



FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES WITH
INDEPENDENT AUDITOR'S REPORTS

June 30, 2011

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
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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, 2011, 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, "Changes in Accounting Principles", the District has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 3 through 12 and 42 through 44, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Half Hollow Hills Central School District's basic financial statements. The other supplementary information on pages 45 through 48 is presented for purposes of additional analysis and 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 17, 2011

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, 2011. 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.

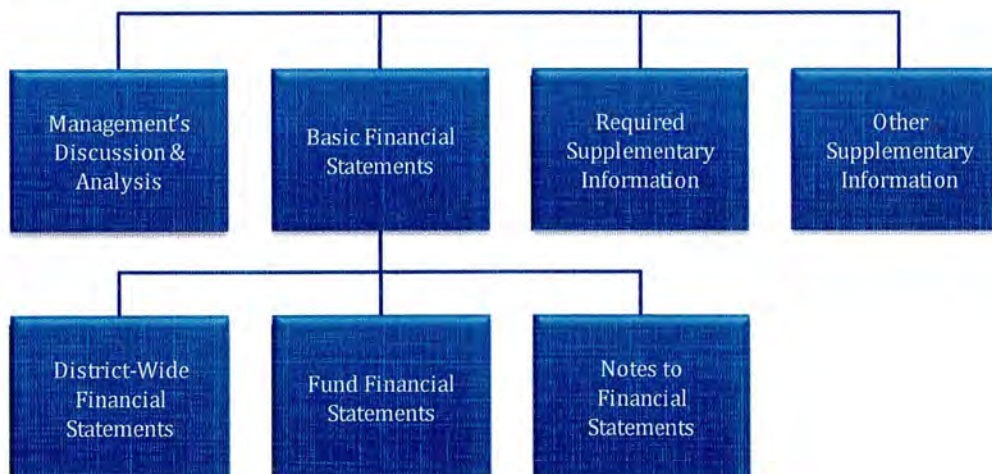
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2011 are as follows:

- The general fund's total fund balance, including assigned and unassigned balances, decreased by \$2,895,576 to \$37,506,740.
- Total revenues and other sources in the general fund were \$201,220,522 and the expenditures, including operating transfers to other funds, totaled \$204,116,098.
- The District's total net assets, as reflected in the district-wide financial statements is \$46,484,395, a decrease of \$19,795,648.
- The District's operating revenues and expenses for the year, as reflected in the district-wide financial statements, were \$210,511,936 and \$230,307,584, respectively.
- The District received operating grants during the year of \$8,650,379, a decrease of \$1,070,538 from the prior year due to a reduction in the federal education stabilization grant in the amount of \$2,064,466.
- The District entered into an energy performance contract during the year in the amount of \$16,400,000 to perform energy efficient improvements. The District issued debt for \$15,403,312 and received a grant from the New York State Energy Research and Development Authority for \$996,688 to cover the balance of the contract.
- The budget for the 2011-12 school year in the amount of \$215,978,880 was approved by the voters on May 17, 2011.

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 \$19,795,648 between fiscal year 2011 and 2010. A summary of the District's Statement of Net Assets is as follows. The 2010 net assets amounts have been reclassified for comparative purposes to conform to the 2011 presentation, specifically in the classification of restricted net assets as clarified by the implementation of GASB 54 (*Fund Balance Reporting and Governmental Fund Type Definitions*). There was no change in the 2010 net assets total.

	2011	2010	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 62,518,276	\$ 54,321,445	\$ 8,196,831	15.09 %
Capital Assets, Net	131,225,581	129,191,589	2,033,992	1.57 %
Total Assets	193,743,857	183,513,034	10,230,823	5.57 %
Current and Other Liabilities	14,124,893	11,017,216	3,107,677	28.21 %
Long-Term Liabilities	99,616,323	87,534,748	12,081,575	13.80 %
Net Other Postemployment Benefits Obligation	33,518,246	18,681,027	14,837,219	79.42 %
Total Liabilities	147,259,462	117,232,991	30,026,471	25.61 %
Net Assets				
Invested in Capital Assets, Net of Related Debt	56,715,839	57,345,966	(630,127)	(1.10)%
Restricted	24,351,445	27,045,344	(2,693,899)	(9.96)%
Unrestricted (deficit)	(34,582,889)	(18,111,267)	(16,471,622)	90.95 %
Total Net Assets	\$ 46,484,395	\$ 66,280,043	\$ (19,795,648)	(29.87)%

At June 30, 2011, the District's total net assets are \$46,484,395.

Current and other assets increased during the year by \$8,196,831, principally due to a larger cash balance at year end. The District issued debt during the year to finance the energy performance contract. At June 30, 2011, the District had \$8,313,794 of unspent debt proceeds on hand.

Capital assets, net increased during the year by \$2,033,992. During the current year, the District expended \$9,293,279 on construction costs and equipment purchases. This amount was offset by depreciation expense in the amount of \$7,259,287.

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

Current and other liabilities increased over the prior year by \$3,107,677, principally due to the increased required pension contributions to the teachers' and employees' retirement systems.

Long-term liabilities increased by \$12,081,575, principally due to the issuance of debt to finance the energy performance contract.

Net other postemployment benefits obligation increased by \$14,837,219 as the current OPEB cost exceeded contributions in accordance with GASB Statement No. 45. The accompanying Notes to Financial Statements, Note 14 "Postemployment Benefits" provides additional information.

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 \$24,351,445 relates to the District's reserves. This amount decreased from the prior year by \$2,693,899 primarily as the District utilized \$3,750,000 to offset the 2010-11 tax levy and \$1,747,500 to fund budget revisions for contingent expenditures. The District transferred \$2,529,054 of the current year's surplus into the reserves.

The unrestricted net assets (deficit) increased by \$16,471,622 during the year to a deficit position of \$34,582,889. The District's assets are not sufficient to cover unfunded liabilities such as the net other postemployment benefits obligations. Currently, there is no provision in the law to permit the District to fund OPEB by any means other than the "pay as you go" method.

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, 2011 and 2010 is as follows:

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

	2011	2010	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 3,951,652	\$ 4,216,331	\$ (264,679)	(6.28)%
Operating Grants	8,650,379	9,720,917	(1,070,538)	(11.01)%
General Revenues				
Property Taxes and STAR	169,632,413	164,690,283	4,942,130	3.00 %
State Sources	23,020,569	24,296,496	(1,275,927)	(5.25)%
Other	5,256,923	4,223,082	1,033,841	24.48 %
Total Revenues	<u>210,511,936</u>	<u>207,147,109</u>	<u>3,364,827</u>	1.62 %
Expenses				
General Support	24,916,687	23,208,260	1,708,427	7.36 %
Instruction	183,144,543	168,956,821	14,187,722	8.40 %
Pupil Transportation	15,403,895	14,069,957	1,333,938	9.48 %
Community Service	158,841	127,312	31,529	24.77 %
Debt Service - Interest	3,285,188	3,243,816	41,372	1.28 %
Food Service Program	3,398,430	3,244,204	154,226	4.75 %
Total Expenses	<u>230,307,584</u>	<u>212,850,370</u>	<u>17,457,214</u>	8.20 %
Decrease in Net Assets	<u>\$ (19,795,648)</u>	<u>\$ (5,703,261)</u>	<u>\$ (14,092,387)</u>	247.09 %

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, 2011, the loss was \$19,795,648 compared to a \$5,703,261 loss in the prior year.

The District's revenues increased by \$3,364,827 or 1.62%. The major factors that contributed to the increase were:

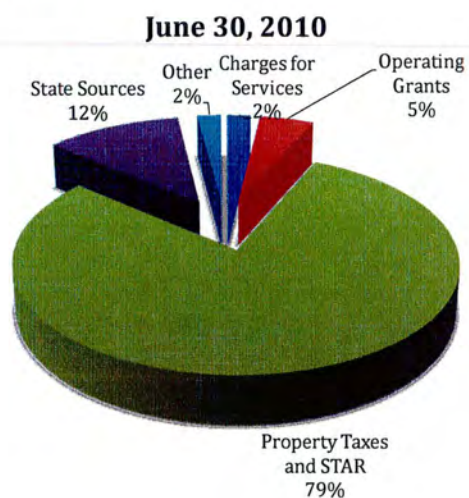
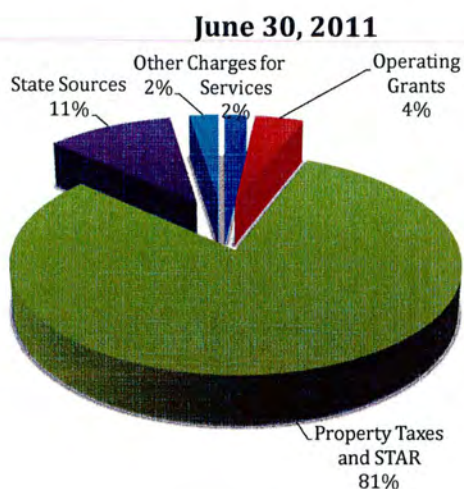
- Property taxes and STAR revenues increased by \$4,942,130.
- The District received \$1,070,538 less in operating grants as federal funding was reduced under the American Recovery and Reinvestment Act.
- Revenue from state sources decreased by \$1,275,927.

The District's expenses increase by \$17,457,214 to \$230,307,584 during the year. Employee benefits increased by \$9,967,118.

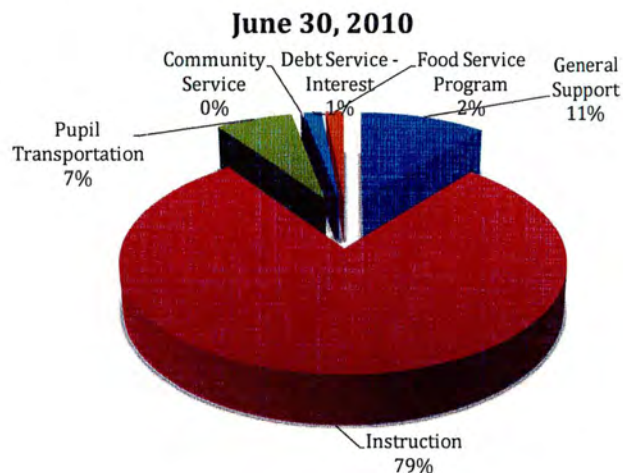
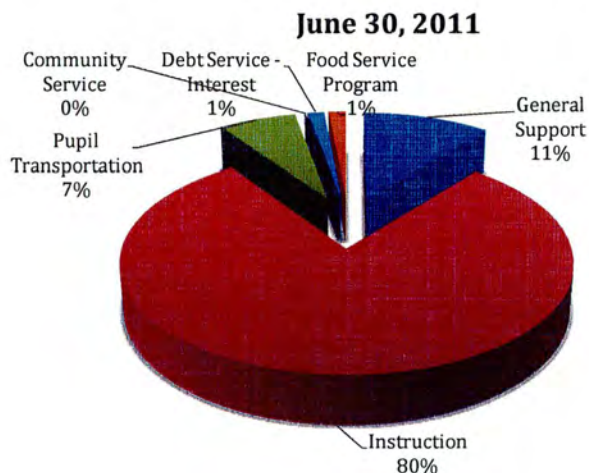
As indicated on the pie charts that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 81% and 79% of the total for the years ended June 30, 2011 and 2010, respectively). Instructional expense is the largest category of expenses incurred (i.e., 80% and 79% of the total for the years ended June 30, 2011 and 2010, respectively). The pie charts demonstrate that the components of revenues and expenses are effectively the same for both years.

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

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, 2011, the District's governmental funds reported a combined fund balance of \$47,732,891, which is an increase of \$4,810,139 over the prior year. This increase is due to an excess of revenues over expenditures based on the modified accrual basis of accounting. A summary of the change in fund balance by fund presented in accordance with GASB 54 classifications is as follows. Certain 2010 amounts have been reclassified for comparative purposes to conform to the 2011 presentation. There was no change in the 2010 total fund balance.

	2011	2010	Changes
General Fund			
Restricted:			
Workers' compensation	\$ 1,550,384	\$ 1,944,635	\$ (394,251)
Unemployment insurance	189,331	238,581	(49,250)
Retirement contribution	10,061,994	10,933,635	(871,641)
Property loss	484,909	482,987	1,922
Liability	17,971	315,400	(297,429)
Employee benefit accrued liability	11,678,535	12,951,301	(1,272,766)
Assigned:			
Appropriated fund balance	4,500,000	4,500,000	-
Unappropriated fund balance	384,459	720,500	(336,041)
Unassigned: Fund balance	8,639,157	8,315,277	323,880
	<u>37,506,740</u>	<u>40,402,316</u>	<u>(2,895,576)</u>
School Lunch Fund			
Nonspendable: Inventory	55,298	81,719	(26,421)
Assigned: Unappropriated fund balance	222,599	399,020	(176,421)
	<u>277,897</u>	<u>480,739</u>	<u>(202,842)</u>
Debt Service Fund			
Restricted: Debt service	368,321	178,805	189,516
Capital Projects Fund			
Restricted:			
Unspent bond proceeds	8,313,794	215,002	8,098,792
Assigned: Unappropriated fund balance	1,266,139	1,645,890	(379,751)
	<u>9,579,933</u>	<u>1,860,892</u>	<u>7,719,041</u>
 Total Fund Balance	 <u>\$ 47,732,891</u>	 <u>\$ 42,922,752</u>	 <u>\$ 4,810,139</u>

A. General Fund

The net change in the general fund – fund balance is a decrease of \$2,895,576. This resulted from expenditures in excess of revenues, which was anticipated as the District used \$4,500,000 of fund balance and \$3,750,000 of reserves to fund current year expenditures.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is a decrease of \$202,842, which was the operating deficit of the school lunch fund.

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

C. Debt Service Fund

The net change in the debt service fund – fund balance is an increase of \$189,516. The District transferred \$189,254 of unspent bond proceeds to the debt service fund which will be used in the future to offset principal and interest payments.

D. Capital Projects Fund

The net change in the capital projects fund – fund balance is an increase of \$7,719,041, due to the issuance of debt, net of current year's expenditures.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2010-2011 Budget

The District's general fund adopted budget for the year ended June 30, 2011 was \$207,881,882. This amount was increased by encumbrances carried forward from the prior year in the amount of \$720,500 and budget revisions of \$1,824,978, for a total final budget of \$210,427,360.

The budget was funded through a combination of estimated revenues and designated fund balance. The majority of this funding source was \$169,758,277 in estimated property taxes and STAR.

B. Change in General Fund's Unassigned Fund Balance (Budget to Actual)

The general fund's unassigned 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 appropriations 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, Unassigned Fund Balance	\$ 8,315,277
Revenues Over Budget	1,511,162
Expenditures and Encumbrances Under Budget	5,926,803
Interest Allocated to Reserves	(85,031)
Transfers to Reserves	(2,529,054)
Appropriated for June 30, 2012 Budget	<u>(4,500,000)</u>
Closing, Unassigned Fund Balance	<u><u>\$ 8,639,157</u></u>

Opening, Unassigned Fund Balance

The \$8,315,277 shown in the table is the portion of the District's June 30, 2010 fund balance that was retained as unassigned. This was 4% of the District's 2010-11 approved operating budget of \$207,881,882. It is the maximum unassigned fund balance permitted by law, and is generally regarded as a positive financial management indicator.

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

Revenues Over Budget

The District's actual revenues of \$201,220,522 exceeded the amounts estimated by \$1,511,162. The decrease in state aid was offset by an increase in miscellaneous revenues and an operating transfer from the capital projects fund.

Expenditures and Encumbrances Under Budget

The District's expenditures and encumbrances totaling \$204,500,557 were \$5,926,803 less than budgeted. The District realized savings in instruction expenditures, employee benefits and interest related to debt service.

Transfers to Reserves

The District transferred \$1,896,790 to the retirement contribution reserve and \$632,264 to the employee benefit accrued liability reserve during the year pursuant to Board of Education resolutions.

Appropriated Fund Balance

The District has chosen to use \$4,500,000 of its available June 30, 2011 fund balance to partially fund its 2011-12 approved operating budget. As such, the June 30, 2011 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2011-12 fiscal year with an unassigned fund balance of \$8,639,157. This is an increase of \$323,880 over the unassigned fund balance from the prior year as of June 30, 2011. This unassigned portion is at the 4.0% statutory maximum, indicating stability in the District's management of its general fund unassigned fund balance.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2011, 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, 2011 and 2010 is as follows:

	2011	2010	Increase (Decrease)
Land	\$ 2,629,860	\$ 2,629,860	\$ -
Construction in progress	8,062,860	2,924,352	5,138,508
Buildings and improvements	109,217,088	111,950,819	(2,733,731)
Site improvements	5,284,349	5,327,009	(42,660)
Vehicle	2,357,574	2,440,652	(83,078)
Furniture and equipment	3,673,850	3,918,897	(245,047)
Capital assets, net	<u>\$ 131,225,581</u>	<u>\$ 129,191,589</u>	<u>\$ 2,033,992</u>

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

B. Debt Administration

At June 30, 2011, the District had total bonds payable of \$67,530,000. 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, 2011 and 2010 is as follows:

Issue Date	Interest Rate	2011	2010	Increase (Decrease)
2001	4.25% - 5.00%	\$ -	\$ 1,700,000	\$ (1,700,000)
2003	3.50% - 4.375%	11,485,000	12,205,000	(720,000)
2004	3.50% - 4.25%	15,235,000	16,110,000	(875,000)
2005	4.00% - 4.75%	20,505,000	21,580,000	(1,075,000)
2007	3.778% - 4.350%	18,390,000	18,395,000	(5,000)
2008	3.50% - 4.00%	1,915,000	2,040,000	(125,000)
		<u>\$ 67,530,000</u>	<u>\$ 72,030,000</u>	<u>\$ (4,500,000)</u>

The District issued \$15,403,312 of debt during the year to finance an energy performance contract. The debt including interest at 2.89%, is payable through 2026.

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 17, 2011, for the year ending June 30, 2012, is \$215,978,880. This is an increase of \$8,096,998 or 3.9% over the previous year's budget. The District appropriated fund balance of \$4,500,000 and reserves of \$3,750,000 to fund the June 30, 2012 budget, which was the same as the prior year.

Chapter 97 of the 2011 Laws of New York will limit the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation effective for the 2010-13 fiscal year. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast.

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:

Ms. Anne Marie Marrone Caliendo
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, 2011

ASSETS

Cash	
Unrestricted	\$ 45,632,437
Restricted	8,313,794
Receivables	
Accounts receivable	122,455
Due from other funds	1,118,756
Due from state and federal	4,193,679
Due from other governments	2,972,081
Prepays	109,776
Inventories	55,298
Capital assets:	
Not being depreciated	10,692,720
Being depreciated, net of accumulated depreciation	<u>120,532,861</u>
Total Assets	<u><u>\$ 193,743,857</u></u>

LIABILITIES

Payables	
Accounts payable	\$ 2,794,474
Accrued liabilities	1,142,518
Due to other governments	12,125
Due to teachers' retirement system	8,845,673
Due to employees' retirement system	1,078,732
Compensated absences payable	197,967
Deferred credits	
Deferred revenues	53,404
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	4,550,000
Installment purchase debt payable	155,226
Compensated absences payable	1,000,000
Workers' compensation liabilities	650,000
Due and payable after one year	
Bonds payable, net	62,980,000
Installment purchase debt payable	15,248,086
Compensated absences payable	14,504,615
Workers' compensation liabilities	528,396
Net other postemployment benefits obligation	<u>33,518,246</u>
Total Liabilities	<u>147,259,462</u>

NET ASSETS

Investment in capital assets, net of related debt	56,715,839
Restricted	24,351,445
Unrestricted (deficit)	<u>(34,582,889)</u>
Total Net Assets	<u>46,484,395</u>
Total Liabilities and Net Assets	<u><u>\$ 193,743,857</u></u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

Statement of Activities

For The Year Ended June 30, 2011

		<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	
PROGRAMS/FUNCTIONS				
General support	\$ 24,916,687	\$	\$	\$ (24,916,687)
Instruction	183,144,543	1,515,264	7,899,494	(173,729,785)
Pupil transportation	15,403,895			(15,403,895)
Community service	158,841			(158,841)
Debt service - interest	3,285,188			(3,285,188)
Food service program	3,398,430	2,436,388	750,885	(211,157)
	<u>\$ 230,307,584</u>	<u>\$ 3,951,652</u>	<u>\$ 8,650,379</u>	<u>(217,705,553)</u>
GENERAL REVENUES				
Real property taxes				157,090,852
Other tax items				15,013,018
Use of money and property				353,008
Forfeitures				3,500
Sale of property and compensation for loss				231,856
Miscellaneous				2,197,102
State sources				<u>23,020,569</u>
Total General Revenues				<u>197,909,905</u>
Change in Net Assets				(19,795,648)
Total Net Assets - Beginning of year				<u>66,280,043</u>
Total Net Assets - End of year				<u>\$ 46,484,395</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2011

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 42,201,083	\$	\$ 1,465,171	\$ 367,261	\$ 1,598,922	\$ 45,632,437
Restricted					8,313,794	8,313,794
Receivables						
Accounts receivable	118,442		4,013			122,455
Due from other funds	4,897,988	193,056	85,949	1,060	452	5,178,505
Due from state and federal	1,754,707	2,131,021	44,193		263,758	4,193,679
Due from other governments	2,971,822		259			2,972,081
Inventories			55,298			55,298
Total Assets	\$ 51,944,042	\$ 2,324,077	\$ 1,654,883	\$ 368,321	\$ 10,176,926	\$ 66,468,249
LIABILITIES						
Payables						
Accounts payable	\$ 2,463,471	\$ 66,369	\$ 876	\$	\$ 263,758	\$ 2,794,474
Accrued liabilities	309,144	17,188	123			326,455
Due to other funds	175,536	2,216,350	1,334,628		333,235	4,059,749
Due to other governments		12,125				12,125
Due to teachers' retirement system	8,845,673					8,845,673
Due to employees' retirement system	1,078,732					1,078,732
Compensated absences payable	197,967					197,967
Deferred credits						
Deferred revenues	1,366,779	12,045	41,359			1,420,183
Total Liabilities	14,437,302	2,324,077	1,376,986	-	596,993	18,735,358
FUND BALANCES						
Nonspendable: Inventory			55,298			55,298
Restricted:						
Workers' compensation	1,550,384					1,550,384
Unemployment insurance	189,331					189,331
Retirement contribution	10,061,994					10,061,994
Property loss	484,909					484,909
Liability	17,971					17,971
Employee benefit accrued liability	11,678,535					11,678,535
Debt service				368,321		368,321
Unspent debt proceeds					8,313,794	8,313,794
Assigned:						
Appropriated fund balance	4,500,000					4,500,000
Unappropriated fund balance	384,459		222,599		1,266,139	1,873,197
Unassigned: Fund balance	8,639,157					8,639,157
Total Fund Balances	37,506,740	-	277,897	368,321	9,579,933	47,732,891
Total Liabilities and Fund Balances	\$ 51,944,042	\$ 2,324,077	\$ 1,654,883	\$ 368,321	\$ 10,176,926	\$ 66,468,249

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2011

Total Governmental Fund Balances	\$ 47,732,891
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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.	1,366,779
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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	\$ 234,321,505	
Accumulated depreciation	<u>(103,095,924)</u>	
		131,225,581

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	120,747	
Accumulated amortization	<u>(10,971)</u>	
		109,776

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:

Accrued interest on bonds payable	(816,063)	
Bonds payable, net	(67,530,000)	
Installment purchase debt payable	(15,403,312)	
Compensated absences payable	(15,504,615)	
Workers' compensation liabilities	(1,178,396)	
Net other postemployment benefits obligation	<u>(33,518,246)</u>	
		<u>(133,950,632)</u>

Total Net Assets	<u>\$ 46,484,395</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, 2011

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 157,090,852	\$	\$	\$	\$	\$ 157,090,852
Other tax items	15,013,018					15,013,018
Charges for services	1,165,837					1,165,837
Use of money and property	352,070		676	262		353,008
Forfeitures	3,500					3,500
Sale of property and compensation for loss	231,856					231,856
Miscellaneous	2,028,619		1,824			2,030,443
Interfund revenues	49,414					49,414
State sources	23,020,569	1,350,819	55,640			24,427,028
Federal sources	1,716,576	4,269,335	594,569		562,764	7,143,244
Surplus food			100,676			100,676
Sales - school lunch			2,436,388			2,436,388
Total Revenues	200,672,311	5,620,154	3,189,773	262	562,764	210,045,264
EXPENDITURES						
General support	19,314,646	40,623				19,355,269
Instruction	117,296,522	5,812,495				123,109,017
Pupil transportation	12,895,970	295,117				13,191,087
Community service	105,284					105,284
Employee benefits	45,494,106		350,629			45,844,735
Debt service						
Principal				4,500,000		4,500,000
Interest	97,496			3,101,993		3,199,489
Cost of sales			3,041,986			3,041,986
Capital outlay					8,291,570	8,291,570
Total Expenditures	195,204,024	6,148,235	3,392,615	7,601,993	8,291,570	220,638,437
Excess (Deficiency) of Revenues Over Expenditures	5,468,287	(528,081)	(202,842)	(7,601,731)	(7,728,806)	(10,593,173)
OTHER FINANCING SOURCES AND (USES)						
Proceeds from debt					15,403,312	15,403,312
Operating transfers in	548,211	528,081		7,791,247	782,000	9,649,539
Operating transfers (out)	(8,912,074)				(737,465)	(9,649,539)
Total Other Financing Sources and (Uses)	(8,363,863)	528,081	-	7,791,247	15,447,847	15,403,312
Net Change in Fund Balances	(2,895,576)	-	(202,842)	189,516	7,719,041	4,810,139
Fund Balances - Beginning of year	40,402,316	-	480,739	178,805	1,860,892	42,922,752
Fund Balances - End of year	\$ 37,506,740	\$ -	\$ 277,897	\$ 368,321	\$ 9,579,933	\$ 47,732,891

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, 2011

Net Change in Fund Balances \$ 4,810,139

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 \$ 516,086

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	(1,267,930)	
Increase in workers' compensation liabilities	(61,705)	
Increase in net other postemployment benefits obligation	<u>(14,837,219)</u>	
		(15,650,768)

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 capital outlays exceeded depreciation in the period.

Capital outlays	9,293,279	
Depreciation expense	<u>(7,259,287)</u>	
		2,033,992

Long-Term Debt Transaction Differences

Proceeds from the issuance of bonds is an other funding source in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. (15,403,312)

Amortization of deferred charges on refunding 151,372

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. 4,500,000

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 increased from June 30, 2010 to June 30, 2011.

	<u>(226,100)</u>	
		(10,989,011)

Change in Net Assets of Governmental Activities \$ (19,795,648)

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Fiduciary Net Assets -
Fiduciary Funds
June 30, 2011

	<u>Agency</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash	\$ 1,575,199	\$ 427,424
Due from state and federal	<u>501,812</u>	
Total Assets	<u><u>\$ 2,077,011</u></u>	<u><u>\$ 427,424</u></u>
 LIABILITIES		
Extraclassroom activity balances	\$ 326,539	\$
Due to other funds	1,118,756	
Other liabilities	<u>631,716</u>	
Total Liabilities	<u><u>\$ 2,077,011</u></u>	-
 NET ASSETS		
Reserved for scholarships		<u>427,424</u>
Total Liabilities and Net Assets		<u><u>\$ 427,424</u></u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets -
Fiduciary Funds
For The Year Ended June 30, 2011

	Private Purpose Trust
ADDITIONS	
Contributions	\$ 21,992
Investment earnings	
Interest	<u>2,436</u>
Total Additions	<u>24,428</u>
 DEDUCTIONS	
Scholarships and awards	<u>42,066</u>
Change in Net Assets	(17,638)
Net Assets - Beginning of year	<u>445,062</u>
Net Assets - End of Year	<u><u>\$ 427,424</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 inventorable 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

During the year ended June 30, 2011 the District implemented GASB 54, (see Note 2 “Changes in Accounting Principles” for additional information). Under GASB 54, the fund balance now consists of five classifications; however, the District only utilizes the following four:

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans, receivables, financial assets held for resale and principal of an endowment. The District utilizes the following nonspendable fund balance:

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.

Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Restricted fund balances, generally referred to as reserves in accordance with New York State law, 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 and restricted amounts currently in use by the District include the following:

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

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

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. This reserve is 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.

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.

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.

Restricted for Debt Service

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 debt service fund and held until appropriated for debt payments.

Restricted – Unspent Debt Proceeds

Unspent debt proceeds are recorded as restricted fund balance because they are subject to external constraints contained in the bond agreement. These restricted funds are accounted for in the capital projects fund.

Assigned – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the District's Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance also includes an amount appropriated to partially fund the subsequent year's budget, as well as encumbrances not classified as restricted at the end of the fiscal year.

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

Unassigned – represents the residual classification for the District's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted or assigned. NYS Real Property Tax Law §1318 restricts the unassigned fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.

Fund Balance Classification

Any portion of fund balance may be applied or transferred for a specific purpose by law, voter approval if required by law or by formal action of the Board of Education if voter approval is not required. Amendments or modification to the applied or transferred fund balance must also be approved by formal action of the Board of Education.

The Board of Education shall delegate the authority to assign fund balance, for encumbrance purposes, to the person(s) to whom it has delegated the authority to sign purchase orders.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the assigned fund balance to the extent that there is an assignment and then from the unassigned fund balance.

2. CHANGES IN ACCOUNTING PRINCIPLES

In February 2009, GASB released GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which was implemented by the District during the year ended June 30, 2011. GASB 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The new fund balance components will indicate the level of constraints placed upon how resources can be spent and identify the sources of these constraints. In addition, GASB 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

3. 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.

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.

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

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.

4. 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 supplemental appropriations in the total amount of \$1,824,978 for contingent expenditures, which were funded by insurance recoveries and donations of \$77,478, the use of the employee benefit accrued liability reserve to fund retiree payouts in the amount of \$1,450,000 and the use of the liability reserve to fund a litigation settlement of \$297,500.

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.

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

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 part of other assigned, unappropriated fund balance, unless classified as restricted or committed, 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.

5. 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.

6. PARTICIPATION IN BOCES

During the year ended June 30, 2011, the District was billed \$7,943,164 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,029,937. 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)

7. DUE FROM STATE AND FEDERAL

Due from state and federal at June 30, 2011 consisted of:

General Fund	
New York State aid - general aid	
New York State aid - excess cost aid	730,656
BOCES aid	480,855
MTA tax reimbursement	166,658
Education stabilization aid (ARRA)	<u>376,538</u>
	1,754,707
Special Aid Fund	
State and federal grants	2,131,021
School Lunch Fund	
State and federal food service program reimbursements	44,193
Capital Projects Fund	
Federal grant	<u>263,758</u>
	<u><u>\$ 4,193,679</u></u>

8. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2011 consists of:

General Fund	
Tuition and health services	\$ 1,482,681
Payment in lieu of taxes	1,344,141
Medicare Part D reimbursements	<u>145,000</u>
	2,971,822
School Lunch Fund	
Sales tax	<u>259</u>
	<u><u>\$ 2,972,081</u></u>

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

9. CAPITAL ASSETS

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,629,860	\$	\$	\$ 2,629,860
Construction in progress	2,924,352	5,138,508		8,062,860
Total capital assets not being depreciated	5,554,212	5,138,508	-	10,692,720
Capital assets being depreciated				
Buildings and improvements	193,690,595	2,882,583		196,573,178
Site improvements	7,160,003	310,472		7,470,475
Vehicles	8,416,401	394,129	(498,311)	8,312,219
Furniture and equipment	10,963,165	567,587	(257,839)	11,272,913
Total capital assets being depreciated	220,230,164	4,154,771	(756,150)	223,628,785
Less accumulated depreciation for:				
Buildings and improvements	81,739,776	5,616,314		87,356,090
Site improvements	1,832,994	353,132		2,186,126
Vehicles	5,975,749	477,207	(498,311)	5,954,645
Furniture and equipment	7,044,268	812,634	(257,839)	7,599,063
Total accumulated depreciation	96,592,787	7,259,287	(756,150)	103,095,924
	123,637,377	(3,104,516)	-	120,532,861
Capital assets, net	\$ 129,191,589	\$ 2,033,992	\$ -	\$ 131,225,581

Depreciation expense was charged to governmental functions as follows:

General support	\$ 291,715
Instruction	6,332,548
Pupil transportation	579,124
Food service	55,900
Total depreciation expense	\$ 7,259,287

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

10. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2011, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 4,897,988	\$ 175,536	\$ 548,211	\$ 8,912,074
Special Aid Fund	193,056	2,216,350	528,081	
School Lunch Fund	85,949	1,334,628		
Debt Service Fund	1,060		7,791,247	
Capital Projects Fund	452	333,235	782,000	737,465
Fiduciary Fund		1,118,756		
Total	<u>\$ 5,178,505</u>	<u>\$ 5,178,505</u>	<u>\$ 9,649,539</u>	<u>\$ 9,649,539</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.

During the year, the District transferred \$737,465 out of the capital projects fund as follows:

Unspent general fund appropriations - To general fund	\$ 548,211
Unspent bond proceeds - To debt service fund	<u>189,254</u>
	<u>\$ 737,465</u>

11. SHORT-TERM DEBT

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

	Maturity	Interest Rate	Balance June 30, 2010	Issued	Redeemed	Balance June 30, 2011
TAN	6/30/11	2.00%	<u>\$</u>	<u>\$ 39,000,000</u>	<u>\$ (39,000,000)</u>	<u>\$</u>

Interest on short-term debt for the year was \$97,496.

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

12. LONG-TERM LIABILITIES

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
<u>Long-term debt:</u>					
Bonds payable	\$ 72,030,000	\$	\$ (4,500,000)	\$ 67,530,000	\$ 4,550,000
Installment purchase debt	-	15,403,312		15,403,312	155,226
Add: Deferred amounts on refunding	151,372		(151,372)	-	
	<u>72,181,372</u>	<u>15,403,312</u>	<u>(4,651,372)</u>	<u>82,933,312</u>	<u>4,705,226</u>
<u>Other long-term liabilities:</u>					
Compensated absences	14,236,685	1,267,930		15,504,615	1,000,000
Workers' compensation	1,116,691	795,047	(733,342)	1,178,396	650,000
	<u>\$ 87,534,748</u>	<u>\$ 17,466,289</u>	<u>\$ (5,384,714)</u>	<u>\$ 99,616,323</u>	<u>\$ 6,355,226</u>

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, 2011
Serial Bonds				
District-wide construction	2003	2023	3.50% - 4.375%	\$ 11,485,000
District-wide construction	2004	2024	3.50% - 4.25%	15,235,000
District-wide construction	2005	2025	4.00% - 4.75%	20,505,000
Refunding Bond	2007	2021	3.778% - 4.350%	18,390,000
District-wide construction	2008	2023	3.50% - 4.00%	1,915,000
				<u>\$ 67,530,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	5,255,000	2,095,786	7,350,786
2017-2021	28,870,000	6,850,127	35,720,127
2022-2025	14,100,000	1,270,986	15,370,986
Total	<u>\$ 67,530,000</u>	<u>\$ 20,727,725</u>	<u>\$ 88,257,725</u>

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

Installment purchase debt is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2011
Energy performance contract	12/7/2010	7/15/2026	2.89%	<u>\$ 15,403,312</u>

The following is a summary of maturing debt service requirements for installment purchase debt:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 155,226	\$ 492,144	\$ 647,370
2013	860,242	434,499	1,294,741
2014	885,283	409,458	1,294,741
2015	911,052	383,690	1,294,742
2016	937,572	357,169	1,294,741
2017-2021	5,113,473	1,360,233	6,473,706
2022-2026	5,902,315	571,390	6,473,705
2027	<u>638,149</u>	<u>9,221</u>	<u>647,370</u>
Total	<u>\$ 15,403,312</u>	<u>\$ 4,017,804</u>	<u>\$ 19,421,116</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. The defeased bond in the amount of \$19,000,000 were callable and satisfied on June 15, 2011.

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

Interest paid	\$ 3,101,993
Less interest accrued in the prior year	(589,963)
Plus interest accrued in the current year	816,063
Plus amortization of closing costs (prepaid)	10,971
Less amortization of closing costs (deferral)	<u>(151,372)</u>
Total	<u>\$ 3,187,692</u>

13. 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.

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

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, Office of the State Comptroller, 110 State Street, 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>
2011	\$ 7,754,344	\$ 3,020,050
2010	5,419,441	1,672,559
2009	6,568,109	1,658,761

14. POSTEMPLOYMENT BENEFITS

A. Plan Description

The District provides postemployment 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.

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

B. Funding Policy

The District assumes its share of the cost of premiums, which ranges from 10% – 40%, 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, 2011, the District recognized a general fund expenditure of approximately \$8,654,681 for insurance premiums for 958 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)	\$ 23,413,300
Interest on net OPEB obligation	840,600
Adjustment to ARC	<u>(762,000)</u>
Annual OPEB cost (expense)	23,491,900
Contributions made	<u>(8,654,681)</u>
 Increase in net OPEB obligation	 14,837,219
Net OPEB obligation - beginning of year	<u>18,681,027</u>
 Net OPEB obligation - end of year	 <u><u>\$ 33,518,246</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, 2011 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 23,491,900	36.8%	\$ 33,518,246
June 30, 2010	17,510,627	46.7%	18,681,027
June 30, 2009	17,394,700	46.2%	9,351,700

D. Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$274,807,800 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$274,807,800. The covered payroll (annual payroll of active employees covered by the plan) was \$115,098,000, and the ratio of the UAAL to the covered payroll was 239%.

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

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

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, 2011, actuarial valuation, the level percent amortization method was used. The actuarial assumptions included a 4.5% 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, 2011, was 27 years.

15. 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:

	2010	2011
Unpaid claims at beginning of year	\$ 1,895,261	\$ 1,116,691
Incurred claims and claim adjustment expenses	(223,940)	795,047
Claim payments	(554,630)	(733,342)
Unpaid claims at year end	<u>\$ 1,116,691</u>	<u>\$ 1,178,396</u>

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

16. RESTRICTED FUND BALANCE – APPROPRIATED RESERVES

The District has appropriated the following amounts from reserves, which are reported in the June 30, 2011 restricted fund balances, to fund the budget and reduce taxes for the year ending June 30, 2012:

Workers' Compensation	\$ 300,000
Unemployment Insurance	50,000
Retirement Contributions	2,600,000
Employee Benefit Accrued Liability	<u>800,000</u>
	<u>\$ 3,750,000</u>

17. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$4,500,000 has been appropriated to reduce taxes for the year ending June 30, 2012.

18. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2011, the District encumbered the following amounts:

Restricted:	
Capital Projects Fund	
Capital projects	<u>\$ 8,301,074</u>
Assigned: Unappropriated Fund Balance:	
General Fund	
General support	\$ 151,832
Instruction	227,445
Pupil transportation	182
Employee benefits	<u>5,000</u>
	384,459
Capital Projects Fund	
Capital projects	<u>1,648,776</u>
	<u>\$ 10,334,309</u>

B. 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.

C. Litigation

The District is involved in lawsuits arising from the normal conduct of its affairs. Management believes that the outcome of any matters will not have a material effect on these financial statements.

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

D. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$231,844. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 261,192
2013	227,640
2014	187,477
2015	177,201
2016	<u>29,348</u>
	<u><u>\$ 882,858</u></u>

19. SUBSEQUENT EVENTS

On September 27, 2011, the District issued tax anticipation notes in the amount of \$42,000,000, which are due June 28, 2012, and bear interest at an effective net interest rate of 0.25%.

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, 2011

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 159,758,277	\$ 157,077,224	\$ 157,090,852	\$ 13,628
Other tax items	11,800,000	14,481,053	15,013,018	531,965
Charges for services	1,015,000	1,015,000	1,165,837	150,837
Use of money and property	692,100	692,100	352,070	(340,030)
Forfeitures	900	900	3,500	2,600
Sale of property and compensation for loss	80,000	137,141	231,856	94,715
Miscellaneous	550,000	570,337	2,028,619	1,458,282
Interfund revenues	30,000	30,000	49,414	19,414
Total Local Sources	173,926,277	174,003,755	175,935,166	1,931,411
State Sources	24,003,383	24,003,383	23,020,569	(982,814)
Federal Sources	1,692,222	1,692,222	1,716,576	24,354
Medicaid Reimbursement	10,000	10,000		(10,000)
Total Revenues	199,631,882	199,709,360	200,672,311	962,951
OTHER SOURCES				
Operating transfers in			548,211	548,211
Total Revenues and Other Sources	199,631,882	199,709,360	201,220,522	\$ 1,511,162

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, 2011

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 115,608	\$ 115,608	\$ 104,829	\$ 328	\$ 10,451
Central administration	528,196	518,946	504,572	1,361	13,013
Finance	1,558,226	1,546,746	1,518,927	25,575	2,244
Staff	969,862	983,450	944,472		38,978
Central services	14,774,904	14,671,969	13,646,352	124,568	901,049
Special items	2,143,437	2,608,731	2,595,494		13,237
Total General Support	20,090,233	20,445,450	19,314,646	151,832	978,972
Instruction					
Instruction, administration & improvement	7,655,510	7,737,192	7,655,437	6,428	75,327
Teaching - regular school	72,489,741	72,386,422	70,235,588	132,707	2,018,127
Programs for children with handicapping conditions	23,545,275	23,537,775	23,031,584	22,425	483,766
Occupational education	674,730	674,730	667,985		6,745
Teaching - special school	479,560	489,496	469,720	736	19,040
Instructional media	4,799,143	4,805,984	4,581,355	40,544	184,085
Pupil services	10,743,016	10,812,839	10,654,853	24,605	133,381
Total Instruction	120,386,975	120,444,438	117,296,522	227,445	2,920,471
Pupil Transportation	12,626,115	12,965,079	12,895,970	182	68,927
Community Services	90,450	105,284	105,284		-
Employee Benefits	44,778,969	46,228,969	45,494,106	5,000	729,863
Debt Service					
Interest	1,200,000	808,500	97,496		711,004
Total Expenditures	199,172,742	200,997,720	195,204,024	384,459	5,409,237
OTHER USES					
Operating transfers out	9,429,640	9,429,640	8,912,074		517,566
Total Expenditures and Other Uses	208,602,382	210,427,360	204,116,098	\$ 384,459	\$ 5,926,803
Net Change in Fund Balances	(8,970,500)	(10,718,000)	(2,895,576)		
Fund Balances - Beginning of Year	8,970,500	10,718,000	40,402,316		
Fund Balances - End of Year	\$ -	\$ -	\$ 37,506,740		

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)
June 30, 2011

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, 2011	\$ -	\$ 274,807,800	\$ 274,807,800	0%	\$ 115,098,000	239%
January 1, 2010	-	215,083,300	215,083,300	0%	112,142,786	192%
January 1, 2009	-	214,385,800	214,385,800	0%	107,495,233	199%

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
and Use of Assigned: Appropriated and Unassigned Fund Balance - General Fund
For The Year Ended June 30, 2011

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 207,881,882
Additions:	
Prior year's encumbrances	<u>720,500</u>
Original Budget	208,602,382
Budget revisions	<u>1,824,978</u>
Final Budget	<u><u>\$ 210,427,360</u></u>
Next year's budget is a voter-approved budget of	
	<u><u>\$ 215,978,880</u></u>

USE OF ASSIGNED: APPROPRIATED AND UNASSIGNED FUND BALANCE

Assigned: Appropriated and Unassigned Fund Balance -	
As of the beginning of the year	\$ 12,815,277
Less:	
Appropriated fund balance used for	
the levy of taxes - Adopted budget	<u>4,500,000</u>
Unassigned Fund Balance -	
As of the beginning of the year	<u><u>\$ 8,315,277</u></u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund
For The Year Ended June 30, 2011

PROJECT TITLE	Expenditures					Methods of Financing					Fund
	Budget June 30, 2010	Budget June 30, 2011	Prior Years	Current Year	Total	Unexpended Balance	Proceeds of Obligations	Grant Aid	Local Sources	Total	Balance June 30, 2011
Transportation/Maintenance Bldg	\$ 966,668	\$ 956,720	\$ 931,636	\$ 25,084	\$ 956,720	\$ -	\$ -	\$ -	\$ 956,720	\$ 956,720	\$ -
Gas Tank Replacement	257,910	254,010	31,745	222,265	254,010	-	-	-	254,010	254,010	-
PA Library	337,255	296,449	258,344	38,105	296,449	-	-	-	296,449	296,449	-
MA ADA Bathrooms	187,637	187,637	7,537	1,059	8,596	179,041	-	-	187,637	187,637	179,041
SH Paving, Fencing, Playground	412,726	412,726	51,351	291,350	342,701	70,025	-	-	412,726	412,726	70,025
CW Bathroom renovations	281,637	281,637	10,889	-	10,889	270,748	-	-	281,637	281,637	270,748
WH Windows/Doors	785,214	780,896	768,176	-	768,176	12,720	780,896	-	-	780,896	12,720
HSE Bathrooms	873,802	900,888	887,858	13,030	900,888	-	900,888	-	-	900,888	-
District Wide EPC	-	16,400,000	-	7,665,003	7,665,003	8,734,997	15,403,312	996,688	-	16,400,000	8,734,997
Sunquam Roof Replacement	-	782,000	-	35,674	35,674	746,326	-	-	782,000	782,000	746,326
Totals	\$ 4,102,849	\$ 21,252,963	\$ 2,947,536	\$ 8,291,570	\$ 11,239,106	\$ 10,013,857	\$ 17,085,096	\$ 996,688	\$ 3,171,179	\$ 21,252,963	10,013,857
									Unrealized Grant Revenue		(433,924)
									Fund Balance at June 30, 2011		\$ 9,579,933

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Certain Revenues and Expenditures
Compared to ST-3 Data
For The Year Ended June 30, 2011

	<u>Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Real Property Taxes	A -1001	\$ 157,090,852	\$ 157,090,852
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	23,020,569	23,020,569
Federal Aid	AT-4999	1,716,576	1,716,576
Total Revenues	AT-5999	201,220,522	201,220,522
EXPENDITURES			
General Support	AT-1999	19,314,646	19,314,646
Pupil Transportation	AT-5599	12,895,970	12,895,970
Debt Service - Principal	AT-9798.6	-	-
Debt Service - Interest	AT-9798.7	97,496	97,496
Total Expenditures	AT-9999	204,116,098	204,116,098

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Investment in Capital Assets, Net of Related Debt
For The Year Ended June 30, 2011

Capital assets, net	<u>\$ 131,225,581</u>
Add:	
Unamortized bond issuance costs	<u>109,776</u>
Deduct:	
Short-term portion of bonds payable	(4,550,000)
Long-term portion of bonds payable	(62,980,000)
Short-term portion of installment purchase debt	(155,226)
Long-term portion of installment purchase debt	(15,248,086)
Less:	
Unspent debt proceeds	<u>8,313,794</u>
	<u>(74,619,518)</u>
Investment in capital assets, net of related debt	<u><u>\$ 56,715,839</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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Half Hollow Hills Central School District is responsible for establishing and maintaining effective 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 17, 2011.

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 17, 2011