

**Salmon River Central School District
Annual Report
June 30, 2012**

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, 2012 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, 2012, 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 15, 2012 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 15, 2012

Management Discussion and Analysis
Financial Statements
For the Year Ended June 30, 2012

**Salmon River Central School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012**

The following is a discussion and analysis of the School District's financial performance for the fiscal year ended June 30, 2012. 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-12th grade) located in the town of Fort Covington and the St. Regis Mohawk School (pre k - 5th 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 the 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 was renegotiated during the 2011-12 school year. During the year, the District, along with the St. Regis Mohawk Tribe, came to an agreement on the terms and conditions of the contract. The contract was sent to the State for final approval on April 5, 2012. The contract is currently in the Division of Budget Office at New York State awaiting approval. Until this contract receives final approval, there will be no reimbursement from the State for the operation of the St. Regis Mohawk School for the 2010-2011 and 2011-2012 school year. This receivable is \$7,916,884. 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.

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 also expired on June 30, 2010. During the school year, we worked closely with the St. Regis Mohawk Tribe and agreed to the terms and conditions of this contract. We are working on some additional language to provide the District with a minimum tuition rate for payment. Once this is completed, the contract will go to the State for final approval. 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 \$2,824,055 for the 2010-2011 and 2011-2012 school year.

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 62.16% for the 2011-2012 year. The transportation contract is an annual contract that renews automatically. The amount currently due the District is \$1,618,251.

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 \$12.02 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 \$599,500 and \$172,800, respectively. 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 39 instructional positions in the last 4 years. The children have lost 20.5 teachers, 9.5 teaching assistants and 9 teacher aides. During the budget process for the 2012-13 year, there were no positions eliminated due to the budget savings from a special education classroom take back from BOCES.

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 but this is only a small portion of what the District has lost over the last 4 years.

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 1,547. 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 complete. 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 will be included in the next capital project plan.

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 wastewater treatment plant, additional classrooms, new gymnasium, abatement and transportation building needs. The District put forward a \$4.5M proposal to the voters in May 2011 to start the necessary work to the wastewater 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.

Major Features of the District-Wide and Fund Financial Statements			
		Fund Financial Statements	
→	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the School District that are not 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
Required Financial Statements	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
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during 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 \$2 million at the close of the most recent fiscal year.

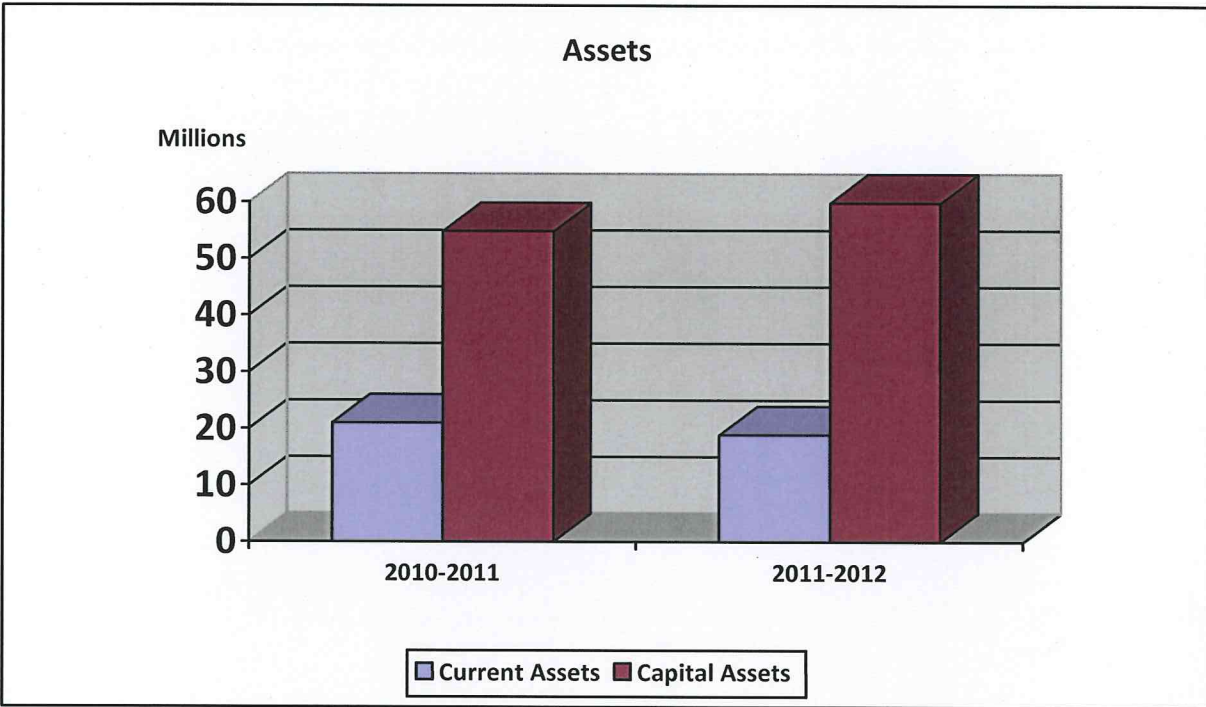
The net assets reflect mainly reserved and unreserved fund balance. The School District's net assets also reflect its investment in capital assets less any related debt used to acquire those assets that is still outstanding. Although the School District's investment in its capital assets is reported 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.

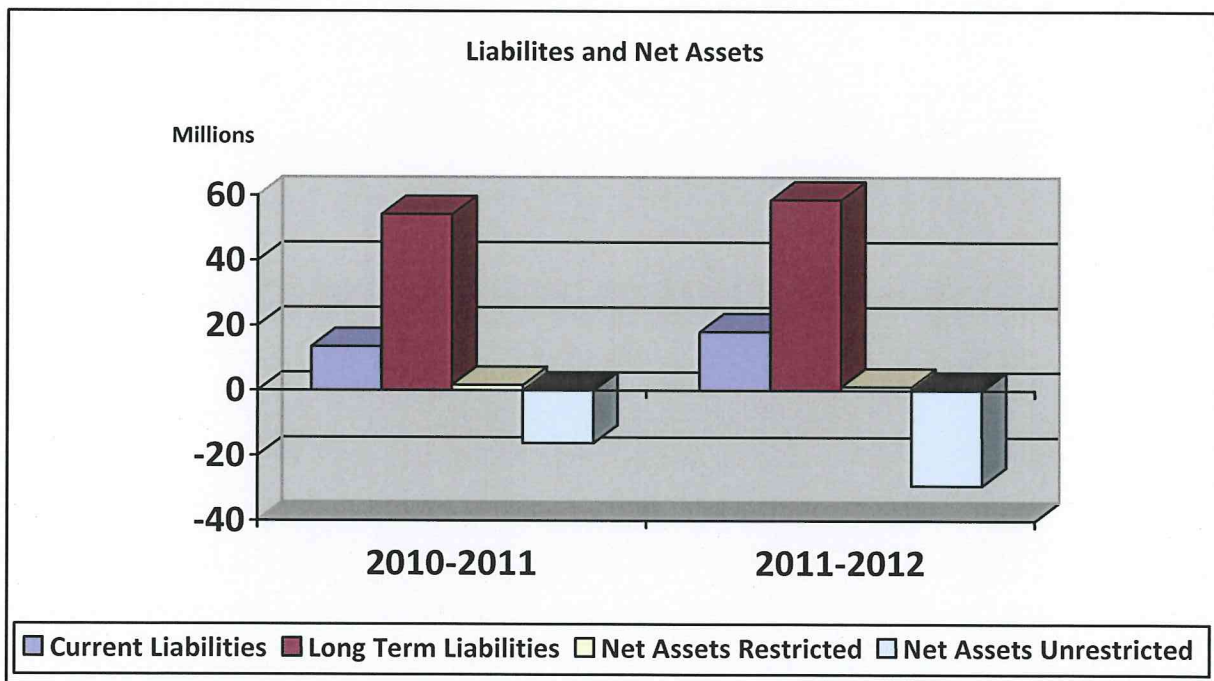
Condensed Statement of Net Assets:

ASSETS:	<u>2010-2011</u>	<u>2011-2012</u>
Current and other assets	\$20,710,065	\$18,922,179
Capital assets, net	<u>54,848,095</u>	<u>59,910,103</u>
Total Assets:	<u>75,558,160</u>	<u>78,832,282</u>
LIABILITIES:		
Current liabilities	13,517,933	18,055,722
Long-term liabilities	<u>54,186,519</u>	<u>58,679,968</u>
Total Liabilities:	<u>67,704,452</u>	<u>76,735,690</u>
NET ASSETS:		
Invested in capital assets, net of related debt	22,138,686	30,060,982
Restricted	1,720,305	1,250,901
Unrestricted	<u>(16,005,283)</u>	<u>(29,215,291)</u>
Total Net Assets	<u>\$ 7,853,708</u>	<u>\$ 2,096,592</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 \$3.2 million, and state and federal aid receivable of \$14 million. The major differences in the assets are the cash decreases of \$1.8 million and the capital project increase for the Capital Assets of \$5 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 fourth 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 \$5M for GASB 45 and caused the unrestricted net assets to become negative as there are not enough assets available to cover the \$30.4 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 \$12 million, short-term bonds payable of \$2.7 million, and post employment benefits of \$30.4 million. The major difference in short term liabilities is the decrease in short term bond anticipation notes. Short-term debt decreased this year by \$3 million due to the issuance of long term debt in the previous year.

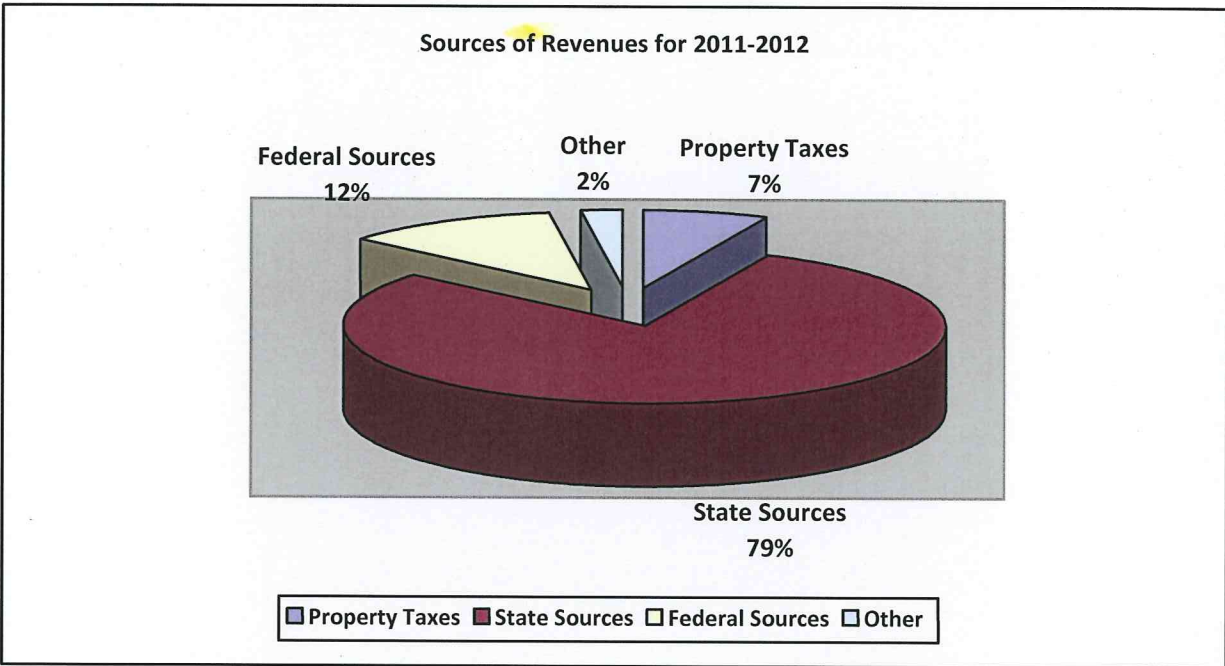
The Statement of Activities shows the cost of program services net of charges for services and grants offsetting those services. General revenues, including tax revenue, investment earnings, and unrestricted state and federal aid, must support the net cost of the School District's programs.

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.

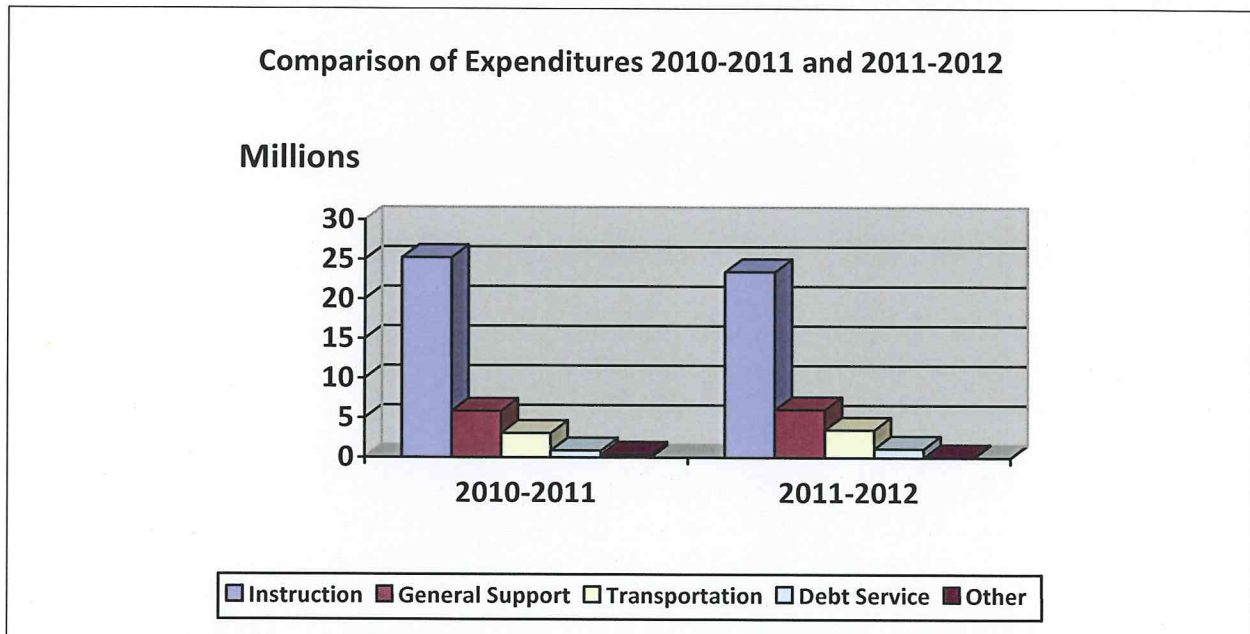
	6/30/11	6/30/12
Revenues		
Property and other tax items	\$1,883,412	\$1,888,974
Use of money and property	8,762	7,015
Sale of property and compensation for loss	11,328	80,939
Miscellaneous	464,692	562,430
State sources	24,114,882	22,856,982
Federal sources	2,793,296	3,314,055
Total Revenues	<u>\$29,276,372</u>	<u>\$28,710,395</u>
Expenses		
General Support	\$ 5,835,807	\$6,045,481
Instruction	25,273,808	23,451,494
Pupil transportation	3,120,524	3,516,816
Debt Service	871,779	1,122,625
Other Expenses	32,570	44,107
Community Service	32,543	35,161
Capital Outlay – Mohawk School	2,799	0
School lunch program - cost of food sales	308,976	251,826
Total Expenses	<u>\$35,478,806</u>	<u>\$34,467,510</u>
Change in Net Assets	<u><u>\$(6,202,434)</u></u>	<u><u>\$(5,757,115)</u></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 7% of our total revenues or \$1,888,974 with the STAR program. We held the tax levy amount to 0% to help our community during these tough economic times in the previous years. Our District has always made a strong effort to keep taxes at a reasonable level. In the 2012-13 year, the tax levy will increase 2% to try and maintain an elementary summer school program.



Our District's expenses are predominantly related to instruction, which represents 68% 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 \$20,568 for a family health insurance plan and this is expected to continue to rise 10% per year. Within 5 years, the plan will 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, management confidential, administrators and supervisors. 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. Our transportation department is looking at ways to curb our bus miles. However, in a rural district, distance driving is necessary.

The District has a locked-in bid price for fuel oil and purchases electricity through cooperative purchasing, but prices for these commodities 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 \$26,473,081. It covers the operation of the main campus school in pre-K–12th grade.

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

The second budget is for the operation of the St. Regis Mohawk Elementary School. This is a pre-K–5th 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 \$10,235,265. 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 \$3,399,154. 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 complete from 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. The District expects to bring a vote to the voters in the early spring.

School Lunch (Cafeteria) Fund

The school lunch program continues to be supported by funds from the general fund. 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 \$202,000 in the previous year to \$86,185 this school year. These reductions are attributed to several food purchasing strategies that have achieved nutritious meals at less cost. The District also shares 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.

The District has 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 cannot 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 was only for a two-year period; the long-range financial plan has addressed 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 2012, the District had invested approximately \$59,910,103 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 2011-2012 school year. For this coming year, we will be purchasing three new buses based on voter approval in May 2012. We have also requested to be provided with seven 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.

Long-Term Debt

The District's outstanding debt as of June 30, 2012 was \$30.2 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. In previous years, 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. These negotiations have been ongoing throughout the year and progress has been made towards reaching a settlement. 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 CSEA contract will expire on June 30, 2013. The District expects these negotiations to go smoothly.

- 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 and 2011-2012. Negotiations have been successful for both contracts during the 2011-2012 year. We are currently awaiting final approval from the State along with payments for the past 2 years.
- The District is currently in the beginning phases of planning the next capital project. The project is expected to be approximately \$30 million. The vote is expected to be held in early spring 2013, with an anticipated start date of summer 2013. This project will finish the upgrades required by the building condition survey and the plan from the 2008 capital project. Capital financing will be structured so that there will be no local tax impact using the different financing and aid options available to the District.

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, 2012

ASSETS

Cash	
Unrestricted	\$ 3,230,757
Restricted	45,606
Receivables	
Taxes	-
Other	786,677
Due from fiduciary funds	189,163
State and Federal aid	14,068,360
Inventories	33,566
Deferred expenditures	568,050
Capital assets, net	59,910,103
Total Assets	<u>78,832,282</u>

LIABILITIES

Payables	
Accounts payable	587,359
Accrued expenses	35,682
Due to other governments	913
Accrued interest	42,718
Retainage payable	1,122,300
Overpayments and collections in advance	300
Notes payable	
Bond anticipation	164,475
Revenue anticipation	12,000,000
Long-term liabilities	
Due and payable within one year	
Bonds payable	2,697,279
Compensated absences payable	75,004
Due to Teachers' Retirement System	1,186,689
Due to Employees' Retirement System	143,003
Due and payable after one year	
Bonds payable	27,555,418
Compensated absences payable	672,368
Other post employment benefits	30,452,182
Total Liabilities	<u>76,735,690</u>

NET ASSETS

Investment in capital assets, net of related debt	30,060,982
Restricted	1,250,901
Unrestricted	(29,215,291)
Total Net Assets	<u>\$ 2,096,592</u>

Salmon River Central School District
Statement of Activities
For the Year Ended June 30, 2012

		Program Revenues		Net
	Expenses	Charges for	Operating	Revenue and
		Services	Grants	Changes in
				Net Assets
FUNCTIONS/PROGRAMS				
General support	\$6,156,648	\$ 111,167	\$ -	\$ 6,045,481
Instruction	30,115,608	6,664,114	-	23,451,494
Pupil transportation	3,565,986	49,170	-	3,516,816
Community service	35,161	-	-	35,161
Debt service	1,122,625	-	-	1,122,625
Capital outlay - Mohawk School	-	-	-	-
Other expenditures	44,107	-	-	44,107
School lunch program	518,224	212,612	53,786	251,826
Total Functions and Programs	<u>41,558,359</u>	<u>7,037,063</u>	<u>53,786</u>	<u>34,467,510</u>
GENERAL REVENUES				
Real property taxes				1,385,395
Other tax items				503,579
Use of money and property				7,015
Sale of property and compensation for loss				80,939
Miscellaneous				562,430
State sources				22,856,982
Federal sources				3,314,055
Medicaid reimbursement				-
Total General Revenues				<u>28,710,395</u>
Change in Net Assets				(5,757,115)
Total Net Assets-Beginning of year				<u>7,853,707</u>
Total Net Assets-End of year				<u>\$ 2,096,592</u>

See notes to financial statements.

Salmon River Central School District
Balance Sheet - Governmental Funds
June 30, 2012

	General	Special Aid	Main Campus Capital Project	Non-Major	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 1,632,157	\$ 40,838	\$ 1,179,194	\$ 378,568	\$ 3,230,757
Restricted	45,606	-	-	-	45,606
Receivables					
Taxes	-	-	-	-	-
Other	758,320	-	-	28,357	786,677
Due from other funds	2,304,910	-	-	243,269	2,548,179
State and Federal aid	12,119,122	1,936,482	-	12,756	14,068,360
Inventories	-	-	-	33,566	33,566
Deferred expenditures	-	-	-	-	-
Total Assets	<u>\$ 16,860,115</u>	<u>\$ 1,977,320</u>	<u>\$ 1,179,194</u>	<u>\$ 696,516</u>	<u>\$ 20,713,145</u>
LIABILITIES					
Payables					
Accounts payable	\$ 104,601	\$ 2,465	\$ 480,273	\$ 20	\$ 587,359
Accrued liabilities	22,383	-	-	13,299	35,682
Accrued interest	3,985	-	-	1,850	5,835
Due to other funds	-	1,974,855	243,336	140,825	2,359,016
Due to other governments	-	-	-	913	913
Retainage payable	-	-	1,122,300	-	1,122,300
Due to Teachers' Retirement System	1,186,689	-	-	-	1,186,689
Due to Employees' Retirement System	143,003	-	-	-	143,003
Overpayments and collections in advance	300	-	-	-	300
Notes payable					
Bond anticipation	-	-	-	164,475	164,475
Revenue anticipation	12,000,000	-	-	-	12,000,000
Total Liabilities	<u>13,460,961</u>	<u>1,977,320</u>	<u>1,845,909</u>	<u>321,382</u>	<u>17,605,572</u>
FUND BALANCES					
Nonspendable	-	-	-	33,566	33,566
Restricted					
Workers' compensation reserve	45,606	-	-	-	45,606
Reserve for tax certiorari	7,955	-	-	-	7,955
Reserve for employee benefits and accrued liabilities	759,598	-	-	-	759,598
Capital reserve	-	-	-	-	-
Reserve for debt	437,742	-	-	-	437,742
Assigned					
Assigned appropriated fund balance	642,153	-	-	5,000	647,153
Assigned unappropriated fund balance					
General support	13,698	-	-	-	13,698
Instruction	3,024	-	-	-	3,024
School lunch	-	-	-	15,434	15,434
Capital project	-	-	344,519	14,014	358,533
Unassigned fund balance	1,489,378	-	(1,011,234)	307,120	785,264
Total Fund Balances	<u>3,399,154</u>	<u>-</u>	<u>(666,715)</u>	<u>375,134</u>	<u>3,107,573</u>
Total Liabilities and Fund Balances	<u>\$ 16,860,115</u>	<u>\$ 1,977,320</u>	<u>\$ 1,179,194</u>	<u>\$ 696,516</u>	<u>\$ 20,713,145</u>

Salmon River Central School District
Statement of Revenues, Expenditures and Changes in Fund Equity - Governmental Funds
For the Year Ended June 30, 2012

	General	Special Aid	Main Campus Capital Project	Non-Major	Total Governmental Funds
REVENUES					
Real property taxes	\$ 1,385,395	\$ -	\$ -	\$ -	\$ 1,385,395
Other tax items	503,579	-	-	-	503,579
Charges for services	2,284,970	-	-	-	2,284,970
Use of money and property	122,188	-	-	27	122,215
Sale of property and compensation for loss	37,265	-	100,000	-	137,265
Miscellaneous	534,812	13,908	-	-	548,720
State sources	25,182,519	2,043,364	-	31,825	27,257,708
Medicaid reimbursement	-	-	-	-	-
Federal sources	594,827	1,956,747	-	762,481	3,314,055
Surplus food	-	-	-	53,786	53,786
Sales - school lunch	-	-	-	212,612	212,612
Total Revenues	<u>30,645,555</u>	<u>4,014,019</u>	<u>100,000</u>	<u>1,060,731</u>	<u>35,820,305</u>
EXPENDITURES					
General support	3,940,552	-	-	384,513	4,325,065
Instruction	13,725,671	2,279,712	-	-	16,005,383
Pupil transportation	548,570	1,620,455	-	-	2,169,025
Community service	20,090	-	-	-	20,090
Employee benefits	8,294,843	-	-	360,236	8,655,079
Debt service					
Principal	2,483,390	44,585	-	-	2,527,975
Interest	1,253,730	2,162	-	-	1,255,892
Cost of sales	-	-	-	518,224	518,224
Capital outlay	-	-	5,743,062	-	5,743,062
Total Expenditures	<u>30,266,846</u>	<u>3,946,914</u>	<u>5,743,062</u>	<u>1,262,973</u>	<u>41,219,795</u>
Excess (Deficiency) of Revenues					
Over Expenditures	<u>378,709</u>	<u>67,105</u>	<u>(5,643,062)</u>	<u>(202,242)</u>	<u>(5,399,490)</u>
OTHER FINANCING SOURCES AND USES					
Operating transfers in	67,435	-	-	311,529	378,964
Operating transfers out	(311,529)	(67,105)	-	(330)	(378,964)
Proceeds from debt	-	-	2,620,000	193,425	2,813,425
Total Other Sources and Uses	<u>(244,094)</u>	<u>(67,105)</u>	<u>2,620,000</u>	<u>504,624</u>	<u>2,813,425</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	134,615	-	(3,023,062)	302,382	(2,586,065)
Fund Balances - Beginning of year	3,264,539	-	2,356,347	72,752	5,693,638
Fund Balances - End of year	<u>\$ 3,399,154</u>	<u>\$ -</u>	<u>\$ (666,715)</u>	<u>\$ 375,134</u>	<u>\$ 3,107,573</u>

See notes to financial statements.

Salmon River Central School District
Statement of Fiduciary Net Assets - Fiduciary Funds
June 30, 2012

	Private Purpose Trusts	Agency
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 112,832	\$ 77,997
Due from other governments	-	206,538
Total Assets	<u>\$ 112,832</u>	<u>\$ 284,535</u>
LIABILITIES		
Due to governmental funds	\$ -	\$ 189,163
Extraclassroom activity balances	-	77,997
Other liabilities	-	17,375
Total Liabilities	<u>-</u>	<u>\$ 284,535</u>
NET ASSETS		
Restricted for other purposes	<u>\$ 112,832</u>	

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
For the Year Ended June 30, 2012

	Private Purpose Trusts
	<u> </u>
ADDITIONS	
Investment earnings	\$ 279
Gifts and contributions	500
Total additions	<u>779</u>
DEDUCTIONS	
Contractual and other	<u>625</u>
Change in Net Assets	154
Net Assets - Beginning of year	<u>112,678</u>
Net Assets - End of year	<u>\$ 112,832</u>

See notes to financial statements.

Salmon River Central School District
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
June 30, 2012

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS				
Cash	\$ 3,276,363	\$ -	\$ -	\$ 3,276,363
Taxes receivable	-	-	-	-
Other receivables	786,677	-	-	786,677
Due from other funds	2,548,179	-	(2,359,016)	189,163
State and Federal aid	14,068,360	-	-	14,068,360
Inventories	33,566	-	-	33,566
Deferred expenditures	-	568,050	-	568,050
Capital assets, net	-	59,910,103	-	59,910,103
Total Assets	<u>\$ 20,713,145</u>	<u>\$ 60,478,153</u>	<u>\$ (2,359,016)</u>	<u>\$ 78,832,282</u>
LIABILITIES				
Accounts payable	\$ 587,359	\$ -	\$ -	\$ 587,359
Accrued liabilities	35,682	-	-	35,682
Due to other funds	2,359,016	-	(2,359,016)	-
Due to other governments	913	-	-	913
Accrued interest	5,835	36,883	-	42,718
Retainage payable	1,122,300	-	-	1,122,300
Overpayments and collections in advance	300	-	-	300
Due to Teachers' Retirement System	1,186,689	-	-	1,186,689
Due to Employees' Retirement System	143,003	-	-	143,003
Bond anticipation note	164,475	-	-	164,475
Revenue anticipation note	12,000,000	-	-	12,000,000
Compensated absences payable	-	747,372	-	747,372
Bonds payable	-	30,252,697	-	30,252,697
Other post employment benefits	-	30,452,182	-	30,452,182
Total Liabilities	<u>17,605,572</u>	<u>61,489,134</u>	<u>(2,359,016)</u>	<u>76,735,690</u>
FUND EQUITY/NET ASSETS	<u>3,107,573</u>	<u>(1,010,981)</u>	<u>-</u>	<u>2,096,592</u>
Total Liabilities, Equity and Other Credits	<u>\$ 20,713,145</u>	<u>\$ 60,478,153</u>	<u>\$ (2,359,016)</u>	<u>\$ 78,832,282</u>

See notes to financial statements.

Salmon River Central School District
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets
June 30, 2012

Fund Balances - total governmental funds		\$ 3,107,573
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	71,607,846	
Less: accumulated depreciation	<u>(11,697,743)</u>	59,910,103
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Bond issue costs	994,615	
Less: accumulated amortization	<u>(426,564)</u>	568,051
Interest payable used in governmental activities is not payable from current resources and therefore not reported in the governmental funds		(36,884)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
Long-term debt	(30,252,697)	
Compensated absences	<u>(747,372)</u>	(31,000,069)
Other post employment benefits are not due and payable in the current period and therefore are not reported in the funds		<u>(30,452,182)</u>
Net Assets of Governmental Activities		<u>\$ 2,096,592</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, 2012

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities Totals
REVENUES				
Real property taxes	\$ 1,385,395	\$ -	\$ -	\$ 1,385,395
Other tax items	503,579	-	-	503,579
Charges for services	2,284,970	-	-	2,284,970
Use of money and property	122,215	-	-	122,215
Sale of property and compensation for loss	137,265	(19,061)	-	118,204
Miscellaneous	548,720	-	-	548,720
State sources	27,257,708	-	-	27,257,708
Medicaid reimbursement	-	-	-	-
Federal sources	3,314,055	-	-	3,314,055
Surplus food	53,786	-	-	53,786
Sales - school lunch and store	212,612	-	-	212,612
Total Revenues	<u>35,820,305</u>	<u>(19,061)</u>	<u>-</u>	<u>35,801,244</u>
EXPENDITURES				
General support	4,325,065	408,244	1,423,339	6,156,648
Instruction	16,005,383	5,771	14,104,454	30,115,608
Pupil transportation	2,169,025	194,658	1,202,303	3,565,986
Community service	20,090	-	15,071	35,161
Employee benefits	8,655,079	8,090,088	(16,745,167)	-
Debt service	3,783,867	(2,661,242)	-	1,122,625
Unallocated depreciation	-	-	-	-
Cost of sales	518,224	-	-	518,224
Other expenditures	-	44,107	-	44,107
Capital outlay	5,743,062	(5,743,062)	-	-
Total Expenditures	<u>41,219,795</u>	<u>338,564</u>	<u>-</u>	<u>41,558,359</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,399,490)</u>	<u>(357,625)</u>	<u>-</u>	<u>(5,757,115)</u>
OTHER SOURCES AND USES				
Proceeds from debt	2,813,425	(2,813,425)	-	-
Operating transfers in	378,964	-	(378,964)	-
Operating transfers out	(378,964)	-	378,964	-
Total Other Sources and Uses	<u>2,813,425</u>	<u>(2,813,425)</u>	<u>-</u>	<u>-</u>
Net Change for the Year	<u>\$ (2,586,065)</u>	<u>\$ (3,171,050)</u>	<u>\$ -</u>	<u>\$ (5,757,115)</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, 2012

Net Change in Fund Balances - total governmental funds		\$ (2,586,065)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenues in the Statement of Activities that do not provide current resources are not reported as revenues in the funds		
Disposal of capital assets		(19,061)
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	5,723,372	
Less: current year depreciation	<u>(642,303)</u>	5,081,069
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	52,000	
Bond issuance cost amortization	(70,737)	
Bond proceeds	(2,620,000)	
Repayment of bonds	<u>2,334,550</u>	(304,187)
Interest expense reported in the Statement of Activities does not require the use of current financial resources and is therefore not reported as an expenditure in governmental funds		159,897
Compensated absences in the Statement of Activities does not require the use of current financial resources and is therefore not reported as an expenditure in governmental funds		1,320
Other post employment benefits in the Statement of Activities does not require the use of current resources and are therefore not reported as expenditures in the governmental funds		<u>(8,090,088)</u>
Change in Net Assets of Governmental Funds		<u><u>\$ (5,757,115)</u></u>

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

Note 1 – Summary of certain significant accounting policies:

The financial statements of the Salmon River Central School District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Certain significant accounting principles and policies utilized by the District are described below:

A) Reporting Entity:

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

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, The Financial Reporting Entity, as amended by GASB Statement 39, Component Units. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District’s reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District’s reporting entity.

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

i) Extraclassroom Activity Funds:

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District's business office. The District accounts for assets held as an agent for various student organizations in an agency fund.

B) Joint Venture:

The Salmon River Central School District is one of 11 component school districts in the Franklin-Essex-Hamilton BOCES. A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs which provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

BOCES are organized under §1950 of the New York State Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (§1950(6)). In addition, BOCES Boards are also considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n(a) of the New York State General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

C) Basis of Presentation:

i) District-Wide Statements:

The Statement of Net Assets and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State aid, intergovernmental revenues, and other exchange and nonexchange transactions.

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between program expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

ii) Fund Financial Statements:

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

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

Special Revenue Funds: These funds account for the proceeds of specific revenue sources, such as federal and State grants, that are legally restricted to expenditures for specified purposes, child nutrition and school store operations or other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

The District reports the following fiduciary funds:

Fiduciary Funds

Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the District-wide financial statements, because their resources do not belong to the District, and are not available to be used. There are two classes of fiduciary funds:

Private purpose trust funds: These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.

Agency funds: These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

D) Measurement Focus and Basis of Accounting:

The District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after the end of the fiscal year.

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

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 22, 2011. Taxes are collected during the period September 1, 2011 to November 2, 2011.

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

G) Accounts Receivable:

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

H) Inventories:

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

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

I) Due to/from Other Funds:

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

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

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

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

J) Capital Assets:

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

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

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

K) Other Assets:

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

L) Vested Employee Benefits:

Compensated absences

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

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

District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

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

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

M) Other benefits:

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

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

Salmon River Central School District

Notes to Financial Statements

June 30, 2012

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 based on the source and strength of constraints placed on them.

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

O) Deferred Revenue:

Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded.

Statute provides the authority for the District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

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

P) Restricted Resources:

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

Q) Equity classifications:

District-wide statements:

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

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

Restricted net assets – reports net assets when constraints placed on the assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – reports all other net assets that do not meet the definition of the above two classifications and are deemed to be available for general use by the District.

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

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 – amounts constrained 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.

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

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:

Reserve for Debt Service

Mandatory Reserve for Debt Service (GML §6-1) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations which remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvement. The reserve is accounted for in the General Fund.

Reserve for Encumbrances

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

Reserve for Inventory

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

Workers' Compensation Reserve

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

Employee Benefit Accrued Liability Reserve

Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefits due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the General Fund.

R) Accrued liabilities and long-term obligations:

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

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

Note 2 – Explanation of Certain Differences Between Governmental Fund Statements and District-Wide Statements:

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the District-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

A) Total fund balances of governmental funds vs. net assets of governmental activities:

Total fund balances of the District's governmental funds differ from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund Balance Sheets.

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

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

i) Long-term revenue differences:

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

ii) Capital related differences:

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

iii) Long-term debt transaction differences:

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

Note 3 – Stewardship, compliance and accountability:

The District's unreserved and undesignated fund balance was 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 legally adopted budget for the upcoming school year. Actions the District plans to pursue to address this issue include the use of these funds in anticipation of state aid reductions and increased costs.

Note 4 – Custodial credit and concentration of credit:

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. While the District does not have a specific policy for custodial credit risk, New York State statutes govern the District's investment policies, as discussed previously in these Notes.

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes \$117,455 within the governmental funds and \$112,832 in the fiduciary funds.

Note 5 – Participation in BOCES:

During the year ended June 30, 2012, the District was billed \$3,839,813 for BOCES administrative and program costs.

Participating school districts issue debt on behalf of BOCES. During the year ended June 30, 2012, the District did not issue serial bonds on behalf of BOCES.

The District's share of BOCES aid amounted to \$1,618,351.

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

Note 6 – Investments:

The District did not hold any investments during the year.

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

Note 7 - Capital assets:

Capital asset balances and activity for the year ended June 30, 2012 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassific.</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 118,242	\$ -	\$ -	\$ 118,242
Construction in progress	42,491,929	5,691,062	-	48,182,991
Total nondepreciable historical cost	<u>42,610,171</u>	<u>5,691,062</u>	<u>-</u>	<u>48,301,233</u>
Capital assets that are depreciated:				
Buildings	19,553,004	-	229,222	19,323,782
Machinery and equipment	3,950,521	32,310	-	3,982,831
Total depreciable historical cost	<u>23,503,525</u>	<u>32,310</u>	<u>229,222</u>	<u>23,306,613</u>
Less accumulated depreciation:				
Buildings	9,025,144	334,805	210,161	9,149,788
Machinery and equipment	2,240,457	307,498	-	2,547,955
Total accumulated depreciation	<u>11,265,601</u>	<u>642,303</u>	<u>210,161</u>	<u>11,697,743</u>
Total depreciable historical cost, net	<u>\$54,848,095</u>	<u>\$ 5,081,069</u>	<u>\$ 19,061</u>	<u>\$59,910,103</u>

Depreciation expense was charged to governmental activities as follows:

Administrative services	\$ 433,101
Regular instruction	14,544
Pupil transportation	194,658
	<u>\$ 642,303</u>

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

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 6/22/12 at 2.00%	\$ 6,600,000	\$ -	\$ 6,600,000	\$ -
RAN Maturing 6/22/12 at 1.41%	-	3,000,000	3,000,000	-
RAN Maturing 6/21/13 at 1.50%	-	12,000,000	-	12,000,000
BAN Maturing 11/10/11 at 1.50%	253,950	-	253,950	-
BAN Maturing 11/8/12 at 1.77%	-	164,475	-	164,475
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:

Short-term debt

Interest paid	\$ 208,831
Less interest accrued in the prior year	53,424
Plus interest accrued in the current year	<u>5,835</u>
Total expense	<u><u>\$ 161,242</u></u>

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

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	2,260,000	-	340,000	1,920,000	355,000
Energy Performance	1,035,652	-	112,956	922,696	117,278
Serial Bonds 2005	3,145,000	-	310,000	2,835,000	325,000
Lease-purchase oblig. 08	17,471	-	17,470	1	1
Bus Bond 2008	80,000	-	40,000	40,000	40,000
Serial Bonds 2008	1,295,000	-	80,000	1,215,000	80,000
QZABs 2009	12,470,000	-	895,000	11,575,000	905,000
QZABs 2011	9,664,124	-	539,124	9,125,000	695,000
QSCBs 2011	-	2,620,000	-	2,620,000	180,000
Total bonds payable	29,967,247	2,620,000	2,334,550	30,252,697	2,697,279
Other liabilities					
Compensated absences	748,692	-	1,320	747,372	75,004
Total long-term liabilities	<u>\$30,715,939</u>	<u>\$ 2,620,000</u>	<u>\$ 2,335,870</u>	<u>\$31,000,069</u>	<u>\$ 2,772,283</u>

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

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

Existing serial and statutory bond obligations:

Description of issue	Issue Date	Final Maturity	Interest Rate	Outstanding June 30, 2012
Serial Bonds	2003	2017	3.80%	1,920,000
Energy Performance	2003	2018	3.79%	922,696
Serial Bonds	2005	2020	3.75%	2,835,000
Lease-purchase Obligation	2008	2013	7.77%	1
Bus Bond	2008	2013	3.19%	40,000
Serial Bonds	2008	2024	4.25%	1,215,000
QZABs	2009	2024	1.25%	11,575,000
QZABs	2011	2023	5.46%	9,125,000
QSCBs	2011	2025	0.80%	2,620,000
				<u>\$ 30,252,697</u>

The following is a summary of debt service requirements:

	Serial Bonds		Other Debt	
	Principal	Interest	Principal	Interest
Fiscal year ended June 30,				
2013	2,540,000	845,668	157,279	35,145
2014	2,605,000	780,889	121,764	29,382
2015	2,665,000	712,292	126,424	24,724
2016	2,735,000	639,536	131,260	19,887
2017	2,810,000	561,928	136,282	14,865
2018-2022	11,880,000	1,641,829	289,688	12,459
2023-2027	4,055,000	128,533	-	-
	<u>\$ 29,290,000</u>	<u>\$ 5,310,675</u>	<u>\$ 962,697</u>	<u>\$ 136,462</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, 2012

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

Long-term debt

Interest paid	\$ 1,094,650
Amortized bond premium	26,630
Less interest accrued in the prior year	196,780
Plus interest accrued in the current year	<u>36,883</u>
Total expense	<u><u>\$ 961,383</u></u>

Note 10 – Interfund balances and activity:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$2,304,910	\$ -
Special Aid Fund	-	1,974,855
School Lunch Fund	-	140,825
Capital Projects Fund	<u>243,269</u>	<u>243,336</u>
Total Government Agencies	2,548,179	2,359,016
 Fiduciary Agency Fund	 <u>-</u>	 <u>189,163</u>
 Totals	 <u><u>\$2,548,179</u></u>	 <u><u>\$2,548,179</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, 2012

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, 2012, the District recognized \$1,354,464 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of June 30, 2012, which indicates that the total liability for other post employment benefits is \$30,452,182, 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, 2012

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	\$ 10,628,611
Interest on net OPEB obligation	894,484
Adjustment to annual required contribution	<u>(1,316,752)</u>
Annual OPEB cost (expense)	10,206,343
Contributions made	<u>(2,116,255)</u>
Increase in net OPEB obligation	8,090,088
Net OPEB obligation - beginning of year	<u>22,362,094</u>
Net OPEB obligation - end of year	<u><u>\$ 30,452,182</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 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
6/30/2012	\$ 10,206,343	20.7%	\$ 30,452,182
6/30/2011	9,697,662	18.9%	22,362,094
6/30/2010	9,126,257	18.9%	14,502,030

Funded Status and Funding Progress

As of the most recent actuarial valuation date, the plan was unfunded. The status as of June 30, 2012, was as follows:

Actuarial valuation date	7/1/2010
Actuarial accrued liability (AAL)	\$ 98,355,435
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 98,355,435</u></u>
Actuarial Value of Assets as a % of the AAL	-
Covered payroll (active members)	\$ 12,920,358
UAAL as a percentage of covered payroll	761%

Salmon River Central School District
Notes to Financial Statements
June 30, 2012

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, 2012, 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, 2012

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 for employees who joined prior to July 27, 1976. Employees who joined the Systems after July 27, 1976 and prior to January 1, 2010 contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. Employees who joined the NYSTRS between January 1, 2010 and April 1, 2012 contribute 3.5% of their salary throughout active membership. Employees who joined NYSERS between January 1, 2010 and April 1, 2012 contribute 3% throughout active membership. Employees who joined NYSTRS and NYSERS after April 1, 2012 contribute between 3-6% depending on the amount of their earnings. 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, 2012	\$ 965,224	\$ 516,259
June 30, 2011	757,761	367,780
June 30, 2010	932,583	224,978

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, 2012

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, 2012.

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 15, 2012, 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, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Variance With Budgetary Actual
REVENUES				
Local Sources				
Real property taxes	\$ 1,383,903	\$ 1,383,903	\$ 1,385,395	\$ 1,492
Other tax items	504,722	504,722	503,579	(1,143)
Charges for services	1,304,920	1,304,920	2,284,970	980,050
Use of money and property	164,000	164,000	122,188	(41,812)
Sale of property and compensation for loss	1,000	1,000	37,265	36,265
Miscellaneous	361,000	361,000	534,811	173,811
Interfund revenues	-	-	-	-
Total Local Sources	<u>3,719,545</u>	<u>3,719,545</u>	<u>4,868,208</u>	<u>1,148,663</u>
State Sources	31,878,729	31,878,729	25,182,519	(6,696,210)
Federal Sources	594,827	594,827	594,827	-
Total Revenues	<u>36,193,101</u>	<u>36,193,101</u>	<u>30,645,554</u>	<u>(5,547,547)</u>
OTHER FINANCING SOURCES				
Transfers from other funds	-	-	67,436	67,436
Total Revenues and Other Financing Sources	<u>36,193,101</u>	<u>36,193,101</u>	<u>30,712,990</u>	<u>(5,480,111)</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, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-end Encumbrances	Final Budget Variance With Budgetary Actual And Encumbrances
EXPENDITURES					
Board of education	16,100	10,042	4,406	-	5,636
Central administration	200,892	180,473	161,786	6	18,681
Finance	433,215	378,931	315,480	13,692	49,759
Staff	192,580	222,345	166,766	-	55,579
Central services	3,578,250	3,748,298	2,854,481	-	893,817
Special items	473,500	461,836	437,633	-	24,203
Total General Support	<u>4,894,537</u>	<u>5,001,925</u>	<u>3,940,552</u>	<u>13,698</u>	<u>1,047,675</u>
Instruction, administration and improvement	976,608	1,023,914	764,802	-	259,112
Teaching - regular school	7,019,999	6,966,103	6,089,347	2,490	874,266
Programs for children with handicapping conditions	4,403,691	3,979,019	3,655,742	-	323,277
Occupational education	998,000	981,622	974,555	-	7,067
Teaching - special school	195,750	253,287	140,943	-	112,344
Instructional media	1,065,887	961,028	889,305	-	71,723
Pupil services	1,269,369	1,358,943	1,210,977	534	147,432
Total Instruction	<u>15,929,304</u>	<u>15,523,916</u>	<u>13,725,671</u>	<u>3,024</u>	<u>1,795,221</u>
Pupil transportation	1,558,169	1,641,315	548,570	-	1,092,745
Community services	27,800	20,090	20,090	-	-
Employee benefits	10,133,904	10,274,065	8,294,843	-	1,979,222
Debt service	3,832,552	3,849,183	3,737,120	-	112,063
Total Expenditures	<u>36,376,266</u>	<u>36,310,494</u>	<u>30,266,846</u>	<u>16,722</u>	<u>6,026,926</u>
OTHER FINANCING USES					
Transfers to other funds	620,000	716,015	311,529	-	404,486
Total Expenditures and Other Uses	<u>36,996,266</u>	<u>37,026,509</u>	<u>30,578,375</u>	<u>\$ 16,722</u>	<u>\$ 6,431,412</u>
Net change in fund balances	<u>\$ (803,165)</u>	<u>\$ (833,408)</u>	134,615		
Fund balance - beginning			<u>3,264,539</u>		
Fund balance - ending			<u>\$ 3,399,154</u>		

See paragraph on supplementary schedules included in auditors' report.

Salmon River Central School District
Schedules of Change from Original Budget to Revised Budget and Use of Unreserved Fund Balance -
General Fund
For the Year Ended June 30, 2012

CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET

Adopted budget	\$ 36,996,266
Add: Prior year's encumbrances	30,243
Original budget	<u>37,026,509</u>
Budget revision	<u>-</u>
Final budget	<u><u>\$ 37,026,509</u></u>

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -	
As of the beginning of the year	\$ 1,514,321
Less:	
Designated fund balance used for	
the levy of taxes - original budget	<u>503,165</u>
Undesignated Fund Balance -	
As of the beginning of the year	<u><u>\$ 1,011,156</u></u>

Salmon River Central School District
Schedule of Project Expenditures - Capital Projects Fund
For the Year Ended June 30, 2012

<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	1,312,411	1,312,411	-	1,312,411	-
Main Campus Phase 2	48,411,232	49,538,821	42,937,874	5,743,062	48,680,936	857,885
Mohawk Addition	308,843	308,843	283,245	-	283,245	25,598
Mohawk Addition #2	457,771	757,749	468,169	-	468,169	289,580
	<u>\$ 50,617,846</u>	<u>\$ 51,917,824</u>	<u>\$ 45,001,699</u>	<u>\$ 5,743,062</u>	<u>\$ 50,744,761</u>	<u>\$ 1,173,063</u>

Salmon River Central School District
Schedule of Certain Revenues and Expenditures Compared to ST-3 Data
For the Year Ended June 30, 2012

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Real Property Taxes	A-1001	1,385,395	1,385,395
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	25,182,519	25,182,519
Federal Aid	AT-4999	594,827	594,827
Total Revenues	AT-5999	30,712,990	30,712,990
EXPENDITURES			
General Support	AT-1999	3,940,552	3,940,552
Pupil Transportation	AT-5599	548,570	548,570
Debt Service - Principal	AT-9798.6	2,483,390	2,483,390
Debt Service - Interest	AT-9798.7	1,253,730	1,253,730
Total Expenditures	AT-9999	30,578,375	30,578,375

Salmon River Central School District
Schedule of Revenues and Expenditures for the Mohawk School - General Fund
For the Year Ended June 30, 2012

REVENUES

Charges for services	\$ 6,862
Use of money and property	535
Sale of property and compensation for loss	-
Miscellaneous	111,149
State sources	7,801,062
Federal sources	-
Total Revenues	<u>7,919,608</u>

EXPENDITURES

General support	1,050,332
Instruction	3,969,685
Employee benefits	2,581,319
Debt service	192,928
Total Expenditures	<u>7,794,264</u>

Excess of Revenues Over Expenditures	<u>125,344</u>
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OTHER FINANCING SOURCES AND USES

Operating transfer out	<u>(125,344)</u>
Total Other Sources and Uses	<u>(125,344)</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, 2012

	School Lunch	Non-Major Capital Projects	Total Non-Major Funds
ASSETS			
Cash			
Unrestricted	\$ 134,378	\$ 244,190	\$ 378,568
Restricted	-	-	-
Receivables			
Other	28,357	-	28,357
Due from other funds	-	243,269	243,269
State and Federal aid	12,756	-	12,756
Inventories	33,566	-	33,566
Total Assets	<u>\$ 209,057</u>	<u>\$ 487,459</u>	<u>\$ 696,516</u>
LIABILITIES			
Payables			
Accounts payable	\$ 20	\$ -	\$ 20
Accrued liabilities	13,299	-	13,299
Accrued interest	-	1,850	1,850
Due to other funds	140,825	-	140,825
Due to other governments	913	-	913
Notes payable			
Bond anticipation notes	-	164,475	164,475
Total Liabilities	<u>155,057</u>	<u>166,325</u>	<u>321,382</u>
FUND BALANCES			
Nonspendable	33,566	-	33,566
Restricted			
Capital reserve	-	-	-
Assigned			
Assigned appropriated fund balance	5,000	-	5,000
Assigned unappropriated fund balance	15,434	14,014	29,448
Unassigned fund balance	-	307,120	307,120
Total Fund Balances	<u>54,000</u>	<u>321,134</u>	<u>375,134</u>
Total Liabilities and Fund Balances	<u>\$ 209,057</u>	<u>\$ 487,459</u>	<u>\$ 696,516</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, 2012

	School Lunch	Non-Major Capital Projects	Total Non-Major Funds
REVENUES			
Use of money and property	\$ 27	\$ -	\$ 27
Sale of property and compensation for loss	-	-	-
State sources	31,825	-	31,825
Federal sources	762,481	-	762,481
Surplus food	53,786	-	53,786
Sales - school lunch	212,612	-	212,612
Total Revenues	<u>1,060,731</u>	<u>-</u>	<u>1,060,731</u>
EXPENDITURES			
General support	384,513	-	384,513
Instruction	-	-	-
Pupil transportation	-	-	-
Employee benefits	360,236	-	360,236
Cost of sales	518,224	-	518,224
Capital outlay	-	-	-
Total Expenditures	<u>1,262,973</u>	<u>-</u>	<u>1,262,973</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(202,242)</u>	<u>-</u>	<u>(202,242)</u>
OTHER FINANCING SOURCES AND USES			
Operating transfers in	211,529	100,000	311,529
Operating transfers out	-	(330)	(330)
Proceeds from debt	-	193,425	193,425
Total Other Sources and Uses	<u>211,529</u>	<u>293,095</u>	<u>504,624</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	9,287	293,095	302,382
Fund Balances - Beginning of year	44,713	28,039	72,752
Fund Balances - End of year	<u>\$ 54,000</u>	<u>\$ 321,134</u>	<u>\$ 375,134</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, 2012

Capital assets, net		\$ 59,910,103
Add:		
Unamortized bond issuance costs		568,051
Deduct:		
Bond anticipation note	164,475	
Short-term portion of bonds payable	2,697,279	
Long-term portion of bonds payable	<u>27,555,418</u>	<u>30,417,172</u>
Investment in capital assets, net of related debt		<u><u>\$ 30,060,982</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, 2012. 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, 2012, on the basis of accounting described in Note 1.

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

October 15, 2012

Salmon River Central School District
Statement of Assets, Liabilities and Fund Balance - Extraclassroom Activity Fund - Cash Basis
June 30, 2012

Cash	<u>\$ 77,997</u>
Fund Balance	<u>\$ 77,997</u>

Salmon River Central School District
Schedule of Receipts, Disbursements and Ending Balances - Extraclassroom Activity Fund
For the Year Ended June 30, 2012

Activity	Beginning Balance July 1, 2011	Receipts	Expenditures	Ending Balance June 30, 2012
Band Club	\$ 688	\$ 2,380	\$ 2,420	\$ 648
Chorus	335	6,215	6,549	1
Drama Club	2,038	1,998	2,632	1,404
Class of 2009	3	-	3	-
Class of 2011	213	-	213	-
Class of 2012	9,221	39,645	48,832	34
Class of 2013	8,345	10,162	6,769	11,738
Class of 2014	4,376	1,036	130	5,282
Class of 2015	2,963	-	-	2,963
Class of 2016	1,608	41,991	37,472	6,127
Class of 2017	-	6,505	3,903	2,602
FFA	7,569	6,862	7,025	7,406
French Club	1,736	463	913	1,286
Health Club	504	-	-	504
Mohawk Club	401	240	484	157
Jr National Honor Society	1,638	1,932	2,827	743
National Honor Society	360	2,631	2,693	298
Newspaper Club	878	-	-	878
Spanish Club	1,305	-	10	1,295
Student Council	2,490	4,312	3,378	3,424
Student Council Mohawk School	2,199	13,661	8,969	6,891
Yearbook Club	367	11,556	7,810	4,113
Students Who Care	462	7,669	6,734	1,397
Varsity Club	33,618	59,336	74,148	18,806
Total	<u>\$ 83,317</u>	<u>\$ 218,594</u>	<u>\$ 223,914</u>	<u>\$ 77,997</u>

Salmon River Central School District
Notes to Financial Statements – Extraclassroom Activity Fund
June 30, 2012

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, 2012

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
US Department of Education			
Passed through State Dept. of Education			
Title I Cluster:			
Title I A&D	84.010A	0021-12-0925	\$ 536,870
Title I ARRA	84.389A	5021-11-0925	1,423
			<u>538,293</u>
Title II Part A	84.367A	0147-12-0925	97,809
Title I School Improvement	84.377	0011-12-2464	23,981
Education Jobs Fund ARRA	84.410	5400-12-0925	421,659 *
Race to the Top ARRA	84.395A	5500-12-0925	33,842
Special Education Cluster:			
IDEA-Part B Section 619	84.173A	0033-12-0261	13,008
IDEA-Part B Section 611	84.027A	0032-12-0261	402,151
IDEA-Part B Section 611 ARRA	84.391A	5032-11-0261	2,460
			<u>417,619</u>
Title VI Part B	84.358B	0006-12-0925	33,371
Title VII	84.060A	S060A110399	423,544 *
Total US Dept. of Education			<u>1,990,118</u>
US Department of Agriculture			
Passed through State Dept. of Education			
Child Nutrition Cluster:			
National School Lunch	10.555	n/a	473,555
National School Breakfast	10.553	n/a	225,882
Snack	10.555	n/a	11,796
Summer Food Service	10.559	n/a	51,248
Total US Dept of Agriculture			<u>762,481</u>
Total Federal Awards			<u>\$ 2,752,599</u>

* Major Programs

Salmon River Central School District
Notes to Schedule of Expenditures of Federal Awards
June 30, 2012

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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2012. 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 item 12-1.

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

We noted certain matters that we reported to management of Salmon River Central School District in a separate letter dated October 15, 2012.

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 15, 2012

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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, 2012. 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, 2012.

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.

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 15, 2012

Salmon River Central School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:			
Material weakness identified?	_____ Yes	<u> x </u> No	
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	<u> x </u> None reported	
Type of auditors' report issued on compliance for major programs	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ Yes	<u> x </u> No	

Identification of major programs:	
CFDA Numbers	Name of Federal Program or Cluster
84.410	Education Jobs Fund
84.060A	Title VII

Dollar Threshold used to distinguish between type A and type B programs	\$300,000
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Auditee qualified as low-risk auditee?	<u> x </u> Yes	_____ No
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Salmon River Central School District
Schedule of Findings and Questioned Costs
June 30, 2012

Section II – Financial Statement Findings

12-1 Fund Balance

Condition

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

Recommendation

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

Management's Response

The Administration will continue to work with the Board of Education to prudently bring the District's fund balance into compliance with Real Property Law 1318. Emphasis will focus on assuring the financial integrity of the District to support general educational programs and Board approved school improvement initiatives.

Salmon River Central School District
Schedule of Findings and Questioned Costs
June 30, 2012

Section III – Federal Award Findings and Questioned Costs

None noted

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2012

11-1 Time and Effort Reporting

Department of Education

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

Status: Corrected in 2012

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, 2012

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: Corrected in 2012

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, 2012

06-2 Incomplete I-9 Forms
Status: Corrected in 2012

Condition

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

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

Recommendation

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

Management’s Response

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.

Salmon River Central School District
Summary Schedule of Prior Year Audit Findings
June 30, 2012

06-10 Payroll Certification
Status: Corrected in 2012

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.