



**FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES WITH
INDEPENDENT AUDITOR'S REPORTS**

June 30, 2010

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (MD&A)	3
Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Statement of Fiduciary Net Assets – Fiduciary Funds	18
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	19
Notes to Financial Statements	20
Required Supplementary Information other than MD&A:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	37
Schedule of Funding Progress for Other Postemployment Benefits (OPEB)	39
Other Supplementary Information:	
Schedules of Change from Adopted Budget to Final Budget and Use of Unreserved Fund Balance – General Fund	40
Schedule of Project Expenditures – Capital Projects Fund	41
Schedule of Certain Revenues and Expenditures Compared to ST-3 Data	45
Investment in Capital Assets, Net of Related Debt	46
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Half Hollow Hills Central School District
Dix Hills, New York

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Half Hollow Hills Central School District (District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 fiduciary funds of the Half Hollow Hills Central School District, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2010, on our consideration of the Half Hollow Hills 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 assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 3 through 11 and 37 through 39, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Half Hollow Hills Central School District's basic financial statements. The other supplementary information on pages 40 through 46 is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Cullen & Danowski, LLP

October 8, 2010

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Half Hollow Hills Central School District's (District) discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole. This should be read in conjunction with the financial statements, which immediately follow this section.

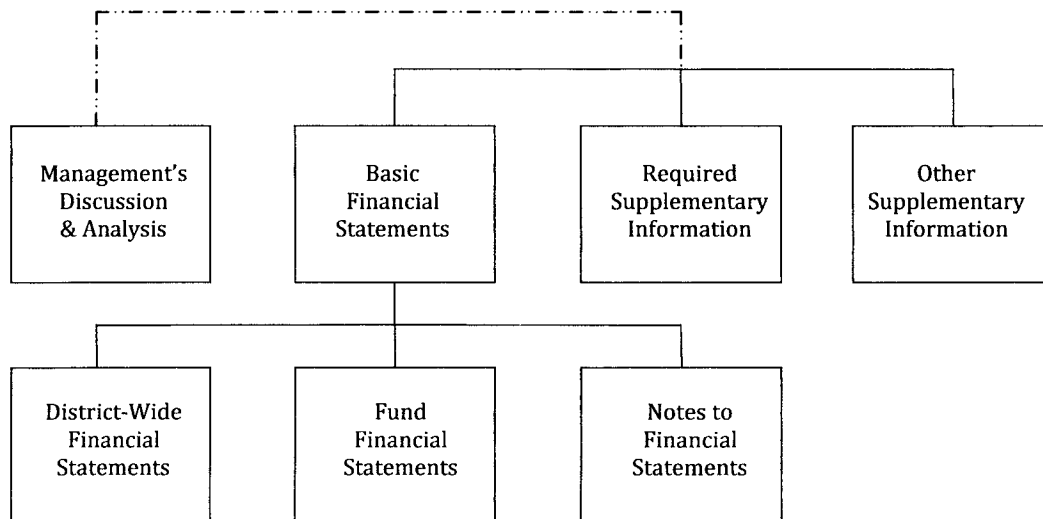
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2010 are as follows:

- The general fund's total fund balance, including reserved and unreserved balances, increased by \$2,300,174 to \$40,402,316.
- Total revenues in the general fund were \$197,828,207 and the expenditures, including operating transfers to other funds, totaled \$195,528,033.
- The District's total net assets, as reflected in the district-wide financial statements is \$66,280,043, a decrease of \$5,703,261.
- The District's operating revenues and expenses for the year, as reflected in the district-wide financial statements, were \$207,147,109 and \$212,850,370, respectively.
- The District received operating grants during the year of \$9,720,917, an increase of \$4,843,257 over the prior year. The District received a federal grant for \$3,756,688 as a result of the American Recovery and Reinvestment Act (ARRA). This grant offset the \$3,908,939 decline in state aid in the general fund.
- The District incurred \$2,887,200 of capital expenditures to improve its facilities.
- The budget for the 2010-11 school year in the amount of \$207,881,882 was approved by the voters on May 18, 2010.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (MD&A), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of District-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements follows:



HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

A. District-wide Financial Statements

The District-wide financial statements are organized to provide an understanding of the fiscal performance of the District as a whole in a manner similar to a private sector business. There are two District-wide financial statements - the Statement of Net Assets and the Statement of Activities. These statements provide both an aggregate and long-term view of the District's finances.

These statements utilize the accrual basis of accounting. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Assets

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities

The Statement of Activities presents information showing the change in net assets during the fiscal year. All changes in net assets are recorded at the time the underlying financial event occurs. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the District are reported in the governmental funds and the fiduciary funds.

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period that they become measurable, funded through available resources and payable within a current period.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the District-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides.

Because the focus of governmental funds is narrower than that of District-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the District-wide financial statements. By doing so, you may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The District maintains five individual governmental funds: general fund, special aid fund, school lunch fund, debt service fund and capital projects fund, each of which is considered to be a major fund and is presented separately in the fund financial statements.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District in its capacity as agent or trustee. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. The fiduciary activities have been excluded from the District's District-wide financial statements because the District cannot use these assets to finance its operations.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Assets

The Districts total net assets decreased by \$5,703,261 between fiscal year 2009 and 2010. A summary of the District's Statement of Net Assets for June 30, 2010 and 2009 is as follows:

	2010	2009	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 54,321,445	\$ 53,493,765	\$ 827,680	1.55 %
Capital Assets, Net	129,191,589	131,718,195	(2,526,606)	(1.92)%
Total Assets	183,513,034	185,211,960	(1,698,926)	(0.92)%
Current and Other Liabilities	11,017,216	11,216,512	(199,296)	(1.78)%
Long-Term Liabilities	87,534,748	92,660,444	(5,125,696)	(5.53)%
Net Other Postemployment Benefits Obligation	18,681,027	9,351,700	9,329,327	99.76 %
Total Liabilities	117,232,991	113,228,656	4,004,335	3.54 %
Net Assets				
Invested in Capital Assets, Net of Related Debt	57,345,966	55,535,035	1,810,931	3.26 %
Restricted	178,805	269,814	(91,009)	(33.73)%
Unrestricted	8,755,272	16,178,455	(7,423,183)	(45.88)%
Total Net Assets	<u>\$ 66,280,043</u>	<u>\$ 71,983,304</u>	<u>\$ (5,703,261)</u>	(7.92)%

At June 30, 2010, the District's net assets are \$66,280,043.

Capital assets, net decreased during the year by \$2,526,606. The current year depreciation expense of \$7,072,351 exceeded capital outlays for construction and equipment purchases totaling \$4,545,745.

Long-term liabilities decreased by \$5,125,696, principally due to the repayment of \$5,213,272 of serial bond principal.

Net other postemployment benefits obligation increased by \$9,329,327 as the current OPEB cost exceeded contributions in accordance with GASB Statement No. 45. The accompanying Notes to Financial Statements, Note 12 "Postemployment Benefits" provides additional information.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The net assets invested in capital assets is calculated by subtracting the amount of outstanding debt used for construction from the total cost of all asset acquisitions, net of accumulated depreciation. The total cost of these acquisitions includes expenditures to purchase land, construct and improve buildings and purchase vehicles, equipment and furniture to support District operations.

The restricted net assets in the amount of \$178,805 relates to the District's debt reserve. During the year, the District utilized \$91,009 to offset current year principal and interest payments on long-term bonds payable.

The unrestricted net assets at June 30, 2010, were \$8,755,272. The decrease from the prior year is primarily due to the reporting of the OPEB liability, as a result of GASB 45.

B. Changes in Net Assets

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Program Revenues				
Charges for Services	\$ 4,216,331	\$ 3,643,747	\$ 572,584	15.71 %
Operating Grants	9,720,917	4,877,660	4,843,257	99.29 %
General Revenues				
Property Taxes and STAR	164,690,283	161,998,019	2,692,264	1.66 %
State Sources	24,296,496	27,329,295	(3,032,799)	(11.10)%
Other	<u>4,223,082</u>	<u>4,335,021</u>	<u>(111,939)</u>	(2.58)%
Total Revenues	<u>207,147,109</u>	<u>202,183,742</u>	<u>4,963,367</u>	2.45 %
Expenses				
General Support	23,208,260	23,051,814	156,446	0.68 %
Instruction	168,956,821	162,307,923	6,648,898	4.10 %
Pupil Transportation	14,069,957	13,827,471	242,486	1.75 %
Community Service	127,312	188,185	(60,873)	(32.35)%
Debt Service - Interest	3,243,816	3,886,632	(642,816)	(16.54)%
Food Service Program	<u>3,244,204</u>	<u>3,099,819</u>	<u>144,385</u>	4.66 %
Total Expenses	<u>212,850,370</u>	<u>206,361,844</u>	<u>6,488,526</u>	3.14 %
Decrease in Net Assets	<u>\$ (5,703,261)</u>	<u>\$ (4,178,102)</u>	<u>\$ (1,525,159)</u>	36.50 %

The change in net assets represents the District's operating profit or loss on the accrual basis of accounting. For the year ended June 30, 2010, the loss was \$5,703,261 compared to a \$4,178,102 loss in the prior year.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

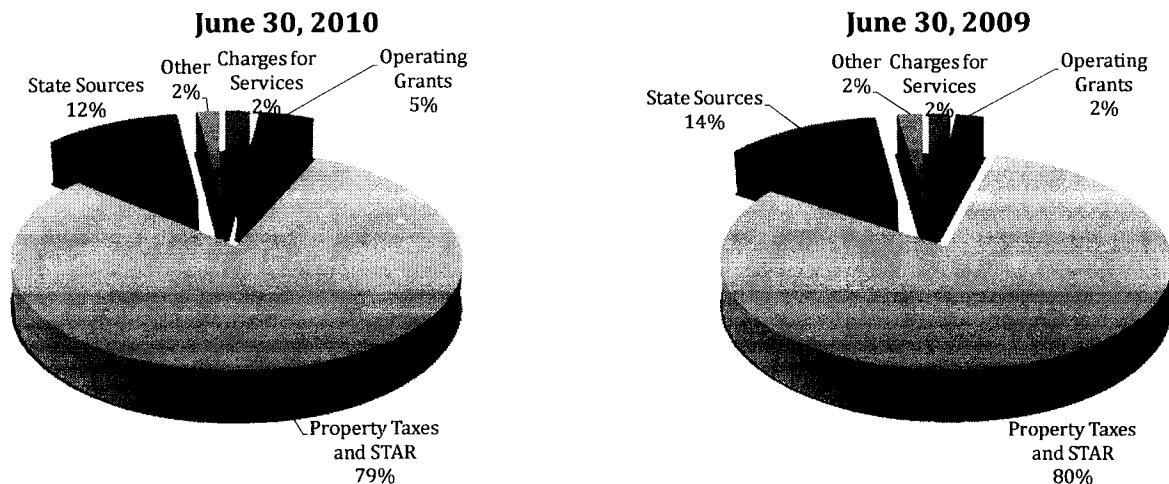
The District's revenues increased by \$4,963,367 or 2.45%. The major factors that contributed to the increase were:

- Property taxes and STAR revenues increased by \$2,692,264.
- The District received \$4,843,257 more in operating grants including the federal grant received as a result of the American Recovery and Reinvestment Act.
- Revenue from state sources decreased by \$3,032,799.

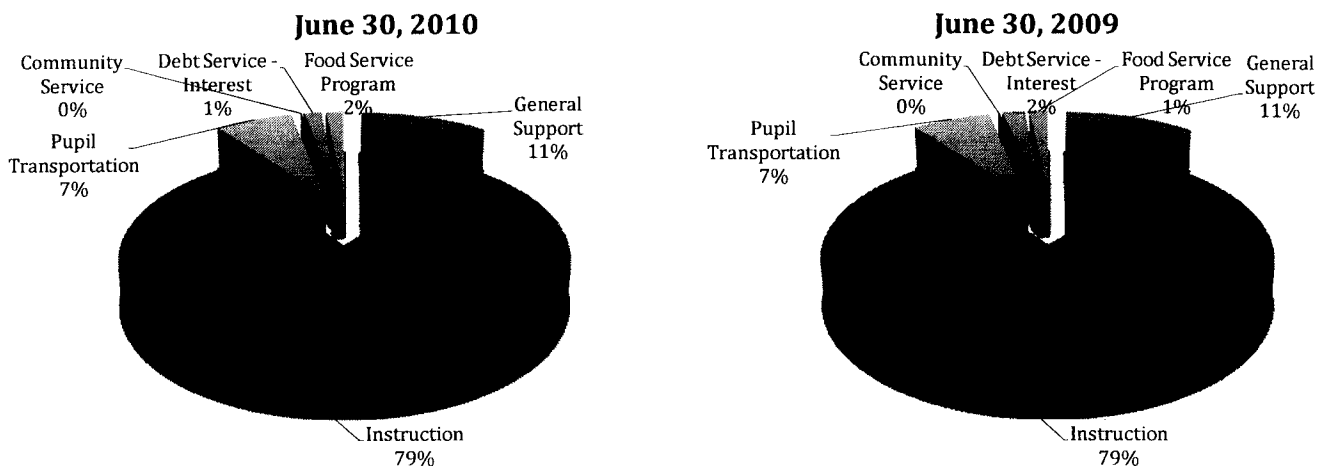
The District's expenses for the year increased by \$6,488,526, or 3.14%. The cost of providing instruction to students increased by \$6,648,898 during the year.

As indicated on the pie charts that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 79% and 80% of the total for the years ended June 30, 2010 and 2009, respectively). Instructional expense is the largest category of expenses incurred (i.e., 79% of the total for both years). The pie charts demonstrate that the components of revenues and expenses are effectively the same for both years.

A graphic display of the distribution of revenues for the two years follows:



A graphic display of the distribution of expenses for the two years follows:



HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2010, the District's governmental funds reported a combined fund balance of \$42,922,752, which is an increase of \$155,257 over the prior year. The net increase is primarily attributable to an increase in the general fund total fund balance of \$2,300,174, offset by capital outlay in the capital projects fund.

	2010	2009	Changes
General Fund			
Reserve for:			
Encumbrances	\$ 720,500	\$ 358,163	\$ 362,337
Workers' Compensation	1,944,635	1,934,162	10,473
Unemployment Insurance	238,581	237,296	1,285
Employee Benefit Accrued Liability	12,951,301	12,318,160	633,141
Property Loss	482,987	480,386	2,601
Liability	315,400	313,701	1,699
Retirement Contribution	10,933,635	8,984,985	1,948,650
Reserves designated for subsequent year's expenditures		1,250,000	(1,250,000)
Unreserved - Designated for subsequent year's expenditures	4,500,000	4,150,000	350,000
Unreserved - Undesignated	8,315,277	8,075,289	239,988
	<u>40,402,316</u>	<u>38,102,142</u>	<u>2,300,174</u>
School Lunch Fund			
Reserve for Encumbrances	41,851		41,851
Reserve for Inventory	81,719	95,454	(13,735)
Unreserved - Undesignated	357,169	433,993	(76,824)
	<u>480,739</u>	<u>529,447</u>	<u>(48,708)</u>
Debt Service Fund			
Reserve for Debt Service	178,805	269,814	(91,009)
Capital Projects Fund			
Reserve for Encumbrances	350,633	2,878,410	(2,527,777)
Unreserved - Undesignated	1,510,259	987,682	522,577
	<u>1,860,892</u>	<u>3,866,092</u>	<u>(2,005,200)</u>
Total Fund Balance	<u>\$ 42,922,752</u>	<u>\$ 42,767,495</u>	<u>\$ 155,257</u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$2,300,174. This resulted from revenues in excess of expenditures.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is a decrease of \$48,708, which was the operating deficit of the school lunch fund. In the prior year, the school lunch fund operated at a profit of \$152,672.

C. Debt Service Fund

The net change in the debt service fund – fund balance is a decrease of \$91,009. The District used this amount to offset current year debt payments.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

D. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$2,005,200, due to expenditures incurred during the year on capital projects amounting to \$2,887,200. These expenditures were offset by a transfer from the general fund in the amount of \$882,000.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2009-10 Budget

The District's general fund adopted budget for the year ended June 30, 2010 was \$201,876,771. This amount was increased by encumbrances carried forward from the prior year in the amount of \$358,163 and a budget revision for \$1,828,153, for a total final budget of \$204,063,087.

The budget was funded through a combination of estimated revenues and designated fund balance. The majority of this funding source was \$164,683,336 in estimated property taxes and STAR.

B. Change in General Fund's Unreserved – Undesignated Fund Balance (Budget to Actual)

The general fund's unreserved – undesignated fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves and designations to fund the subsequent year's budget. It is this balance that is commonly referred to as the "fund balance". The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening, Unreserved - Undesignated Fund Balance	\$ 8,075,289
Revenues Over Budget	1,323,283
Expenditures and Encumbrances Under Budget	7,814,554
Interest Allocated to Reserves	(121,659)
Transfers to Reserves	(4,276,190)
Appropriated for June 30, 2011 Budget	<u>(4,500,000)</u>
Closing, Unreserved - Undesignated Fund Balance	<u><u>\$ 8,315,277</u></u>

Opening, Unreserved - Undesignated Fund Balance

The \$8,075,289 shown in the table is the portion of the District's June 30, 2009 fund balance that was retained as undesignated. This was 4% of the District's 2009-10 approved operating budget of \$201,876,771. It is the maximum undesignated fund balance permitted by law for a district in New York State, and is generally regarded as a positive financial management indicator.

Revenues Over Budget

The District's actual revenues of \$197,828,207 exceeded the amounts estimated by \$1,323,283. The decrease in state aid was offset by a federal grant received as a result of the American Recovery and Reinvestment Act.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Expenditures and Encumbrances Under Budget

The District's expenditures and encumbrances totaling \$196,248,533 were \$7,814,554 less than budgeted. The District realized savings in both instruction and employee benefit expenditures.

Interest Allocated to Reserves

This amount represents \$121,659 of interest revenue allocated to reserves.

Transfers to Reserves

The District transferred \$1,900,000 to the retirement contribution reserve and \$2,376,190 to the employee benefit accrued liability reserve during the year.

Appropriated Fund Balance

The District has chosen to use \$4,500,000 of the available June 30, 2010 fund balance to partially fund the 2010-11 approved operating budget. As such, the undesignated portion of the June 30, 2010 fund balance must be reduced by this amount.

Closing, Unreserved - Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2010-11 fiscal year with an undesignated fund balance of \$8,315,277. This is an increase of \$239,988 over the undesignated balance from the prior year as of June 30, 2009. This undesignated portion is at the permissible 4% statutory maximum and is an indicator of stability in the District's management of the undesignated general fund fund balance.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2010, the District had invested in a broad range of capital assets, as indicated in the table below. A summary of the District's capital assets, net of depreciation at June 30, 2010 and 2009 is as follows:

	2010	2009	Increase (Decrease)
Land	\$ 2,629,860	\$ 2,629,860	\$ -
Construction in progress	2,924,352	11,318,304	(8,393,952)
Buildings and improvements	111,950,819	108,819,513	3,131,306
Site improvements	5,327,009	3,739,103	1,587,906
Vehicle	2,440,652	1,550,712	889,940
Furniture and equipment	3,918,897	3,660,703	258,194
Capital assets, net	<u>\$ 129,191,589</u>	<u>\$ 131,718,195</u>	<u>\$ (2,526,606)</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

B. Debt Administration

At June 30, 2010, the District had total bonds payable of \$72,030,000. The bonds were issued for school building improvements. The decreases in outstanding debt represent principal payments. A summary of the outstanding debt at June 30, 2010 and 2009 is as follows:

Issue Date	Interest Rate	2010	2009	Increase (Decrease)
1999	4.00% - 4.10%	\$ -	\$ 800,000	\$ (800,000)
2001	4.25% - 5.00%	1,700,000	3,400,000	(1,700,000)
2003	3.50% - 4.375%	12,205,000	12,900,000	(695,000)
2004	3.50% - 4.25%	16,110,000	16,950,000	(840,000)
2005	4.00% - 4.75%	21,580,000	22,615,000	(1,035,000)
2007	3.778% - 4.350%	18,395,000	18,400,000	(5,000)
2008	3.50% - 4.00%	2,040,000	2,178,272	(138,272)
		<u>\$ 72,030,000</u>	<u>\$ 77,243,272</u>	<u>\$ (5,213,272)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa1. The District's total outstanding indebtedness currently does not exceed its debt limit. The debt limit is 10% of the full valuation of the taxable real property within the District.

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 18, 2010, for the year ending June 30, 2011, is \$207,881,882. This is an increase of \$6,005,111 or 2.97% over the previous year's budget.

The District budgeted revenues other than property taxes and STAR at a \$1,919,830 decrease from the prior year's estimate. This decrease is principally due to an estimated decrease in state aid and federal aid. Additionally, the designated fund balance of \$4,500,000 and reserves of \$3,750,000 applied to the June 30, 2011 budget were a \$2,850,000 increase over the prior year. An increase of 3.08% in property taxes and STAR was needed to cover the increase in projected expenditures.

8. CONTACTING THE DISTRICT

This financial report is designed to provide the reader with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Requests for additional information can be directed to:

Mr. Victor Manuel
Assistant Superintendent
for Finance & Facilities
Half Hollow Hills Central School District
525 Half Hollow Road
Dix Hills, New York 11746

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

ASSETS

Cash	\$ 44,246,192
Receivables	
Accounts receivable	60,238
Due from other funds	801,941
Due from other governments	9,010,608
Deferred expenditures, net	120,747
Inventories	81,719
Capital assets:	
Not being depreciated	5,554,212
Being depreciated, net of accumulated depreciation	<u>123,637,377</u>
 Total Assets	 <u><u>\$ 183,513,034</u></u>

LIABILITIES

Payables	
Accounts payable	\$ 2,558,772
Accrued liabilities	848,832
Due to other governments	909
Due to teachers' retirement system	6,612,880
Due to employees' retirement system	946,156
Deferred credits	
Deferred revenues	49,667
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	4,651,372
Compensated absences payable	1,000,000
Workers' compensation liabilities	534,635
Due and payable after one year	
Bonds payable, net	67,530,000
Compensated absences payable	13,236,685
Workers' compensation liabilities	582,056
Net other postemployment benefits obligation	<u>18,681,027</u>
 Total Liabilities	 <u><u>117,232,991</u></u>

NET ASSETS

Investment in capital assets, net of related debt	57,345,966
Restricted for debt service	178,805
Unrestricted	<u>8,755,272</u>
 Total Net Assets	 <u><u>66,280,043</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 183,513,034</u></u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

Statement of Activities

For The Year Ended June 30, 2010

		<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	
PROGRAMS/FUNCTIONS				
General support	\$ 23,208,260	\$	\$	\$ (23,208,260)
Instruction	168,956,821	1,679,981	9,057,296	(158,219,544)
Pupil transportation	14,069,957			(14,069,957)
Community service	127,312			(127,312)
Debt service - interest	3,243,816			(3,243,816)
Food service program	<u>3,244,204</u>	<u>2,536,350</u>	<u>663,621</u>	<u>(44,233)</u>
 Total Functions and Programs	 <u>\$ 212,850,370</u>	 <u>\$ 4,216,331</u>	 <u>\$ 9,720,917</u>	 <u>(198,913,122)</u>
 GENERAL REVENUES				
Real property taxes				153,592,101
Other tax items				13,342,942
Use of money and property				447,672
Forfeitures				1,204
Sale of property and compensation for loss				151,021
Miscellaneous				1,372,483
State sources				24,296,496
Medicaid reimbursement				<u>5,942</u>
 Total General Revenues				<u>193,209,861</u>
 Change in Net Assets				(5,703,261)
 Total Net Assets - Beginning of year				<u>71,983,304</u>
 Total Net Assets - End of year				<u><u>\$ 66,280,043</u></u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2010

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash	\$ 41,691,839	\$ 17,236	\$ 480,496	\$ 170,273	\$ 1,886,348	\$ 44,246,192
Receivables						
Accounts receivable	54,377		5,861			60,238
Due from other funds	4,899,485	101	108	8,532		4,908,226
Due from other governments	4,952,466	3,991,567	66,575			9,010,608
Inventories			81,719			81,719
Total Assets	<u>\$ 51,598,167</u>	<u>\$ 4,008,904</u>	<u>\$ 634,759</u>	<u>\$ 178,805</u>	<u>\$ 1,886,348</u>	<u>\$ 58,306,983</u>
LIABILITIES						
Payables						
Accounts payable	\$ 2,528,302	\$ 30,156	\$ 314	\$	\$	\$ 2,558,772
Accrued liabilities	244,709	14,160				258,869
Due to other funds	101	3,947,976	132,752		25,456	4,106,285
Due to other governments			909			909
Due to teachers' retirement system	6,612,880					6,612,880
Due to employees' retirement system	946,156					946,156
Deferred credits						
Deferred revenues	863,703	16,612	20,045			900,360
Total Liabilities	<u>11,195,851</u>	<u>4,008,904</u>	<u>154,020</u>	<u>-</u>	<u>25,456</u>	<u>15,384,231</u>
FUND BALANCES						
Reserved for encumbrances	720,500		41,851		350,633	1,112,984
Reserved for:						
Workers' compensation	1,944,635					1,944,635
Unemployment insurance	238,581					238,581
Employee benefit accrued liability	12,951,301					12,951,301
Property loss	482,987					482,987
Liability	315,400					315,400
Retirement contribution	10,933,635					10,933,635
Inventory			81,719			81,719
Debt service				178,805		178,805
Unreserved - Designated for subsequent year's expenditures	4,500,000					4,500,000
Unreserved - Undesignated	8,315,277		357,169		1,510,259	10,182,705
Total Fund Balances	<u>40,402,316</u>	<u>-</u>	<u>480,739</u>	<u>178,805</u>	<u>1,860,892</u>	<u>42,922,752</u>
Total Liabilities and Fund Balances	<u>\$ 51,598,167</u>	<u>\$ 4,008,904</u>	<u>\$ 634,759</u>	<u>\$ 178,805</u>	<u>\$ 1,886,348</u>	<u>\$ 58,306,983</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2010

Total Governmental Fund Balances		\$ 42,922,752
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Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.		850,693
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The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.

Original cost of capital assets	\$ 225,784,376	
Accumulated depreciation	<u>(96,592,787)</u>	
		129,191,589

The cost of refinancing bond issues is recorded as a deferred expenditure in the Statement of Net Assets and amortized over the remaining terms of the bond issue

Total deferred expenditure	131,718	
Accumulated amortization	<u>(10,971)</u>	
		120,747

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Bonds payable, net	(72,181,372)	
Accrued interest on bonds payable	(589,963)	
Compensated absences payable	(14,236,685)	
Workers' compensation liabilities	(1,116,691)	
Net other postemployment benefits obligation	<u>(18,681,027)</u>	
		<u>(106,805,738)</u>

Total Net Assets		<u>\$ 66,280,043</u>
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HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2010

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 153,592,101	\$	\$	\$	\$	\$ 153,592,101
Other tax items	13,342,942					13,342,942
Charges for services	829,288					829,288
Use of money and property	437,662		1,019	8,991		447,672
Forfeitures	1,204					1,204
Sale of property and compensation for loss	151,021					151,021
Miscellaneous	1,372,483		4,105			1,376,588
Interfund revenues	42,380					42,380
State sources	24,296,496	1,348,701	57,187			25,702,384
Federal sources	3,756,688	3,951,907	559,938			8,268,533
Medicaid reimbursement	5,942					5,942
Surplus food			46,496			46,496
Sales - school lunch			2,532,245			2,532,245
Total Revenues	197,828,207	5,300,608	3,200,990	8,991	-	206,338,796
EXPENDITURES						
General support	18,355,180	42,380				18,397,560
Instruction	114,029,307	5,383,390				119,412,697
Pupil transportation	12,231,564	238,934				12,470,498
Community service	88,833					88,833
Employee benefits	41,047,566		290,643			41,338,209
Debt service						
Principal				5,213,272		5,213,272
Interest	121,320			3,294,895		3,416,215
Cost of sales			2,959,055			2,959,055
Capital outlay					2,887,200	2,887,200
Total Expenditures	185,873,770	5,664,704	3,249,698	8,508,167	2,887,200	206,183,539
Excess (Deficiency) of Revenues Over Expenditures	11,954,437	(364,096)	(48,708)	(8,499,176)	(2,887,200)	155,257
OTHER FINANCING SOURCES AND (USES)						
Operating transfers in		364,096		8,408,167	882,000	9,654,263
Operating transfers (out)	(9,654,263)					(9,654,263)
Total Other Financing Sources and (Uses)	(9,654,263)	364,096	-	8,408,167	882,000	-
Net Change in Fund Balances	2,300,174	-	(48,708)	(91,009)	(2,005,200)	155,257
Fund Balances - Beginning of year	38,102,142	-	529,447	269,814	3,866,092	42,767,495
Fund Balances - End of year	\$ 40,402,316	\$ -	\$ 480,739	\$ 178,805	\$ 1,860,892	\$ 42,922,752

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2010

Net Change in Fund Balances \$ 155,257

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

Long-Term Revenue and Expense Differences

In the Statement of Activities, certain operating revenues are measured by the amounts earned during the year. In the governmental funds, however, revenue for these items are measured by the amount of financial resources provided (essentially, the amounts actually received).

Change in deferred revenue \$ 850,693

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in a reduction of the long-term liability and an increase in net assets.

Decrease in workers' compensation liabilities 778,570

In the Statement of Activities, certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Increase in compensated absences payable	(1,017,519)	
Increase in net other postemployment benefits obligation	<u>(9,329,327)</u>	
		(8,717,583)

Capital Related Differences

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized and shown in the statement of net assets and allocated over their useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeded capital outlays in the period.

Capital outlays	4,545,745	
Depreciation expense	<u>(7,072,351)</u>	
		(2,526,606)

Long-Term Debt Transaction Differences

Amortization of deferred charges on refunding 151,373

Amortization of deferred bond costs, net of premiums received related to the bond refinancing is recorded as an expenditure in the Statement of Activities. (10,971)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 5,213,272

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2009 to June 30, 2010. 31,997

Change in Net Assets of Governmental Activities \$ (5,703,261)

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Fiduciary Net Assets -
Fiduciary Funds
June 30, 2010

	<u>Agency</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash	\$ 1,940,386	\$ 445,062
Total Assets	<u>\$ 1,940,386</u>	<u>\$ 445,062</u>
LIABILITIES		
Extraclassroom activity balances	\$ 311,151	\$
Due to other funds	801,941	
Other liabilities	<u>827,294</u>	
Total Liabilities	<u>\$ 1,940,386</u>	-
NET ASSETS		
Reserved for scholarships		<u>445,062</u>
Total Liabilities and Net Assets		<u>\$ 445,062</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets -
Fiduciary Funds
For The Year Ended June 30, 2010

	Private Purpose Trust
	<u> </u>
ADDITIONS	
Contributions	\$ 12,708
Investment earnings	
Interest	<u>2,624</u>
Total Additions	<u>15,332</u>
 DEDUCTIONS	
Scholarships and awards	<u>32,930</u>
Change in Net Assets	(17,598)
Net Assets - Beginning of year	<u>462,660</u>
Net Assets - End of Year	<u><u>\$ 445,062</u></u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Half Hollow Hills Central School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the District are as follows:

A. Reporting Entity

The 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 seven 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 financial reporting entity is based on criteria set forth by GASB Statement No. 14, *The Financial Reporting Entity* and No. 39, *Determining Whether Certain Organizations are 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, there are no other entities which would be included in the District's reporting entity as a component unit. However, the following is included in the District's financial statements.

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. The District reports these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Assets - Fiduciary Fund. Separate audited financial statements of the extraclassroom activity funds can be found at the District's Business Office.

B. Joint Venture

The District is a component district in the Second Supervisory District of the Suffolk Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the 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 Section §1950 of the Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section §119-n(a) of the 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 Education Law, Section §1950(4)(b)(7). There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Basis of Presentation

District-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the overall financial activities of the District, except for fiduciary activities. Eliminations have been made to minimize the double counting of interfund transactions. Governmental activities generally are financed through real property taxes, state aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The Statement of Net Assets presents the financial position of the District at fiscal year end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, 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 (a) charges paid by the recipients of goods or services offered by the programs and (b) grants, contributions, and other revenues that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including real property taxes and state aid, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category, governmental and fiduciary, are presented. The emphasis of fund financial statements is on major governmental funds as defined by GASB, each displayed in a separate column. The District's financial statements reflect the following major fund categories:

Governmental Funds:

General Fund - is the general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund.

Special Aid Fund - is used to account for the proceeds of specific revenue sources such as federal and state grants that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed by either governments that provide the funds or outside parties.

School Lunch Fund - is used to account for the activities of the school lunch operations.

Debt Service Fund - accounts for the accumulation of resources and the payment of principal and interest on long-term general obligation debt of governmental activities.

Capital Projects Fund - is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

Fiduciary Funds - are used to account for activities 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:

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Basis of Accounting and Measurement Focus

The District-wide and fiduciary fund financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. 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 real property taxes, grants and donations. On an accrual basis, revenue from real 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 and the related expenditures are incurred.

The fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. 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 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 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, compensated absences and other postemployment benefits, 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.

E. Real Property Taxes

Calendar

Real property taxes are levied annually by the Board no later than November 1st and become a lien on December 1st. Taxes are collected by the Towns of Huntington and Babylon and remitted to the District from December to June.

Enforcement

Uncollected real property taxes are subsequently enforced by Suffolk County in June.

F. 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 to Financial Statements.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Interfund Transactions

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of 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 receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables are 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.

A detailed disclosure by individual fund for interfund receivables, payables and interfund expenditure and revenue activity is provided subsequently in these Notes to Financial Statements.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including compensated absences, other postemployment benefits, workers' compensation liabilities, potential contingent liabilities and useful lives of long-lived assets.

I. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and investments with a maturity date of three months or less from date of acquisition.

J. Receivables

Receivables are shown net of an allowance for uncollectibles, if any. However, no allowance for uncollectibles has been provided since it is believed that such allowance would not be material.

K. Inventories and Prepaid Items

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 donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. A reserve for inventory has been recognized to indicate that this does not constitute available spendable resources.

Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Prepaid items represent payments made by the District for which benefits extend beyond year end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-wide and fund financial statements. These items are reported as assets on the Statement of Net Assets or Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

L. Capital Assets

Capital assets are reflected in the District-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at estimated fair market value at the date of donation.

All capital assets, except land and construction in progress, are depreciated on a straight line basis over their estimated useful lives. Capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts, and estimated useful lives of capital assets as reported in the District-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 2,000	50 years
Site improvements	2,000	20 years
Furniture, equipment and vehicles	2,000	5-20 years

M. Deferred Revenues

Deferred revenues in the governmental funds arise 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 a legal claim to them, as when grant monies are received prior to the incurrence 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 recognized.

N. Vested Employee Benefits – Compensated Absences

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may be eligible to receive a portion of the value of unused accumulated sick leave.

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting method and an accrual for that liability is included in the District-wide financial statements. The compensated absences liability is calculated based on the terms of the collective bargaining agreements and individual employment contracts in effect at year-end.

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

O. Other Benefits

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

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if District employees are 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 shared between the District and the retired employee. The District accounts for these postemployment benefits in accordance with GASB Statement No. 45 (GASB 45) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the general fund, in the year paid. In the District-wide statements, postemployment costs are measured and disclosed using the accrual basis of accounting.

P. Short-Term Debt

The District may issue revenue anticipation notes (RAN) and tax anticipation notes (TAN), 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 bond anticipation notes (BAN), 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.

Q. Accrued Liabilities and Long-Term Obligations

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

R. 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, constructions or improvements of those assets.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Fund Statements

Unreserved fund balance consists of two classifications. First, a designation of unreserved fund balance indicates the planned use of these resources in the subsequent year's budget. Second, the undesignated portion reports remaining fund balance that has not been designated or reserved. NYS Real Property Tax Law §1318, as recently amended with an effective date of July 1, 2007, restricts the unreserved, undesignated fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. 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 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 Encumbrances

Reserve for encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year. The reserve is accounted for in the general, school lunch and capital projects funds.

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.

Unemployment Insurance Reserve

Unemployment insurance reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. 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. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. The reserve is accounted for in the general fund.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the general fund.

Property Loss Reserve and Liability Reserve

Property loss reserve and liability reserve (Education Law §1709(8) (c)) are used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than 125,000. These reserves are accounted for in the general fund.

Retirement Contribution Reserve

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

Reserve for Inventory

Reserve for inventory is used to restrict that portion of fund balance, which is not available for appropriation. The reserve is accounted for in the school lunch fund.

Reserve for Debt Service

Mandatory reserve for debt service (GML §6-l) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that 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. Unexpended balances of proceeds of borrowings for capital projects; interest and earnings from investing proceeds of obligations, and premium and accrued interest are recorded in the reserve for debt and held until appropriated for debt payments. The reserve is accounted for in the debt service fund.

Reserve for Scholarships

Reserve for scholarships is used to account for monies donated for scholarship purposes, net of earnings and awards. The reserve is accounted for in the private purpose trust fund.

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE 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 resource measurement focus of the Statement of Activities, compared with the current financial resource measurement focus of the governmental funds.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Sheet.

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

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories.

Long-Term Revenue and Expense Differences

Long-term revenue differences arise because governmental funds report 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.

Capital Related Differences

Capital related differences include the difference between proceeds from the sale of capital assets reported on 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 fund statements and depreciation expense on those items as recorded in the Statement of Activities.

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because the issuance of long-term debt provides current financial resources to governmental funds, but is recorded as a liability in the Statement of Net Assets. In addition, both interest and principal payments are recorded as expenditures in the fund statements when due and payable, whereas interest expense is recorded in the Statement of Activities as it accrues, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the general fund, the only fund with a legally adopted budget. The voters of the District approved the proposed appropriation budget for the general fund. Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved 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. During the year, the Board of Education approved a supplemental appropriation in the amount of \$1,828,153 for contingent expenditures, which were funded by donations to the District of \$28,153 and the use of the employee benefit accrued liability reserve to fund retiree payouts in the amount of \$1,800,000.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

B. 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.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The District's investment policies are governed by state statutes and District policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. 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 New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

- A. Uncollateralized,
- B. Collateralized by securities held by the pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the District's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year end.

The District did not have any investments at year-end or during the year. Consequently, the District was not exposed to any material interest rate risk or foreign currency risk.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2010, the District was billed \$7,922,401 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,031,657. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, Dix Hills, NY 11746.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2010 consisted of:

General Fund	
New York State aid - general aid	\$ 19,762
New York State aid - excess cost aid	706,770
BOCES aid	469,098
MTA tax reimbursement	229,671
Education stabilization aid (ARRA)	973,861
Tuition and health services	1,456,921
Payment in lieu of taxes	<u>1,096,383</u>
	4,952,466
Special Aid Fund	
State and federal grants	3,991,567
School Lunch Fund	
State and federal food service program reimbursements	<u>66,575</u>
	<u>\$ 9,010,608</u>

7. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2010 were as follows:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,629,860	\$	\$	\$ 2,629,860
Construction in progress	<u>11,318,304</u>	<u>1,644,646</u>	<u>(10,038,598)</u>	<u>2,924,352</u>
Total capital assets not being depreciated	<u>13,948,164</u>	<u>1,644,646</u>	<u>(10,038,598)</u>	<u>5,554,212</u>
Capital assets being depreciated				
Buildings and improvements	185,425,639	8,264,956		193,690,595
Site improvements	5,294,597	1,865,406		7,160,003
Vehicles	7,022,986	1,441,436	(48,021)	8,416,401
Furniture and equipment	<u>10,033,071</u>	<u>1,367,899</u>	<u>(437,805)</u>	<u>10,963,165</u>
Total capital assets being depreciated	<u>207,776,293</u>	<u>12,939,697</u>	<u>(485,826)</u>	<u>220,230,164</u>
Less accumulated depreciation for:				
Buildings and improvements	76,606,126	5,133,650		81,739,776
Site improvements	1,555,494	277,500		1,832,994
Vehicles	5,472,274	551,496	(48,021)	5,975,749
Furniture and equipment	<u>6,372,368</u>	<u>1,109,705</u>	<u>(437,805)</u>	<u>7,044,268</u>
Total accumulated depreciation	<u>90,006,262</u>	<u>7,072,351</u>	<u>(485,826)</u>	<u>96,592,787</u>
	<u>117,770,031</u>	<u>5,867,346</u>	<u>-</u>	<u>123,637,377</u>
Capital assets, net	<u>\$ 131,718,195</u>	<u>\$ 7,511,992</u>	<u>\$ (10,038,598)</u>	<u>\$ 129,191,589</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Depreciation expense was charged to governmental functions as follows:

General support	\$ 346,286
Instruction	6,025,790
Pupil transportation	643,368
Food service program	56,907
Total depreciation expense	<u>\$ 7,072,351</u>

8. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2010, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 4,899,485	\$ 101	\$	\$ 9,654,263
Special Aid Fund	101	3,947,976	364,096	
School Lunch Fund	108	132,752		
Debt Service Fund	8,532		8,408,167	
Capital Projects Fund		25,456	882,000	
Fiduciary Fund		801,941		
Total	<u>\$ 4,908,226</u>	<u>\$ 4,908,226</u>	<u>\$ 9,654,263</u>	<u>\$ 9,654,263</u>

The District typically transfers from the general fund to the special aid fund, debt service fund and the capital projects fund in accordance with the general fund budget. The transfer to the special aid fund was for the District's share of the cost for the summer handicapped program. The transfer to the debt service fund was for the repayment of principal and interest on long-term outstanding bond indebtedness. The transfer to the capital projects fund was to fund capital improvements.

9. SHORT-TERM DEBT

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

	Maturity	Interest Rate	Balance June 30, 2009	Issued	Redeemed	Balance June 30, 2010
TAN	6/30/10	2.00%	\$	\$ 33,400,000	\$ (33,400,000)	\$

Interest on short-term debt for the year was \$121,320.

10. LONG-TERM LIABILITIES

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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 77,243,272	\$	\$ (5,213,272)	\$ 72,030,000	\$ 4,500,000
Add: Deferred amounts on refunding	302,745		(151,373)	151,372	151,372
	<u>77,546,017</u>	-	<u>(5,364,645)</u>	<u>72,181,372</u>	<u>4,651,372</u>
Other long-term liabilities:					
Compensated absences	13,219,166	1,017,519		14,236,685	1,000,000
Workers' compensation	1,895,261		(778,570)	1,116,691	534,635
	<u>\$ 92,660,444</u>	<u>\$ 1,017,519</u>	<u>\$ (6,143,215)</u>	<u>\$ 87,534,748</u>	<u>\$ 6,186,007</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The general fund has typically been used to liquidate other long-term liabilities.

Bonds payable are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2010
Serial Bonds				
District-wide construction	2001	2021	4.25% - 5.00%	\$ 1,700,000
District-wide construction	2003	2023	3.50% - 4.375%	12,205,000
District-wide construction	2004	2024	3.50% - 4.25%	16,110,000
District-wide construction	2005	2025	4.00% - 4.75%	21,580,000
Refunding Bond	2007	2021	3.778% - 4.350%	18,395,000
District-wide construction	2008	2023	3.50% - 4.00%	<u>2,040,000</u>
				<u>\$ 72,030,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 4,500,000	\$ 3,101,993	\$ 7,601,993
2012	4,555,000	2,921,561	7,476,561
2013	4,750,000	2,740,805	7,490,805
2014	4,885,000	2,528,905	7,413,905
2015	5,115,000	2,319,555	7,434,555
2016-2020	28,010,000	8,088,371	36,098,371
2021-2025	<u>20,215,000</u>	<u>2,128,527</u>	<u>22,343,527</u>
Total	<u>\$ 72,030,000</u>	<u>\$ 23,829,717</u>	<u>\$ 95,859,717</u>

Advance Refunding

In prior years, the District defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. Bonds outstanding in the amount of \$19,000,000 are considered defeased at June 30, 2010.

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

Interest paid	\$ 3,294,895
Less interest accrued in the prior year	(621,960)
Plus interest accrued in the current year	589,963
Plus amortization of closing costs (prepaid)	10,971
Less amortization of closing costs (deferral)	<u>(151,373)</u>
Total	<u>\$ 3,122,496</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

11. PENSION PLANS

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

The NYSTRS is administered by the New York State Teachers' Retirement Board. 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. The 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 the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

The NYSERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

C. Funding Policies

The Systems are noncontributory for the employee except for those who either joined the Systems after July 27, 1976 with less than ten years of credited service, who contribute 3% of their salary, or joined the Systems on or after January 1, 2010 who contribute 3% of their salary to NYSERS or 3.5% of their salary to NYSTRS throughout active membership. For the NYSERS, the Comptroller shall certify annually the rates expressed as proportions of members' payroll annually, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, rates are established annually for NYSTRS by the New York State Teachers' Retirement Board.

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>NYSTRS</u>	<u>NYSERS</u>
2010	\$ 5,419,441	\$ 1,672,559
2009	6,568,109	1,658,761
2008	6,722,100	1,804,318

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

12. POSTEMPLOYMENT BENEFITS

A. Plan Description

The District provides post retirement medical, and Medicare Part B and prescription drug coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the New York State Health Insurance Program – Empire Plan.

B. Funding Policy

The District assumes the full cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as payments are made. For the year ended June 30, 2010, the District recognized a general fund expenditure of approximately \$8,181,300 for insurance premiums for 952 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the “pay as you go” method.

C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation.

Annual required contribution (ARC)	\$ 17,471,300
Interest on net OPEB obligation	420,827
Adjustment to ARC	<u>(381,500)</u>
Annual OPEB cost (expense)	17,510,627
Contributions made	<u>(8,181,300)</u>
Increase in net OPEB obligation	9,329,327
Net OPEB obligation - beginning of year	<u>9,351,700</u>
Net OPEB obligation - end of year	<u><u>\$ 18,681,027</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 and the preceding year are as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2010	\$ 17,510,627	46.7%	\$ 18,681,027
June 30, 2009	17,394,700	46.2%	9,351,700

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$215,083,300 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$215,083,300. The covered payroll (annual payroll of active employees covered by the plan) was \$112,142,786, and the ratio of the UAAL to the covered payroll was 192%.

Actuarial valuations of an ongoing plan involved 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. The required schedule of funding progress following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. Actuarial Methods and Assumptions

The valuation as of January 1, 2009, is an update derived from estimates from the previous valuation based on the fact that there were no material changes to any of the benefit packages, any of the cost sharing structures or the census.

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 January 1, 2009, actuarial valuation, the level percent amortization method was used. The actuarial assumptions included a 5% discount rate and for medical inflation an ultimate healthcare cost trend rate of 5%. The UAAL is being amortized to increase over time as projected payrolls increase. The remaining amortization period at June 30, 2010, was 28 years.

13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by a combination of self-insurance reserves and commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded available reserves and commercial insurance coverage for the past three years.

The District has established a self-insured plan for risks associated with workers' compensation claims, unemployment claims and certain property and liability insurance claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unreported claims which were incurred on or before year end but not reported (IBNR). Claims activity is summarized below:

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>2009</u>	<u>2010</u>
Unpaid claims at beginning of year	\$ 1,624,565	\$ 1,895,261
Incurred claims and claim adjustment expenses	785,336	(223,940)
Claim payments	<u>(514,640)</u>	<u>(554,630)</u>
Unpaid claims at year end	<u>\$ 1,895,261</u>	<u>\$ 1,116,691</u>

14. FUND BALANCES – UNRESERVED: DESIGNATED FOR SUBSEQUENT YEAR'S EXPENDITURES

The amount of \$4,500,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2011.

15. COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

The District is involved in lawsuits arising from the normal conduct of its affairs. Some of these lawsuits seek damages which may be in excess of the District's insurance coverage. However, it is not possible to determine the District's potential exposure, if any, at this time.

C. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$265,996. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 107,907
2012	85,071
2013	<u>85,071</u>
	<u>\$ 278,049</u>

16. SUBSEQUENT EVENTS

On August 26, 2010, the District issued tax anticipation notes in the amount of \$39,000,000, which are due June 30, 2011, and bears interest at a rate of 2%.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 154,683,336	\$ 153,585,154	\$ 153,592,101	\$ 6,947
Other tax items	11,500,000	12,598,182	13,342,942	744,760
Charges for services	990,000	870,000	829,288	(40,712)
Use of money and property	527,100	527,000	437,662	(89,338)
Forfeitures	900	900	1,204	304
Sale of property and compensation for loss	80,000		151,021	151,021
Miscellaneous	450,000	378,253	1,372,483	994,230
Interfund revenues	30,000	30,000	42,380	12,380
Total Local Sources	168,261,336	167,989,489	169,769,081	1,779,592
State Sources	28,205,435	28,205,435	24,296,496	(3,908,939)
Federal Sources			3,756,688	3,756,688
Medicaid Reimbursement	10,000	310,000	5,942	(304,058)
Total Revenues	196,476,771	196,504,924	197,828,207	\$ 1,323,283

Note to Required Supplementary Information

Budget Basis of Accounting

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 112,808	\$ 112,808	\$ 104,325	\$	\$ 8,483
Central administration	545,405	565,649	556,828	2,250	6,571
Finance	1,679,691	1,553,714	1,467,268	35,075	51,371
Staff	867,320	966,242	876,553	8,165	81,524
Central services	14,633,109	14,553,752	13,277,442	221,822	1,054,488
Special items	1,723,211	2,135,736	2,072,764		62,972
Total General Support	19,561,544	19,887,901	18,355,180	267,312	1,265,409
Instruction					
Instruction, administration & improvement	7,879,721	7,921,497	7,655,013	17,384	249,100
Teaching - regular school	70,239,769	70,310,972	68,323,418	313,533	1,674,021
Programs for children with handicapping conditions	22,577,222	22,530,132	21,979,606	1,977	548,549
Occupational education	642,600	642,600	545,182		97,418
Teaching - special school	493,958	476,958	448,559	3,102	25,297
Instructional media	4,860,108	4,849,458	4,671,269	70,066	108,123
Pupil services	10,657,200	10,708,444	10,406,260	47,126	255,058
Total Instruction	117,350,578	117,440,061	114,029,307	453,188	2,957,566
Pupil Transportation	12,526,144	12,602,453	12,231,564		370,889
Community Services	85,450	88,833	88,833		-
Employee Benefits	41,575,404	43,375,404	41,047,566		2,327,838
Debt Service					
Interest	1,600,000	1,014,172	121,320		892,852
Total Expenditures	192,699,120	194,408,824	185,873,770	720,500	7,814,554
OTHER USES					
Operating transfers out	9,535,814	9,654,263	9,654,263		-
Total Expenditures and Other Uses	202,234,934	204,063,087	195,528,033	\$ 720,500	\$ 7,814,554
Net Change in Fund Balances	(5,758,163)	(7,558,163)	2,300,174		
Fund Balances - Beginning of Year	5,758,163	7,558,163	38,102,142		
Fund Balances - End of Year	\$ -	\$ -	\$ 40,402,316		

Note to Required Supplementary Information

Budget Basis of Accounting

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Funding Progress for Other Postemployment Benefits (OPEB)
For The Year Ended June 30, 2010

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrual Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2009	\$ -	\$ 214,385,800	\$ 214,385,800	0%	\$ 107,495,233	199%
January 1, 2010	-	215,083,300	215,083,300	0%	112,142,786	192%

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
And Use of Unreserved Fund Balance - General Fund
For The Year Ended June 30, 2010

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 201,876,771
Additions:	
Prior year's encumbrances	<u>358,163</u>
Original Budget	202,234,934
Budget revisions	<u>1,828,153</u>
Final Budget	<u><u>\$ 204,063,087</u></u>
Next year's budget is a voter-approved budget of	<u><u>\$ 207,881,882</u></u>

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -	
As of the beginning of the year	\$ 12,225,289
Less:	
Designated fund balance used for	
the levy of taxes - Adopted budget	<u>4,150,000</u>
Undesignated Fund Balance -	
As of the beginning of the year	<u><u>\$ 8,075,289</u></u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund
For The Year Ended June 30, 2010

	Expenditures		Methods of Financing			Unexpended Balance	Proceeds of Obligations		Total		Fund Balance June 30, 2010
	Budget June 30, 2009	Budget June 30, 2010	Prior Years	Current Year	Total				State Aid	Local Sources	
PROJECT TITLE											
2001 - 02 Projects											
Chestnut Hill Renovations	\$ 23,899	\$ 23,899	\$ 23,899	\$	\$ 23,899	\$	\$	\$	\$	\$ 23,899	\$
Vanderbilt HVAC	23,883	23,883	23,883		23,883					23,883	
HSE Bleacher Replacement	132,803	132,803	132,803		132,803					132,803	
HSW Track	69,095	69,095	69,095		69,095					69,095	
HSW Firedoors	266,430	266,430	266,430		266,430					266,430	
Bus Storage Facility	289,060	289,060	236,820	51,413	288,233	827				289,060	827
DW HVAC	182,829	182,829	182,829		182,829					182,829	
Total 2001 - 02 Projects	987,999	987,999	935,759	51,413	987,172	827				987,999	827
2002 - 03 Projects											
FP Renovations	114,945	114,945	114,945		114,945					114,945	
HSW Auditorium Air Conditioning	141,326	141,326	141,326		141,326					141,326	
Bus Storage Facility	348,502	348,502	221,984	125,657	347,641	861				348,502	861
Pool Resurfacing	18,736	18,736	18,736		18,736					18,736	
DW Door Safety	131,491	131,491	131,491		131,491					131,491	
Total 2002 - 03 Projects	755,000	755,000	628,482	125,657	754,139	861				755,000	861
2003 - 04 Projects											
CH West Parking	470	470	470		470					470	
HSE Track	110,638	110,638	110,638		110,638					110,638	
HSE Doors	102,759	102,759	100,372		100,372	2,387				102,759	2,387
HSW Auditorium Seating	70,500	70,500	70,500		70,500					70,500	
Bus Storage Facility	966,668	966,668	674,086	257,550	931,636	35,032				966,668	35,032
DW Projects	30,965	30,965	30,965		30,965					30,965	
Total 2003 - 04 Projects	1,282,000	1,282,000	987,031	257,550	1,244,581	37,419				1,282,000	37,419
2004 - 05 Projects											
HSW Auditorium Lighting	53,297	53,297	53,297		53,297					53,297	
Districtwide Project	554,340	298,990				298,990				298,990	
HSE Science Rooms	474,363	466,863	466,863		466,863					466,863	
HSE Pressbox	-	4,940				4,940				4,940	
Gas Tank Replacement	-	257,910		31,745	31,745	226,165				257,910	
Total 2004 - 05 Projects	1,082,000	1,082,000	520,160	31,745	551,905	530,095				1,082,000	530,095
2005 - 06 Projects											
HSE Lintel Replacement	164,347	164,347	161,000		161,000	3,347				164,347	3,347
HSW Concrete Work	639,701	639,701	20,034	611,325	631,359	8,342				639,701	8,342
DW Projects	77,952	77,952	77,952		77,952					77,952	
Total 2005 - 06 Projects	882,000	882,000	258,986	611,325	870,311	11,689				882,000	11,689

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

Schedule of Project Expenditures -

Capital Projects Fund (Continued)

For The Year Ended June 30, 2010

PROJECT TITLE	Budget		Expenditures		Methods of Financing			Fund Balance June 30, 2010			
	June 30, 2009	Budget June 30, 2010	Prior Years	Current Year	Total	Unexpended Balance	Proceeds of Obligations		State Aid	Local Sources	Total
2006 - 07 Projects											
WH Auditorium Renovations	\$ 343,104	\$ 343,104	\$ 332,546		\$ 332,546	\$ 10,558			\$ 343,104	\$ 343,104	\$ 10,558
HSE Science Rooms	538,896	538,896	538,092		538,092	804			538,896	538,896	804
Total 2006 - 07 Projects	882,000	882,000	870,638	-	870,638	11,362	-	-	882,000	882,000	11,362
2007 - 08 Projects											
PA Library	337,255	337,255	13,893	244,450	258,343	78,912			337,255	337,255	78,912
CW Security	200,992	200,992	181,989	14,247	196,236	4,756			200,992	200,992	4,756
WH Security	184,657	184,657	166,316	12,297	178,613	6,044			184,657	184,657	6,044
HSW Music lab	159,096	159,096	84,970	6,839	91,809	67,287			159,096	159,096	67,287
Total 2007 - 08 Projects	882,000	882,000	447,168	277,833	725,001	156,999	-	-	882,000	882,000	156,999
2008 - 09 Projects											
WH Windows	489,632	489,632	464,830	24,802	489,632	-			489,632	489,632	-
WH Doors	392,368	392,368	19,296	366,354	385,650	6,718			392,368	392,368	6,718
Total 2008 - 09 Projects	882,000	882,000	484,126	391,156	875,282	6,718	-	-	882,000	882,000	6,718
2009 - 10 Projects											
MA Bathrooms	-	187,637		7,537	7,537	180,100			187,637	187,637	180,100
SH Paving, Fencing, Playgrounds	-	412,726		51,351	51,351	361,375			412,726	412,726	361,375
CW Bathroom Renovations	-	281,637		10,886	10,886	270,751			281,637	281,637	270,751
Total 2009-10 Projects	-	882,000	-	69,774	69,774	812,226	-	-	882,000	882,000	812,226
Athletic Projects											
CW Track	611,805	611,805	612,094	35,862	647,956	(36,151)			611,805	611,805	(36,151)
WH Courts	96,559	96,559	91,575		91,575	4,984			96,559	96,559	4,984
HSE Turf	1,198,887	1,198,887	1,192,075	18,753	1,210,828	(11,941)			1,198,887	1,198,887	(11,941)
HSW Turf	1,292,750	1,292,750	1,171,948		1,171,948	120,802			1,292,750	1,292,750	120,802
Total Athletic Projects	3,200,001	3,200,001	3,067,692	54,615	3,122,307	77,694	-	-	3,200,001	3,200,001	77,694
EXCEL Projects											
CH Security	50,128	50,128	44,060	6,182	50,242	(114)	50,128		50,128	50,128	(114)
FP Security	50,128	50,128	45,130	5,040	50,170	(42)	50,128		50,128	50,128	(42)
OT Security	50,128	50,128	45,129	5,040	50,169	(41)	50,128		50,128	50,128	(41)
PA Security	50,128	50,128	45,129	5,040	50,169	(41)	50,128		50,128	50,128	(41)
SH Security	50,128	50,128	47,374	2,835	50,209	(81)	50,128		50,128	50,128	(81)
SQ Security	50,128	50,128	43,093	6,895	49,988	140	50,128		50,128	50,128	140
VA Security	50,128	50,128	44,698	5,443	50,141	(13)	50,128		50,128	50,128	(13)
CW Security	5,444	5,444	5,444		5,444	-	5,444		5,444	5,444	-
WH Windows/Doors	785,214	785,214	708,903	59,273	768,176	17,038	785,214		785,214	785,214	17,038
HSE Renovations	4,304,128	4,304,128	4,251,924	56,329	4,308,253	(4,125)	1,036,718	3,267,410	4,304,128	4,304,128	(4,125)
Total EXCEL Projects	5,445,682	5,445,682	5,280,884	152,077	5,432,961	12,721	2,178,272	3,267,410	-	5,445,682	12,721

See Paragraph on Supplementary Information Included in Auditor's Report

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund (Continued)
For The Year Ended June 30, 2010

PROJECT TITLE	Budget	Budget	Expenditures		Unexpended Balance	Methods of Financing			Fund Balance June 30, 2010		
	June 30, 2009	June 30, 2010	Prior Years	Current Year		Total	Proceeds of Obligations	State Aid		Local Sources	Total
Districtwide Bond	\$	817,035	\$	817,035	\$	-	\$	817,035	\$	817,035	-
Manasquan Windows	338,711	338,711	338,711		338,711	-		338,711		338,711	-
Manasquan Boilers	205,902	205,902	205,902		205,902	-		205,902		205,902	-
Manasquan Site Work	291,824	291,824	291,824		291,824	-		291,824		291,824	-
Manasquan Road	4,162,253	4,162,253	4,127,781		4,127,781	34,472		4,162,253		4,162,253	34,472
CH Adds & Alts	552,678	552,678	552,678		552,678	-		552,678		552,678	-
CH Windows	624,935	624,935	624,935		624,935	-		624,935		624,935	-
CH Roof	356,484	356,484	356,484		356,484	-		356,484		356,484	-
CH Boilers	1,268,740	1,268,740	1,262,752		1,262,752	5,988		1,268,740		1,268,740	5,988
FP Adds & Alts	332,435	332,435	332,435		332,435	-		332,435		332,435	-
FP Boilers	607,164	607,164	607,164		607,164	-		607,164		607,164	-
FP Site Work	481,083	481,083	481,083		481,083	-		481,083		481,083	-
FP Roof	3,961,441	3,961,441	3,867,304		3,867,304	94,137		3,961,441		3,961,441	94,137
FP Adds & Alts	2,619,619	2,619,619	2,611,710		2,611,710	7,909		2,619,619		2,619,619	7,909
OT Adds & Alts	484,017	484,017	484,017		484,017	-		484,017		484,017	-
OT Ceiling & Lighting	77,440	77,440	77,440		77,440	-		77,440		77,440	-
OT Bathrooms	759,508	759,508	759,508		759,508	-		759,508		759,508	-
OT Windows	320,468	320,468	320,468		320,468	-		320,468		320,468	-
OT Boilers	662,841	662,841	662,841		662,841	-		662,841		662,841	-
OT Roof	3,129,982	3,129,982	3,123,476		3,123,476	6,506		3,129,982		3,129,982	6,506
PA Adds & Alts	857,964	857,964	857,964		857,964	-		857,964		857,964	-
PA Windows & Doors	287,567	287,567	287,567		287,567	-		287,567		287,567	-
PA Ceiling & Lighting	89,261	89,261	89,261		89,261	-		89,261		89,261	-
PA Bathrooms	327,261	327,261	327,261		327,261	-		327,261		327,261	-
PA Boilers	284,037	284,037	284,037		284,037	-		284,037		284,037	-
PA Roof Phase II	2,899,777	2,899,777	2,894,190		2,894,190	5,587		2,899,777		2,899,777	5,587
SH Adds & Alts	298,668	298,668	298,668		298,668	-		298,668		298,668	-
SH Roof	786,307	786,307	786,307		786,307	-		786,307		786,307	-
SH Windows	480,375	480,375	480,375		480,375	-		480,375		480,375	-
SH Library	90,611	90,611	90,611		90,611	-		90,611		90,611	-
SH Bathrooms	322,061	322,061	322,061		322,061	-		322,061		322,061	-
SH Boilers	4,803,429	4,803,429	4,791,612		4,791,612	11,817		4,803,429		4,803,429	11,817
SQ Additions	4,007,076	4,007,076	3,999,250		3,999,250	7,826		4,007,076		4,007,076	7,826
VA Adds & Alts	643,914	643,914	644,450		644,450	(536)		643,914		643,914	(536)
VA Roof	544,562	544,562	544,562		544,562	-		544,562		544,562	-
VA Windows	335,034	335,034	335,034		335,034	-		335,034		335,034	-
VA Boilers	21,926,413	21,926,413	21,840,993		21,840,993	85,420		21,926,413		21,926,413	85,420
CW Adds & Alts	618,128	618,128	618,128		618,128	-		618,128		618,128	-
CW Ceiling & Lighting	9,368	9,368	78,021		78,021	(68,653)		9,368		9,368	(68,653)
CW Windows & Doors	3,752	3,752	4,752		4,752	(1,000)		3,752		3,752	(1,000)
Sub-total	61,670,125	61,670,125	61,480,652	-	61,480,652	189,473	-	61,670,125	-	61,670,125	189,473

See Paragraph on Supplementary Information Included in Auditor's Report

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund (Continued)
For The Year Ended June 30, 2010

PROJECT TITLE	Budget		Expenditures		Unexpended		Methods of Financing			Fund	
	June 30, 2009	June 30, 2010	Prior Years	Current Year	Total	Balance	Proceeds of Obligations	State Aid	Local Sources	Total	Balance June 30, 2010
Districtwide Bond (Continued)											
WH Adds & Alts	\$ 4,407,349	\$ 4,407,349	\$ 4,407,349	\$	\$ 4,407,349	\$	\$ 4,407,349			\$ 4,407,349	\$
WH Ceiling & Lighting	1,002,064	1,002,064	1,002,064		1,002,064	-	1,002,064			1,002,064	-
WH Boilers	620,387	620,387	620,387		620,387	-	620,387			620,387	-
WH Bathrooms	144,049	144,049	144,049		144,049	-	144,049			144,049	-
WH Windows & Doors	6,151	6,151	6,151		6,151	-	6,151			6,151	-
HSE Additions & Alts	5,284,562	5,284,562	5,275,198		5,275,198	9,364	5,284,562			5,284,562	9,364
HSE Roof	2,570,164	2,570,164	2,570,164		2,570,164	-	2,570,164			2,570,164	-
HSE Boiler	1,138,038	1,138,038	1,138,038		1,138,038	-	1,138,038			1,138,038	-
HSE Ceilings	1,317,844	1,317,844	1,317,844		1,317,844	-	1,317,844			1,317,844	-
HSE Bathrooms	873,802	873,802	23,802	864,055	887,857	(14,055)	873,802			873,802	(14,055)
HSE HVAC	824,549	824,549	824,549		824,549	-	824,549			824,549	-
HSW Adds & Alts	13,466,165	13,466,165	13,455,113		13,455,113	11,052	13,466,165			13,466,165	11,052
HSW Roof	807,007	807,007	807,007		807,007	-	807,007			807,007	-
Natatorium Renovations	3,488	3,488	3,488		3,488	-	3,488			3,488	-
Natatorium Roof	179,588	179,588	179,588		179,588	-	179,588			179,588	-
Natatorium Boilers	630,203	630,203	630,203		630,203	-	630,203			630,203	-
DW Security	48,018	48,018	48,018		48,018	-	48,018			48,018	-
DW Security	6,447	6,447	-		-	6,447	6,447			6,447	6,447
Total Districtwide Projects	95,000,000	95,000,000	93,933,664	864,055	94,797,719	202,281	95,000,000	-	-	95,000,000	202,281
Totals	\$ 111,280,682	\$ 112,162,682	\$ 107,414,590	\$ 2,887,200	\$ 110,301,790	\$ 1,860,892	\$ 97,178,272	\$ 3,267,410	\$ 11,717,000	\$ 112,162,682	\$ 1,860,892

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Certain Revenues and Expenditures
Compared to ST-3 Data
For The Year Ended June 30, 2010

	<u>Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Real Property Taxes	A -1001	\$ 153,592,101	\$ 153,592,101
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	24,296,496	24,296,496
Federal Aid	AT-4999	3,762,630	3,762,630
Total Revenues	AT-5999	197,828,207	197,828,207
EXPENDITURES			
General Support	AT-1999	18,355,180	18,355,180
Pupil Transportation	AT-5599	12,231,564	12,231,564
Debt Service - Principal	AT-9798.6	-	-
Debt Service - Interest	AT-9798.7	121,320	121,320
Total Expenditures	AT-9999	195,528,033	195,528,033

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Investment in Capital Assets, Net of Related Debt
For The Year Ended June 30, 2010

Capital assets, net	<u>\$ 129,191,589</u>
Add:	
Unamortized bond issuance costs	<u>120,747</u>
Deduct:	
Short-term portion of bonds payable	(4,651,372)
Long-term portion of bonds payable	(67,530,000)
Less:	
Unspent bond proceeds	<u>215,002</u>
	<u>(71,966,370)</u>
Investment in capital assets, net of related debt	<u><u>\$ 57,345,966</u></u>

**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
Half Hollow Hills Central School District
Dix Hills, New York

We have audited the financial statements of the governmental activities, each major fund and the fiduciary funds of the Half Hollow Hills Central School District (District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Half Hollow Hills 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 the Half Hollow Hills Central School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Half Hollow Hills 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 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 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 the Half Hollow Hills 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Half Hollow Hills Central School District in a separate letter dated October 8, 2010.

This report is intended solely for the use and information of the Board of Education, Audit Committee, management, others you deem appropriate within the District, and any governmental authorities you need to share this information with and is not intended to be and should not be used by anyone other than these specified parties.

Cullen & Danowski, LLP

October 8, 2010

