

**Salmon River Central School District  
Annual Report  
June 30, 2011**

**Salmon River Central School District**

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Independent Auditors' Report

To the Board of Education  
Salmon River Central School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salmon River Central School District, as of and for the year ended June 30, 2011 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011 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 16 and 50 through 51 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 21, 2011

**Management Discussion and Analysis**  
**Financial Statements**  
**For the Year Ended June 30, 2011**

**Salmon River Central School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011**

The following is a discussion and analysis of the School District's financial performance for the fiscal year ended June 30, 2011. 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 and Highlights**

The Salmon River Central School District is located in northern New York State on the Canadian Border. Centralized in 1953, the District provides a public education to approximately 1,600 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 District is a mixture of residential and agricultural areas, with many of its residents commuting to Malone, Massena and Potsdam for employment.

The District operates two (2) facilities: the Campus School (pre k-12<sup>th</sup> grade) located in the town of Fort Covington and the St. Regis Mohawk School (pre k - 6<sup>th</sup> grades) located in the town of Bombay. Approximately 59% of the School District population is comprised of students from families living on the St. Regis Mohawk Reservation and 66% of the student body is of Native American heritage. Salmon River is also unique in that education is provided to both Canadian and New York children from the Reservation via contracts with the State of New York to provide transportation and education for these students.

The St. Regis Mohawk School (SRMS) is owned by the State of New York, but leased to and operated by the District. As per our 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. This contract expired as of June 30, 2010 and is currently in negotiations with the St. Regis Mohawk Tribe and the State of New York. Until this contract is settled there will be no reimbursement from the State for the operation of the St. Regis Mohawk School for the 2010-2011 year. This receivable is \$4,382,364. The District currently obtains a revenue anticipation note (RAN) to cover the expenditures for the SRMS until the State sends reimbursement. This year we will need to borrow additional funds to pay off the RAN and continue operation of the St. Regis Mohawk School. Without these contracts in place, the District is facing serious cash flow issues.

Native Americans have a choice of School Districts they can attend when the reservation borders more than one district. New York State pays tuition under an approved formula for these students to attend Salmon River Central Schools since they are not residents of the School District. The tuition contract expired on June 30, 2010 and is currently being negotiated. Again, without this contract in place, the State will not reimburse the District for the education provided to Native students at the Campus school. The amount of the receivable is currently \$1,136,992.

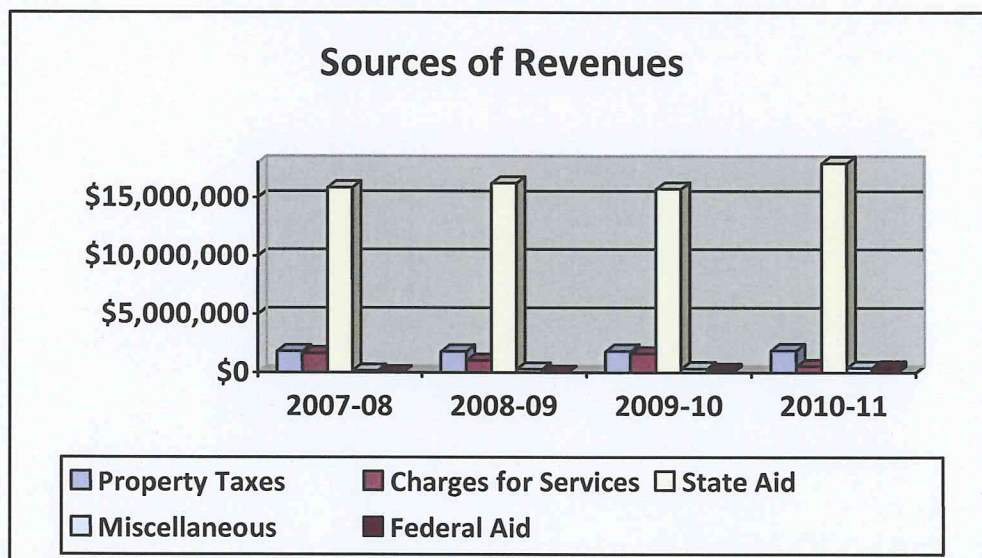
New York State also pays 100% of the transportation costs for Native American students that chose to attend the Campus School. These costs are reimbursed based on the ratio of bus runs used for the Reservation area compared to the total number of bus runs. The ratio is approximately 60% for the 2010-2011 year. The transportation contract is an annual contract that renews automatically. The amount currently due the District is \$1,418,219.

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 \$12.31 on full property value.

The State of New York has calculated our combined wealth measure to be 0.165. 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 2011-12 State Aid Factors data, the State average property value and income behind each pupil was \$599,300 and \$172,800, respectfully. In Salmon River CSD, our corresponding figures were \$81,167 and \$34,019. As these figures clearly express, we are a District burdened with substantial poverty and a lack of wealth.

As a result of the reduction in NY State Aid, Salmon River CSD has eliminated 29 instructional positions in the last 3 years and will eliminate an additional 10 positions in the 2011-12 school year to bring our budget in line with our revenues. The children have lost 20.5 teachers, 9.5 teaching assistants and 9 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. This year the District saw an increase in State Aid revenue. This is due to the receivable of prior year state aid that had been miscalculated for the previous 5 years through 2009-2010. The amount of \$2,080,332 is expected to be paid to the District in early 2011-2012 school year.





The School District employs approximately 350 full and part time professional and support staff. These employees are organized into three (3) collective bargaining units (teaching staff, support staff and administration). The teaching staffs' 5-year contract agreement expired on June 30, 2011 and is currently in negotiations. Even with the expiration of this contract, the teachers will still maintain a step increase based on the previous contract. The administrators' contract also expired on June 30, 2011 and is currently in negotiations. The support staff contract is in effect until June 30, 2013.

Student enrollment held relatively steady this school year at 1,591. The reason for this steady enrollment 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 FEH Boces study confirm continued steady enrollment for several years to come. Our continued growth has also necessitated an ambitious building project in our District.

The voters approved a proposition for a \$50 million building project in 2008. This project was broken up into four phases. The first phase was to refurbish the ice arena and has been completed. 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. Our second and third phase is now mostly complete with the exception of a few instructional areas. Due to extensive abatement beyond the original scope of the project, the bus garage project that was planned as a fourth phase has been revised and is expected to begin in the coming year.

The building is still in need of additional work and in 2010-2011; the District completed a building condition survey to develop a new long range capital plan. This plan will prioritize capital construction needs of the operational systems such as the waste water treatment plant, additional classrooms, new gymnasium, abatement and transportation building needs. The District put forward a \$4.5 M proposal to the voters in May 2011 to start the necessary work to the waste water treatment plant that was voted down. It is anticipated from this study that another vote will be put forth in 2013 to produce a new capital project that will start around the 2013-2014 year. Some of these systems were originally built in the 1950s and will need replacement. A new capital project is expected to bring the infrastructure to a level that will enable the development of a new long range maintenance and replacement plan.

### **Overview of 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.

The following 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

<b>Major Features of the District-Wide and Fund Financial Statements</b>			
		<b>Fund Financial Statements</b>	
	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire District (except fiduciary funds)	The activities of the School District that are not fiduciary, such as instruction, 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
<b>Required Financial Statements</b>	1. Statement of Net Assets 2. Statement of Activities	3. Balance Sheet 4. Statement of Revenues, Expenditures, and Changes in Fund Balance	5. Statement of Fiduciary Net Assets 6. Statement of Changes in Fiduciary Net Assets
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
<b>Type of Asset/ Liability Information</b>	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
<b>Type of Inflow/ Outflow Information</b>	All revenues and expenses during the 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	Additions and deductions during the year, regardless of when cash is received or paid

**District-Wide Statements:**

The district-wide statements report information about the 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 non-financial 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 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 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 School District 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 and/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 School District as a Whole

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$8 million at the close of the most recent fiscal year.

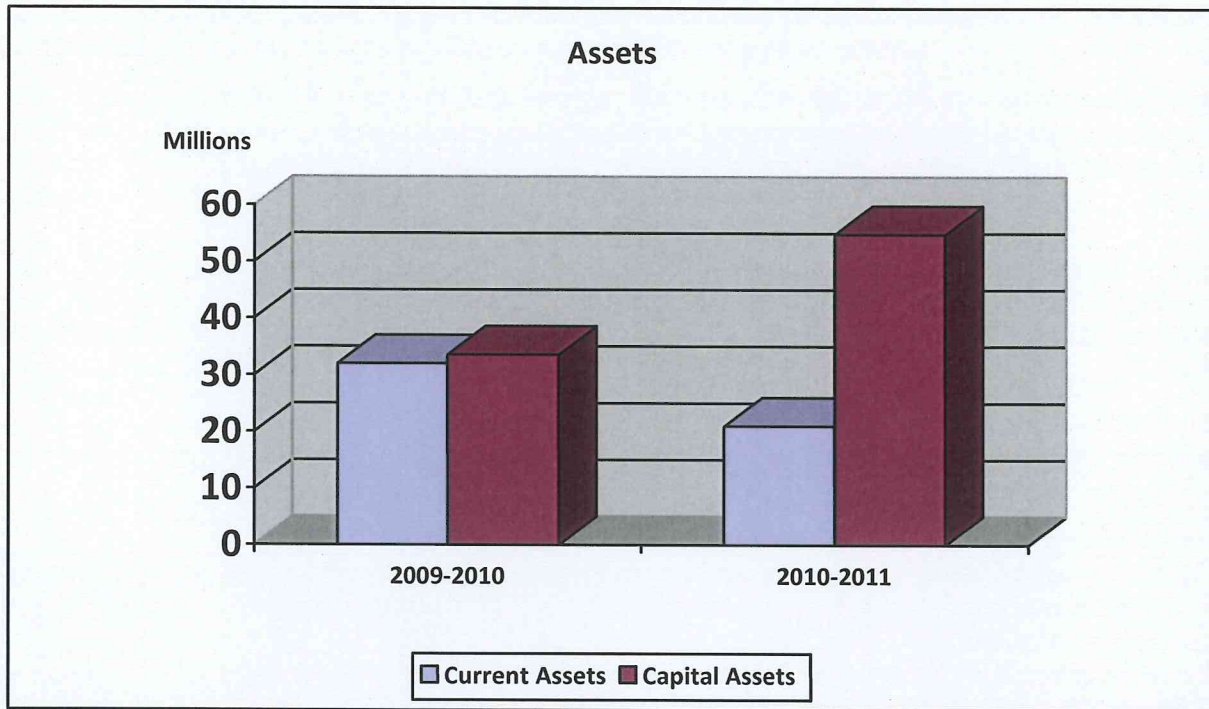
The net assets reflect mainly reserved and unreserved fund balance. The School District's net assets also reflect its investment in capital assets less any related debt used to acquire those assets that is still outstanding. Although the School District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The debt is paid through the use of state building aid, Native American aid and EXCEL aid. The remaining balance of unrestricted net assets may be used to meet the School District's ongoing activities. The current assets are shifting from cash to capital assets. This reflects the payments made for the capital project in progress.

The following schedule summarizes the School District's net assets. The complete Statement of Net Assets can be found in the School District's basic financial statements.

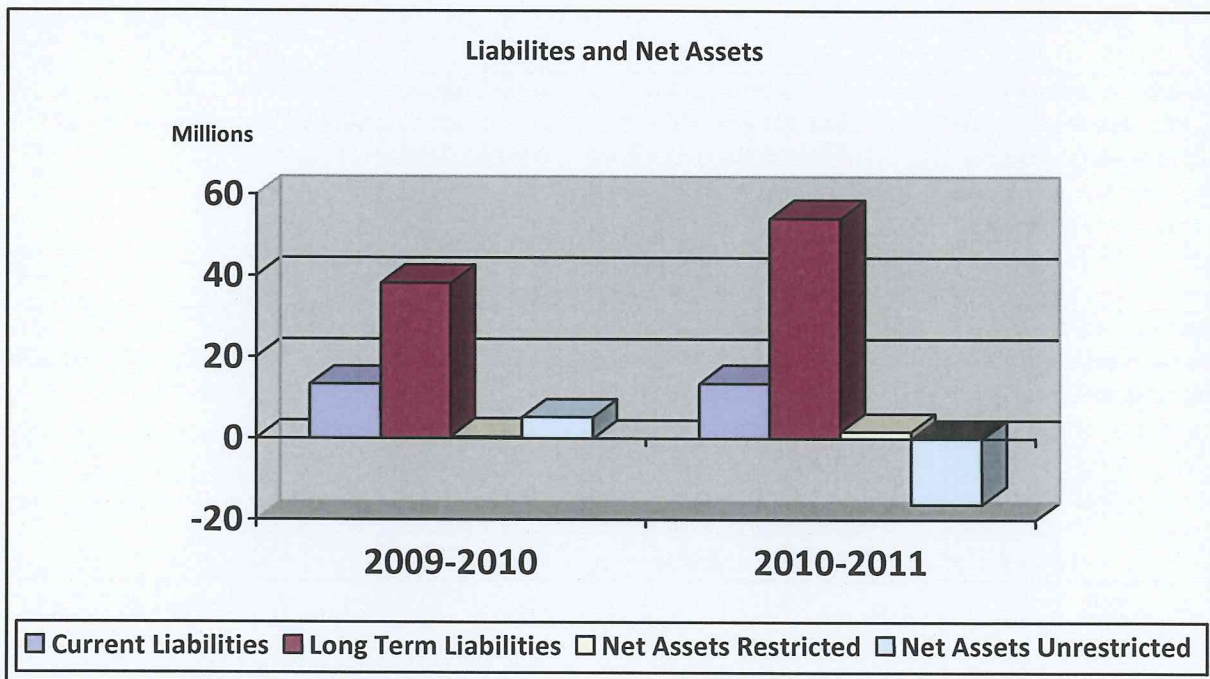
### Condensed Statement of Net Assets:

<b>ASSETS:</b>	<u>2009-2010</u>	<u>2010-2011</u>
Current and other assets	\$32,000,205	\$20,710,064
Capital assets, net	<u>33,575,856</u>	<u>54,848,095</u>
<b>Total Assets:</b>	<u>65,576,061</u>	<u>75,558,159</u>
<b>LIABILITIES:</b>		
Current liabilities	13,329,403	13,517,933
Long-term liabilities	<u>38,190,516</u>	<u>54,186,519</u>
<b>Total Liabilities:</b>	<u>51,519,919</u>	<u>67,704,452</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	8,351,733	22,138,685
Restricted	438,083	1,720,305
Unrestricted	<u>5,266,326</u>	<u>(16,005,283)</u>
<b>Total Net Assets</b>	<u>\$ 14,056,142</u>	<u>\$ 7,853,707</u>

In general, current assets are those assets that are available to satisfy current obligations and current liabilities are those liabilities that will be paid within one year. Current assets consist primarily of cash equivalents of \$7.5 million, and state and federal aid receivable of \$11.8 million. The major differences in the assets are the cash decreases of \$11 million and the capital project increase for the Capital Assets of \$21 million.



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. This is the third year we were required to record GASB 45. This represents mainly the long term health insurance benefit for our retired and active employees. The impact to the statements this year was over \$7M for GASB 45 and caused the unrestricted net assets to become negative as there are not enough assets available to cover the \$22.3 million in other post employment benefits liabilities. This is not uncommon given that the liability is not required to be fully funded.



Liabilities consist primarily of long-term debt of \$27.6 million, short-term payables of \$9.9 million, short-term bonds payable of \$2.3 million, and post employment benefits of \$22.3 million. The major difference in long term liabilities is the increase in long term debt. Long-term debt increased this year by \$7.9 million due to the 2 new issues the District obtained for the capital project expenditures.

The Statement of Activities shows the cost of program services net of charges for services and grants offsetting those services. General revenues, including tax revenue, investment earnings, and unrestricted state and federal aid, must support the net cost of the School District's programs.

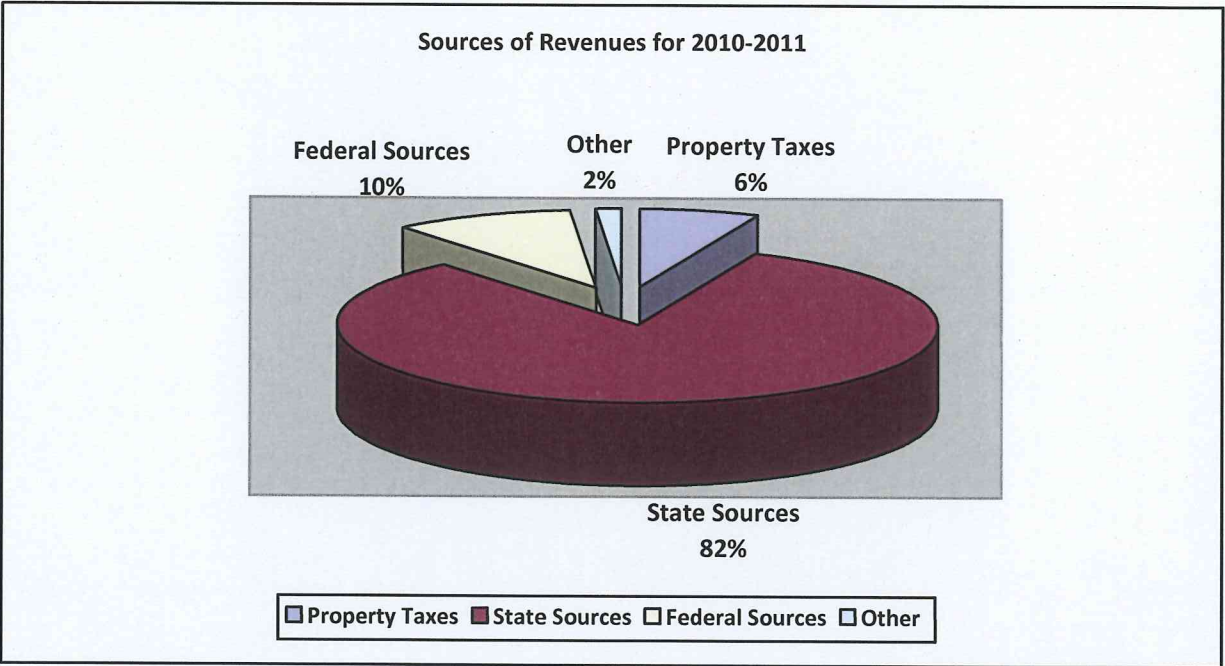
The following schedule summarizes the School District's activities. The complete Statement of Activities can be found in the School District's basic financial statements.

	6/30/10	6/30/11
<b>Revenues</b>		
Property and other tax items	\$1,833,529	\$1,883,412
Use of money and property	42,368	8,762
Sale of property and compensation for loss	6,701	11,328
Miscellaneous	386,584	464,692
State sources	42,667,739	24,114,882
Federal sources	2,906,503	2,793,296
Total Revenues	<u>\$47,843,424</u>	<u>\$29,276,372</u>
<b>Expenses</b>		
General Support	5,798,947	\$5,835,807
Instruction	24,961,720	25,273,808
Pupil transportation	2,429,617	3,120,524
Debt Service	697,757	871,779
Other Expenses	27,261	32,570
Community Service	34,318	32,543
Capital Outlay – Mohawk School	19,895	2,799
School lunch program - cost of food sales	417,370	308,976
Total Expenses	<u>34,386,885</u>	<u>35,478,806</u>
<b>Change in Net Assets</b>	<u><b>\$13,456,539</b></u>	<u><b>\$ (6,202,434)</b></u>

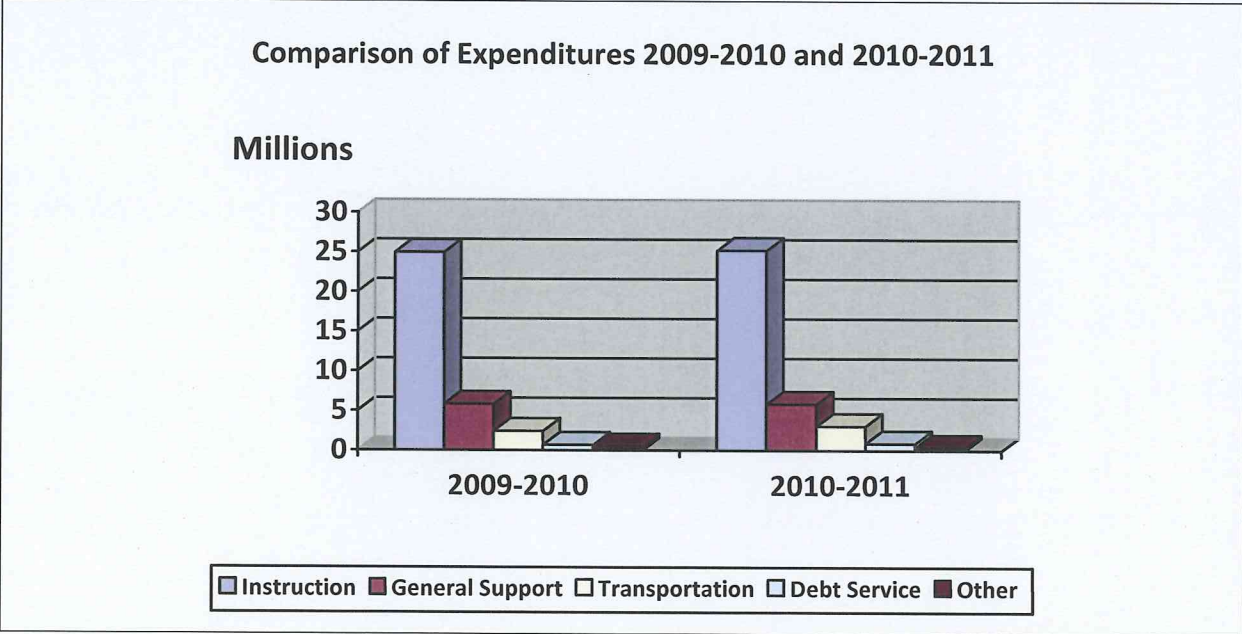
The School District is heavily dependent on State, Federal and Native American aid for its funding. Together they account for 93% of our total revenue dollar.

It should be noted that the district's tax levy contributes only 4% of our total revenues or \$1,833,412 with the STAR program. We held the tax levy amount to 0% 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 District's expenses are predominantly related to instruction, which represents 61% of our total costs. 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. The District currently pays \$17,424 for a family health insurance plan and this is expected to continue to rise 10% per year. Within 5 years, we expect the plan to cost over \$30,000 per family plan if there is no change in riders or employee contributions. Currently health insurance is 100% funded by the District for 95% of the staff. Starting in the 2012-13 school year, there will be a small contribution made by the CSEA employees. This will help reduce the overall cost of employee health insurance but more is needed to help with the burden health insurance is placing on an already tight budget.



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 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. The price of fuel is expected to rise over \$75,000 next year.

The financial statements also include the activity of the Special Aid funds, which are comprised of a number of State and Federal grant programs and the school lunch fund, also known as the cafeteria fund. The cafeteria fund is designed to be self-supporting, with revenues matching expenditures. However, for the past three years, expenditures have increased while revenues have decreased. This is more fully addressed later in the report.

### **General Fund Budget Overview**

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 \$25,204,071. It covers the operation of the main campus school in pre-K–12<sup>th</sup> 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–6<sup>th</sup> 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 \$9,866,165. 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 students 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.

As the District completed the year, its governmental funds reported a General fund balance of \$3,264,539. 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.

## **Analysis of the School District's Other Funds**

### **Capital Projects Fund**

The capital projects fund has had a lot of activity this current year. The Elementary, High School and Junior High buildings are about 90% complete; this is part of the \$49.8 million project. There was a significant amount of asbestos abatement found during the project that caused time delays and budgeting issues. Due to this, the fourth phase of the project has had to be pushed back until another project can be approved by the voters. This District still has approximately another \$30 million in capital work that needs to be addressed based on a recent building conditions survey. The wastewater treatment plant, transportation facility and other areas still need to be renovated.

### **School Lunch (Cafeteria) Fund**

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.

During the year, the cafeteria deficit reduced from \$310,000 in the previous year to \$202,000 this school year. These reductions are attributed to several food purchasing strategies that have achieved 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 not only reduced the cost of managing the cafeteria, it also generated 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.

In 2010-2011, the District offered universal free lunch and breakfast to all students. In April 2011, the District decided to revert back to the free and reduced lunch program. Research indicated that the District was not capturing all of the available aid due to the lack of free/reduced lunch applications that were turned in. Parents neglected to turn in applications since the meals were free. With this mid-year change, the outstanding charges from students were somewhat high but this is being addressed and expected to decrease this coming year. However, the District feels that this coming year we will be able to achieve our goal of increasing the free/reduced percentage along with decreasing the dependence on the general fund for transfers.

The District remained in the Universal Free Breakfast Program to help promote more children to eat breakfast in the morning when it is offered free of charge.

## **Special Aid Funds**

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.

The special aid funds will continue to decline. When this happens, the general fund must pick up the differences because these programs can't be cut. The Federal Stimulus package was scheduled to provide approximately \$1.9 million for Title and IDEA grants. We have used these funds to maintain jobs. The funding is only for a two-year period; the long-range financial plan will address this. With the No Child Left Behind initiative, remediation programs are more important than ever. Federal and State Aid budgets are personnel driven like all of our budgets. With the record increases in fringe benefits, decreases will compound the general fund impact. Any decrease in grants equates to a much larger loss when contractual increases are figured in. Please note that the grant fiscal year generally runs from September to August, while the school's fiscal year runs from July to June.

## **Capital Assets**

By the end of June 2011, the District had invested approximately \$54,848,095 in a broad range of capital assets including school buildings, the bus garage, school buses, computers, audio-visual and classroom equipment. The District did not purchase any buses in the 2010-2011 school year. For this coming year, we have been provided with eight buses 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 are looking at creating a long-range bus replacement plan to bring the District fleet more up-to-date.

We also completed phase 1 of our capital project and are more than 90% through phase 2 and 3 of our building project this year. The 2011-12 school year will bring these phases of construction and renovation to an end.

## **Long-Term Debt**

The District's outstanding debt as of June 30, 2011 was \$30 million. This represents a series of borrowings for the \$50 million capital project that started in 2009. In 2009 and 2011, the District was able to secure Quality Zone Academy Bonds (QZABs) that offered the District refundable interest over the life of the bond. In essence, the District will pay approximately 1.25% interest on these bonds. In 2011, the District also secured a Quality School Construction Bond (QSCB) that offered the District with another low interest bond with a rate of .8%. These low interest bonds have helped minimize any local tax share for the capital project.

## **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:

- 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. With the State continually decreasing aid and the property tax cap in place the District will have an extremely difficult time to maintain staffing and programming at the levels needed to educate our children properly. The District is currently supporting our programs by committing approximately 15% 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.
- The teachers and administrators contracts expired on June 30, 2011. We anticipate the negotiations will go smoothly. However, even without these contracts in place, the District will have to budget for any anticipated raises and/or step increases. Once negotiated, these long-term contracts will bring stability and predictability to our budgetary process.
- The negotiations of both the Native American Operation and Tuition contracts are extremely important to the financial health and cash flow of the District. Without these contracts in place, there will be no reimbursement payments made to the District. We have 100% funded the education of the students at the St. Regis Mohawk School and Native students attending the Campus School for 2010-2011. We are currently trying to seek a one year agreement to help cover these costs already expended, while proceeding with the negotiations of the 5-year contract renewals.
- In 2011-2012, the District opened a new Middle School that will house grades 6-8 in a separate wing. With this in place the 6<sup>th</sup> grade classes from the St. Regis Mohawk School are now attending the Campus School. This will cause a planned increase in the budget for the general fund as there will be additional revenues and expenditure costs associated with more students. We anticipate the addition of 30 students. However, we felt it was in the best interest of the District to have a separate middle school.

## **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:

Natascha L. Jock, School Business Executive  
Salmon River Central School  
Fort Covington, New York 12937  
(518) 358-6608  
njock@mail.fehb.org

**Salmon River Central School District**

## Statement of Net Assets

June 30, 2011

**ASSETS**

## Cash

Unrestricted	\$	7,549,148
Restricted		45,896

## Receivables

Taxes		-
Other		697,648
Due from fiduciary funds		-
State and Federal aid		11,798,588

Inventories		31,997
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Deferred expenditures		586,788
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Capital assets, net		54,848,095
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Total Assets		<u>75,558,160</u>
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**LIABILITIES**

## Payables

Accounts payable		1,915,001
Accrued expenses		11,477
Due to other governments		190,126
Accrued interest		250,204
Retainage payable		1,222,175
Overpayments and collections in advance		-

## Notes payable

Bond anticipation		3,328,950
Revenue anticipation		6,600,000

## Long-term liabilities

Due and payable within one year		
Bonds payable		2,334,551
Compensated absences payable		74,892
Due to Teachers' Retirement System		979,287
Due to Employees' Retirement System		129,199

Due and payable after one year		
Bonds payable		27,632,696
Compensated absences payable		673,800
Other post employment benefits		22,362,094

Total Liabilities		<u>67,704,452</u>
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**NET ASSETS**

Investment in capital assets, net of related debt		22,138,686
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Restricted		1,720,305
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Unrestricted		<u>(16,005,283)</u>
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Total Net Assets	\$	<u><u>7,853,708</u></u>
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**Salmon River Central School District**  
**Statement of Activities**  
For the Year Ended June 30, 2011

		Program Revenues		Net
	Expenses	Charges for	Operating	Revenue and
		Services	Grants	Changes in
				Net Assets
<b>FUNCTIONS/PROGRAMS</b>				
General support	\$5,950,207	\$ 114,400	\$ -	\$ 5,835,807
Instruction	30,301,964	5,028,156	-	25,273,808
Pupil transportation	3,127,985	7,461	-	3,120,524
Community service	32,543	-	-	32,543
Debt service	871,779	-	-	871,779
Capital outlay - Mohawk School	2,799	-	-	2,799
Other expenditures	32,570	-	-	32,570
School lunch program	466,790	110,098	47,716	308,976
Total Functions and Programs	<u>40,786,637</u>	<u>5,260,115</u>	<u>47,716</u>	<u>35,478,806</u>
<b>GENERAL REVENUES</b>				
Real property taxes				1,382,044
Other tax items				501,368
Use of money and property				8,762
Sale of property and compensation for loss				11,328
Miscellaneous				464,692
State sources				24,114,882
Federal sources				2,793,296
Medicaid reimbursement				-
Total General Revenues				<u>29,276,372</u>
Change in Net Assets				(6,202,434)
Total Net Assets-Beginning of year				<u>14,056,142</u>
Total Net Assets-End of year				<u><u>\$ 7,853,708</u></u>

See notes to financial statements.

**Salmon River Central School District**  
**Balance Sheet - Governmental Funds**  
June 30, 2011

	General	Special Aid	Main Campus Capital Project	Non-Major	Total Governmental Funds
<b>ASSETS</b>					
Cash					
Unrestricted	\$ 1,602,639	\$ -	\$ 5,675,868	\$ 270,641	\$ 7,549,148
Restricted	45,566	-	-	330	45,896
Receivables					
Taxes	-	-	-	-	-
Other	697,528	-	-	120	697,648
Due from other funds	2,323,079	-	2,737,191	46,594	5,106,864
State and Federal aid	9,428,893	2,233,409	-	136,286	11,798,588
Inventories	-	-	-	31,997	31,997
Deferred expenditures	-	-	-	-	-
Total Assets	<u>\$ 14,097,705</u>	<u>\$ 2,233,409</u>	<u>\$ 8,413,059</u>	<u>\$ 485,968</u>	<u>\$ 25,230,141</u>
<b>LIABILITIES</b>					
Payables					
Accounts payable	\$ 215,491	\$ 28,438	\$ 1,665,778	\$ 5,294	\$ 1,915,001
Accrued liabilities	11,477	-	-	-	11,477
Accrued interest	2,200	-	48,790	2,434	53,424
Due to other funds	2,705,600	2,204,971	44,969	151,324	5,106,864
Due to other governments	189,912	-	-	214	190,126
Retainage payable	-	-	1,222,175	-	1,222,175
Due to Teachers' Retirement System	979,287	-	-	-	979,287
Due to Employees' Retirement System	129,199	-	-	-	129,199
Overpayments and collections in advance	-	-	-	-	-
Notes payable					
Bond anticipation	-	-	3,075,000	253,950	3,328,950
Revenue anticipation	6,600,000	-	-	-	6,600,000
Total Liabilities	<u>10,833,166</u>	<u>2,233,409</u>	<u>6,056,712</u>	<u>413,216</u>	<u>19,536,503</u>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	31,997	31,997
Restricted:					
Workers' compensation reserve	45,566	-	-	-	45,566
Reserve for employee benefits and accrued liabilities	1,236,667	-	-	-	1,236,667
Capital reserve	-	-	-	330	330
Reserve for debt	437,742	-	-	-	437,742
Assigned:					
General support	29,383	-	-	-	29,383
Instruction	860	-	-	-	860
Capital projects	-	-	4,102,372	27,709	4,130,081
School lunch	-	-	-	12,716	12,716
Appropriated fund balance	503,165	-	-	-	503,165
Unassigned	1,011,156	-	(1,746,025)	-	(734,869)
Total Fund Balances	<u>3,264,539</u>	<u>-</u>	<u>2,356,347</u>	<u>72,752</u>	<u>5,693,638</u>
Total Liabilities and Fund Balances	<u>\$ 14,097,705</u>	<u>\$ 2,233,409</u>	<u>\$ 8,413,059</u>	<u>\$ 485,968</u>	<u>\$ 25,230,141</u>

**Salmon River Central School District**  
Statement of Revenues, Expenditures and Changes in Fund Equity - Governmental Funds  
For the Year Ended June 30, 2011

	General	Special Aid	Main Campus Capital Project	Non-Major	Total Governmental Funds
<b>REVENUES</b>					
Real property taxes	\$ 1,382,044	\$ -	\$ -	\$ -	\$ 1,382,044
Other tax items	501,368	-	-	-	501,368
Charges for services	655,524	-	-	-	655,524
Use of money and property	130,051	-	-	33	130,084
Sale of property and compensation for loss	38,858	-	-	1,364	40,222
Miscellaneous	443,470	11,989	-	-	455,459
State sources	26,093,228	1,731,078	453,648	29,380	28,307,334
Medicaid reimbursement	-	-	-	-	-
Federal sources	496,442	1,649,004	-	647,850	2,793,296
Surplus food	-	-	-	47,716	47,716
Sales - school lunch	-	-	-	110,098	110,098
Total Revenues	<u>29,740,985</u>	<u>3,392,071</u>	<u>453,648</u>	<u>836,441</u>	<u>34,423,145</u>
<b>EXPENDITURES</b>					
General support	3,888,137	-	-	348,447	4,236,584
Instruction	14,932,312	1,988,189	-	-	16,920,501
Pupil transportation	514,527	1,351,572	-	-	1,866,099
Community service	19,940	-	-	-	19,940
Employee benefits	7,575,578	-	-	318,384	7,893,962
Debt service	-	-	-	-	-
Principal	1,765,669	44,061	-	-	1,809,730
Interest	752,097	2,137	-	-	754,234
Cost of sales	-	-	-	466,790	466,790
Capital outlay	-	-	22,046,674	2,799	22,049,473
Total Expenditures	<u>29,448,260</u>	<u>3,385,959</u>	<u>22,046,674</u>	<u>1,136,420</u>	<u>56,017,313</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>292,725</u>	<u>6,112</u>	<u>(21,593,026)</u>	<u>(299,979)</u>	<u>(21,594,168)</u>
<b>OTHER FINANCING SOURCES AND USES</b>					
Operating transfers in	6,112	-	-	371,043	377,155
Operating transfers out	(309,178)	(6,112)	(61,865)	-	(377,155)
Proceeds from debt	-	-	9,664,124	-	9,664,124
Total Other Sources and Uses	<u>(303,066)</u>	<u>(6,112)</u>	<u>9,602,259</u>	<u>371,043</u>	<u>9,664,124</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(10,341)</u>	<u>-</u>	<u>(11,990,767)</u>	<u>71,064</u>	<u>(11,930,044)</u>
Fund Balances - Beginning of year	3,274,880	-	14,347,114	1,688	17,623,682
Fund Balances - End of year	<u>\$ 3,264,539</u>	<u>\$ -</u>	<u>\$ 2,356,347</u>	<u>\$ 72,752</u>	<u>\$ 5,693,638</u>

**Salmon River Central School District**  
**Statement of Fiduciary Net Assets - Fiduciary Funds**  
June 30, 2011

	Private Purpose Trusts	Agency
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Cash	\$ 112,678	\$ 94,068
Due from governmental funds	-	-
Total Assets	<u>\$ 112,678</u>	<u>\$ 94,068</u>
<b>LIABILITIES</b>		
Due to governmental funds	\$ -	\$ -
Extraclassroom activity balances	-	83,317
Other liabilities	-	10,751
Total Liabilities	<u>-</u>	<u>\$ 94,068</u>
<b>NET ASSETS</b>		
Restricted for other purposes	<u>\$ 112,678</u>	

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds  
For the Year Ended June 30, 2011

	Private Purpose Trusts
	<u>          </u>
<b>ADDITIONS</b>	
Investment earnings	\$ 587
<b>DEDUCTIONS</b>	
Contractual and other	<u>425</u>
Change in Net Assets	162
Net Assets - Beginning of year	<u>112,516</u>
Net Assets - End of year	<u>\$ 112,678</u>

See notes to financial statements.



**Salmon River Central School District**  
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets  
June 30, 2011

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
<b>ASSETS</b>				
Cash	\$ 7,595,044	\$ -	\$ -	\$ 7,595,044
Taxes receivable	-	-	-	-
Other receivables	697,648	-	-	697,648
Due from other funds	5,106,864	-	(5,106,864)	-
State and Federal aid	11,798,588	-	-	11,798,588
Inventories	31,997	-	-	31,997
Deferred expenditures	-	586,788	-	586,788
Capital assets, net	-	54,848,095	-	54,848,095
Total Assets	<u>\$ 25,230,141</u>	<u>\$ 55,434,883</u>	<u>\$ (5,106,864)</u>	<u>\$ 75,558,160</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,915,001	\$ -	\$ -	\$ 1,915,001
Accrued liabilities	11,477	-	-	11,477
Due to other funds	5,106,864	-	(5,106,864)	-
Due to other governments	190,126	-	-	190,126
Accrued interest	53,424	196,780	-	250,204
Retainage payable	1,222,175	-	-	1,222,175
Overpayments and collections in advance	-	-	-	-
Due to Teachers' Retirement System	979,287	-	-	979,287
Due to Employees' Retirement System	129,199	-	-	129,199
Bond anticipation note	3,328,950	-	-	3,328,950
Revenue anticipation note	6,600,000	-	-	6,600,000
Compensated absences payable	-	748,692	-	748,692
Bonds payable	-	29,967,247	-	29,967,247
Other post employment benefits	-	22,362,094	-	22,362,094
Total Liabilities	<u>19,536,503</u>	<u>53,274,813</u>	<u>(5,106,864)</u>	<u>67,704,452</u>
<b>FUND EQUITY/NET ASSETS</b>	<u>5,693,638</u>	<u>2,160,070</u>	<u>-</u>	<u>7,853,708</u>
Total Liabilities, Equity and Other Credits	<u>\$ 25,230,141</u>	<u>\$ 55,434,883</u>	<u>\$ (5,106,864)</u>	<u>\$ 75,558,160</u>

See notes to financial statements.

**Salmon River Central School District**  
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets  
June 30, 2011

Fund Balances - total governmental funds		\$ 5,693,638
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	66,113,696	
Less: accumulated depreciation	<u>(11,265,601)</u>	54,848,095
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Bond issue costs	942,615	
Less: accumulated amortization	<u>(355,827)</u>	586,788
Interest payable used in governmental activities is not payable from current resources and therefore not reported in the governmental funds		(196,780)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
Long-term debt	(29,967,247)	
Compensated absences	<u>(748,692)</u>	(30,715,939)
Other post employment benefits are not due and payable in the current period and therefore are not reported in the funds		<u>(22,362,094)</u>
Net Assets of Governmental Activities		<u><u>\$ 7,853,708</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, 2011

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities Totals
<b>REVENUES</b>				
Real property taxes	\$ 1,382,044	\$ -	\$ -	\$ 1,382,044
Other tax items	501,368	-	-	501,368
Charges for services	655,524	-	-	655,524
Use of money and property	130,084	-	-	130,084
Sale of property and compensation for loss	40,222	(28,854)	-	11,368
Miscellaneous	455,459	-	-	455,459
State sources	28,307,334	189,912	-	28,497,246
Medicaid reimbursement	-	-	-	-
Federal sources	2,793,296	-	-	2,793,296
Surplus food	47,716	-	-	47,716
Sales - school lunch and store	110,098	-	-	110,098
Total Revenues	<u>34,423,145</u>	<u>161,058</u>	<u>-</u>	<u>34,584,203</u>
<b>EXPENDITURES</b>				
General support	4,236,584	391,860	1,321,763	5,950,207
Instruction	16,920,501	17,323	13,364,140	30,301,964
Pupil transportation	1,866,099	206,366	1,055,520	3,127,985
Community service	19,940	-	12,603	32,543
Employee benefits	7,893,962	7,860,064	(15,754,026)	-
Debt service	2,563,964	(1,692,185)	-	871,779
Unallocated depreciation	-	-	-	-
Cost of sales	466,790	-	-	466,790
Other expenditures	-	32,570	-	32,570
Capital outlay	22,049,473	(22,046,674)	-	2,799
Total Expenditures	<u>56,017,313</u>	<u>(15,230,676)</u>	<u>-</u>	<u>40,786,637</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(21,594,168)</u>	<u>15,391,734</u>	<u>-</u>	<u>(6,202,434)</u>
<b>OTHER SOURCES AND USES</b>				
Proceeds from debt	9,664,124	(9,664,124)	-	-
Operating transfers in	377,155	-	(377,155)	-
Operating transfers out	(377,155)	-	377,155	-
Total Other Sources and Uses	<u>9,664,124</u>	<u>(9,664,124)</u>	<u>-</u>	<u>-</u>
Net Change for the Year	<u>\$ (11,930,044)</u>	<u>\$ 5,727,610</u>	<u>\$ -</u>	<u>\$ (6,202,434)</u>

See notes to financial statements.

**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, 2011

Net Change in Fund Balances - total governmental funds			\$(11,930,044)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Revenues in the Statement of Activities do not provide current resources and therefore are not reported as revenues in governmental funds			
Loss on disposal of fixed assets			(28,854)
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	21,953,214		
Less: current year depreciation	<u>(652,121)</u>	21,301,093	
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	163,833		
Bond issuance cost amortization	(59,200)		
Bond proceeds	(9,664,124)		
Repayment of bonds	<u>1,809,730</u>	(7,749,761)	
Interest payable used in governmental activities does not require the use of current financial resources and is therefore not reported as an expenditure in governmental funds			(90,915)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and are therefore not reported as an expenditure in governmental funds			
Compensated absences		(33,801)	
Other post employment benefits		(7,860,064)	
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			<u>189,912</u>
Change in Net Assets of Governmental Funds			<u><u>\$ (6,202,434)</u></u>

**Salmon River Central School District**  
Notes to Financial Statements  
June 30, 2011

**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.

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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.

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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.

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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.



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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 9, 2010. Taxes are collected during the period September 1, 2010 to November 1, 2010.

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**  
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I) Due to/from Other Funds:

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

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

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

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

J) Capital Assets:

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

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

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

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Notes to Financial Statements  
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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.

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Notes to Financial Statements  
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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. Encumbrances are classified as restricted or assigned fund balance based on the source and strength of constraints placed on them.

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Notes to Financial Statements  
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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.

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Fund statements:

Beginning with the fiscal year 2011, the District implemented GASB 54 "Fund Balance Reporting and Governmental Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation

Committed fund balance – rained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest action to remove or change the constraint

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government delegates authority

Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

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:

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Capital Reserve

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

Reserve for Debt Service

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

Reserve for Encumbrances

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

Reserve for Inventory

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

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.

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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.

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:



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

i) Long-term revenue differences:

Long-term revenue differences arise because governmental funds report revenues only when they are considered “available”, whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

ii) Capital related differences:

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

iii) Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

**Note 3 – Stewardship, compliance and accountability:**

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

**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.

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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 \$ 45,896 within the governmental funds and \$112,678 in the fiduciary funds.

**Note 5 – Participation in BOCES:**

During the year ended June 30, 2011, the District was billed \$4,156,161 for BOCES administrative and program costs.

Participating school districts issue debt on behalf of BOCES. During the year ended June 30, 2011, the District did not issue serial bonds on behalf of BOCES.

The District's share of BOCES aid amounted to \$1,344,043.

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.

**Note 7 - Capital assets:**

Capital asset balances and activity for the year ended June 30, 2011 were as follows:

**Salmon River Central School District**  
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	<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	\$ -	\$ (1,000)	\$ 118,242
Construction in progress	20,609,088	21,882,841	-	42,491,929
Total nondepreciable historical cost	<u>20,728,330</u>	<u>21,882,841</u>	<u>(1,000)</u>	<u>42,610,171</u>
Capital assets that are depreciated:				
Buildings	19,552,555	20,342	(19,893)	19,553,004
Machinery and equipment	7,481,735	50,031	(3,581,245)	3,950,521
Total depreciable historical cost	<u>27,034,290</u>	<u>70,373</u>	<u>(3,601,138)</u>	<u>23,503,525</u>
Less accumulated depreciation:				
Buildings	8,706,602	335,437	(16,895)	9,025,144
Machinery and equipment	5,480,162	316,684	(3,556,389)	2,240,457
Total accumulated depreciation	<u>14,186,764</u>	<u>652,121</u>	<u>(3,573,284)</u>	<u>11,265,601</u>
Total depreciable historical cost, net	<u><u>\$33,575,856</u></u>	<u><u>\$21,301,093</u></u>	<u><u>\$ (28,854)</u></u>	<u><u>\$54,848,095</u></u>

Depreciation expense was charged to governmental activities as follows:

Administrative services	\$ 427,836
Regular instruction	17,919
Pupil transportation	206,366
	<u><u>\$ 652,121</u></u>

**Salmon River Central School District**  
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**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:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
RAN Maturing 6/24/11 at 2.00%	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
RAN Maturing 6/22/12 at 2.00%	-	6,600,000	-	6,600,000
BAN Maturing 11/10/10 at 1.69%	343,425	-	343,425	-
BAN Maturing 11/10/11 at 1.50%	-	253,950		253,950
BAN Maturing 7/20/10 at 2.25%	3,250,000	-	3,250,000	-
BAN Maturing 7/20/11 at 1.68%	-	3,075,000	-	3,075,000

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

Interest paid	\$ 178,895
Less interest accrued in the prior year	74,588
Plus interest accrued in the current year	<u>53,424</u>
Total expense	<u><u>\$ 157,731</u></u>

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Notes to Financial Statements  
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**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	2,585,000	-	325,000	2,260,000	340,000
Energy Performance	1,144,445	-	108,793	1,035,652	112,956
Serial Bonds 2005	3,445,000	-	300,000	3,145,000	310,000
Bus Bond 2006	33,000	-	33,000	-	-
Lease-purchase oblig. 07	71,726	-	71,726	-	-
Lease-purchase oblig. 08	33,682	-	16,211	17,471	17,471
Bus Bond 2008	120,000	-	40,000	80,000	40,000
Serial Bonds 2008	1,370,000	-	75,000	1,295,000	80,000
QZABs 2009	13,310,000	-	840,000	12,470,000	895,000
QZABs 2011	-	9,664,124	-	9,664,124	539,124
Total bonds payable	22,112,853	9,664,124	1,809,730	29,967,247	2,334,551
Other liabilities					
Compensated absences	714,891	33,801	-	748,692	74,892
Total long-term liabilities	<u>\$22,827,744</u>	<u>\$ 9,697,925</u>	<u>\$ 1,809,730</u>	<u>\$30,715,939</u>	<u>\$ 2,409,443</u>

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

**Salmon River Central School District**  
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Existing serial and statutory bond obligations:

Description of issue	Issue Date	Final Maturity	Interest Rate	Outstanding June 30, 2011
Serial Bonds	2003	2017	3.80%	2,260,000
Energy Performance	2003	2018	3.79%	1,035,652
Serial Bonds	2005	2020	3.75%	3,145,000
Bus Bond	2006	2011	4.69%	-
Lease-purchase Obligation	2007	2012	4.85%	-
Lease-purchase Obligation	2008	2013	7.77%	17,471
Bus Bond	2008	2013	3.19%	80,000
Serial Bonds	2008	2024	4.25%	1,295,000
QZABs	2009	2024	1.25%	12,470,000
QZABs	2011	2023	5.46%	9,664,124
				<u>\$29,967,247</u>

The following is a summary of debt service requirements:

	Serial Bonds		Other Debt	
	Principal	Interest	Principal	Interest
Fiscal year ended June 30,				
2012	2,164,124	1,034,734	170,427	42,100
2013	2,360,000	825,428	157,278	35,145
2014	2,425,000	762,089	121,765	29,382
2015	2,485,000	694,932	126,424	24,724
2016	2,555,000	623,616	131,260	19,868
2017-2021	11,475,000	1,966,441	425,969	27,343
2022-2026	5,730,000	289,008	-	-
	<u>\$29,194,124</u>	<u>\$ 6,196,248</u>	<u>\$ 1,133,123</u>	<u>\$ 178,562</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, 2011

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

Interest paid	\$ 596,503
Amortized bond premium	26,630
Less interest accrued in the prior year	105,865
Plus interest accrued in the current year	<u>196,780</u>
Total expense	<u><u>\$ 714,048</u></u>

**Note 10 – Interfund balances and activity:**

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$2,323,079	\$2,705,600
Special Aid Fund	-	2,204,971
School Lunch Fund	-	118,182
Capital Projects Fund	<u>2,783,785</u>	<u>78,111</u>
Total Government Agencies	5,106,864	5,106,864
 Fiduciary Agency Fund	 <u>-</u>	 <u>-</u>
 Totals	 <u><u>\$5,106,864</u></u>	 <u><u>\$5,106,864</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, 2011

**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, 2011, the District recognized \$1,235,576 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of June 30, 2011, which indicates that the total liability for other post employment benefits is \$22,362,094, 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, 2011

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	\$ 9,954,417
Interest on net OPEB obligation	580,081
Adjustment to annual required contribution	<u>(836,836)</u>
Annual OPEB cost (expense)	9,697,662
Contributions made	<u>(1,837,598)</u>
Increase in net OPEB obligation	7,860,064
Net OPEB obligation - beginning of year	<u>14,502,030</u>
Net OPEB obligation - end of year	<u><u>\$22,362,094</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the 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
6/30/2011	\$ 9,697,662	18.9%	\$ 22,362,094
6/30/2010	9,126,257	18.9%	14,502,030
6/30/2009	8,665,016	18.1%	7,100,713

#### Funded Status and Funding Progress

As of the most recent actuarial valuation date, the plan was unfunded. The status as of June 30, 2011, was as follows:

Actuarial valuation date	7/1/2010
Actuarial accrued liability (AAL)	\$92,081,440
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$92,081,440</u></u>

Actuarial Value of Assets as a % of the AAL	
Covered payroll (active members)	\$12,809,977

UAAL as a percentage of covered payroll	719%
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**Salmon River Central School District**  
Notes to Financial Statements  
June 30, 2011

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, 2010, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included an annual healthcare cost trend rate of 14% initially and then reduced by decrements to an ultimate rate of 6% 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, 2011, was 27 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, 2011

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, 2011	\$ 757,761	\$ 367,780
June 30, 2010	932,583	224,978
June 30, 2009	1,054,168	267,796

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, 2011

**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 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 21, 2011, 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, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Variance With Budgetary Actual
<b>REVENUES</b>				
Local Sources				
Real property taxes	\$ 1,332,042	\$ 1,332,042	\$ 1,382,044	\$ 50,002
Other tax items	554,943	554,943	501,368	(53,575)
Charges for services	2,508,500	2,508,500	655,524	(1,852,976)
Use of money and property	117,000	117,000	130,051	13,051
Sale of property and compensation for loss	1,010	1,010	38,858	37,848
Miscellaneous	313,738	313,738	443,470	129,732
Interfund revenues	-	-	-	-
Total Local Sources	<u>4,827,233</u>	<u>4,827,233</u>	<u>3,151,315</u>	<u>(1,675,918)</u>
State Sources	28,740,774	28,740,774	26,093,228	(2,647,546)
Federal Sources	496,442	496,442	496,442	-
Total Revenues	<u>34,064,449</u>	<u>34,064,449</u>	<u>29,740,985</u>	<u>(4,323,464)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers from other funds	-	-	6,112	6,112
Total Revenues and Other Financing Sources	<u>34,064,449</u>	<u>34,064,449</u>	<u>29,747,097</u>	<u>(4,317,352)</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, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-end Encumbrances	Final Budget Variance With Budgetary Actual And Encumbrances
<b>EXPENDITURES</b>					
Board of education	16,770	17,070	6,058	-	11,012
Central administration	202,752	201,346	174,955	-	26,391
Finance	375,649	404,172	310,078	13,192	80,902
Staff	218,130	243,130	137,753	-	105,377
Central services	3,394,670	3,477,261	2,818,903	16,191	642,167
Special items	499,500	499,570	440,390	-	59,180
Total General Support	4,707,471	4,842,549	3,888,137	29,383	925,029
Instruction, administration and improvement	1,118,727	1,126,944	855,909	-	271,035
Teaching - regular school	7,134,449	7,501,052	6,767,859	-	733,193
Programs for children with handicapping conditions	4,773,901	4,520,486	4,051,749	-	468,737
Occupational education	1,055,000	1,068,115	1,052,361	-	15,754
Teaching - special school	100,750	224,562	129,544	-	95,018
Instructional media	1,217,667	1,251,429	852,252	828	398,349
Pupil services	1,318,753	1,377,064	1,222,638	32	154,394
Total Instruction	16,719,247	17,069,652	14,932,312	860	2,136,480
Pupil transportation	1,525,103	1,559,411	514,527	-	1,044,884
Community services	27,800	28,040	19,940	-	8,100
Employee benefits	9,159,695	8,717,717	7,575,578	-	1,142,139
Debt service	2,879,385	2,789,850	2,517,766	-	272,084
Total Expenditures	35,018,701	35,007,219	29,448,260	30,243	5,528,716
<b>OTHER FINANCING USES</b>					
Transfers to other funds	339,455	368,179	309,178	-	59,001
Total Expenditures and Other Uses	35,358,156	35,375,398	29,757,438	\$ 30,243	\$ 5,587,717
Net change in fund balances	\$ (1,293,707)	\$ (1,310,949)	(10,341)		
Fund balance - beginning			3,274,880		
Fund balance - ending			\$ 3,264,539		

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, 2011

**CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET**

Adopted budget	\$ 35,358,156
Add: Prior year's encumbrances	17,242
Original budget	<u>35,375,398</u>
Budget revision	<u>-</u>
Final budget	<u><u>\$ 35,375,398</u></u>

**USE OF UNRESERVED FUND BALANCE**

Unreserved Fund Balance -	
As of the beginning of the year	\$ 1,537,821
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>\$ 958,656</u></u>

**Salmon River Central School District**  
Schedule of Project Expenditures - Capital Projects Fund  
For the Year Ended June 30, 2011

<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	1,312,411	-	1,312,411	127,589
Main Campus Phase 2	48,411,232	48,411,232	20,891,200	22,046,674	42,937,874	5,473,358
Mohawk Addition	308,843	308,843	280,446	2,799	283,245	25,598
Mohawk Addition #2	457,771	757,749	468,169	-	468,169	289,580
	<u>\$ 50,617,846</u>	<u>\$ 50,917,824</u>	<u>\$ 22,952,226</u>	<u>\$ 22,049,473</u>	<u>\$ 45,001,699</u>	<u>\$ 5,916,125</u>



**Salmon River Central School District**  
**Schedule of Certain Revenues and Expenditures Compared to ST-3 Data**  
**For the Year Ended June 30, 2011**

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
<b>REVENUES</b>			
Real Property Taxes	A-1001	1,382,044	1,382,044
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	26,093,228	26,093,228
Federal Aid	AT-4999	496,442	496,442
Total Revenues	AT-5999	29,747,097	29,747,097
<b>EXPENDITURES</b>			
General Support	AT-1999	3,888,137	3,888,137
Pupil Transportation	AT-5599	514,527	514,527
Debt Service - Principal	AT-9798.6	1,765,669	1,765,669
Debt Service - Interest	AT-9798.7	752,097	752,097
Total Expenditures	AT-9999	29,757,438	29,757,438

**Salmon River Central School District**  
**Schedule of Revenues and Expenditures for the Mohawk School - General Fund**  
**For the Year Ended June 30, 2011**

**REVENUES**

Charges for services	\$ 5,162
Use of money and property	510
Sale of property and compensation for loss	1,780
Miscellaneous	45,788
State sources	8,140,990
Federal sources	95,983
Total Revenues	<u>8,290,213</u>

**EXPENDITURES**

General support	1,047,283
Instruction	4,434,171
Employee benefits	2,563,926
Debt service	138,320
Total Expenditures	<u>8,183,700</u>

Excess of Revenues Over Expenditures	<u>106,513</u>
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**OTHER FINANCING SOURCES AND USES**

Operating transfer out	<u>(106,513)</u>
Total Other Sources and Uses	<u>(106,513)</u>

Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u><u>\$ -</u></u>
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**Salmon River Central School District**  
**Combined Balance Sheet-Non-Major Governmental Funds**  
**June 30, 2011**

	School Lunch	Non-Major Capital Projects	Total Non-Major Funds
<b>ASSETS</b>			
Cash			
Unrestricted	\$ -	\$ 270,641	\$ 270,641
Restricted	-	330	330
Receivables			
Other	120	-	120
Due from other funds	-	46,594	46,594
State and Federal aid	136,286	-	136,286
Inventories	31,997	-	31,997
Total Assets	<u>\$ 168,403</u>	<u>\$ 317,565</u>	<u>\$ 485,968</u>
<b>LIABILITIES</b>			
Payables			
Accounts payable	\$ 5,294	\$ -	\$ 5,294
Accrued liabilities	-	-	-
Accrued interest	-	2,434	2,434
Due to other funds	118,182	33,142	151,324
Due to other governments	214	-	214
Notes payable			
Bond anticipation notes	-	253,950	253,950
Total Liabilities	<u>123,690</u>	<u>289,526</u>	<u>413,216</u>
<b>FUND BALANCES</b>			
Nonspendable	31,997	-	31,997
Restricted	-	330	330
Assigned	12,716	27,709	40,425
Unassigned	-	-	-
Total Fund Balances	<u>44,713</u>	<u>28,039</u>	<u>72,752</u>
Total Liabilities and Fund Balances	<u>\$ 168,403</u>	<u>\$ 317,565</u>	<u>\$ 485,968</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, 2011

	School Lunch	Non-Major Capital Projects	Total Non-Major Funds
<b>REVENUES</b>			
Use of money and property	\$ 33	\$ -	\$ 33
Sale of property and compensation for loss	1,364	-	1,364
State sources	29,380	-	29,380
Federal sources	647,850	-	647,850
Surplus food	47,716	-	47,716
Sales - school lunch	110,098	-	110,098
Total Revenues	<u>836,441</u>	<u>-</u>	<u>836,441</u>
<b>EXPENDITURES</b>			
General support	348,447	-	348,447
Instruction	-	-	-
Pupil transportation	-	-	-
Employee benefits	318,384	-	318,384
Cost of sales	466,790	-	466,790
Capital outlay	-	2,799	2,799
Total Expenditures	<u>1,133,621</u>	<u>2,799</u>	<u>1,136,420</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(297,180)</u>	<u>(2,799)</u>	<u>(299,979)</u>
<b>OTHER FINANCING SOURCES AND USES</b>			
Operating transfers in	309,178	61,865	371,043
Operating transfers out	-	-	-
Proceeds from debt	-	-	-
Total Other Sources and Uses	<u>309,178</u>	<u>61,865</u>	<u>371,043</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	11,998	59,066	71,064
Fund Balances - Beginning of year	32,715	(31,027)	1,688
Fund Balances - End of year	<u>\$ 44,713</u>	<u>\$ 28,039</u>	<u>\$ 72,752</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, 2011**

Capital assets, net		\$ 54,848,095
Add:		
Unamortized bond issuance costs		586,788
Deduct:		
Bond anticipation note	3,328,950	
Short-term portion of bonds payable	2,334,551	
Long-term portion of bonds payable	<u>27,632,696</u>	<u>33,296,197</u>
Investment in capital assets, net of related debt		<u><u>\$ 22,138,686</u></u>

See paragraph on supplementary schedules included in auditors' report.

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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, 2011. 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, 2011, on the basis of accounting described in Note 1.

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

October 21, 2011

**Salmon River Central School District**  
Statement of Assets, Liabilities and Fund Balance - Extraclassroom Activity Fund - Cash Basis  
June 30, 2011

Cash	<u>\$ 83,317</u>
Fund Balance	<u>\$ 83,317</u>



**Salmon River Central School District**  
**Schedule of Receipts, Disbursements and Ending Balances - Extraclassroom Activity Fund**  
**For the Year Ended June 30, 2011**

<u>Activity</u>	<u>Beginning Balance July 1, 2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Balance June 30, 2011</u>
Band Club	\$ 617	\$ 1,976	\$ 1,905	\$ 688
Chorus	49	7,790	7,504	335
Drama Club	1,830	1,996	1,788	2,038
Class of 2009	3	-	-	3
Class of 2011	7,499	56,108	63,394	213
Class of 2012	4,589	11,702	7,070	9,221
Class of 2013	6,426	4,314	2,395	8,345
Class of 2014	4,009	1,360	993	4,376
Class of 2015	2,226	17,887	17,150	2,963
Class of 2016	-	3,557	1,949	1,608
FFA	5,616	8,363	6,410	7,569
French Club	1,066	2,769	2,099	1,736
Health Club	904	1,256	1,656	504
Mohawk Club	1,867	239	1,705	401
Jr National Honor Society	267	5,471	4,100	1,638
National Honor Society	2,144	2,721	4,505	360
Newspaper Club	144	763	29	878
Spanish Club	1,873	782	1,350	1,305
Student Council	1,579	8,160	7,249	2,490
Student Council Mohawk School	2,202	-	3	2,199
Yearbook Club	40	10,434	10,107	367
Students Who Care	1,693	7,219	8,450	462
Varsity Club	21,139	59,877	47,398	33,618
Total	<u>\$ 67,782</u>	<u>\$ 214,744</u>	<u>\$ 199,209</u>	<u>\$ 83,317</u>

**Salmon River Central School District**  
Notes to Financial Statements – Extraclassroom Activity Fund  
June 30, 2011

**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, 2011**

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>US Department of Education</b>			
Passed through State Dept. of Education			
Title I:			
ESEA-Title I A&D	84.010	0021-11-0925	\$ 451,352
Title I ARRA	84.389A	5021-11-0925	1,152
			<u>452,504</u>
Special Education Cluster:			
IDEA-Part B Section 619	84.173	0033-11-0261	13,011
IDEA-Part B Section 611	84.027	0032-11-0261	431,163
IDEA-Part B Section 619 ARRA	84.392A	5033-11-0261	9,445
IDEA-Part B Section 611 ARRA	84.391A	5032-11-0261	195,093
			<u>648,712</u> *
Education Stabilization Fund	84.394	5000-11-0925	496,442 *
Title II Part A	84.367	0147-11-0925	105,770
Title VI Part B	84.358	0006-11-0925	34,833
Title VII	84.060	S060A090399	439,943
Race to the Top Incentive ARRA	84.395A	5500-11-0925	2,075
Total US Dept. of Education			<u>2,180,279</u>
<b>US Department of Agriculture</b>			
Passed through State Dept. of Education			
Child Nutrition Cluster:			
National School Lunch	10.555	n/a	443,426
National School Breakfast	10.553	n/a	199,475
Snack	10.555	n/a	8,146
Summer Food Service	10.559	n/a	44,519
Total US Dept of Agriculture			<u>695,566</u> *
Total Federal Awards			<u>\$ 2,875,845</u>

\* Major Programs

**Salmon River Central School District**  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2011

**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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

#### 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 11-1, 10-1, 06-2, and 06-10.

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.

We noted certain matters that we reported to management of Salmon River Central School District in a separate letter dated October 24, 2011.

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 21, 2011

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

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, 2011. 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, 2011. 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 11-1, 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 11-1, 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.

October 21, 2011



**Salmon River Central School District**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

**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?	_____ Yes	_____ x _____ 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	

Type of auditors' report issued on compliance for major programs	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ x _____ Yes	_____ No
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Identification of major programs:	Name of Federal Program or Cluster
CFDA Numbers	
10.555, 10.553, 10.559	Child Nutrition Cluster
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
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Auditee qualified as low-risk auditee?	_____ Yes	_____ x _____ No
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**Salmon River Central School District**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2011**

**Section II – Financial Statement Findings**

None noted.

**Salmon River Central School District**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2011**

**Section III – Federal Award Findings and Questioned Costs**

**11-1 Time and Effort Reporting**

Department of Education

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

**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. Without proper documentation there is a risk that there could be improper charges made to Federal award programs.

2 staff members working in the Special Education Cluster did not have time and effort reports that properly supported the charges to the program. The time and effort reports reflected the percentage of their time that was originally budgeted to be charged to the program not the actual time spent on the program. In addition, there were no time and effort reports on file for 1 employee.

**Context:** We tested 15 employees whose compensation was charged to the Special Education Cluster. The reports for 2 employees were incorrectly prepared and the reports for 1 employee were not prepared. The District has made improvements in this area over the past year.

We reviewed the schedules and assignments for the 3 staff members who were not properly documented. We were able to satisfy ourselves that their compensation was validly charged to the program, and therefore we did not question the costs.

**Cause:** Management did not fully understand the documentation requirements.

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

**Management's Response:** In the 2011-12 year, the District will develop a system to ensure that the employees are properly charged to the federal awards programs. Time and effort reports will be completed at the start of the grant year based on the amount of time an employee works within each grant. These reports will be updated whenever there are staff adjustments throughout the year. The district treasurer will monitor these reports semi-annually to ensure that they are completed properly, match the accounting records and are kept on file.

**Salmon River Central School District**  
**Summary Schedule of Prior Year Audit Findings**  
**June 30, 2011**

**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

**Status: Partially Corrected; See Current Year Finding 11-1**

**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:** The system that was developed in the 2009-10 school year will continue to be improved. In the 2011-12 year, the District will ensure that the employees are properly charged to the federal awards programs. Time and effort reports will be completed at the start of the grant year based on the amount of time an employee works within each grant. These reports will be updated whenever there are staff adjustments throughout the year. The district treasurer will monitor these reports semi-annually to ensure that they are completed properly, match the accounting records and are kept on file.

**Salmon River Central School District**  
**Summary Schedule of Prior Year Audit Findings**  
**June 30, 2011**

**08-1 Computer Access**  
**Status: 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.

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 15<sup>th</sup> and May 15<sup>th</sup> to ensure users only have access to those rights that are necessary to perform his/her duties.

**Salmon River Central School District**  
**Summary Schedule of Prior Year Audit Findings**  
**June 30, 2011**

**07-2 Payroll Account Coding**  
**Status: 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.

**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.

**Salmon River Central School District**  
**Summary Schedule of Prior Year Audit Findings**  
**June 30, 2011**

**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**

In the 2010-11 school year, the District required all employees to fill out new I-9 forms. The few remaining forms were collected in the 2011-12 school year. To make the system more uniform, the District will have a dedicated employee collecting the I-9 forms and documenting what evidence was reviewed.

**06-3 Payroll Approval**

**Status: Corrected**

**Condition**

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

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

**Recommendation**

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

**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.

**Salmon River Central School District**  
**Summary Schedule of Prior Year Audit Findings**  
**June 30, 2011**

**06-10 Payroll Certification**  
**Status: Partially Corrected**

**See Current Year Finding 11-1**

**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 system that was developed in the 2009-10 school year will continue to be improved. In the 2011-12 year, the District will ensure that the employees are properly charged to the federal awards programs. Time and effort reports will be completed at the start of the grant year based on the amount of time an employee works within each grant. These reports will be updated whenever there are staff adjustments throughout the year. The district treasurer will monitor these reports semi-annually to ensure that they are completed properly, match the accounting records and are kept on file.