

**Salmon River Central School District
Annual Report
June 30, 2010**

Salmon River Central School District

Table of Contents

June 30, 2010

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-14
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Statement of Revenues, Expenditures and Changes in Fund Equity - Governmental Funds	18
Statement of Fiduciary Net Assets - Fiduciary Funds	19
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	19
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	20-21
Reconciliation of Governmental Funds Revenues, Expenditures, and Changes in Fund Equity to Statement of Activities	22-23
Notes to Financial Statements	24-46
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	47-48
Schedules of Change from Original Budget to Revised Budget and Use of Unreserved Fund Balance - General Fund	49
Schedule of Project Expenditures - Capital Projects Fund	50

Salmon River Central School District

Table of Contents

June 30, 2010

	Page
Schedule of Certain Revenues and Expenditures Compared to ST-3 Data	51
Schedule of Revenues and Expenditures for the Mohawk School - General Fund	52
Combined Balance Sheet-Non-Major Governmental Funds	53
Combined Statement of Revenues, Expenditures and Changes in Fund Equity-Non-Major Governmental Funds	54
Investment in Capital Assets, Net of Related Debt	55
Independent Auditors' Report on the Extraclassroom Activity Fund	56-57
Statement of Assets, Liabilities and Fund Balance - Extraclassroom Activity Fund - Cash Basis	58
Schedule of Receipts, Disbursements and Ending Balances - Extraclassroom Activity Fund	59
Notes to Financial Statements - Extraclassroom Activity Fund	60
Schedule of Expenditures of Federal Awards	61
Notes to Schedule of Expenditures of Federal Awards	62
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63-64
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	65-66
Schedule of Findings and Questioned Costs	67--69
Summary Schedule of Prior Year Audit Findings	70-74

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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, 2010 which collectively comprise the District's basic financial statements as listed in the table of contents. 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 of Salmon River Central School District as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 47 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salmon River Central School District's financial statements as a whole. 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 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Seyfarth & Seyfarth CPAs, P.C.

October 28, 2010

**Salmon River Central School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

The following is a discussion and analysis of the School District's financial performance for the fiscal year ended June 30, 2010. 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 57% of the School District population is comprised of students from families living on the St. Regis Mohawk Reservation and 65% 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 provide 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 0.147. To put this number into perspective, 1.0 equals the average wealth for a District. This number continues to place us as the *absolute poorest school district in the State of New York* as measured by our income and property wealth. Based on the 2010-11 State Aid Factors data, the State average property value and income behind each pupil was \$597,300 and \$189,500 respectfully. In Salmon River CSD, our corresponding figures were \$71,845 and \$33,090. As these figures clearly express, we are a District burdened with substantial poverty and a lack of wealth.

As a result of our lack of local financial resources, Salmon River receives most of its monies from State and Federal sources. There is very little wealth to tax in our District, so only a minimal amount of funds can be raised by increasing taxes. The district remains hopeful that

New York State will hold to its commitment of sharing more educational resources with districts like ours that have minimal financial resources. *Simply put, we need more State Aid to provide a sound basic education to our District's children.* And as the Campaign for Fiscal Equity has reaffirmed through NYS Courts, this is the affirmative duty of the State. It is the law of the land.

Although the State is struggling to balance its own budget during challenging economic times, we must trust that the State will remain true to its promise to provide equitable educational funding for our children through the Foundation Aid formula. By honoring this promise and increasing aid to the poorest NYS Districts in the coming years, the State can meet its constitutional obligation.

To date, this has not come to pass. During the economic crisis two years ago, Salmon River received \$333,770 less NY State Aid than the year prior. Yet, the Foundation Aid formula proposed to make school funding more equitable over the course of four years. Last year the State postponed its implementation for two years and reduced our NY State Aid again by nearly one million dollars. Our educational funding decreased, but our enrollment and poverty level increased. Currently, the State flounders on whether to continue the foundation aid program within two years' time or delay its promised implementation further.

As a result of the reduction in NY State Aid, Salmon River CSD needed to eliminate 19 instructional positions to bring our budget in line with our revenues. The children lost nine Teachers, six Teaching Assistants and four Teacher Aides. Additionally, we cut our technology staffing and athletic programs. We were also forced to cut our music and art staff as well.

The District hopes and trusts that the State will provide Salmon River CSD with the needed funding to maintain our current teaching staff this year. However, current NY State Aid projections show further reductions in aid. More State Aid is needed if we are to meet our Board of Education goal of improving our graduation rate.

The graduation rate for our Native American students is only 56% compared to the State average of 71%. And our economically disadvantaged students only achieved a 61% graduation rate. Also, children in the Elementary grades are losing ground on State assessment testing since the reduction of State Aid began two years ago. There is a direct correlation between State Aid funding and student performance in our District.

The School District employs approximately 362 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, 2013. Average salary increases for all units remain near 4 % for the 2009-10 school year.

Student enrollment held relatively steady this school year at 1,635. However, our overall trend has shown increasing enrollment. 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 have increased the amount of State aid we received, but some aid formulas are frozen. This has an unjust effect on poorer Districts like ours who are growing in student population, but have no tax base to tap into. 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 phase is partially complete. The second and third phase of our project involves upgrading and expanding the infrastructure of the Campus school with a new High School and Middle School wing, new classrooms; a BOCES trades academy, new cafeteria and a new gymnasium. Also, our bus garage will be expanded in a fourth phase.

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 planet. 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 a wind turbine.

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 is being used to expand our agricultural technology programs. Our BOCES construction trades academy has just been completed 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 are touch sensitive and can access the Internet. Also, sound enhancement systems are being added in the new classrooms to improve instruction. The District is also partnering with the Cyber-learning Academy to offer online courses to students and staff as part of the Qualified Zone Academy Bond program (QZAB).

This QZAB program provides zero-based bonds and will be used to finance the renovations portion of our construction project. Also, the District has a 98% Building Aid ratio and 1.2 million dollars of NYS excel money to apply to the local share. Additionally, we will receive Native American Building Aid for nearly half of the project's cost. All these elements come together to make our building project have no negative effect on local taxes.

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			
	District-Wide	Fund Financial Statements	
		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, 2009 to 2010 changed dramatically from \$599,603 to \$14,056,142 (See Figure A-2). Our total Liabilities were affected in a similar way. They changed from \$27,349,051 to \$51,519,919. Our increase in net assets is due primarily to our receipt of Native American Building Aid for our capital project.

The change in net liabilities is due largely 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, 2010		
<u>Governmental Activities and Total School District</u>		
	<u>2008-2009</u>	<u>2009-2010</u>
Total Assets:	\$ 27,948,654	\$ 65,576,061
Total Liabilities:	<u>27,349,051</u>	<u>51,519,919</u>
Total Net Assets	\$ <u>599,603</u>	\$ <u>14,056,142</u>

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 stayed at 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 several teaching staff positions. We will continue cutting in these ways until we receive revenues to match our needs.

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. We are also developing plans to purchase propane fueled buses. Propane has less environmental impact and will diversify our fuel sources, hedging us against the unstable price of fuel.

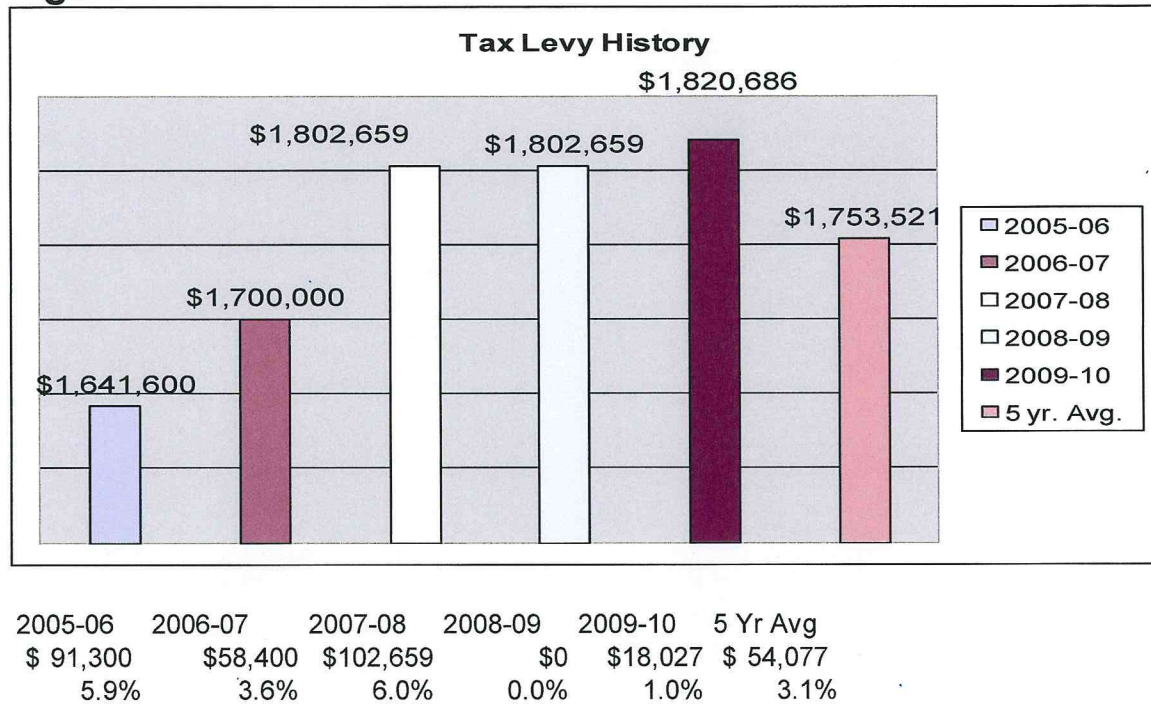
The District has a locked-in bid price for fuel oil and purchases electricity through cooperative purchasing, but prices for these commodities fluctuate every year. Also, the expenses relating to our school lunch program continue to increase dramatically as a result of our Board's decision to fight childhood obesity by purchasing higher quality foods and providing more fresh fruits and vegetables.

Figure A-3

Changes in Net Assets from Operating Results

<u>Governmental and Total School District</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Percent Change</u>
Revenues			
Use of Money and Property	\$ 79,772	\$ 42,368	-46.89%
Sale of Property and Compensation for Loss	247,210	6,701	-97.29%
Property Taxes	1,809,241	1,833,529	1.34%
State Formula Aid	22,947,352	42,667,739	85.94%
Federal	2,091,487	2,906,503	38.97%
Medicaid Reimbursement	147,069	-	-100.00%
Miscellaneous	327,615	386,584	18.00%
Total Revenues	<u>\$ 27,649,746</u>	<u>\$ 47,843,424</u>	<u>73.03%</u>
Expenses			
General Support	\$ 5,646,881	\$ 5,798,947	2.69%
Instruction	25,883,659	24,961,720	-3.56%
Transportation	2,510,885	2,429,617	-3.24%
Community Service	33,433	34,318	2.65%
Debt Service	605,337	697,757	15.27%
Capital Outlay - Moahwk School	105,163	19,895	-81.08%
Other Expenditures	15,427	27,261	76.71%
School Lunch Program	254,734	417,370	63.85%
Total Expenses	<u>\$ 35,055,519</u>	<u>\$ 34,386,885</u>	<u>-1.91%</u>

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 4% of our total revenues or \$1,833,529 with the STAR program. We held the tax levy amount to a very modest amount of 1% 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 3.1%. (See figure A-3a above)

Figure A-4

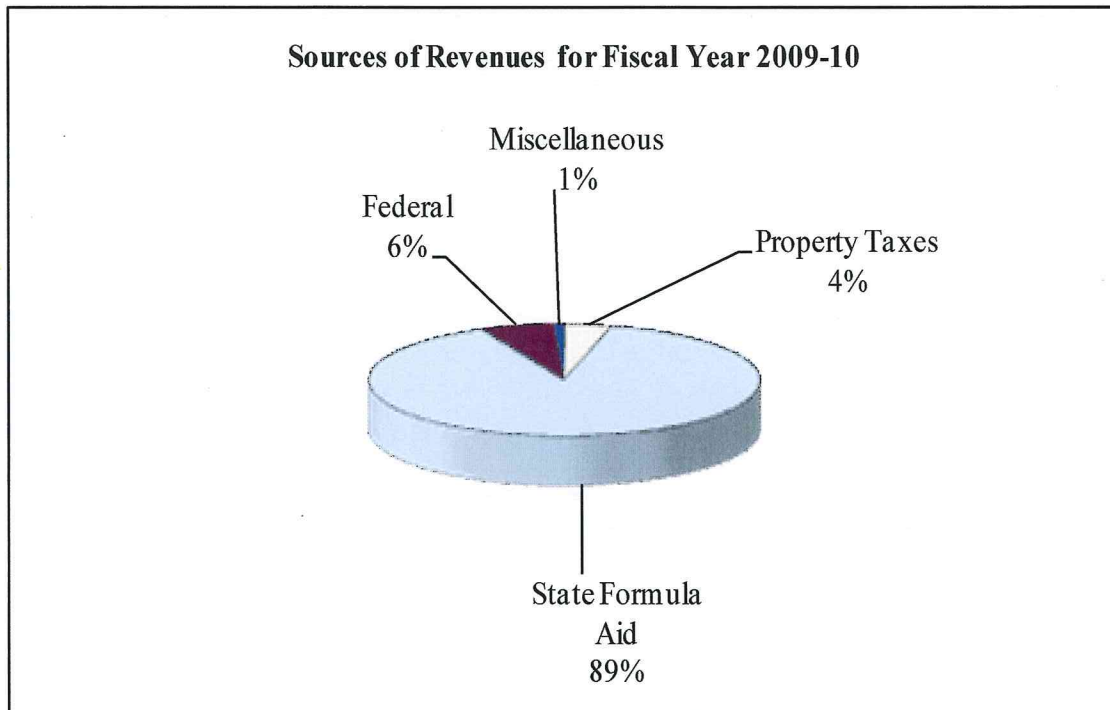
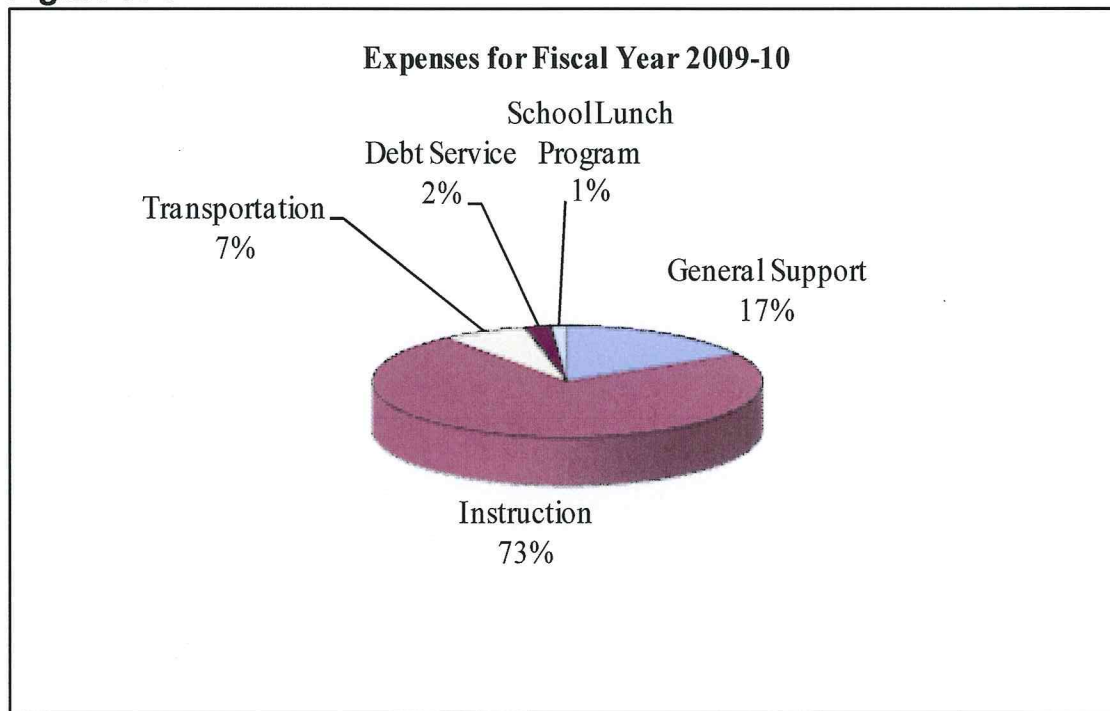


Figure A-5



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a General fund balance of \$3,274,880. This amount is near the 4% limit specified by Real Property Tax Law. However, as our salary and operating expenses increase, we find it increasingly difficult to maintain a strong fund balance. The District has a long range plan to use limited amounts from our reserves in the coming years to offset the loss of the Foundation Aid increases promised by the State. To date, we have kept true to our plan by cutting staff and limiting our purchases.

The school lunch program continues to be supported by funds from the General Fund because it has not supported 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, has limited this program's ability to be self-sustaining, but we are making several changes to bring the program close to self-sufficiency.

To reduce the General Fund transfer to the cafeteria, we hired a consultant to generate cost saving ideas. He recommended several food purchasing strategies that will achieve nutritious meals at less cost. The District also decided to share our cafeteria management expense with a neighboring District through a BOCES shared service. This will not only reduce the cost of managing the cafeteria, it will generate BOCES aid. Our aid ratio for BOCES services is 90%. Moving in this direction will be very beneficial to the Cafeteria Program's financial bottom-line. We have a long range goal of moving our Cafeteria Program into the black.

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, but will be reduced. Since the 2009-10 school year, the District has offered 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 have captured nearly the same revenue from charging for the meals. Also, the students are fed more efficiently. Our overcrowded cafeteria lines will move at twice the speed if we do not have to slow down the line to collect money. It offers an administrative advantage as well. Staff does not have to hunt down money from parents who do not pay. Also, more children will eat breakfast in the morning when it is offered free of charge.

The special aid fund provides the district with a variety of instructional programs supported by state and federal grants. Title I and Title VII provides 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 2010, the District had invested approximately \$8,351,733 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 one 66-passenger school bus. For this coming year, we are also requesting eight buses be provided through the Native American Transportation contract with the State. This will replenish that portion of our bus fleet that services the Indian Reservation exclusively. We also completed phase 1 of our capital project and are more than halfway through phase 2 of our building project this year. School year 2010-11 will bring continued new construction and renovation 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 \$23,897,940. 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 \$9,357,165. 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:

- 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 teaching positions. Providing quality education with a shrinking staff and growing student population is posing challenges to our ability to provide a sound basic education to our Native American students and/or students living in poverty. Their graduation rates are drastically lower than the State Average.
- 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.
- Currently, all employment contracts are settled until June 30, 2011. We successfully completed our CSEA contract negotiations with bus drivers, maintenance, food service and clerical staff. Their contract remains in effect until June 30, 2013. 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 a wind tower before the whole project is finished. This will lower our yearly operating costs.

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, 2010

ASSETS

Cash		
Unrestricted	\$	22,826,889
Restricted		45,727
Receivables		
Taxes		-
Other		1,198,111
Due from fiduciary funds		85
State and Federal aid		7,424,606
Inventories		22,632
Deferred expenditures		482,155
Capital assets, net		33,575,856
Total Assets		<u>65,576,061</u>

LIABILITIES

Payables		
Accounts payable		3,361,617
Accrued expenses		14,494
Due to other governments		403,530
Accrued interest		180,453
Retainage payable		775,884
Overpayments and collections in advance		-
Notes payable		
Bond anticipation		3,593,425
Revenue anticipation		5,000,000
Long-term liabilities		
Due and payable within one year		
Bonds payable		1,809,730
Compensated absences payable		191,997
Due to Teachers' Retirement System		768,797
Due to Employees' Retirement System		91,945
Due and payable after one year		
Bonds payable		20,303,123
Compensated absences payable		522,894
Other post employment benefits		14,502,030
Total Liabilities		<u>51,519,919</u>

NET ASSETS

Investment in capital assets, net of related debt		8,351,733
Restricted for:		
Capital projects		341
Reserve for debt		437,742
Unrestricted		5,266,326
Total Net Assets	\$	<u>14,056,142</u>

Salmon River Central School District
Statement of Activities
For the Year Ended June 30, 2010

		Program Revenues		Net
	Expenses	Charges for	Operating	Revenue and
		Services	Grants	Changes in
				Net Assets
FUNCTIONS/PROGRAMS				
General support	\$5,881,329	\$ 82,382	\$ -	\$ 5,798,947
Instruction	30,270,083	5,308,363	-	24,961,720
Pupil transportation	2,471,189	41,572	-	2,429,617
Community service	34,318	-	-	34,318
Debt service	697,757	-	-	697,757
Capital outlay - Mohawk School	19,895	-	-	19,895
Other expenditures	27,261	-	-	27,261
School lunch program	577,479	95,839	64,270	417,370
Total Functions and Programs	<u>39,979,311</u>	<u>5,528,156</u>	<u>64,270</u>	<u>34,386,885</u>
GENERAL REVENUES				
Real property taxes				1,323,417
Other tax items				510,112
Use of money and property				42,368
Sale of property and compensation for loss				6,701
Miscellaneous				386,584
State sources				42,667,739
Federal sources				2,906,503
Medicaid reimbursement				-
Total General Revenues				<u>47,843,424</u>
Change in Net Assets				13,456,539
Total Net Assets-Beginning of year				<u>599,603</u>
Total Net Assets-End of year				<u><u>\$14,056,142</u></u>

See notes to financial statements.

Salmon River Central School District
Balance Sheet - Governmental Funds
June 30, 2010

	General	Special Aid	Main Campus Capital Project	Non-Major	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 3,071,484	\$ -	\$ 19,754,499	\$ 906	\$ 22,826,889
Restricted	45,397	-	-	330	45,727
Receivables					
Taxes	-	-	-	-	-
Other	1,182,848	-	-	15,263	1,198,111
Due from other funds	2,126,158	-	2,136,107	377,348	4,639,613
State and Federal aid	5,301,129	2,066,575	-	56,902	7,424,606
Inventories	-	-	-	22,632	22,632
Deferred expenditures	-	-	-	-	-
Total Assets	<u>\$ 11,727,016</u>	<u>\$ 2,066,575</u>	<u>\$ 21,890,606</u>	<u>\$ 473,381</u>	<u>\$ 36,157,578</u>
LIABILITIES					
Payables					
Accounts payable	\$ 221,690	\$ 3,412	\$ 3,112,704	\$ 23,811	\$ 3,361,617
Accrued liabilities	14,494	-	-	-	14,494
Accrued interest	1,667	-	69,266	3,655	74,588
Due to other funds	2,140,014	2,063,163	335,638	100,713	4,639,528
Due to other governments	213,529	-	-	89	213,618
Retainage payable	-	-	775,884	-	775,884
Due to Teachers' Retirement System	768,797	-	-	-	768,797
Due to Employees' Retirement System	91,945	-	-	-	91,945
Overpayments and collections in advance	-	-	-	-	-
Notes payable					
Bond anticipation	-	-	3,250,000	343,425	3,593,425
Revenue anticipation	5,000,000	-	-	-	5,000,000
Total Liabilities	<u>8,452,136</u>	<u>2,066,575</u>	<u>7,543,492</u>	<u>471,693</u>	<u>18,533,896</u>
FUND BALANCES					
Reserve for encumbrances	17,242	-	23,496,072	131,250	23,644,564
Capital reserve	11	-	-	330	341
Reserve for debt	437,742	-	-	-	437,742
Reserve for employee benefits and accrued liabilities	1,236,667	-	-	-	1,236,667
Workers' compensation reserve	45,397	-	-	-	45,397
Reserve for inventory	-	-	-	22,632	22,632
Unreserved-Designated for subsequent year's expenditures	579,165	-	-	5,000	584,165
Unreserved-Undesignated	958,656	-	(9,148,958)	(157,524)	(8,347,826)
Total Fund Balances	<u>3,274,880</u>	<u>-</u>	<u>14,347,114</u>	<u>1,688</u>	<u>17,623,682</u>
Total Liabilities and Fund Balances	<u>\$ 11,727,016</u>	<u>\$ 2,066,575</u>	<u>\$ 21,890,606</u>	<u>\$ 473,381</u>	<u>\$ 36,157,578</u>

Salmon River Central School District
Statement of Revenues, Expenditures and Changes in Fund Equity - Governmental Funds
For the Year Ended June 30, 2010

	General	Special Aid	Main Campus Capital Project	Non-Major	Total Governmental Funds
REVENUES					
Real property taxes	\$ 1,323,417	\$ -	\$ -	\$ -	\$ 1,323,417
Other tax items	510,112	-	-	-	510,112
Charges for services	1,793,375	-	-	-	1,793,375
Use of money and property	163,437	-	-	57	163,494
Sale of property and compensation for loss	9,568	-	-	-	9,568
Miscellaneous	359,621	-	5,400	6,000	371,021
State sources	23,722,087	1,551,187	21,085,460	29,429	46,388,163
Medicaid reimbursement	-	-	-	-	-
Federal sources	216,012	2,049,936	-	640,555	2,906,503
Surplus food	-	-	-	64,270	64,270
Sales - school lunch	-	-	-	95,839	95,839
Total Revenues	<u>28,097,629</u>	<u>3,601,123</u>	<u>21,090,860</u>	<u>836,150</u>	<u>53,625,762</u>
EXPENDITURES					
General support	3,608,629	-	-	376,806	3,985,435
Instruction	14,923,434	2,487,996	-	-	17,411,430
Pupil transportation	514,698	1,296,202	-	-	1,810,900
Community service	19,618	-	-	-	19,618
Employee benefits	6,974,228	-	-	324,355	7,298,583
Debt service	-	-	-	-	-
Principal	983,741	42,495	-	-	1,026,236
Interest	579,162	4,222	-	-	583,384
Cost of sales	-	-	-	577,479	577,479
Capital outlay	-	-	17,459,530	158,512	17,618,042
Total Expenditures	<u>27,603,510</u>	<u>3,830,915</u>	<u>17,459,530</u>	<u>1,437,152</u>	<u>50,331,107</u>
Excess (Deficiency) of Revenues					
Over Expenditures	<u>494,119</u>	<u>(229,792)</u>	<u>3,631,330</u>	<u>(601,002)</u>	<u>3,294,655</u>
OTHER FINANCING SOURCES AND USES					
Operating transfers in	-	229,792	-	537,379	767,171
Operating transfers out	(767,171)	-	-	-	(767,171)
Proceeds from debt	-	-	13,310,000	-	13,310,000
Total Other Sources and Uses	<u>(767,171)</u>	<u>229,792</u>	<u>13,310,000</u>	<u>537,379</u>	<u>13,310,000</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(273,052)	-	16,941,330	(63,623)	16,604,655
Fund Balances - Beginning of year	3,547,932	-	(2,594,216)	65,311	1,019,027
Fund Balances - End of year	<u>\$ 3,274,880</u>	<u>\$ -</u>	<u>\$ 14,347,114</u>	<u>\$ 1,688</u>	<u>\$ 17,623,682</u>

See notes to financial statements.

Salmon River Central School District
Statement of Fiduciary Net Assets - Fiduciary Funds
June 30, 2010

	Private Purpose Trusts	Agency
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 112,516	\$ 87,791
Due from governmental funds	-	-
Total Assets	<u>\$ 112,516</u>	<u>\$ 87,791</u>
LIABILITIES		
Due to governmental funds	\$ -	\$ 85
Extraclassroom activity balances	-	67,782
Other liabilities	-	19,924
Total Liabilities	<u>-</u>	<u>\$ 87,791</u>
NET ASSETS		
Restricted for other purposes	<u>\$ 112,516</u>	

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
For the Year Ended June 30, 2010

	Private Purpose Trusts
	<u> </u>
ADDITIONS	
Investment earnings	\$ 942
DEDUCTIONS	
Contractual and other	<u>175</u>
Change in Net Assets	767
Net Assets - Beginning of year	<u>111,749</u>
Net Assets - End of year	<u>\$ 112,516</u>

See notes to financial statements.

Salmon River Central School District
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
June 30, 2010

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS				
Cash	\$ 22,872,616	\$ -	\$ -	\$ 22,872,616
Taxes receivable	-	-	-	-
Other receivables	1,198,111	-	-	1,198,111
Due from other funds	4,639,613	-	(4,639,528)	85
State and Federal aid	7,424,606	-	-	7,424,606
Inventories	22,632	-	-	22,632
Deferred expenditures	-	482,155	-	482,155
Capital assets, net	-	33,575,856	-	33,575,856
Total Assets	\$ 36,157,578	\$ 34,058,011	\$ (4,639,528)	\$ 65,576,061
LIABILITIES				
Accounts payable	\$ 3,361,617	\$ -	\$ -	\$ 3,361,617
Accrued liabilities	14,494	-	-	14,494
Due to other funds	4,639,528	-	(4,639,528)	-
Due to other governments	213,618	189,912	-	403,530
Accrued interest	74,588	105,865	-	180,453
Retainage payable	775,884	-	-	775,884
Overpayments and collections in advance	-	-	-	-
Due to Teachers' Retirement System	768,797	-	-	768,797
Due to Employees' Retirement System	91,945	-	-	91,945
Bond anticipation note	3,593,425	-	-	3,593,425
Revenue anticipation note	5,000,000	-	-	5,000,000
Compensated absences payable	-	714,891	-	714,891
Bonds payable	-	22,112,853	-	22,112,853
Other post employment benefits	-	14,502,030	-	14,502,030
Total Liabilities	18,533,896	37,625,551	(4,639,528)	51,519,919
FUND EQUITY/NET ASSETS	17,623,682	(3,567,540)	-	14,056,142
Total Liabilities, Equity and Other Credits	\$ 36,157,578	\$ 34,058,011	\$ (4,639,528)	\$ 65,576,061

Salmon River Central School District
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
June 30, 2010

Fund Balances - total governmental funds		\$17,623,682
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	47,762,620	
Less: accumulated depreciation	<u>(14,186,764)</u>	33,575,856
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Bond issue costs	778,782	
Less: accumulated amortization	<u>(296,627)</u>	482,155
Interest payable used in governmental activities is not payable from current resources and therefore not reported in the governmental funds		(105,865)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
State aid	(189,912)	
Long-term debt	(22,112,853)	
Compensated absences	<u>(714,891)</u>	(23,017,656)
Other post employment benefits are not due and payable in the current period and therefore are not reported in the funds		<u>(14,502,030)</u>
Net Assets of Governmental Activities		<u><u>\$14,056,142</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, 2010

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities Totals
REVENUES				
Real property taxes	\$ 1,323,417	\$ -	\$ -	\$ 1,323,417
Other tax items	510,112	-	-	510,112
Charges for services	1,793,375	-	-	1,793,375
Use of money and property	163,494	-	-	163,494
Sale of property and compensation for loss	9,568	-	-	9,568
Miscellaneous	371,021	-	-	371,021
State sources	46,388,163	(189,912)	-	46,198,251
Medicaid reimbursement	-	-	-	-
Federal sources	2,906,503	-	-	2,906,503
Surplus food	64,270	-	-	64,270
Sales - school lunch and store	95,839	-	-	95,839
Total Revenues	<u>53,625,762</u>	<u>(189,912)</u>	<u>-</u>	<u>53,435,850</u>
EXPENDITURES				
General support	3,985,435	468,534	1,427,360	5,881,329
Instruction	17,411,430	56,510	12,802,143	30,270,083
Pupil transportation	1,810,900	204,592	455,697	2,471,189
Community service	19,618	-	14,700	34,318
Employee benefits	7,298,583	7,401,317	(14,699,900)	-
Debt service	1,609,620	(911,863)	-	697,757
Unallocated depreciation	-	-	-	-
Cost of sales	577,479	-	-	577,479
Other expenditures	-	27,261	-	27,261
Capital outlay	17,618,042	(17,598,147)	-	19,895
Total Expenditures	<u>50,331,107</u>	<u>(10,351,796)</u>	<u>-</u>	<u>39,979,311</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,294,655</u>	<u>10,161,884</u>	<u>-</u>	<u>13,456,539</u>
OTHER SOURCES AND USES				
Proceeds from debt	13,310,000	(13,310,000)	-	-
Operating transfers in	767,171	-	(767,171)	-
Operating transfers out	(767,171)	-	767,171	-
Total Other Sources and Uses	<u>13,310,000</u>	<u>(13,310,000)</u>	<u>-</u>	<u>-</u>
Net Change for the Year	<u>\$ 16,604,655</u>	<u>\$ (3,148,116)</u>	<u>\$ -</u>	<u>\$ 13,456,539</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, 2010

Net Change in Fund Balances - total governmental funds \$ 16,604,655

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	17,436,025	
Less: current year depreciation	<u>(715,674)</u>	16,720,351

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	177,500	
Bond issuance cost amortization	(53,891)	
Bond proceeds	(13,310,000)	
Repayment of bonds	<u>1,026,236</u>	(12,160,155)

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 (87,743)

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 (29,340)

State aid overpayment 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 (189,912)

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 (7,401,317)

Change in Net Assets of Governmental Funds \$ 13,456,539

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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 10, 2009. Taxes are collected during the period September 1, 2009 to November 2, 2009.

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, 2010

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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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, 2010

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, 2010

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, 2010

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, 2010

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 §6-1) 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, 2010

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, 2010

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 non-major Capital Projects had a deficit fund balance of \$31,027. This will be funded when the District obtains permanent financing.

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

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 \$ 45,727 within the governmental funds and \$112,516 in the fiduciary funds.

Note 5 – Participation in BOCES:

During the year ended June 30, 2010, the District was billed \$3,868,724 for BOCES administrative and program costs.

Participating school districts issue debt on behalf of BOCES. During the year ended June 30, 2010, the District did not issue serial bonds on behalf of BOCES.

The District's share of BOCES aid amounted to \$1,465,338.

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, 2010

Note 7 - Capital assets:

Capital asset balances and activity for the year ended June 30, 2010 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	\$ 119,242	\$ -	\$ -	\$ 119,242
Construction in progress	3,288,426	17,320,662	-	20,609,088
Total nondepreciable historical cost	<u>3,407,668</u>	<u>17,320,662</u>	<u>-</u>	<u>20,728,330</u>
Capital assets that are depreciated:				
Buildings	19,552,555	-	-	19,552,555
Machinery and equipment	7,688,534	115,363	322,162	7,481,735
Total depreciable historical cost	<u>27,241,089</u>	<u>115,363</u>	<u>322,162</u>	<u>27,034,290</u>
Less accumulated depreciation:				
Buildings	8,336,005	370,597	-	8,706,602
Machinery and equipment	5,457,247	345,077	322,162	5,480,162
Total accumulated depreciation	<u>13,793,252</u>	<u>715,674</u>	<u>322,162</u>	<u>14,186,764</u>
Total depreciable historical cost, net	<u><u>\$16,855,505</u></u>	<u><u>\$16,720,351</u></u>	<u><u>\$ -</u></u>	<u><u>\$33,575,856</u></u>

Depreciation expense was charged to governmental activities as follows:

Administrative services	\$ 478,529
Regular instruction	32,553
Pupil transportation	204,592
	<u><u>\$ 715,674</u></u>

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

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 6/17/10 at 2.02%	\$ 4,500,000	\$ -	\$ 4,500,000	\$ -
RAN Maturing 6/17/10 at 2.75%	1,000,000	-	1,000,000	-
RAN Maturing 6/24/11 at 2.00%		5,000,000	-	5,000,000
BAN Maturing 11/12/09 at 3.07%	357,900	-	357,900	-
BAN Maturing 11/10/10 at 1.69%	-	343,425	-	343,425
BAN Maturing 7/20/09 at 2.92%	2,250,000	-	2,250,000	-
BAN Maturing 7/20/10 at 2.25%	-	3,250,000	-	3,250,000

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

Short-term debt

Interest paid	\$ 171,405
Less interest accrued in the prior year	49,930
Plus interest accrued in the current year	<u>74,587</u>
Total expense	<u><u>\$ 196,062</u></u>

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

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	3,000,000	-	415,000	2,585,000	325,000
Energy Performance	1,249,230	-	104,785	1,144,445	108,793
Serial Bonds 2005	3,730,000	-	285,000	3,445,000	300,000
Bus Bond 2006	66,000	-	33,000	33,000	33,000
Lease-purchase oblig. 07	140,134	-	68,408	71,726	71,726
Lease-purchase oblig. 08	48,725	-	15,043	33,682	16,211
Bus Bond 2008	155,000	-	35,000	120,000	40,000
Serial Bonds 2008	1,440,000	-	70,000	1,370,000	75,000
QZABs 2009	-	13,310,000	-	13,310,000	840,000
Total bonds payable	<u>9,829,089</u>	<u>13,310,000</u>	<u>1,026,236</u>	<u>22,112,853</u>	<u>1,809,730</u>
Other liabilities					
Compensated absences	685,551	29,340	-	714,891	191,997
Total long-term liabilities	<u><u>\$ 10,514,640</u></u>	<u><u>\$ 13,339,340</u></u>	<u><u>\$ 1,026,236</u></u>	<u><u>\$ 22,827,744</u></u>	<u><u>\$ 2,001,727</u></u>

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

Existing serial and statutory bond obligations:

Description of issue	Issue Date	Final Maturity	Interest Rate	Outstanding June 30, 2010
Serial Bonds	2003	2017	3.80%	2,585,000
Energy Performance	2003	2018	3.79%	1,144,445
Serial Bonds	2005	2020	3.75%	3,445,000
Bus Bond	2006	2011	4.69%	33,000
Lease-purchase Obligation	2007	2012	4.85%	71,726
Lease-purchase Obligation	2008	2013	7.77%	33,682
Bus Bond	2008	2013	3.19%	120,000
Serial Bonds	2008	2024	4.25%	1,370,000
QZABs	2009	2024	1.25%	13,310,000
				<u>\$22,112,853</u>

The following is a summary of debt service requirements:

	Serial Bonds		Other Debt	
	Principal	Interest	Principal	Interest
Fiscal year ended June 30,				
2011	1,540,000	542,679	269,730	53,824
2012	1,625,000	421,554	170,426	42,100
2013	1,665,000	381,740	157,278	35,145
2014	1,715,000	340,642	121,765	29,382
2015	1,750,000	297,979	126,424	24,724
2016-2020	7,930,000	848,117	557,230	47,211
2021-2025	4,485,000	177,225	-	-
	<u>\$20,710,000</u>	<u>\$ 3,009,936</u>	<u>\$ 1,402,853</u>	<u>\$ 232,386</u>

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

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

Long-term debt

Interest paid	\$ 387,322
Amortized bond premium	26,630
Less interest accrued in the prior year	18,122
Plus interest accrued in the current year	<u>105,865</u>
Total expense	<u><u>\$ 501,695</u></u>

Note 10 – Interfund balances and activity:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$2,126,158	\$2,140,014
Special Aid Fund	-	2,063,163
School Lunch Fund	-	61,993
Capital Projects Fund	<u>2,513,455</u>	<u>374,358</u>
Total Government Agencies	4,639,613	4,639,528
 Fiduciary Agency Fund	 <u>-</u>	 <u>85</u>
 Totals	 <u><u>\$4,639,613</u></u>	 <u><u>\$4,639,613</u></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.

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

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, 2010, the District recognized \$1,097,168 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of June 30, 2010, which indicates that the total liability for other post employment benefits is \$14,502,030, 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.

Salmon River Central School District

Notes to Financial Statements

June 30, 2010

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	\$ 9,244,237
Interest on net OPEB obligation	284,029
Adjustment to annual required contribution	<u>(402,009)</u>
Annual OPEB cost (expense)	9,126,257
Contributions made	<u>(1,724,940)</u>
Increase in net OPEB obligation	7,401,317
Net OPEB obligation - beginning of year	<u>7,100,713</u>
Net OPEB obligation - end of year	<u><u>\$ 14,502,030</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows (dollar amounts in thousands):

Year End*	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2010	\$ 9,126,257	18.9%	\$ 14,502,030
6/30/2009	8,665,016	18.1%	7,100,713

*Data not available for one preceding year.

Funded Status and Funding Progress

As of the most recent actuarial valuation date, the plan was unfunded. The status as of June 30, 2010, was as follows:

Actuarial valuation date	7/1/2008
Actuarial accrued liability (AAL)	\$ 85,849,569
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 85,849,569</u></u>

Actuarial Value of Assets as a % of the AAL

Covered payroll (active members) \$ 14,271,245

UAAL as a percentage of covered payroll 16.62%

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

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.

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, 2010, was 28 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.

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

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.

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, 2010	\$ 932,583	\$224,978
June 30, 2009	1,054,168	267,796
June 30, 2008	957,052	330,913

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.

Salmon River Central School District
Notes to Financial Statements
June 30, 2010

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, 2010.

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.

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 unreserved, undesignated 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.

Note 17 – Subsequent events:

Subsequent events have been evaluated through October 28, 2010, which is the date the financial statements were available to be issued.

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, 2010

	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Variance With Budgetary Actual
REVENUES				
Local Sources				
Real property taxes	\$ 1,325,054	\$ 1,325,054	\$ 1,323,417	\$ (1,637)
Other tax items	518,316	518,316	510,112	(8,204)
Charges for services	2,997,920	2,997,920	1,793,375	(1,204,545)
Use of money and property	185,000	185,000	163,437	(21,563)
Sale of property and compensation for loss	1,500	1,500	(51,501)	(53,001)
Miscellaneous	325,600	325,600	359,621	34,021
Interfund revenues	-	-	-	-
Total Local Sources	<u>5,353,390</u>	<u>5,353,390</u>	<u>4,098,461</u>	<u>(1,254,929)</u>
State Sources	27,213,872	27,213,872	23,722,087	(3,491,785)
Federal Sources	200,000	200,000	216,012	16,012
Total Revenues	<u>32,767,262</u>	<u>32,767,262</u>	<u>28,036,560</u>	<u>(4,730,702)</u>
OTHER FINANCING SOURCES				
Transfers from other funds	-	-	-	-
Total Revenues and Other Financing Sources	<u>32,767,262</u>	<u>32,767,262</u>	<u>28,036,560</u>	<u>(4,730,702)</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, 2010

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-end Encumbrances	Final Budget Variance With Budgetary Actual And Encumbrances
EXPENDITURES					
Board of education	20,570	15,659	7,947	-	7,712
Central administration	201,752	202,452	173,980	-	28,472
Finance	379,649	369,736	292,713	9,585	67,438
Staff	237,130	268,179	182,128	-	86,051
Central services	3,308,465	3,059,757	2,491,882	4,813	563,062
Special items	453,038	444,401	398,910	-	45,491
Total General Support	<u>4,600,604</u>	<u>4,360,184</u>	<u>3,547,560</u>	<u>14,398</u>	<u>798,226</u>
Instruction, administration and improvement	1,105,513	1,138,771	850,088	-	288,683
Teaching - regular school	7,148,997	7,317,881	6,855,596	-	462,285
Programs for children with handicapping conditions	4,680,309	4,752,264	4,144,709	-	607,555
Occupational education	1,028,920	958,020	760,568	563	196,889
Teaching - special school	323,628	336,683	212,496	-	124,187
Instructional media	1,283,323	1,241,482	910,513	1,169	329,800
Pupil services	1,310,122	1,431,489	1,189,464	-	242,025
Total Instruction	<u>16,880,812</u>	<u>17,176,590</u>	<u>14,923,434</u>	<u>1,732</u>	<u>2,251,424</u>
Pupil transportation	1,512,378	1,570,594	514,697	1,112	1,054,785
Community services	28,050	28,050	19,618	-	8,432
Employee benefits	8,700,549	8,283,262	6,974,228	-	1,309,034
Debt service	1,761,211	1,665,461	1,562,904	-	102,557
Total Expenditures	<u>33,483,604</u>	<u>33,084,141</u>	<u>27,542,441</u>	<u>17,242</u>	<u>5,524,458</u>
OTHER FINANCING USES					
Transfers to other funds	339,455	767,186	767,171		15
Total Expenditures and Other Uses	<u>33,823,059</u>	<u>33,851,327</u>	<u>28,309,612</u>	<u>\$ 17,242</u>	<u>\$ 5,524,473</u>
Net change in fund balances	<u>\$ (1,055,797)</u>	<u>\$ (1,084,065)</u>	<u>(273,052)</u>		
Fund balance - beginning			<u>3,547,932</u>		
Fund balance - ending			<u>\$ 3,274,880</u>		

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, 2010

CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET

Adopted budget	\$ 33,823,059
Add: Prior year's encumbrances	28,268
Original budget	<u>33,851,327</u>
Budget revision	<u>-</u>
Final budget	<u><u>\$ 33,851,327</u></u>

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -	
As of the beginning of the year	\$ 1,388,695
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>\$ 809,530</u></u>

See paragraph on supplementary schedules included in auditors' report.

Salmon River Central School District
Schedule of Project Expenditures - Capital Projects Fund
For the Year Ended June 30, 2010

<u>Project Title</u>	<u>Original Appropriation</u>	<u>Revised Appropriation</u>	<u>Prior Years' Expenditures</u>	<u>Current Year Expenditures</u>	<u>Total Expenditures</u>	<u>Available Balance</u>
Ice Rink	1,440,000	1,440,000	1,310,821	1,590	1,312,411	127,589
Main Campus Phase 2	4,528,584	42,056,332	864,376	17,357,296	18,221,672	23,834,660
Main Campus Phase 3	43,882,648	6,354,900	2,507,018	100,646	2,607,664	3,747,236
Mohawk Addition	308,843	308,843	260,549	19,897	280,446	28,397
Mohawk Addition #2	457,771	757,749	468,169	-	468,169	289,580
Buses	-	100,000	-	99,985	99,985	15
WWTF Emergency	400,000	400,000	23,235	38,629	61,864	338,136
	<u>\$ 51,017,846</u>	<u>\$ 51,417,824</u>	<u>\$ 5,434,168</u>	<u>\$ 17,618,043</u>	<u>\$ 23,052,211</u>	<u>\$ 28,365,613</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, 2010

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Real Property Taxes	A-1001	1,323,417	1,323,417
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	23,722,087	23,722,087
Federal Aid	AT-4999	216,012	216,012
Total Revenues	AT-5999	28,097,629	28,097,629
EXPENDITURES			
General Support	AT-1999	3,547,560	3,608,629
Pupil Transportation	AT-5599	514,698	514,698
Debt Service - Principal	AT-9798.6	983,741	983,741
Debt Service - Interest	AT-9798.7	579,162	579,162
Total Expenditures	AT-9999	28,370,681	28,370,681

Salmon River Central School District
Schedule of Revenues and Expenditures for the Mohawk School - General Fund
For the Year Ended June 30, 2010

REVENUES

Charges for services	\$ 8,427
Use of money and property	2,579
Sale of property and compensation for loss	18
Miscellaneous	33,605
State sources	7,972,921
Federal sources	21,079
Total Revenues	<u>8,038,629</u>

EXPENDITURES

General support	1,035,772
Instruction	4,491,179
Employee benefits	2,109,695
Debt service	153,249
Total Expenditures	<u>7,789,895</u>

Excess of Revenues Over Expenditures	<u>248,734</u>
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OTHER FINANCING SOURCES AND USES

Operating transfer out	<u>(248,734)</u>
Total Other Sources and Uses	<u>(248,734)</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, 2010

	School Lunch	Non-Major Capital Projects	Total Non-Major Funds
ASSETS			
Cash			
Unrestricted	\$ -	\$ 906	\$ 906
Restricted	-	330	330
Receivables			
Other	15,263	-	15,263
Due from other funds	-	377,348	377,348
State and Federal aid	56,902	-	56,902
Inventories	22,632	-	22,632
Total Assets	<u>\$ 94,797</u>	<u>\$ 378,584</u>	<u>\$ 473,381</u>
LIABILITIES			
Payables			
Accounts payable	\$ -	\$ 23,811	\$ 23,811
Accrued liabilities	-	-	-
Accrued interest	-	3,655	3,655
Due to other funds	61,993	38,720	100,713
Due to other governments	89	-	89
Notes payable			
Bond anticipation notes	-	343,425	343,425
Total Liabilities	<u>62,082</u>	<u>409,611</u>	<u>471,693</u>
FUND BALANCES			
Reserve for encumbrances	-	131,250	131,250
Capital reserve	-	330	330
Reserve for inventory	22,632	-	22,632
Unreserved-Designated for subsequent year's expenditures	5,000	-	5,000
Unreserved-Undesignated	5,083	(162,607)	(157,524)
Total Fund Balances	<u>32,715</u>	<u>(31,027)</u>	<u>1,688</u>
Total Liabilities and Fund Balances	<u>\$ 94,797</u>	<u>\$ 378,584</u>	<u>\$ 473,381</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, 2010

	<u>School Lunch</u>	<u>Non-Major Capital Projects</u>	<u>Total Non-Major Funds</u>
REVENUES			
Use of money and property	\$ 57	\$ -	\$ 57
Miscellaneous	6,000	-	6,000
State sources	29,429	-	29,429
Federal sources	640,555	-	640,555
Surplus food	64,270	-	64,270
Sales - school lunch	95,839	-	95,839
Total Revenues	<u>836,150</u>	<u>-</u>	<u>836,150</u>
EXPENDITURES			
General support	376,806	-	376,806
Instruction	-	-	-
Pupil transportation	-	-	-
Employee benefits	324,355	-	324,355
Cost of sales	577,479	-	577,479
Capital outlay	-	158,512	158,512
Total Expenditures	<u>1,278,640</u>	<u>158,512</u>	<u>1,437,152</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(442,490)</u>	<u>(158,512)</u>	<u>(601,002)</u>
OTHER FINANCING SOURCES AND USES			
Operating transfers in	437,394	99,985	537,379
Operating transfers out	-	-	-
Proceeds from debt	-	-	-
Total Other Sources and Uses	<u>437,394</u>	<u>99,985</u>	<u>537,379</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(5,096)</u>	<u>(58,527)</u>	<u>(63,623)</u>
Fund Balances - Beginning of year	37,811	27,500	65,311
Fund Balances - End of year	<u>\$ 32,715</u>	<u>\$ (31,027)</u>	<u>\$ 1,688</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, 2010

Capital assets, net		\$ 33,575,856
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Add:

Unamortized bond issuance costs		482,155
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Deduct:

Bond anticipation note	3,593,425	
Short-term portion of bonds payable	1,809,730	
Long-term portion of bonds payable	<u>20,303,123</u>	<u>25,706,278</u>

Investment in capital assets, net of related debt		<u><u>\$ 8,351,733</u></u>
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See paragraph on supplementary schedules included in auditors' report.

Seyfarth & Seyfarth CPAs, P.C.
564 East Main St.
Malone, NY 12953
(518) 483-0880

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, 2010. 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, 2010, on the basis of accounting described in Note 1.

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

October 28, 2010

Salmon River Central School District
Statement of Assets, Liabilities and Fund Balance - Extraclassroom Activity Fund - Cash Basis
June 30, 2010

Cash	<u><u>\$ 67,782</u></u>
 Fund Balance	 <u><u>\$ 67,782</u></u>

Salmon River Central School District
Schedule of Receipts, Disbursements and Ending Balances - Extraclassroom Activity Fund
For the Year Ended June 30, 2010

<u>Activity</u>	Beginning Balance July 1, 2009	Receipts	Expenditures	Ending Balance June 30, 2010
Band Club	\$ 305	\$ 1,929	\$ 1,617	\$ 617
Chorus	1,194	16,597	17,742	49
Drama Club	2,311	2,414	2,895	1,830
Class of 2009	3	-	-	3
Class of 2010	7,218	48,088	55,306	-
Class of 2011	3,851	9,844	6,196	7,499
Class of 2012	4,210	4,272	3,893	4,589
Class of 2013	4,678	3,313	1,565	6,426
Class of 2014	1,956	4,437	2,384	4,009
Class of 2015	-	5,124	2,898	2,226
FFA	3,505	11,826	9,715	5,616
French Club	1,066	-	-	1,066
Health Club	2,097	4,474	5,667	904
Mohawk Club	2,367	273	773	1,867
Jr National Honor Society	283	2,792	2,808	267
National Honor Society	4,372	3,242	5,470	2,144
Newspaper Club	-	1,867	1,723	144
Spanish Club	1,245	1,495	867	1,873
Student Council	1,114	8,366	7,901	1,579
Student Council Mohawk School	1,561	3,152	2,511	2,202
Yearbook Club	11,870	13,315	25,145	40
Students Who Care	291	12,698	11,296	1,693
Varsity Club	20,690	59,354	58,905	21,139
Total	<u>\$ 76,187</u>	<u>\$ 218,872</u>	<u>\$ 227,277</u>	<u>\$ 67,782</u>

Salmon River Central School District
Notes to Financial Statements – Extraclassroom Activity Fund
June 30, 2010

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, 2010

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
US Department of Education			
Passed through State Dept. of Education			
Title I:			
ESEA-Title I A&D	84.010	0021-10-0925	\$ 544,993
Title I ARRA	84.389A	5021-10-0925	295,473
			<u>840,466</u> *
Special Education Cluster:			
IDEA-Part B Section 619	84.173	0033-10-0261	13,003
IDEA-Part B Section 611	84.027	0032-10-0261	391,406
IDEA-Part B Section 619 ARRA	84.392A	5033-10-0261	9,355
IDEA-Part B Section 611 ARRA	84.391A	5032-10-0261	201,048
			<u>614,812</u> *
Education Stabilization Fund	84.394	5000-10-0925	216,012 *
Title II Part A	84.367	0147-10-0925	124,815
Title VI Part B	84.358	0006-10-0925	38,728
Title II Part D	84.318	0292-10-0925	4,817
Title IV Safe and Drug Free Schools	84.186	0180-10-0925	8,466
Title VII	84.060	S060A090399	461,377
Total US Dept. of Education			<u>2,309,493</u>
US Department of Agriculture			
Passed through State Dept. of Education			
Child Nutrition Cluster:			
National School Lunch	10.555	n/a	455,985
National School Breakfast	10.553	n/a	196,129
Snack	10.555	n/a	14,710
Summer Food Service	10.559	n/a	36,272
Total US Dept of Agriculture			<u>703,096</u>
Total Federal Awards			<u><u>\$ 3,012,589</u></u>

* Major Programs

Salmon River Central School District
Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

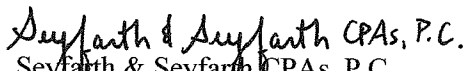
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting: 08-1, 07-2 and 06-3. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 10-1, 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.

October 28, 2010

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

**Report on Compliance With Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133**

Independent Auditor's Report

To The Board of Education
Salmon River Central School District

Compliance

We have audited Salmon River Central School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Salmon River Central School District's major federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 items 10-1 and 06-10.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 10-1 and 06-10. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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.

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

October 28, 2010

Salmon River Central School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal Control over financial reporting:

Material weakness identified?

Yes x No

Significant deficiencies identified?

x	Yes	None reported
---	-----	---------------

Noncompliance material to financial statements noted?

Yes x No

Federal Awards

Internal control over major programs:

Material weakness identified?

Yes x No

Significant deficiencies identified?

x	Yes	None reported
1	1	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
7	0	0
8	0	0
9	0	0
10	0	0
11	0	0
12	0	0
13	0	0
14	0	0
15	0	0
16	0	0
17	0	0
18	0	0
19	0	0
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95	0	0
96	0	0
97	0	0
98	0	0
99	0	0
100	0	0

Type of auditors' report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

x	Yes	No
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Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

84.010, 84.389A

Title I

84.027, 84.173, 84.391A, 84.392A

Special Education Cluster

84.394

Education Stabilization Fund

Dollar Threshold used to distinguish
between type A and type B programs

\$300,000

Auditee qualified as low-risk auditee?

Yes x No

Salmon River Central School District
Schedule of Findings and Questioned Costs
June 30, 2010

Section II – Financial Statement Findings

None noted.

Salmon River Central School District
Schedule of Findings and Questioned Costs
June 30, 2010

Section III – Federal Award Findings and Questioned Costs

10-1 Time and Effort Reporting

Department of Education

Special Education Cluster – CFDA No. 84.027, 84.173, 84.391A, 84.392A

Title I Program – CFDA No. 84.010, 84.389A

Criteria and Condition: OMB Circular A-87 Attachment B, Section 8h requires all compensation charges to federal award programs to be supported by time and effort reports. The District did not have time and effort reports for 3 employees working in the Special Education Cluster and for 1 employee working in the Title I program. In addition, the individual time and effort reports on file did not report 100% of the employee's time as required by OMB Circular A-87 attachment B, Section 8h. Employees completed a separate time and effort report for each federal program they worked in.

Context: We tested 13 employees in the Special Education Cluster and 17 employees in the Title I program. The District did not have time and effort reports for 3 employees working in the Special Education Cluster and 1 employee working in the Title I program.

The District has a checklist showing staff assigned to the programs and had made efforts to obtain the reports from each employee.

Generally, the teachers assigned to work under these programs have specific credentials for performing the covered services. Teaching assistants are generally assigned to a specific teacher who works under the program. We were able to satisfy ourselves through other means that the employees whose salaries were not supported by time and effort reports were valid charges to the program, and therefore did not question the costs.

Cause: Management failed to follow up on obtaining the required reports and did not fully understand the requirements.

Recommendation: We recommend that management develop a system to ensure that compensation charges are properly supported in accordance with the requirements of OMB Circular A-87 Attachment B, Section 8h.

Management's Response: We developed a system in the 2009-10 school year to enhance our compliance with OMB Circular A-87. During the 2010-11 school year, we will improve this system by providing the Secretary with "View Only" rights in Finance Manager so the time and effort reports may be compared to the employees' payroll coding. This will help to alleviate discrepancies between the time and effort reporting and the payroll reports. The District will also create a system to ensure that 100% of the employees' time is accounted for on one sheet as opposed to separate sheets for each grant.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2010

09-1 Review of Native American Aid Claims

Status – Corrected

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.

08-1 Computer Access

Status – Not Corrected

Update for 2010

We noted that access for some personnel is too broad, and that cancellation of access for terminated employees was not done in a timely manner.

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.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2010

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

The Superintendent's Secretary will monitor the Finance Manager users and notify the Superintendent and Internal Claims Auditor when an individual needs to have rights disabled and/or removed. The Superintendent will review the permissions report semi-annually on November 15th and May 15th to ensure users only have access to those rights that are necessary to perform his/her duties.

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

During the 2010-11 school year, the District purchased the BOCES payroll service and all payroll forms have been updated and/or revised to ensure proper rates and coding are being provided to the payroll clerk.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2010

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.

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

During the 2010-11 school year, the BOCES payroll service will require every employee to complete new I-9 Forms.

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.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2010

Recommendation

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

Management's Response

During 2010-11, the BOCES payroll service will use Negotiations Manager in Finance Manager to enter and track employees' contract salaries, which will eliminate the use of the Excel spreadsheet. With the implementation of the new BOCES payroll claim form, the hours paid as well as the hourly rate are being approved by the Business Official.

06-10 Payroll Certification

Status: Not Corrected

See Current Year Point 10-1

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 District will create a system to fully comply with OMB Circular A-87. New time sheets will be created that will clearly show the services and activities provided by an employee to a specific program. These time sheets will be prepared on a monthly basis. Semi-annual reports and certificates will be completed by employees working in one Federal program during the school year. Monthly reports and certificates will be completed by employees working in more than one Federal program or a Federal program and non Federal program. This system will be managed through the Office of Instruction.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2010

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

The District will assign a clerk to audit the student accounts on a quarterly basis to ensure the clubs' records are in compliance with audit requirements.