



FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULES WITH  
INDEPENDENT AUDITORS' REPORTS

June 30, 2007

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT  
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**INDEPENDENT AUDITORS' 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, as of and for the year ended June 30, 2007, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund as well as the fiduciary funds of the Half Hollow Hills Central School District, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2007, on our consideration of the Half Hollow Hills Central School District's internal control over financial reporting and 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 read in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 10 and 33, respectively are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The other supplementary information on pages 34 through 39 is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the other supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the Half Hollow Hills Central School District basic financial statements. The accompanying summary schedule of prior findings and corrective action plan are presented for purposes of additional analysis as required by *Government Auditing Standards*, and are not a required part of the basic financial statements of Half Hollow Hills Central School District. The summary schedule of prior findings and corrective action plan have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Coughlin, Fortunato, Cullen, & Demowski, LLP*

September 26, 2007

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

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**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.

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.

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

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 increased by \$7,546,885 between fiscal year 2006 and 2007. A summary of the District's Statement of Net Assets for June 30, 2007 and 2006 is as follows:

	2007	2006	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 53,723,388	\$ 51,507,668	\$ 2,215,720	4.30%
Capital Assets	125,228,394	122,012,415	3,215,979	2.64%
Total Assets	178,951,782	173,520,083	5,431,699	3.13%
Long-Term Liabilities Outstanding	99,913,163	103,571,134	(3,657,971)	(3.53)%
Other Liabilities	10,326,276	8,783,491	1,542,785	17.56%
Total Liabilities	110,239,439	112,354,625	(2,115,186)	(1.88)%
Net Assets				
Invested in Capital Assets, Net of Related Debt	46,074,325	45,669,570	404,755	0.89%
Unrestricted	22,638,018	15,495,888	7,142,130	46.09%
Total Net Assets	\$ 68,712,343	\$ 61,165,458	\$ 7,546,885	12.34%

At June 30, 2007, the District's net assets are \$68,712,343.

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 unrestricted net assets at June 30, 2007, were \$22,638,018. The increase over the prior year is primarily due to the District's operating profit for the 2007 fiscal year.

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

**B. Changes in Net Assets**

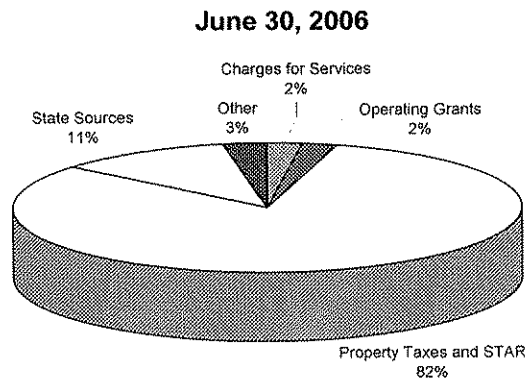
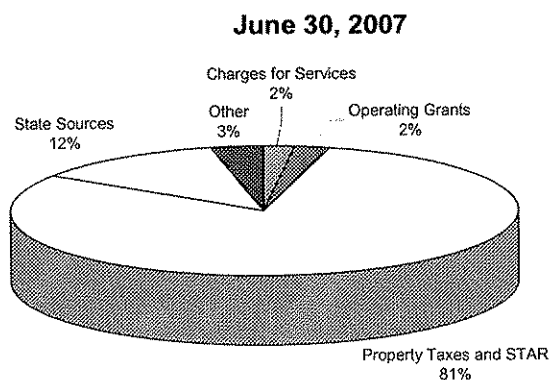
The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2007 and 2006 is as follows:

	2007	2006	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 3,509,620	\$ 3,805,881	\$ (296,261)	-7.78%
Operating Grants	4,395,146	4,333,067	62,079	1.43%
General Revenues				
Property Taxes and STAR	151,986,509	144,873,107	7,113,402	4.91%
State Sources	22,816,094	19,888,125	2,927,969	14.72%
Other	6,512,155	4,816,075	1,696,080	35.22%
Total Revenues	<u>189,219,524</u>	<u>177,716,255</u>	<u>11,503,269</u>	6.47%
<b>Expenses</b>				
General Support	20,314,194	17,798,849	2,515,345	14.13%
Instruction	141,268,282	132,485,352	8,782,930	6.63%
Transportation	11,804,833	11,086,472	718,361	6.48%
Community Service	161,223	152,507	8,716	5.72%
Debt Service	5,305,080	5,072,301	232,779	4.59%
Cost of School Lunch Program	2,819,027	2,816,740	2,287	0.08%
Total Expenses	<u>181,672,639</u>	<u>169,412,221</u>	<u>12,260,418</u>	7.24%
Increase in Net Assets	<u>\$ 7,546,885</u>	<u>\$ 8,304,034</u>	<u>\$ (757,149)</u>	-9.12%

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, 2007, the profit was \$7,546,885 compared to \$8,304,034 from the prior year. Revenues increased by 6.47% while expense increased by 7.24%.

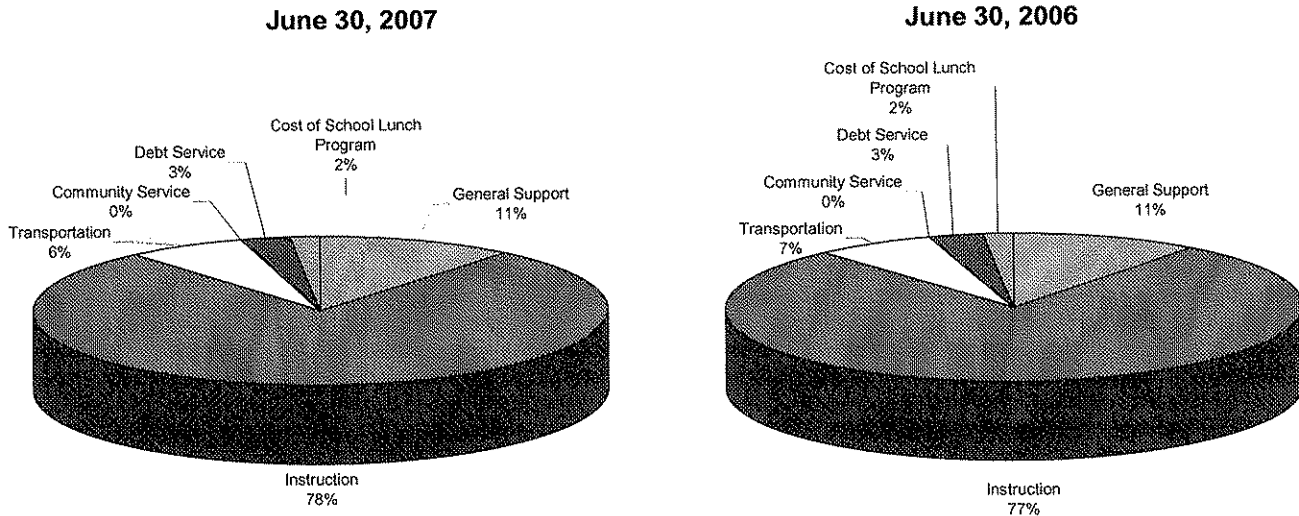
As indicated on the pie charts that follow, property taxes and STAR are the largest component of revenues recognized (i.e., 81% and 82% of the total for the years ended June 30, 2007 and 2006, respectively). Instructional expenses are the largest category of expenses incurred (i.e., 78% and 77% of the total for the years ended June 30, 2007 and 2006, respectively). The pie charts demonstrate that the components of revenues and expenses are effectively the same for both years.

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



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

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



#### 4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2007, the District's governmental funds reported a combined fund balance of \$43,911,012 which is an increase of \$491,145 over the prior year. The net increase is primarily attributable to an increase in the general fund total fund balance of \$6,832,579, due to an excess of revenues over expenditures, offset by capital outlay in the capital projects and the use of the debt reserve to offset debt service payments.

	2007	2006	Changes
<b>General Fund</b>			
Reserve for:			
Encumbrances	\$ 668,405	\$ 903,983	\$ (235,578)
Workers' Compensation	2,232,213	1,367,762	864,451
Unemployment Insurance	274,748	264,703	10,045
Employee Benefit Accrued Liability	12,545,193	10,998,180	1,547,013
Property Loss	459,404	459,404	-
Liability	299,999	299,999	-
Retirement Contribution	4,923,665	2,323,665	2,600,000
Unreserved - Designated for subsequent year's expenditures	2,500,000	2,500,000	-
Unreserved - Undesignated	5,637,419	3,590,771	2,046,648
	<u>29,541,046</u>	<u>22,708,467</u>	<u>6,832,579</u>
<b>School Lunch Fund</b>			
Reserve for Inventory	57,585	52,964	4,621
Unreserved - Undesignated	267,244	246,464	20,780
	<u>324,829</u>	<u>299,428</u>	<u>25,401</u>
<b>Debt Service Fund</b>			
Reserve for Debt Service	190,521	2,613,057	(2,422,536)
<b>Capital Projects Fund</b>			
Reserve for Encumbrances	7,842,566	2,170,152	5,672,414
Unreserved - Undesignated	6,012,050	15,628,763	(9,616,713)
	<u>13,854,616</u>	<u>17,798,915</u>	<u>(3,944,299)</u>
<b>Total Fund Balance</b>	<u>\$ 43,911,012</u>	<u>\$ 43,419,867</u>	<u>\$ 491,145</u>



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

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**A. General Fund**

The net change in the general fund – fund balance is an increase of \$6,832,579. The principal contributing factors to this increase were an increase in the District's investment income and cost savings realized in the budget.

**B. School Lunch Fund**

The net change in the school lunch fund – fund balance increased by \$25,401. The results of operations were consistent with the prior year.

**C. Debt Service Fund**

The net change in the debt service fund – fund balance decreased by \$2,422,536. The District used this amount to offset current year debt payments.

**D. Capital Projects Fund**

The net change in the capital projects fund – fund balance decreased by \$3,944,299, due to expenditures incurred during the year on capital projects amounting to \$8,026,299. These expenditures were offset by a transfer from the general fund in the amount of \$4,082,000.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2006-07 Budget**

The District's general fund adopted budget for the year ended June 30, 2007 was \$179,538,585. This amount was increased by encumbrances carried forward from the prior year in the amount of \$903,983 and a budget revision for \$90,000, for a total final budget of \$180,532,568.

The budget was funded through a combination of estimated revenues and designated fund balance. The majority of this funding source was \$152,920,447 in estimated property taxes and STAR.

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

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

Opening, Unreserved - Undesignated Fund Balance	\$ 3,590,771
Revenues Over Budget	4,783,816
Expenditures and Encumbrances Under Budget	4,784,341
Net Transfers to Reserves	(5,021,509)
Appropriated for June 30, 2008 Budget	<u>(2,500,000)</u>
Closing, Unreserved - Undesignated Fund Balance	<u>\$ 5,637,419</u>

Opening, Unreserved - Undesignated Fund Balance

The \$3,590,771 shown in the table is the portion of the District's June 30, 2006 fund balance that was retained as undesignated. This was 2% of the District's 2006-07 approved operating budget of \$179,538,585. It is the maximum undesignated fund balance permitted by law for a district in New York State, and is generally regarded as a positive financial management indicator.

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

Revenues Over Budget

The District recognized revenue in the amount of \$181,912,401, which was \$4,783,816 more than the amount budgeted. This positive variance was principally due to an increase in investment earnings and miscellaneous income.

Expenditures and Encumbrances under Budget

The District incurred expenditures and encumbrances of \$175,748,227, which was \$4,784,341 less than budgeted. This positive variance was approximately 2.6% of the total expenditure budget and was principally due to cost savings in instructional expenditures and employee benefits.

Net Transfers to Reserves

The net transfers to reserves in the amount of \$5,021,509 increased the balances in the reserves for workers' compensation, unemployment insurance, employee benefit accrued liability and retirement contributions.

Appropriated Fund Balance

The District has chosen to use \$2,500,000 of the available June 30, 2007 fund balance to partially fund the 2007-08 approved operating budget. As such, the undesignated portion of the June 30, 2007 fund balance must be reduced by this amount.

Closing, Unreserved - Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2007-08 fiscal year with an undesignated fund balance of \$5,637,419. This is an increase of \$2,046,648 over the undesignated balance from the prior year as of June 30, 2006. This undesignated portion is at the permissible 3% statutory maximum and is an indicator of stability in the District's management of the undesignated general fund fund balance.

**6. CAPITAL ASSET AND DEBT ADMINISTRATION**

**A. Capital Assets**

At June 30, 2007, the District had invested in a broad range of capital assets, including land, buildings and improvements and equipment. A summary of the District's capital assets, net of depreciation at June 30, 2007 and 2006 is as follows:

	2007	2006	Increase (Decrease)
Land	\$ 2,629,860	\$ 2,629,860	\$ -
Construction in progress	7,804,819		7,804,819
Buildings and improvements	106,636,020	110,991,514	(4,355,494)
Site improvements	2,853,237	2,957,866	(104,629)
Vehicle	1,215,703	1,227,630	(11,927)
Furniture and equipment	4,088,755	4,205,545	(116,790)
Capital assets, net	<u>\$ 125,228,394</u>	<u>\$ 122,012,415</u>	<u>\$ 3,215,979</u>

The District is continuing to make significant capital additions resulting from a March 2000 voter-approved \$95,000,000 bond authorization for facilities expansion and improvement necessitated by student enrollment increases and program enhancements. At June 30, 2007, the District had expended approximately 93% of the authorization and the construction is on-going.

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

**B. Debt Administration**

At June 30, 2007, the District had total bonds payable of \$84,710,000. 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, 2007 and 2006 is as follows:

Issue Date	Interest Rate	2007	2006	Increase (Decrease)
1999	4.00% - 4.10%	\$ 2,400,000	\$ 3,200,000	\$ (800,000)
2001	4.25% - 5.00%	6,600,000	27,200,000	(20,600,000)
2003	3.50% - 4.375%	14,200,000	14,810,000	(610,000)
2004	3.50% - 4.25%	18,530,000	19,280,000	(750,000)
2005	4.00% - 4.75%	24,570,000	25,500,000	(930,000)
2007	3.778% - 4.350%	18,410,000		18,410,000
		<u>\$ 84,710,000</u>	<u>\$ 89,990,000</u>	<u>\$ (5,280,000)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. 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 15, 2007, for the year ending June 30, 2008, is \$187,913,969. This is an increase of \$8,375,384 or 4.7% over the previous year's budget.

The District budgeted revenues other than property taxes and STAR at a \$4,565,089 increase over the prior year's estimate. This increase is principally due to an estimated increase in state aid. Additionally, the designated fund balance applied to the June 30, 2008 budget in the amount of \$2,500,000 which was the same as the prior year. An increase of 3.65% in property taxes and STAR was needed to cover the increase in projected expenditures.

**8. CONTACTING THE DISTRICT**

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

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

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Statement of Net Assets**  
June 30, 2007

**ASSETS**

Cash	\$ 47,961,660
Receivables	
Accounts receivable	188,969
Due from other funds	6,324
Due from other governments	3,756,322
Deferred expenditures, net	1,752,528
Inventories	57,585
Capital assets, net	<u>125,228,394</u>
 Total Assets	 <u><u>\$ 178,951,782</u></u>

**LIABILITIES**

Payables	\$ 1,158,366
Accounts payable	835,035
Accrued liabilities	722
Due to other governments	7,709,909
Due to teachers' retirement system	573,098
Due to employees' retirement system	
Deferred credits	
Deferred revenues	49,146
Long-term liabilities	
Due and payable within one year	
Bonds payable	4,619,567
Compensated absences payable	1,030,000
Judgements and claims payable	511,550
Due and payable after one year	
Bonds payable	80,695,924
Compensated absences payable	11,881,546
Judgements and claims payable	<u>1,174,576</u>
 Total Liabilities	 <u><u>110,239,439</u></u>

**NET ASSETS**

Investment in capital assets, net of related debt	46,074,325
Unrestricted	<u>22,638,018</u>
 Total Net Assets	 <u><u>68,712,343</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 178,951,782</u></u>

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**

**Statement of Activities**

For The Year Ended June 30, 2007

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants	
<b>PROGRAMS/FUNCTIONS</b>				
General support	\$ 20,314,194	\$	\$	\$ (20,314,194)
Instruction	141,268,282	1,297,195	3,802,092	(136,168,995)
Pupil transportation	11,804,833			(11,804,833)
Community service	161,223			(161,223)
Debt service - interest	5,305,080			(5,305,080)
School lunch program	2,819,027	2,212,425	593,054	(13,548)
Total Functions and Programs	<u>\$ 181,672,639</u>	<u>\$ 3,509,620</u>	<u>\$ 4,395,146</u>	<u>(173,767,873)</u>
<b>GENERAL REVENUES</b>				
Real property taxes				141,388,883
Other tax items				12,091,308
Use of money and property				3,864,086
Sale of property and compensation for loss				147,483
Miscellaneous				990,800
State sources				22,816,094
Medicaid reimbursement				16,104
Total General Revenues				<u>181,314,758</u>
Change in Net Assets				7,546,885
Total Net Assets - Beginning of year				<u>61,165,458</u>
Total Net Assets - End of year				<u>\$ 68,712,343</u>

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2007

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash	\$ 33,417,844	\$ 6,872	\$ 284,168	\$ 137,519	\$ 14,115,257	\$ 47,961,660
Receivables						188,969
Accounts receivable	184,822		4,147			1,417,075
Due from other funds	1,363,347		634	53,094		3,756,322
Due from other governments	2,560,091	1,160,026	36,205			1,598,863
Deferred expenditures, net	1,598,863					57,585
Inventories			57,585			
<b>Total Assets</b>	<u>\$ 39,124,967</u>	<u>\$ 1,166,898</u>	<u>\$ 382,739</u>	<u>\$ 190,613</u>	<u>\$ 14,115,257</u>	<u>\$ 54,980,474</u>
<b>LIABILITIES</b>						
Payables						1,158,366
Accounts payable	\$ 1,149,353	\$	\$ 9,013	\$	\$	167,470
Accrued liabilities	151,561	10,242	5,667			1,410,751
Due to other funds		1,131,880	18,138	92	260,641	722
Due to other governments			722			7,709,909
Due to teachers' retirement system	7,709,909					573,098
Due to employees' retirement system	573,098					
Deferred credits						49,146
Deferred revenues		24,776	24,370			
<b>Total Liabilities</b>	<u>9,583,921</u>	<u>1,166,898</u>	<u>57,910</u>	<u>92</u>	<u>260,641</u>	<u>11,069,462</u>
<b>FUND BALANCES</b>						
Reserved for encumbrances	668,405				7,842,566	8,510,971
Reserved for:						2,232,213
Workers' compensation	2,232,213					274,748
Unemployment insurance	274,748					12,545,193
Employee benefit accrued liability	12,545,193					459,404
Property loss	459,404					299,999
Liability	299,999					4,923,665
Retirement contribution	4,923,665					57,585
Inventory			57,585			190,521
Debt service				190,521		
Unreserved - Designated for subsequent year's expenditures	2,500,000					2,500,000
Unreserved - Undesignated	5,637,419		267,244		6,012,050	11,916,713
<b>Total Fund Balances</b>	<u>29,541,046</u>	<u>-</u>	<u>324,829</u>	<u>190,521</u>	<u>13,854,616</u>	<u>43,911,012</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 39,124,967</u>	<u>\$ 1,166,898</u>	<u>\$ 382,739</u>	<u>\$ 190,613</u>	<u>\$ 14,115,257</u>	<u>\$ 54,980,474</u>

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
June 30, 2007

Total Governmental Fund Balances \$ 43,911,012

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

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	199,582,669	
Accumulated depreciation	<u>(74,354,275)</u>	125,228,394

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	156,410	
Accumulated amortization	<u>(2,745)</u>	153,665

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

Bonds payable	(85,315,491)	
Accrued interest on bonds payable	(667,565)	
Accrued workers' compensation	(1,686,126)	
Compensated absences	<u>(12,911,546)</u>	(100,580,728)

Total Net Assets		<u><u>\$ 68,712,343</u></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, 2007

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$ 141,388,883	\$	\$	\$	\$	\$ 141,388,883
Other tax items	12,091,308					12,091,308
Charges for services	1,297,195					1,297,195
Use of money and property	3,155,699		11,379	697,008		3,864,086
Sale of property and compensation for loss	147,483					147,483
Miscellaneous	960,119	10,138	2,601			972,858
State sources	22,816,094	913,751	59,470			23,789,315
Medicaid reimbursement	16,104					16,104
Federal sources		2,878,203	437,190			3,315,393
Surplus food			96,394			96,394
Sales - school lunch			2,209,824			2,209,824
<b>Total Revenues</b>	<b>181,872,885</b>	<b>3,802,092</b>	<b>2,816,858</b>	<b>697,008</b>	<b>-</b>	<b>189,188,843</b>
<b>EXPENDITURES</b>						
General support	16,770,935					16,770,935
Instruction	99,171,297	3,646,731				102,818,028
Pupil transportation	10,483,493	303,497				10,786,990
Community service	76,413					76,413
Employee benefits	37,294,133		231,397			37,525,530
Debt service				4,880,000		4,880,000
Principal				3,541,291		5,263,666
Interest	1,722,375			156,410		2,716,470
Cost of sales			2,560,060			2,560,060
Capital outlay					8,026,299	8,026,299
<b>Total Expenditures</b>	<b>165,518,646</b>	<b>3,950,228</b>	<b>2,791,457</b>	<b>8,577,701</b>	<b>8,026,299</b>	<b>188,864,331</b>
Excess (Deficiency) of Revenues Over Expenditures	16,354,239	(148,136)	25,401	(7,880,693)	(8,026,299)	324,512
<b>OTHER FINANCING SOURCES AND (USES)</b>						
Proceeds from debt				18,600,000		18,600,000
Premium on obligations				1,748,791		1,748,791
Payment in escrow agent				(20,182,158)		(20,182,158)
Operating transfers in	39,516	187,652		5,291,524	4,082,000	9,600,692
Operating transfers (out)	(9,561,176)	(39,516)				(9,600,692)
<b>Total Other Financing Sources and (Uses)</b>	<b>(9,521,660)</b>	<b>148,136</b>	<b>-</b>	<b>5,458,157</b>	<b>4,082,000</b>	<b>166,633</b>
<b>Net Change in Fund Balances</b>	<b>6,832,579</b>	<b>-</b>	<b>25,401</b>	<b>(2,422,536)</b>	<b>(3,944,299)</b>	<b>491,145</b>
Fund Balances - Beginning of year	22,708,467	-	299,428	2,613,057	17,798,915	43,419,867
Fund Balances - End of year	\$ 29,541,046	\$ -	\$ 324,829	\$ 190,521	\$ 13,854,616	\$ 43,911,012



**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, 2007

Net Change in Fund Balances \$ 491,145

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 expenses - compensated absences (vacations and sick days) and workers' compensation claims - are measured by the amounts earned or incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

(1,016,538)

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 exceed depreciation in the period.

Capital outlays	\$ 9,282,971	
Depreciation expense	(6,066,992)	
		3,215,979

Long-Term Debt Transaction Differences

Proceeds from the issuance of bonds, premiums on obligations and payments in the escrow agent are recorded as revenues and expenditures in the governmental funds but are reflected in the Statement of Net Assets and do not affect the Statement of Activities.

Activity related to bond refinancing	(18,600,000)	
Proceeds from debt issuance	(1,748,791)	
Premiums on obligations	156,410	
Costs of closing	20,182,158	
Payments in escrow agent		(10,223)

Amortization of deferred bond costs, net of premiums received related to the bond refinancing is recorded as an expenditure in the Statement of Activities. (41,603)

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. 4,880,000

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 decreased from June 30, 2006 to June 30, 2007. 28,125

Change in Net Assets of Governmental Activities \$ 7,546,885

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets -**  
**Fiduciary Funds**  
June 30, 2007

	<u>Agency</u>	<u>Private Purpose Trust</u>
<b>ASSETS</b>		
Cash	\$ 894,894	\$ 406,444
Due from other governments	<u>14,295</u>	
Total Assets	<u>\$ 909,189</u>	<u>\$ 406,444</u>
 <b>LIABILITIES</b>		
Extraclassroom activity balances	\$ 265,207	\$
Due to other funds	6,324	
Other liabilities	<u>637,658</u>	
Total Liabilities	<u>\$ 909,189</u>	-
 <b>NET ASSETS</b>		
Reserved for scholarships		<u>406,444</u>
Total Liabilities and Net Assets		<u>\$ 406,444</u>

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Assets -**  
**Fiduciary Funds**  
For The Year Ended June 30, 2007

	Private Purpose Trust
<b>ADDITIONS</b>	
Contributions	\$ 28,051
Investment earnings	
Interest	<u>18,644</u>
Total Additions	<u>46,695</u>
 <b>DEDUCTIONS</b>	
Scholarships and awards	<u>24,200</u>
Change in Net Assets	22,495
Net Assets - Beginning of year	<u>383,949</u>
Net Assets - End of Year	<u><u>\$ 406,444</u></u>

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**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.

**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 one of 18 component school districts 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)

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**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:

**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.

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

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**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, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**E. Real Property Taxes**

Calendar

Real property taxes are levied annually by the Board no later than October 15<sup>th</sup> and become a lien on December 1<sup>st</sup>. 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. 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, expenditures and revenues activity is provided subsequently in these Notes to Financial Statements.

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

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**G. 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 computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

**H. Cash and Cash Equivalents/Investments**

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.

Investments are reported at fair value, based on quoted market prices.

**I. Accounts Receivable**

Accounts receivable are shown gross. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

**J. Inventories and Prepaid Items**

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis or in the case of surplus food donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. A reserve for inventory has been recognized to indicate that this does not constitute available spendable resources.

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

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.

**K. 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:

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

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

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**L. Deferred Revenue**

Deferred revenue arises 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.

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

**M. 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.

**N. 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 post-employment 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. Survivors of retired employees reimburse the District for 100% of the cost. 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.

**O. 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.



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

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**P. 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 in one year or due within more than one year in the Statement of Net Assets.

**Q. Equity classifications**

District-wide statements

In the District-wide statements there are two 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.

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

Fund Statements

Unreserved fund balance consists of two classifications. A designation of unreserved fund balance indicates the planned use of these resources in the subsequent year's budget. The undesignated portion reports remaining fund balance that has not been designated or reserved. NYS Real Property Tax Law 1318, as recently amended with an effective date of July 1, 2007, restricts the unreserved, undesignated fund balance of the general fund to an amount not greater than 3% of the 2007-08 budget and 4% of the 2008-09 budget for June 30, 2007 and June 30, 2008, respectively.

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. These reserve funds are established through Board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund. Fund balance reserves currently in use by the District include the following:

*Reserve for Encumbrances*

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

*Workers' Compensation Reserve*

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

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

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*Unemployment Insurance Reserve*

Unemployment insurance reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. The reserve is accounted for in the general fund.

*Employee Benefit Accrued Liability Reserve*

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

*Property Loss Reserve and Liability Reserve*

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

*Retirement Contribution Reserve*

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

*Reserve for Inventory*

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

*Reserve for Debt Service*

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

*Reserve for Scholarships*

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

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

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**2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE DISTRICT-WIDE STATEMENTS**

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

**A. Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities**

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

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

Differences between the 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 for 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 both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

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

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. During the year, the Board of Education approved a supplemental appropriation in the amount of \$90,000 for playground equipment and improvements.

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

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Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

**B. Encumbrances**

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as reservations of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

**4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

The District's investment policies are governed by state statutes and District policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its Agencies and obligations of New York State and its municipalities. Investments are stated at fair value.

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

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

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

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

**5. PARTICIPATION IN BOCES**

During the year ended June 30, 2007, the District was billed \$6,212,997 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$782,334. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, Dix Hills, NY 11746.

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

**6. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2007 consisted of:

General Fund	
New York State Aid - general aid	\$ 249,750
New York State Aid - excess cost aid	650,217
BOCES aid	350,132
Other districts - charges for services	483,401
BOCES credit due	13,677
Payment in lieu of taxes	812,914
	<u>2,560,091</u>
Special Aid Fund	
State and federal grants	1,160,026
School Lunch Fund	
State and federal food service program reimbursements	<u>36,205</u>
	<u><u>\$ 3,756,322</u></u>

**7. CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2007 were as follows:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,629,860	\$	\$	\$ 2,629,860
Construction in progress		7,804,819		7,804,819
Total capital assets not being depreciated	<u>2,629,860</u>	<u>7,804,819</u>		<u>10,434,679</u>
Capital assets being depreciated				
Buildings and improvements	173,995,348	10,114,753	(10,383,382)	173,726,719
Site improvements	3,908,305	87,233		3,995,538
Vehicles	2,771,989	284,211		3,056,200
Furniture and equipment	7,605,394	1,106,708	(342,569)	8,369,533
Total capital assets being depreciated	<u>188,281,036</u>	<u>11,592,905</u>	<u>(10,725,951)</u>	<u>189,147,990</u>
Less accumulated depreciation for:				
Buildings and improvements	63,003,834	4,460,104	(373,239)	67,090,699
Site improvements	950,439	191,862		1,142,301
Vehicles	1,544,359	296,138		1,840,497
Furniture and equipment	3,399,849	1,118,888	(237,959)	4,280,778
Total accumulated depreciation	<u>68,898,481</u>	<u>6,066,992</u>	<u>(611,198)</u>	<u>74,354,275</u>
Capital assets, net	<u><u>\$ 122,012,415</u></u>	<u><u>\$ 13,330,732</u></u>	<u><u>\$ (10,114,753)</u></u>	<u><u>\$ 125,228,394</u></u>

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

Depreciation expense was charged to governmental functions as follows:

General support	\$ 252,258
Instruction	5,333,056
Pupil transportation	373,707
Community service	55,380
School lunch program	52,591
Total depreciation expense	<u>\$ 6,066,992</u>

**8. INTERFUND TRANSACTIONS**

Interfund balances and activities at June 30, 2007, are as follows:

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	\$ 1,363,347	\$	\$ 39,516	\$ 9,561,176
Special Aid Fund		1,131,880	187,652	39,516
School Lunch Fund	634	18,138		
Debt Service Fund	53,094	92	5,291,524	
Capital Projects Fund		260,641	4,082,000	
Fiduciary Fund		6,324		
Total	<u>\$ 1,417,075</u>	<u>\$ 1,417,075</u>	<u>\$ 9,600,692</u>	<u>\$ 9,600,692</u>

The District typically transfers from the general fund to the special aid fund and the capital projects fund in accordance with the general fund budget.

**9. SHORT-TERM DEBT**

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

	Maturity	Interest Rate	Balance June 30, 2006	Issued	Redeemed	Balance June 30, 2007
TAN	6/29/07	3.69 - 4.50%	\$	\$ 48,000,000	\$ (48,000,000)	\$

Interest on short-term debt for the year was \$1,722,375.

**10. LONG-TERM LIABILITIES**

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

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 89,990,000	\$ 18,600,000	\$ (23,880,000)	\$ 84,710,000	\$ 4,775,000
Add: Deferred amounts on refunding			605,491	605,491	(155,433)
	<u>89,990,000</u>	<u>18,600,000</u>	<u>(23,274,509)</u>	<u>85,315,491</u>	<u>4,619,567</u>
Other long-term liabilities:					
Compensated absences	12,405,177	506,369		12,911,546	1,030,000
Judgements and claims	1,175,957	984,090	(473,921)	1,686,126	511,550
	<u>\$ 103,571,134</u>	<u>\$ 20,090,459</u>	<u>\$ (23,748,430)</u>	<u>\$ 99,913,163</u>	<u>\$ 6,161,117</u>

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

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

Bonds payable are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2007
Serial Bonds				
Sunquam construction	1999	2010	4.00% - 4.10%	\$ 2,400,000
District-wide construction	2001	2021	4.25% - 5.00%	6,600,000
District-wide construction	2003	2023	3.50% - 4.375%	14,200,000
District-wide construction	2004	2024	3.50% - 4.25%	18,530,000
District-wide construction	2005	2025	4.00% - 4.75%	24,570,000
District-wide construction	2007	2021	3.778% - 4.350%	18,410,000
				<u>\$ 84,710,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 4,775,000	\$ 3,603,086	\$ 8,378,086
2009	4,870,000	3,410,636	8,280,636
2010	5,075,000	3,214,449	8,289,449
2011	4,375,000	3,026,386	7,401,386
2012	4,425,000	2,850,330	7,275,330
2013-2017	24,675,000	11,270,063	35,945,063
2018-2022	26,965,000	5,426,277	32,391,277
2023-2025	9,550,000	679,919	10,229,919
Total	<u>\$ 84,710,000</u>	<u>\$ 33,481,146</u>	<u>\$ 118,191,146</u>

On March 27, 2007, the District issued \$18,600,000 in general obligation bonds with an average interest rate of 4.00 – 5.00% to advance refund \$19,000,000 of outstanding serial bonds with an average interest rate of 4.25 – 5.00%. The net proceeds of \$20,182,158 (after payment of \$156,410 in underwriting fees, insurance and other issuance costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements. The economic gain (loss) on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$595,056. The outstanding principal balance of the defeased bonds is \$19,000,000 at June 30, 2007.

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

Interest paid	\$ 3,541,291
Less interest accrued in the prior year	(695,690)
Plus interest accrued in the current year	667,565
Plus amortization of closing costs	<u>69,539</u>
Total	<u>\$ 3,582,705</u>

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

**11. PENSION PLANS**

**A. General Information**

The District participates in the New York State Teachers' Retirement System (NYSTRS) and the New York State and Local Employees' Retirement System (NYSERS). These are cost-sharing multiple employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

**B. Provisions and Administration**

Teachers' Retirement System

The NYSTRS is administered by the New York State Teachers' Retirement Board. The System provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the state of New York. The NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

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

**C. Funding Policies**

The Systems are noncontributory for the employee except for those who joined the Systems after July 27, 1976 with less than ten years of credited service, who contribute 3% of their salary. 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>
2007	\$ 6,340,247	\$ 2,016,912
2006	5,755,211	1,972,650
2005	3,922,090	2,128,264

**12. POST-EMPLOYMENT BENEFITS**

The District provides post-employment health insurance coverage to retired employees in accordance with the provisions of various employment contracts.

The District recognizes the cost of providing health insurance annually as expenditures in the general fund of the funds financial statements as payments are made. Post-employment benefits paid during the year aggregated approximately \$7,293,000 for 894 former employees.



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

**13. RISK MANAGEMENT**

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

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

	2006	2007
Unpaid claims at beginning of year	\$ 801,367	\$ 1,175,957
Incurred claims and claim adjustment expenses	956,175	984,090
Claim payments	(581,585)	(473,921)
Unpaid claims at year end	<u>\$ 1,175,957</u>	<u>\$ 1,686,126</u>

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

The amount of \$2,500,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2008.

**15. COMMITMENTS AND CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**C. Operating Leases**

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$257,054. The minimum remaining operating lease payments are as follows:

Fiscal Year Ending June 30,	Amount
2008	\$ 292,289
2009	285,355
2010	217,487
	<u>\$ 795,131</u>

**16. SUBSEQUENT EVENTS**

On August 2, 2007, the District issued tax anticipation notes in the amount of \$43,000,000, which are due June 30, 2008 and bear interest at rates ranging from 3.69 – 4.25%.

**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, 2007**

	Original Budget	Final Budget	Actual		Final Budget Variance with Actual
<b>REVENUES</b>					
Local Sources					
Real property taxes	\$ 142,920,447	\$ 141,388,023	\$ 141,388,883		\$ 860
Other tax items	10,800,000	11,397,626	12,091,308		693,682
Charges for services	646,500	646,500	1,297,195		650,695
Use of money and property	936,000	900,000	3,155,699		2,255,699
Sale of property and compensation for loss			147,483		147,483
Miscellaneous	200,000	326,000	960,119		634,119
Interfund revenues	10,000	10,000			(10,000)
Total Local Sources	155,512,947	154,668,149	159,040,687		4,372,538
State Sources	21,515,638	22,450,436	22,816,094		365,658
Medicaid Reimbursement	10,000	10,000	16,104		6,104
Total Revenues	177,038,585	177,128,585	181,872,885		4,744,300
OTHER SOURCES					
Operating transfers in			39,516		39,516
Total Revenues and Other Sources	177,038,585	177,128,585	181,912,401		\$ 4,783,816
				Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
<b>EXPENDITURES</b>					
General Support					
Board of education	\$ 84,123	\$ 108,922	\$ 105,374	\$ 131	\$ 3,417
Central administration	464,855	496,719	482,748	1,092	12,879
Finance	1,313,202	1,339,716	1,293,046	27,785	18,885
Staff	1,011,841	1,002,617	813,379	33,690	155,548
Central services	13,391,823	13,459,444	12,519,037	73,741	866,666
Special items	1,480,368	1,557,351	1,557,351		-
Total General Support	17,746,212	17,964,769	16,770,935	136,439	1,057,395
Instruction					
Instruction, administration & improvement	7,090,314	7,113,511	6,892,178	22,425	198,908
Teaching - regular school	62,301,525	61,230,848	60,453,291	111,285	666,272
Programs for children with handicapping conditions	17,956,818	17,768,639	17,436,571	163,396	168,672
Occupational education	587,664	587,664	573,400		14,264
Teaching - special school	473,258	479,982	439,406	3,296	37,280
Instructional media	4,223,805	4,274,043	3,880,958	193,546	199,539
Pupil services	9,148,991	9,527,369	9,495,493	25,042	6,834
Total Instruction	101,782,375	100,982,056	99,171,297	518,990	1,291,769
Pupil Transportation	10,881,629	10,700,798	10,483,493	12,976	204,329
Community Services	68,900	80,900	76,413		4,487
Employee Benefits	38,700,859	39,507,452	37,294,133		2,213,319
Debt Service					
Principal	8,491,524		-		-
Interest	1,735,417	1,735,417	1,722,375		13,042
Total Debt Service	10,226,941	1,735,417	1,722,375	-	13,042
Total Expenditures	179,406,916	170,971,392	165,518,646	668,405	4,784,341
OTHER USES					
Operating transfers out	1,035,652	9,561,176	9,561,176		-
Total Expenditures and Other Uses	180,442,568	180,532,568	175,079,822	\$ 668,405	\$ 4,784,341
Net Change in Fund Balances	(3,403,983)	(3,403,983)	6,832,579		
Fund Balances - Beginning of Year	3,403,983	3,403,983	22,708,467		
Fund Balances - End of Year	\$ -	\$ -	\$ 29,541,046		

**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**  
**Schedules of Change from Adopted Budget to Final Budget**  
**And Use of Unreserved Fund Balance - General Fund**  
**For The Year Ended June 30, 2007**

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

Adopted Budget	\$ 179,538,585
Additions:	
Prior year's encumbrances	<u>903,983</u>
Original Budget	\$ 180,442,568
Budget revisions	<u>90,000</u>
Final Budget	<u><u>\$ 180,532,568</u></u>

Next year's budget is a voter-approved budget of	<u><u>\$ 187,913,969</u></u>
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**USE OF UNRESERVED FUND BALANCE**

Unreserved Fund Balance -	
As of the beginning of the year	\$ 6,090,771
Less:	
Designated fund balance used for	
the levy of taxes - Adopted budget	<u>2,500,000</u>
Undesignated Fund Balance -	
As of the beginning of the year	<u><u>\$ 3,590,771</u></u>

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Schedule of Project Expenditures -**  
**Capital Projects Fund**  
For The Year Ended June 30, 2007

PROJECT TITLE	Budget June 30, 2006	Budget June 30, 2007	Expenditures		Unexpended Balance	Methods of Financing			Fund Balance June 30, 2007
			Prior Years	Current Year		Proceeds of Obligations	State Aid	Local Sources	
1998 - 99 Projects	\$ 36,000	\$ 40,237	\$ 36,000	\$ -	\$ 4,237	\$ 40,237	\$ -	\$ -	\$ 4,237
DW Asphalt/Concrete Repair									
1999 - 00 Projects									
Interfund Transfer	-	31,574			31,574			31,574	31,574
HSE Renovations	412,666	412,666	411,902		764	412,666			764
Candlewood Doors		100,552			100,552	100,552			100,552
Total 1999-00 Projects	412,666	544,792	411,902	-	132,890	513,218	-	31,574	132,890
2000 - 01 Projects									
DW Engineering Fees	10,584	169,050	10,584		158,466	169,050			158,466
2001 - 02 Projects									
Chestnut Hill Renovations	50,000	23,899	22,792	1,107	-	23,899			23,899
Vanderbilt HVAC	50,000	23,883	22,776	1,107	-	23,883			23,883
Butler Building	150,000	147,697	37,747	37,105	72,845	147,697			72,845
Transportation/Maintenance Building		141,364			141,364	141,364			141,364
Total 2001 - 02 Projects	250,000	336,843	83,315	39,319	214,209	336,843	-	-	214,209
2002 - 03 Projects									
FP Renovations	115,535	114,944	91,548	23,396	114,944	114,944			114,944
HSW Auditorium Air Conditioning	121,230	141,326	8,284	133,042	141,326	141,326			141,326
Transportation/Maintenance Building		348,502			348,502	348,502			348,502
Total 2002 - 03 Projects	236,765	604,772	99,832	156,438	256,270	604,772	-	-	348,502
2003 - 04 Projects									
HSE Track	145,000	101,280	30,673		70,607	101,280			70,607
HSE Doors		100,000		3,580	96,420	100,000			96,420
HSW Auditorium Seating	75,000	70,500	8,240	62,260	-	70,500			-
Transportation/Maintenance Building		978,785			978,785	978,785			978,785
Total 2003 - 04 Projects	220,000	1,250,565	38,913	65,840	1,145,812	1,250,565	-	-	1,145,812
2004 - 05 Projects									
HSW Auditorium Lighting	150,800	53,297		53,297	-	53,297			53,297
Districtwide Project - TBD	272,200	1,028,703			1,028,703	1,028,703			1,028,703
Total 2004 - 05 Projects	423,000	1,082,000	-	53,297	1,028,703	1,082,000	-	-	1,028,703

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Schedule of Project Expenditures - (Continued)**  
**Capital Projects Fund**  
For The Year Ended June 30, 2007

PROJECT TITLE	Budget June 30, 2008	Budget June 30, 2007	Expenditures		Unexpended Balance	Methods of Financing			Fund Balance June 30, 2007
			Prior Years	Current Year		State Aid	Local Sources	Total	
2005 - 06 Projects									
HSW Intel Replacement	\$ -	\$ 181,600	\$ -	\$ -	\$ 181,600	\$ -	\$ -	\$ 181,600	\$ 181,600
HSW Concrete Work		267,000			267,000			267,000	267,000
DW Projects	882,000	433,400	77,952		355,448			433,400	355,448
Total 2005 - 06 Projects	882,000	882,000	77,952		804,048			882,000	804,048
2006 - 07 Projects									
WH Audit Renovations		200,020		12,012	188,008			200,020	188,008
HSE Science Rooms		681,980		14,000	667,980			681,980	667,980
Total 2006 - 07 Projects		882,000		26,012	855,988			882,000	855,988
Athletic Projects									
CW Track		599,188		26,775	572,413			599,188	572,413
WH Courts		92,562		5,257	87,305			92,562	87,305
HSE Turf		1,188,118		43,168	1,144,950			1,188,118	1,144,950
HSW Turf		1,320,132		39,464	1,280,668			1,320,132	1,280,668
Total Athletic Projects		3,200,000		114,664	3,085,336			3,200,000	3,085,336
EXCEL Projects									
CH Security				1,922	(1,922)			-	(1,922)
FP Security				1,922	(1,922)			-	(1,922)
OT Security				1,922	(1,922)			-	(1,922)
PA Security				1,922	(1,922)			-	(1,922)
SH Security				1,923	(1,923)			-	(1,923)
SQ Security				1,923	(1,923)			-	(1,923)
VA Security				1,923	(1,923)			-	(1,923)
WH Windows/Doors				36,990	(36,990)			-	(36,990)
HSE Renovations				95,330	(95,330)			-	(95,330)
Total EXCEL Projects				145,777	(145,777)			-	(145,777)
Districtwide Bond									
Manasquan Windows	817,035	817,035	817,035		-			817,035	-
Manasquan Boilers	338,711	338,711	338,711		-			338,711	-
Manasquan Site Work	205,902	205,902	205,902		-			205,902	-
Manasquan Rood	291,824	291,824	291,824		-			291,824	-
CH Adds & Alts	3,625,697	4,058,048	2,125,099		1,715,457			4,058,048	1,715,457
CH Windows	552,678	552,678	552,678		-			552,678	-
CH Bathrooms	1,416				-			-	-
CH Roof	624,935	624,935	624,935		-			624,935	-
CH Boilers	356,485	356,485	356,485		-			356,485	-
FP Adds & Alts	1,335,271	1,272,910	(58,722)		10,158			1,272,910	10,158
FP Boilers	332,435	332,435			-			332,435	-
FP Site Work	607,164	607,164	607,164		-			607,164	-
FP Bathrooms	5,767				-			-	-
FP Electrical	1,670				-			-	-
FP Roof	499,047	493,579	451,660		41,919			493,579	41,919
FP Adds & Alts	4,216,347	4,209,522	2,258,364		1,789,280			4,209,522	1,789,280
OT Adds & Alts	2,835,802	2,679,990	2,611,710		68,280			2,679,990	68,280
OT Ceiling & Lighting	489,017	484,017	484,017		-			484,017	-
Sub-total	17,137,203	17,325,235	9,398,236	4,301,905	3,625,094			17,325,235	3,625,094

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Schedule of Project Expenditures - (Continued)**  
**Capital Projects Fund**  
For The Year Ended June 30, 2007

PROJECT TITLE	Budget June 30, 2006	Budget June 30, 2007	Prior Years	Expenditures Current Year	Total	Unexpended Balance	Methods of Financing			Fund Balance June 30, 2007
							Proceeds of Obligations	State Aid	Local Sources	Total
Districtwide Bond (Continued)										
OT Bathrooms	101,756	101,789	75,777	1,664	77,441	24,348	101,789	-	-	101,789
OT Windows	759,508	759,508	759,508	-	-	-	759,508	-	-	759,508
OT Boilers	325,959	320,468	313,810	6,658	320,468	-	320,468	-	-	320,468
OT Roof	663,938	601,576	601,576	27,240	628,816	35,122	663,938	-	-	35,122
PA Adds & Alts	3,327,192	3,256,088	3,020,835	102,641	3,123,476	132,612	3,256,088	-	-	132,612
PA Windows & Doors	858,169	857,964	857,964	-	857,964	-	857,964	-	-	857,964
PA Ceiling & Lighting	287,567	287,567	287,567	-	287,567	-	287,567	-	-	287,567
PA Bathrooms	108,222	108,593	86,364	2,896	89,260	19,333	108,593	-	-	19,333
PA Boilers	330,157	327,261	320,610	6,651	327,261	-	327,261	-	-	327,261
PA Roof Phase II	290,337	290,543	262,832	-	262,832	27,711	290,543	-	-	27,711
SH Adds & Alts	3,029,698	2,978,149	2,827,059	67,130	2,894,189	83,960	2,978,149	-	-	83,960
SH Roof	300,352	298,668	298,668	-	298,668	-	298,668	-	-	298,668
SH Windows	786,307	786,307	786,307	-	786,307	-	786,307	-	-	786,307
SH Library	480,375	480,375	480,375	-	480,375	-	480,375	-	-	480,375
SH Bathrooms	118,201	118,201	88,210	2,401	90,611	27,590	118,201	-	-	27,590
SH Boilers	327,546	322,061	315,579	6,482	322,061	-	322,061	-	-	322,061
SQ Additions	4,762,052	4,788,798	4,644,055	125,544	4,769,599	20,199	4,788,798	-	-	20,199
VA Adds & Alts	3,238,414	3,930,889	213,176	2,169,597	2,382,773	1,548,116	3,930,889	-	-	1,548,116
VA Roof	643,287	644,450	644,450	-	644,450	-	644,450	-	-	644,450
VA Windows	545,725	544,562	544,562	-	544,562	-	544,562	-	-	544,562
VA Bathrooms	5,374	-	-	-	-	-	-	-	-	-
VA Boilers	335,034	335,034	335,034	-	335,034	-	335,034	-	-	335,034
CW Adds & Alts	22,024,796	22,053,901	21,787,586	53,407	21,840,993	212,908	22,053,901	-	-	212,908
CW Ceiling & Lighting	618,128	618,128	618,128	-	618,128	-	618,128	-	-	618,128
CW Windows & Doors	13,546	13,546	9,368	-	9,368	4,178	13,546	-	-	4,178
CW Doors	7,080	8,080	4,752	-	4,752	3,328	8,080	-	-	3,328
WH Adds & Alts	4,361,441	4,422,946	4,199,407	207,943	4,407,350	15,596	4,422,946	-	-	15,596
WH Ceiling & Lighting	1,002,064	1,002,064	1,002,064	-	1,002,064	-	1,002,064	-	-	1,002,064
WH Boilers	620,387	620,387	620,387	-	620,387	-	620,387	-	-	620,387
WH Bathrooms	160,668	150,668	134,475	9,574	144,049	6,619	150,668	-	-	6,619
WH Windows & Doors	10,252	10,252	6,150	-	6,150	4,102	10,252	-	-	4,102
HSE Adds & Alts	5,439,427	5,334,428	5,112,003	31,379	5,143,382	191,046	5,334,428	-	-	191,046
HSE Roof	2,570,164	2,570,164	2,570,164	-	2,570,164	-	2,570,164	-	-	2,570,164
HSE Boiler	1,138,038	1,138,038	1,138,038	-	1,138,038	-	1,138,038	-	-	1,138,038
HSE Ceilings	1,317,844	1,317,844	1,317,844	-	1,317,844	-	1,317,844	-	-	1,317,844
HSE Bathrooms	13,869	24,175	12,568	11,234	23,802	373	24,175	-	-	373
HSE Windows & Doors	6,000	-	3,580	(3,580)	-	-	-	-	-	-
HSE HVAC	987,063	841,103	914,039	(99,490)	824,549	16,554	841,103	-	-	16,554
HSW Adds & Alts	13,319,780	13,555,792	12,991,436	463,676	13,455,112	100,680	13,555,792	-	-	100,680
HSW Roof	807,007	807,007	807,007	-	807,007	-	807,007	-	-	807,007
HSW Windows & Doors	125	-	-	-	-	-	-	-	-	-
HSW Portables	49,434	49,434	49,434	-	49,434	-	49,434	-	-	49,434
Natorium Renovations	3,488	5,843	3,487	-	3,487	2,356	5,843	-	-	2,356
Natorium Roof	179,587	179,588	179,588	-	179,588	-	179,588	-	-	179,588
Natorium Bathrooms	2,356	-	-	-	-	-	-	-	-	-
Natorium Boilers	630,662	630,203	630,203	(80,000)	630,203	-	630,203	-	-	630,203
DW Security	910,718	48,018	128,018	-	48,018	-	48,018	-	-	48,018
DW Security	70,943	70,943	-	-	-	70,943	70,943	-	-	70,943
Total Districtwide Projects	95,000,000	95,000,000	81,352,846	7,424,952	88,777,798	6,222,202	95,000,000	-	-	6,222,202
Totals	\$ 97,471,015	\$ 103,992,259	\$ 82,111,344	\$ 8,026,299	\$ 90,137,643	\$ 13,854,616	\$ 103,960,665	\$ -	\$ 31,574	\$ 103,992,259
										\$ 13,854,616

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Schedule of Certain Revenues and Expenditures**  
**Compared to ST-3 Data**  
**For The Year Ended June 30, 2007**

	Audited Code	ST-3 Amount	Audited Amount
<b>REVENUES</b>			
Real Property Taxes	A -1001	\$ 141,388,883	\$ 141,388,883
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	22,816,094	22,816,094
Federal Aid - Medicaid Reimbursements	AT-4999	16,104	16,104
Total Revenues	AT-5999	181,912,401	181,912,401
<b>EXPENDITURES</b>			
General Support	AT-1999	16,770,935	16,770,935
Pupil Transportation	AT-5599	10,483,493	10,483,493
Debt Service - Principal	AT-9798.6	-	-
Debt Service - Interest	AT-9798.7	1,722,375	1,722,375
Total Expenditures	AT-9999	175,079,822	175,079,822

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Investment in Capital Assets, Net of Related Debt**  
For The Year Ended June 30, 2007

Capital assets, net	<u>\$ 125,228,394</u>
Deduct:	
Short-term portion of bonds payable	(4,619,567)
Long-term portion of bonds payable	(80,695,924)
Less:	
Unspent bond proceeds	<u>6,161,422</u>
	<u>(79,154,069)</u>
Investment in capital assets, net of related debt	<u><u>\$ 46,074,325</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, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Half Hollow Hills Central School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Half Hollow Hills Central School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Half Hollow Hills Central School District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 September 26, 2007.

This report is intended solely for the use and information of the Board of Education, Audit Committee and management of the Half Hollow Hills Central School District, and is not intended to be and should not be used by anyone other than these specified parties.

*Coughlin, Funderburk, Cullen, & Parnowski, LLP*

September 26, 2007

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR FINDINGS**  
For the Year Ended June 30, 2007

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There were no prior findings.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2007

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**FINANCIAL STATEMENTS FINDINGS**

There are no findings to be reported.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**CORRECTIVE ACTION PLAN**  
For the Year Ended June 30, 2007

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The corrective action plan is not required.

