u>
OTHER FINANCING SOURCES AND USES			
Operating transfers in	249,587	280,000	529,587
Operating transfers out	-	-	-
Proceeds from debt	-	-	-
Total Other Sources and Uses	<u>249,587</u>	<u>280,000</u>	<u>529,587</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	2,656	(80,173)	(77,517)
Fund Balances - Beginning of year	35,155	107,673	142,828
Fund Balances - End of year	<u>\$ 37,811</u>	<u>\$ 27,500</u>	<u>\$ 65,311</u>

See paragraph on supplementary schedules included in auditors' report.

Salmon River Central School District
Investment in Capital Assets, Net of Related Debt
June 30, 2009

Capital assets, net		\$ 16,855,505
Add:		
Unamortized bond issuance costs		358,546
Deduct:		
Bond anticipation note	2,607,900	
Short-term portion of bonds payable	1,026,236	
Long-term portion of bonds payable	<u>8,802,853</u>	<u>12,436,989</u>
Investment in capital assets, net of related debt		<u>\$ 4,777,062</u>

See paragraph on supplementary schedules included in auditors' report.

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Carl A. Seyfarth Jr. CPA
Ann E. Seyfarth CPA

**Independent Auditors' Report on the
Extraclassroom Activity Fund**

To the Board of Education
Salmon River Central School District

We have audited the accompanying Statement of Assets, Liabilities, and Fund Balance - Cash Basis of the Extraclassroom Activity Fund of Salmon River Central School District as of June 30, 2009. This financial statement is the responsibility of Salmon River Central School District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Appendix F of the Minimum Program for Audits of Financial Records of New York State School Districts, *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the Office of Management and Budget Circular A-133, Audits of States and Local Governments. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Statement of Assets, Liabilities and Fund Balance - Cash Basis of the Extraclassroom Activity Fund of Salmon River Central School District is intended to present the financial position of only that portion of the funds of the School District that is attributable to the transaction of the Extraclassroom Activity Fund.

The School District's policy is to record the activity of the Extraclassroom Activity Fund on the basis of cash receipts and disbursements, as discussed in Note 1.

Our audit was made for the purpose of forming an opinion on the Statement of Assets, Liabilities, and Fund Balance - Cash Basis. The accompanying Schedule of Extraclassroom Activity Fund Cash Receipts, Disbursements and Ending Balances is presented for the purpose of additional analysis and is not a required part of the financial statements of the Extraclassroom Activity Fund of Salmon River Central School District.

The Schedule of Extraclassroom Activity Fund Cash Receipts, Disbursements and Ending Balances has been subjected to the auditing procedures applied in the audit of the Statement of Assets, Liabilities and Fund Balance - Cash Basis.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the Extraclassroom Activity Fund of the Salmon River Central School District for the year ended June 30, 2009, on the basis of accounting described in Note 1.

Seyfarth & Seyfarth CPAs, P.C.
Seyfarth & Seyfarth CPAs, P.C.

November 2, 2009

Salmon River Central School District

Statement of Assets, Liabilities and Fund Balance - Extraclassroom Activity Fund - Cash Basis
June 30, 2009

Cash	<u>\$ 76,187</u>
Fund Balance	<u>\$ 76,187</u>

Salmon River Central School District

Schedule of Receipts, Disbursements and Ending Balances - Extraclassroom Activity Fund
For the Year Ended June 30, 2009

Activity	Beginning Balance July 1, 2008	Receipts	Expenditures	Ending Balance June 30, 2009
Band Club	\$ 178	\$ 1,226	\$ 1,099	\$ 305
Chorus	648	1,574	1,028	1,194
Drama Club	1,279	2,415	1,383	2,311
Class of 2008	4	-	4	-
Class of 2009	7,366	48,982	56,345	3
Class of 2010	5,767	11,146	9,695	7,218
Class of 2011	3,086	3,788	3,023	3,851
Class of 2012	3,830	752	372	4,210
Class of 2013	2,738	4,440	2,500	4,678
Class of 2014	-	4,540	2,584	1,956
FFA	2,156	7,366	6,017	3,505
French Club	1,157	-	91	1,066
Health Club	1,631	2,034	1,568	2,097
Mohawk Club	2,130	931	694	2,367
Jr National Honor Society	-	326	43	283
National Honor Society	3,644	5,596	4,868	4,372
Spanish Club	3,623	6,672	9,050	1,245
Student Council	3,868	7,713	10,467	1,114
Student Council Mohawk School	1,722	3,511	3,672	1,561
Yearbook Club	13,188	10,729	12,047	11,870
Students Who Care	1,206	10,452	11,367	291
Varsity Club	25,598	59,953	64,861	20,690
Total	<u>\$ 84,819</u>	<u>\$ 194,146</u>	<u>\$ 202,778</u>	<u>\$ 76,187</u>

Salmon River Central School District
Notes to Financial Statements – Extraclassroom Activity Fund
June 30, 2009

Note 1 - Summary of Significant Accounting Policies

The transactions of the Extraclassroom Activity Funds are not considered part of the reporting entity of the Salmon River Central School District. Consequently, such transactions are not included in the combined financial statements of the School District.

The books and records of the Salmon River Central School District's Extraclassroom Activities Funds are maintained on the cash basis of accounting. Under this basis of accounting, revenues are recognized when cash is received and expenditures recognized when cash is disbursed.

Salmon River Central School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
US Department of Education			
Passed through State Dept. of Education			
ESEA-Title I A&D	84.010	0021-09-0925	\$ 495,443
ESEA-Title I Distinguished School	84.010	0011-09-0500	10,000
ESEA-Title IV Safe and Drug Free Schools	84.186	0180-09-0925	9,135
Title II Part A	84.367	0147-09-0925	135,621
Special Education Cluster:			
IDEA-Part B Section 619	84.173	0033-09-0261	13,255
IDEA-Part B Section 611	84.027	0032-09-0261	424,227
			<u>437,482</u>
Title VI Part B	84.358	0006-09-0925	47,269
Title II Part D	84.318	0292-09-0925	4,854
Title VII	84.060	S060A080399	407,167 *
Total US Dept. of Education			<u>1,546,971</u>
US Department of Agriculture			
Passed through State Dept. of Education			
Child Nutrition Cluster:			
National School Lunch	10.555	n/a	434,818
National School Breakfast	10.553	n/a	163,424
Snack	10.555	n/a	14,967
Summer Food Service	10.559	n/a	23,284
Total US Dept of Agriculture			<u>636,493 *</u>
Total Federal Awards			<u>\$ 2,183,464</u>

* Major Programs

Salmon River Central School District
Notes to Schedule of Expenditures of Federal Awards
June 30, 2009

Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards presents the activity Federal award programs administered by the District, which is described in Note 1 to the District's accompanying financial statements, using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Certain of the District's Federal award programs have been charged with indirect costs, based upon an established rate applied to overall expenditures. There is no other indirect cost allocation plan in effect.

Matching costs (the District's share of certain program costs) are not included in the reported expenditures.

Note 2 – Subrecipients:

No amounts were provided to subrecipients.

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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***

To the Board of Education
Salmon River Central School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salmon River Central School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 2, 2009. We also have audited the aggregate nonmajor governmental funds, and each fiduciary fund type of Salmon River Central School District, as of and for the year ended June 30, 2009. 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 Salmon River Central School 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 Salmon River Central School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Salmon River Central School 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Salmon River Central School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Salmon River Central School District's financial statements that is more than inconsequential will not be prevented or detected by the Salmon River Central School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 09-1, 08-1, 07-2, and 06-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Salmon River Central School District's internal control.

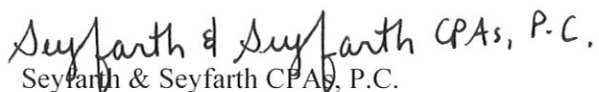
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant weaknesses described above, we consider item 09-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salmon River Central School 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 in the accompanying schedule of findings and questioned costs as items 06-2, 06-10, and 05-1.

Salmon River Central School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Salmon River Central School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, 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.


Seyfarth & Seyfarth CPAs, P.C.

November 2, 2009

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Carl A. Seyfarth Jr. CPA
Ann E. Seyfarth CPA

**Report on Compliance With Requirements Applicable to Each Major Program and
Internal Control Over Compliance in Accordance With OMB Circular A-133**

To The Board of Education
Salmon River Central School District

Compliance

We have audited the compliance of Salmon River Central School District with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2009. Salmon River Central School 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 Salmon River Central School District's management. Our responsibility is to express an opinion on Salmon River Central School 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, Audits of States, Local Governments, and Nonprofit Organizations*. 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 Salmon River Central School 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 on Salmon River Central School District's compliance with those requirements.

In our opinion, Salmon River Central School District complied, in all material respects with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 06-10.

Internal Control Over Compliance

The management of Salmon River Central School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Salmon River Central School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

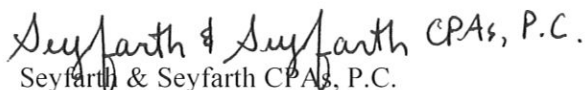
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 06-10 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Salmon River Central School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Salmon River Central School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the Board of Education, management, 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.

 CPAs, P.C.
Seyfarth & Seyfarth CPAs, P.C.

November 2, 2009

Salmon River Central School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal Control over financial reporting:		
Material weakness identified?	<u> x </u> Yes	<u> </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> x </u> Yes	<u> </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> x </u> No

Federal Awards

Internal control over major programs:		
Material weakness identified?	<u> </u> Yes	<u> x </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> x </u> Yes	<u> </u> None reported

Type of auditors' report issued on compliance for major programs	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<u> x </u> Yes	<u> </u> No
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Identification of major programs:	
CFDA Numbers	Name of Federal Program or Cluster

84.060	Title VII
10.555, 10.553	Child Nutrition Cluster

Dollar Threshold used to distinguish between type A and type B programs	\$300,000
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Auditee qualified as low-risk auditee?	<u> x </u> Yes	<u> </u> No
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Salmon River Central School District
Schedule of Findings and Questioned Costs
June 30, 2009

Section II – Financial Statement Findings

09-1 Review of Native American Aid Claims

Condition

During our audit we noted that Native American Tuition revenue was significantly lower than in prior years. For the years ended 2006, 2007 and 2008 the claims were filed and paid by the State Education Department based on incorrect rates. SED recouped the overpayments of approximately \$947,000. Management failed to properly review the claim forms, and as a result the error was not detected and incorrect claims were made.

Recommendation

We recommend that management thoroughly review all claim forms, including verifying that proper rates are being used in the calculations.

Management's Response

The Native American Aid claim forms were completed in the same fashion that our office was instructed to complete them. We used the same method and rates that were used for several years prior. After the forms were completed and sent in, the District was informed that we should have been using a unique Native American non-resident tuition rate. This unique rate is not accessible through normal SED channels of information. This year we used the rate currently specified by SED via a private link provided by them directly to us. We are in the process of investigating whether this new rate will adequately and equitably fund our Native American high cost and tuition.

Salmon River Central School District
Schedule of Findings and Questioned Costs
June 30, 2009

Section III – Federal Award Findings and Questioned Costs

See item 06-10 for prior year uncorrected Federal award finding.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2009

08-1 Computer Access
Status – Not Corrected

Condition

The District began using Finance Manager financial software during the year. It is common to start with broad access assignments when first using a new computer program. However, access must be reduced and refined as processes are developed. When reviewing the computer access reports we noted that there still appeared to be several users with access that did not fit their duties.

Improper privileges can negate effective internal controls and physical segregation of duties. Furthermore, it may make sensitive information accessible to individuals to whom it should not be available.

Recommendation

We recommend that management review all access privileges. They should keep the users' duties and the desired control structure in mind as they perform the review. They should make sure that privileges do not circumvent the physical segregation of duties and that viewing privileges are granted only to users that really need the information.

Management's Response

After training with and adapting our software to our needs, we made great strides in limiting and focusing the permissions for our Finance Manager users. We intend to review them twice per year.

08-2 Financial Statement Reporting and Closing Process
Status – Corrected

Condition

Management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial statements and disclosures in conformity with accounting principles generally accepted in the United States of America (GAAP). The District does not have a system of internal controls that would enable management to conclude that the financial statements and related disclosures are complete and presented in accordance with GAAP.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2009

We noted that the District did not capitalize two buses costing approximately \$167,000. The District thought that the buses were the property of the State Education Department but the title to them is in the District's name. The District did not have a contract or other documentation supporting its position.

Recommendation

We recommend that management educate itself on financial statement preparation and develop a system to ensure that financial statements and disclosures are properly prepared.

Management's Response

Salmon River Central school district includes a Native American Reservation school and is the very poorest school district in the State of New York. As a result, we have very unique and complex financial accounting and reporting requirements. Since most of our staff in the business office is new to their positions, we have scheduled several staff workshops through NYASBO and our local network organizations. One of those workshops is focused specifically on preparing our own financial statements. We are also making efforts to reach out for assistance from SED and Questar BOCES when needed. In addition, we have realigned the business office staff offices and desks to facilitate cooperation.

08-3 Record Retention (Child Nutrition Cluster CFDA 10.555)

Status – Corrected

Condition

We selected 40 participants for eligibility testing. The District could not locate Free and Reduced lunch applications for 4 of the selected participants. The remaining 36 applications were properly classified as free or reduced. We noted that the staff performing and maintaining eligibility determinations changed during the fiscal year.

The District is required to maintain supporting documentation for its eligibility determinations. Failure to do so could result in disallowed costs.

Recommendation

We recommend that the District develop a system for retention of eligibility applications and determinations. The system should provide for consistent treatment of this information regardless of the staff involved.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2009

Management's Response

We recently appointed a new and more efficient staff person to this function and she has grown into the position very well. As an additional measure, we will schedule a spot-check review of 40 applications in November and March of each year.

07-2 Payroll Account Coding
Status: Not Corrected

Condition

Time sheets are not fully completed by supervisors or building principals. The bottom portion of the time sheet containing time worked, hourly rate and general ledger account coding is completed by the payroll clerk. The payroll clerk should not have the authority to determine hourly rates and general ledger account codes.

Recommendation

We recommend that supervisors or building principals provide information on time sheets regarding pay rates and the proper allocation of time worked to functional codes. Time allocations should include the division of time between the Campus and Mohawk schools if applicable.

Management's Response

Our Administrative Clerks received training from the Business Official and the Payroll Clerk on how to follow through with this important administrative duty. Training directly with Administrators is being planned.

06-2 Incomplete I-9 Forms
Status: Not Corrected

Condition

During our payroll testing, we noted that some I-9 Forms were not filled out as to what documents were looked at by the employer. The I-9 form either said "see attached" or was blank in the verification section. If the I-9 is not fully completed and attached documentation was separated from the form, the District would have no documented evidence to show compliance with the law.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2009

We also noted that for some employees photocopies of drivers licenses, IDs and Social Security cards are retained with Form I-9 and that for other employees there are no photocopies. According to the US Citizenship and Immigration Service, retaining copies is permissible, but where this practice is undertaken it must be consistently applied to every employee. Inconsistent practices could lead to a charge of discrimination.

Recommendation

We recommend that all I-9s Forms be completely filled out documenting what evidence was reviewed. Further, we recommend that the District adopt a consistent method for document retention.

Management's Response

We have already created a new process that meets the requirements fully. When time permits, we will have our long-time employees provide us with the information required.

06-3 Payroll Approval
Status: Not Corrected

Condition

This year, we further noted that an excel spreadsheet was used to track employee steps and calculate corresponding wages. There was no evidence that this spreadsheet was reviewed by management. The spreadsheet information was then manually input into Finance Manager with no comparison or review by management. Since the District began using Finance Manager there should be no need for outside calculations and manual input.

During our payroll testing, we noted that only the hours worked by hourly employees are approved by their supervisors on time sheets. There is no evidence of pay rate approval. The payroll register approved by the superintendent merely has the hours and amount paid but does not have the hourly pay rates. Without the proper approval process, there is an opportunity for hourly employees to be paid an incorrect rate.

Recommendation

We recommend that a supervisor or administrator verify and approve pay rates for hourly employees.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2009

Management's Response

Currently, the Business Official performs a comprehensive review of payroll. Administrators and Supervisors will be instructed to also participate in this process.

06-10 Payroll Certification
Status: Partially Corrected

Condition

During our testing of salaries for the major programs (CFDA 84.357 and 84.060), we noted that the charges were not supported by time sheets that clearly show the services provided to the program and did not show all the activities the person performed. Time sheets only showed the services to be charged to that program. Without adequate time records, Federal grants may be charges for services not rendered. OMB-A-87 requires semi annual certifications for employees working in a single Federal program and time records for those working in multiple programs.

Recommendation

We recommend that the District implement a system which complies with the requirements of OMB-A-87.

Management's Response

The Office of Instruction is informed of the additional requirements and will adapt their process accordingly.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2009

05-1 – Extra Classroom
Status-Partially Corrected

Condition

During our discussion of Extra Classroom Activities, we noted that the activities do not maintain proper by-laws, constitutions, minutes of meetings or student general ledgers. Many of the ledgers are being kept by advisors and not filled out until the treasurer sends the treasurer's report to the club. If accounts are not reconciled on a monthly basis, fraud or misappropriation of money could occur during the year without being noticed. Without proper documentation of minutes and constitutions, there is no proof that the money is actually being spent for what the students want and agree upon. This could also lead to potential misappropriation of student funds.

During the year 05-06, we noted that many of the cash receipts were submitted to the Central Treasurer by the advisors rather than students. We also noted instances where the advisor paid for club items using personal monies or a personal credit card and then was reimbursed by the extraclassroom account. In most of these cases, there was no documentation that the students concurred with these purchases.

Recommendation

We recommend that there be a discussion with all parties involved with student activities regarding the requirements they should be following. All clubs should draft constitutions, maintain minutes to all meetings and a student general ledger. Treasurer's reports should be sent to the student activities at least once a month and reconciled to the student general ledger by the treasurer of the activity. The students should maintain student ledgers in a timely fashion and entries should be made prior to receiving the treasurer's report. All deposits to the Central Treasurer should be made by students. All disbursements should be made with extraclassroom funds, with proper documentation of student approval.

Management's Response

We provided training for Administrators and advisors on how to improve the financial and organizational affairs of the various extra-classroom activities. However, we didn't train the students. We will need to offer the same training to the students and look into choosing a faculty advisor to make sure the groups create constitutions that reflect their goals, keep adequate minutes for their meeting and current financial records.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2009

00-2 Fund Balance
Status – Corrected

Condition

While performing testing on the general fund balance, we noted that the unappropriated fund balance exceeded 4% of next year's budget. According to the School Law Book for New York State Board Association – Section 19:38, a district's unappropriated fund balance may not exceed an amount equal to 4% of its next year's budget.

Recommendation

We recommend that Salmon River Central School District keep in mind the 4% rule when preparing next year's budget.

Management's Response

The Administration will work with the Board of Education to create an accrued liability reserve fund to reduce our unreserved fund balance. The possibility also exists for creating a capital reserve fund to further reduce our fund balance.