

**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, 2006, 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, 2006, 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, 2006, 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 35 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 36 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 schedule of expenditures, summary schedule of prior audit findings and corrective action plan are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements of Half Hollow Hills Central School District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The summary schedule of prior audit 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-Furness-Cullen-Pomowski, LLP*

September 26, 2006

# HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Half Hollow Hills Central School District's (District) discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole. This should be read in conjunction with the financial statements, which immediately follow this section.

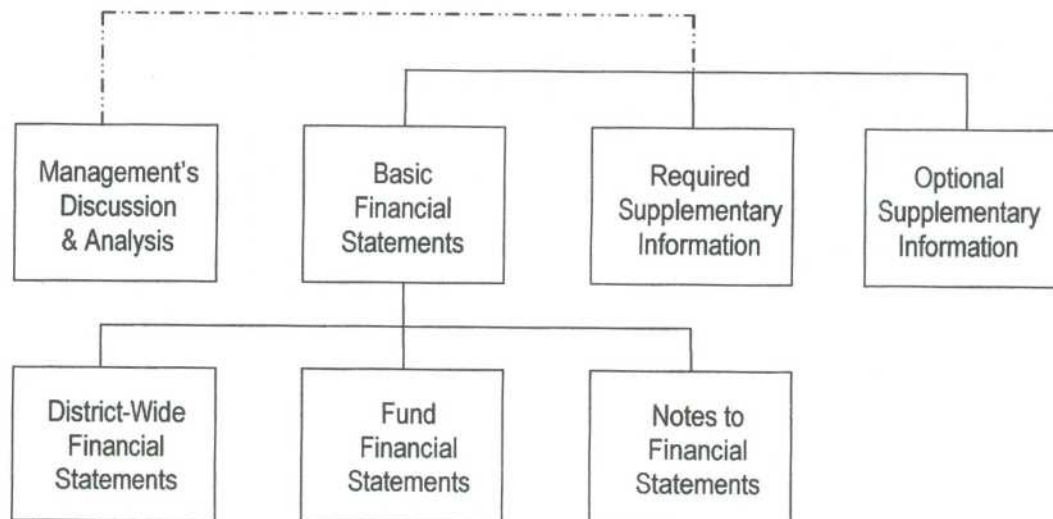
### 1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2006 are as follows:

- The District's total net assets, as reflected in the District-wide financial statements, increased by \$8,304,034. This was due to an excess of revenues over expenses based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the District-wide financial statements, totaled \$169,412,221. Of this amount, \$8,138,948 was offset by program charges for services and operating grants. General revenues of \$169,577,307 amount to 95.42% of total revenues, and were adequate to cover the balance of program expenses.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$7,774,385. This was due to a total excess of revenues over expenditures based on the modified accrual basis of accounting.

### 2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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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 District's total net assets increased by \$8,304,034 between fiscal year 2005 and 2006. A summary of the District's Statement of Net Assets for June 30, 2006 and 2005 is as follows:

	2006	2005	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 51,507,668	\$ 50,654,020	\$ 853,648	1.69%
Capital Assets	122,012,415	116,406,185	5,606,230	4.82%
Total Assets	173,520,083	167,060,205	6,459,878	3.87%
Long-Term Liabilities Outstanding	103,571,134	105,507,000	(1,935,866)	(1.83)%
Other Liabilities	8,783,491	8,691,781	91,710	1.06%
Total Liabilities	112,354,625	114,198,781	(1,844,156)	(1.61)%
Net Assets				
Invested in Capital Assets, Net of Related Debt	45,669,570	45,420,823	248,747	0.55%
Restricted	2,613,057	1,985,486	627,571	31.61%
Unrestricted	12,882,831	5,455,115	7,427,716	136.16%
Total Net Assets	\$ 61,165,458	\$ 52,861,424	\$ 8,304,034	15.71%

At June 30, 2006, the District's net assets are \$61,165,458.

The net assets invested in capital assets, net of related debt, relates to the investment in capital assets at cost such as - land, construction in progress, buildings & improvements, site improvements, and, furniture & equipment, net of depreciation and related debt. This number increased from the prior year by \$248,747. As a result of a fixed asset appraisal completed during the year ended June 30, 2006, the June 30, 2005 capital assets have been adjusted to reflect changes made due to the new appraisal. See accompanying Notes to Financial Statements, Note 7 "Capital Assets", for additional information.

The restricted net assets in the amount of \$2,613,057 relates to the District's debt service reserve. This number increased over the prior year by \$627,571 due to interest earned on the unexpended portion of bond proceeds.

The unrestricted net assets in the amount of \$12,882,831 relates to the balance of the District's net assets. This number includes the District's other reserves and fund balances less unexpended bond proceeds and liabilities such as compensated absences. This number increased over the prior year by \$7,427,716.

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

**B. Changes in Net Assets**

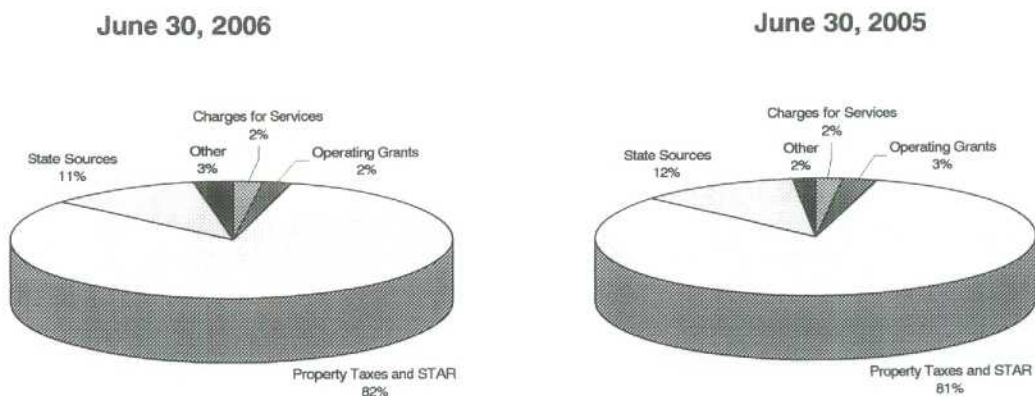
The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2006 and 2005 is as follows:

	2006	2005	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 3,805,881	\$ 3,002,189	\$ 803,692	26.77%
Operating Grants	4,333,067	4,142,994	190,073	4.59%
General Revenues				
Property Taxes and STAR	144,873,107	132,597,631	12,275,476	9.26%
State Sources	19,888,125	18,835,204	1,052,921	5.59%
Other	4,816,075	2,879,872	1,936,203	67.23%
Total Revenues	<u>177,716,255</u>	<u>161,457,890</u>	<u>16,258,365</u>	10.07%
<b>Expenses</b>				
General Support	17,798,849	17,402,499	396,350	2.28%
Instruction	132,485,352	119,506,459	12,978,893	10.86%
Transportation	11,086,472	10,038,311	1,048,161	10.44%
Community Service	152,507	94,038	58,469	62.18%
Debt Service	5,072,301	3,720,160	1,352,141	36.35%
Cost of School Lunch Program	2,816,740	2,512,246	304,494	12.12%
Depreciation - unallocated	-	3,871,278	(3,871,278)	(100.00)%
Total Expenses	<u>169,412,221</u>	<u>157,144,991</u>	<u>12,267,230</u>	7.81%
Increase in Net Assets	<u>\$ 8,304,034</u>	<u>\$ 4,312,899</u>	<u>\$ 3,991,135</u>	92.54%

The District's net assets increased by \$8,304,034 and \$4,312,899 for the years ended June 30, 2006 and 2005, respectively. The District allocated depreciation by programs/functions for the year ended June 30, 2006.

As indicated on the pie charts that follow, property taxes and STAR are the largest component of revenues recognized (i.e., 82% and 81% of the total for the years ended June 30, 2006 and 2005, respectively). Instructional expenses are the largest category of expenses incurred (i.e., 77% of the total for both years). The pie charts demonstrate that the components of revenues and expenses are effectively the same for both years.

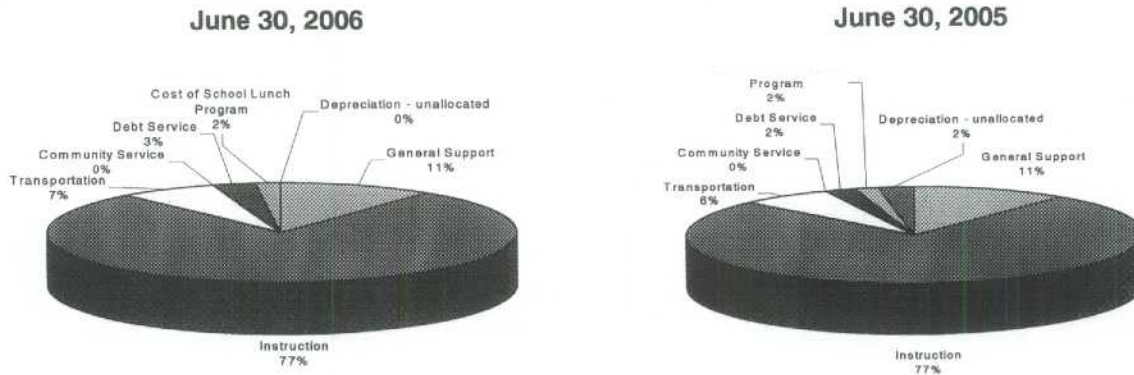
A graphic display of the distribution of revenues for the two years follows:





**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, 2006, the District's governmental funds reported a combined fund balance of \$43,419,867 which is a decrease of \$58,533 from the prior year. The net decrease is primarily attributable to an increase in the general fund total fund balance of \$7,774,385, due to an excess of revenues over expenditures, offset by capital outlay in the capital projects fund of \$9,276,940.

	2006	2005	Changes
<b>General Fund</b>			
Reserve for Encumbrances	\$ 903,983	\$ 808,202	\$ 95,781
Reserve for Workers' Compensation	1,367,762	1,011,686	356,076
Reserve for Unemployment	264,703	184,469	80,234
Reserve for Employee Benefit Accrued Liability	10,998,180	3,860,567	7,137,613
Reserve for Property Loss	459,404	459,404	-
Reserve for Liability	299,999	299,999	-
Reserve for Retirement Contribution	2,323,665	1,963,779	359,886
Unreserved - Designated for subsequent year's expenditures	2,500,000	2,970,000	(470,000)
Unreserved - Undesignated	3,590,771	3,375,976	214,795
	<u>22,708,467</u>	<u>14,934,082</u>	<u>7,774,385</u>
<b>School Lunch Fund</b>			
Reserve for Inventory	52,964	53,144	(180)
Unreserved - Undesignated	246,464	311,833	(65,369)
	<u>299,428</u>	<u>364,977</u>	<u>(65,549)</u>
<b>Debt Service Fund</b>			
Reserve for Debt Service	<u>2,613,057</u>	<u>1,985,486</u>	<u>627,571</u>
<b>Capital Projects Fund</b>			
Reserve for Encumbrances	2,170,152	10,895,224	(8,725,072)
Unreserved - Undesignated	15,628,763	15,298,631	330,132
	<u>17,798,915</u>	<u>26,193,855</u>	<u>(8,394,940)</u>
<b>Total Fund Balance</b>	<u>\$ 43,419,867</u>	<u>\$ 43,478,400</u>	<u>\$ (58,533)</u>



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

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**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2005-06 Budget**

The District's general fund adopted budget for the year ended June 30, 2006 was \$168,798,789. This amount was increased by encumbrances carried forward from the prior year in the amount of \$808,202 for a total final budget of \$169,606,991.

The budget was funded through a combination of estimated revenues and designated fund balance. The majority of this funding source was \$145,201,644 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 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	\$ 3,375,976
Revenues Over Budget	4,833,660
Expenditures and Encumbrances Under Budget	5,814,944
Net Transfers to Reserves	(7,933,809)
Appropriated for June 30, 2007 Budget	<u>(2,500,000)</u>
Closing, Unreserved - Undesignated Fund Balance	<u><u>\$ 3,590,771</u></u>

Opening, Unreserved - Undesignated Fund Balance

The \$3,375,976 shown in the table is the portion of the District's June 30, 2005 fund balance that was retained as undesignated. This was approximately 2% of the District's 2005-06 approved operating budget of \$168,798,789. It is the maximum undesignated fund balance permitted by law for a district in New York State, and is generally regarded as a positive financial management indicator.

Revenues Over Budget

The 2005-06 final budget for revenues was \$165,828,789. Actual revenues received for the year were \$170,662,449. The excess of actual revenues over budgeted revenues was \$4,833,660.

Expenditures and Encumbrances under Budget

The 2005-06 final budget for expenditures was \$169,606,991. Actual expenditures as of June 30, 2006 were \$162,888,064 and outstanding encumbrances were \$903,983 for a combined total of \$163,792,047. This resulted in an expenditures and encumbrances under budget of \$5,814,944.

The details of revenues and expenditures are shown in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

Net Transfers to Reserves

The net transfers to reserves in the amount of \$7,933,809 increased the balances in the reserves for workers' compensation, unemployment, employee benefit accrued liability and reserve for retirement contributions.

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

Appropriated Fund Balance

The District has chosen to use \$2,500,000 of the available June 30, 2006 fund balance to partially fund the 2006-07 approved operating budget. As such, the undesignated portion of the June 30, 2006 fund balance must be reduced by this amount. This represents a decrease of \$470,000 as compared to the prior year.

Closing, Unreserved - Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2006-07 fiscal year with an undesignated fund balance of \$3,590,771. This is an increase of \$214,795 over the undesignated balance from the prior year as of June 30, 2005. This undesignated portion remains at the permissible 2% 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, 2006, the District had invested in a broad range of capital assets, including land, buildings and improvements and equipment. As a result of a fixed asset appraisal completed during the year ended June 30, 2006, the June 30, 2005 capital assets have been adjusted to reflect changes made due to the new appraisal. See accompanying Notes to Financial Statements, Note 7 "Capital Assets", for additional information. The net increase in fixed assets is due to capital additions less depreciation recorded for the year ended June 30, 2006. A summary of the District's fixed assets, net of depreciation at June 30, 2006 and 2005 is as follows:

	2006	2005	Increase (Decrease)
Land	\$ 2,629,860	\$ 2,629,860	\$ -
Buildings and improvements	110,991,514	108,097,229	2,894,285
Site improvements	2,957,866	1,553,506	1,404,360
Vehicle	1,227,630	1,317,703	(90,073)
Furniture and equipment	4,205,545	2,807,887	1,397,658
Capital assets, net	<u>\$ 122,012,415</u>	<u>\$ 116,406,185</u>	<u>\$ 5,606,230</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, 2006, the District had expended approximately 85.63% 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, 2006, the District had total bonds payable of \$89,990,000. 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, 2006 and 2005 is as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
1999	4.0% - 4.1%	\$ 3,200,000	\$ 4,000,000	\$ (800,000)
2001	4.25% - 5.0%	27,200,000	28,700,000	(1,500,000)
2003	3.50% - 4.375%	14,810,000	15,395,000	(585,000)
2004	3.50% - 4.250%	19,280,000	20,000,000	(720,000)
2005	4.0 - 4.75%	25,500,000	25,500,000	
		<u>\$ 89,990,000</u>	<u>\$ 93,595,000</u>	<u>\$ (3,605,000)</u>

**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 16, 2006, for the year ending June 30, 2007, is \$179,538,585. This is an increase of \$10,739,796 or 6.36% over the previous year's budget. The increase is principally in the general support (\$1,751,357) instructional (\$4,868,932), employee benefits (\$1,940,471) and debt service (\$1,462,376) areas of the budget.

The District budgeted revenues other than property taxes and STAR at a \$3,162,003 increase over the prior year's estimate. This increase is principally due to an estimated increase of 11.69% in state aid. Additionally, the designated fund balance applied to the June 30, 2007 budget in the amount of \$2,500,000 is a reduction of \$470,000 from the prior year. An increase of 5.56% in property taxes and STAR (from \$144,872,564 for the June 30, 2006 budget to \$152,920,447 for the June 30, 2007 budget) was needed to cover the increase in projected expenditures.

The June 30, 2007 budget is reflective of a continuing negative trend that has been impacting budgets of school districts throughout the state of New York. This trend has been a significant increase in retirement contribution and health insurance costs.

**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, 2006

**ASSETS**

Cash	
Unrestricted	\$ 34,282,442
Restricted	13,647,154
Receivables	
Accounts receivable	43,981
Due from other funds	369,983
Due from other governments	3,111,144
Inventories	52,964
Capital assets, net	<u>122,012,415</u>
 Total Assets	 <u><u>\$ 173,520,083</u></u>

**LIABILITIES**

Payables	
Accounts payable	\$ 412,653
Accrued liabilities	836,213
Due to other governments	411
Due to teachers' retirement system	6,850,647
Due to employees' retirement system	603,750
Deferred credits	
Deferred revenues	79,817
Long-term liabilities	
Due and payable within one year	
Bonds payable	4,690,000
Compensated absences payable	743,900
Judgements and claims payable	577,200
Due and payable after one year	
Bonds payable	85,300,000
Compensated absences payable	11,661,277
Judgements and claims payable	<u>598,757</u>
 Total Liabilities	 <u>112,354,625</u>

**NET ASSETS**

Investment in capital assets, net of related debt	45,669,570
Restricted for:	
Debt service	2,613,057
Unrestricted	<u>12,882,831</u>
 Total Net Assets	 <u>61,165,458</u>
 Total Liabilities and Net Assets	 <u><u>\$ 173,520,083</u></u>



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Statement of Activities**  
For The Year Ended June 30, 2006

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Assets
<b>PROGRAMS/FUNCTIONS</b>				
General support	\$ 17,798,849	\$	\$	\$ (17,798,849)
Instruction	132,485,352	1,668,749	3,783,857	(127,032,746)
Pupil transportation	11,086,472			(11,086,472)
Community service	152,507			(152,507)
Debt service - interest	5,072,301			(5,072,301)
School lunch program	2,816,740	2,137,132	549,210	(130,398)
	<u>\$ 169,412,221</u>	<u>\$ 3,805,881</u>	<u>\$ 4,333,067</u>	<u>(161,273,273)</u>
Total Functions and Programs				
<b>GENERAL REVENUES</b>				
Real property taxes				134,805,570
Other tax items				11,653,912
Use of money and property				2,764,054
Sale of property and compensation for loss				101,267
Miscellaneous				327,632
State sources				19,888,125
Medicaid reimbursement				36,747
				<u>169,577,307</u>
Total General Revenues				
Change in Net Assets				8,304,034
Total Net Assets - Beginning of year				<u>52,861,424</u>
Total Net Assets - End of year				<u>\$ 61,165,458</u>

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2006

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash						
Unrestricted	\$ 25,672,224	\$ 6,263	\$ 1,044,922	\$ 1,623,640	\$ 5,935,393	\$ 34,282,442
Restricted					13,647,154	13,647,154
Receivables						
Accounts receivable	42,588		1,393			43,981
Due from other funds	2,418,315		6,407	989,417	58,083	3,472,222
Due from other governments	2,580,123	443,284	87,737			3,111,144
Inventories			52,964			52,964
Total Assets	<u>\$ 30,713,250</u>	<u>\$ 449,547</u>	<u>\$ 1,193,423</u>	<u>\$ 2,613,057</u>	<u>\$ 19,640,630</u>	<u>\$ 54,609,907</u>
<b>LIABILITIES</b>						
Payables						
Accounts payable	\$ 412,653	\$	\$	\$	\$	\$ 412,653
Accrued liabilities	137,733	2,790				140,523
Due to other funds		387,924	872,600		1,841,715	3,102,239
Due to other governments			411			411
Due to teachers' retirement system	6,850,647					6,850,647
Due to employees' retirement system	603,750					603,750
Deferred credits						
Deferred revenues		58,833	20,984			79,817
Total Liabilities	<u>8,004,783</u>	<u>449,547</u>	<u>893,995</u>	<u>-</u>	<u>1,841,715</u>	<u>11,190,040</u>
<b>FUND BALANCES</b>						
Reserved for encumbrances	903,983				2,170,152	3,074,135
Reserved other	15,713,713		52,964	2,613,057		18,379,734
Unreserved - Designated for subsequent year's expenditures	2,500,000					2,500,000
Unreserved - Undesignated	3,590,771		246,464		15,628,763	19,465,998
Total Fund Balances	<u>22,708,467</u>	<u>-</u>	<u>299,428</u>	<u>2,613,057</u>	<u>17,798,915</u>	<u>43,419,867</u>
Total Liabilities and Fund Balances	<u>\$ 30,713,250</u>	<u>\$ 449,547</u>	<u>\$ 1,193,423</u>	<u>\$ 2,613,057</u>	<u>\$ 19,640,630</u>	<u>\$ 54,609,907</u>



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
June 30, 2006

Total Governmental Fund Balances	<u>\$ 43,419,867</u>
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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	190,910,896
Accumulated depreciation	<u>(68,898,481)</u>
	<u>122,012,415</u>

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	(89,990,000)
Accrued interest on bonds payable	(695,690)
Accrued workers' compensation	(1,175,957)
Compensated absences	<u>(12,405,177)</u>
	<u>(104,266,824)</u>

Total Net Assets	<u><u>\$ 61,165,458</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, 2006

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$ 134,805,570	\$	\$	\$	\$	\$ 134,805,570
Other tax items	11,653,912					11,653,912
Charges for services	1,668,749					1,668,749
Use of money and property	2,125,674		10,809	627,571		2,764,054
Sale of property and compensation for loss	101,267					101,267
Miscellaneous	327,634	6,637	11,828			346,099
State sources	19,888,125	658,716	56,170			20,603,011
Medicaid reimbursement	36,747					36,747
Federal sources		3,118,504	397,926			3,516,430
Surplus food			95,114			95,114
Sales - school lunch			2,125,304			2,125,304
<b>Total Revenues</b>	<b>170,607,678</b>	<b>3,783,857</b>	<b>2,697,151</b>	<b>627,571</b>	<b>-</b>	<b>177,716,257</b>
<b>EXPENDITURES</b>						
General support	16,045,415	(3,072)				16,042,343
Instruction	92,530,229	3,628,747				96,158,976
Pupil transportation	9,728,132	261,699				9,989,831
Community service	69,452					69,452
Employee benefits	34,778,142		218,375			34,996,517
Debt service						
Principal	3,605,000					3,605,000
Interest	5,091,406					5,091,406
Cost of sales			2,544,325			2,544,325
Capital outlay					9,276,940	9,276,940
<b>Total Expenditures</b>	<b>161,847,776</b>	<b>3,887,374</b>	<b>2,762,700</b>	<b>-</b>	<b>9,276,940</b>	<b>177,774,790</b>
Excess (Deficiency) of Revenues Over Expenditures	8,759,902	(103,517)	(65,549)	627,571	(9,276,940)	(58,533)
<b>OTHER FINANCING SOURCES AND (USES)</b>						
Operating transfers in	54,771	158,288			882,000	1,095,059
Operating transfers (out)	(1,040,288)	(54,771)				(1,095,059)
<b>Total Other Financing Sources and (Uses)</b>	<b>(985,517)</b>	<b>103,517</b>	<b>-</b>	<b>-</b>	<b>882,000</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>7,774,385</b>	<b>-</b>	<b>(65,549)</b>	<b>627,571</b>	<b>(8,394,940)</b>	<b>(58,533)</b>
<b>Fund Balances - Beginning of year</b>	<b>14,934,082</b>	<b>-</b>	<b>364,977</b>	<b>1,985,486</b>	<b>26,193,855</b>	<b>43,478,400</b>
<b>Fund Balances - End of year</b>	<b>\$ 22,708,467</b>	<b>\$ -</b>	<b>\$ 299,428</b>	<b>\$ 2,613,057</b>	<b>\$ 17,798,915</b>	<b>\$ 43,419,867</b>



**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, 2006

Deficiency of Revenues and Other Sources Over Expenditures and Other Uses	\$	(58,533)
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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).

(867,768)

Capital Related Differences

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

Capital outlays	11,840,463	
Depreciation expense	(6,234,233)	
		5,606,230

Long-Term Debt Transaction Differences

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.

3,605,000

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.

Accrued interest from June 30, 2005 to June 30, 2006 decreased by

	19,105	3,624,105
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Change in Net Assets of Governmental Activities	\$	8,304,034
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HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT  
Statement of Fiduciary Net Assets -  
Fiduciary Funds  
June 30, 2006

	Agency	Private Purpose Trusts
<b>ASSETS</b>		
Cash	\$ 1,902,206	\$ 382,938
Accounts receivable		1,011
Total Assets	<u>\$ 1,902,206</u>	<u>\$ 383,949</u>
<b>LIABILITIES</b>		
Extraclassroom activity balances	\$ 270,010	\$
Due to other funds	369,983	
Other liabilities	<u>1,262,213</u>	
Total Liabilities	<u>\$ 1,902,206</u>	-
<b>NET ASSETS</b>		
Reserved for scholarships		<u>383,949</u>
Total Liabilities and Net Assets		<u>\$ 383,949</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets -  
Fiduciary Funds  
For The Year Ended June 30, 2006

	Private Purpose Trusts
<b>ADDITIONS</b>	
Contributions	\$ 17,533
Investment earnings	
Interest	<u>12,552</u>
Total Additions	<u>30,085</u>
 <b>DEDUCTIONS</b>	
Scholarships and awards	<u>15,000</u>
Change in Net Assets	15,085
Net Assets - Beginning of year	<u>368,864</u>
Net Assets - End of Year	<u><u>\$ 383,949</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. Restricted Resources**

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

**G. Interfund Transactions**

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

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

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

A detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity is provided subsequently in these Notes.



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

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**H. Use of Estimates**

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

**I. 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.

**J. 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.

**K. Inventories and Prepaid Items**

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

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

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

**L. Restricted Assets**

Certain proceeds from serial bonds and bond anticipation notes, as well as resources set aside for their repayment are classified as restricted assets in the District-wide financial statements and their use is limited by applicable bond covenants.

**M. 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:

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

	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

**N. 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.

**O. 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.

**P. 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. 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.

**Q. 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 RAN's and TAN's represent a liability that will be extinguished by the use of expendable, available resources of the fund.



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

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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 BAN's issued for capital purposes be converted to long-term financing within five years after the original issue date.

**R. Accrued Liabilities and Long-Term Obligations**

Payables, accrued liabilities and long-term obligations are reported in the District-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the 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.

**S. Equity classifications**

District-wide statements

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

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

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

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

Fund Statements

Unreserved fund balance consists of two classifications. 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 restricts the unreserved, undesignated fund balance of the general fund to an amount not greater than 2% of the District's budget for the ensuing fiscal year.

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



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

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*Workers' Compensation Reserve*

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

*Unemployment Insurance Reserve*

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

*Reserve for Inventory*

Reserve for Inventory is used to restrict that portion of fund balance, which is not available for appropriation.

*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.

*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.

*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)

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

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 the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. No supplemental appropriations occurred during the year.



**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.

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.

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year end includes \$13,647,154 within the governmental funds.

**5. PARTICIPATION IN BOCES**

During the year ended June 30, 2006, the District was billed \$5,664,914 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$854,681. 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, 2006 consisted of:

General Fund	
Aid due from New York State	\$ 579,546
Aid due from BOCES	425,521
Amounts due from other school districts	768,367
Payment in lieu of taxes	806,689
	<u>2,580,123</u>
Special Aid Fund	
Grants	443,284
School Lunch Fund	
State and Federal food service program reimbursements	<u>87,737</u>
	<u>\$ 3,111,144</u>

**7. CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2006 were as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,629,860	\$	\$	\$ 2,629,860
Total capital assets not being depreciated	<u>2,629,860</u>	<u>-</u>	<u>-</u>	<u>2,629,860</u>
Capital assets being depreciated				
Buildings and improvements	166,276,713	7,718,635		173,995,348
Site improvements	2,350,000	1,558,305		3,908,305
Vehicles	2,598,541	173,448		2,771,989
Furniture and equipment	5,215,319	2,390,075		7,605,394
Total capital assets being depreciated	<u>176,440,573</u>	<u>11,840,463</u>		<u>188,281,036</u>
Less accumulated depreciation for:				
Buildings and improvements	58,179,484	4,824,350		63,003,834
Site improvements	796,494	153,945		950,439
Vehicles	1,280,838	263,521		1,544,359
Furniture and equipment	2,407,432	992,417		3,399,849
Total accumulated depreciation	<u>62,664,248</u>	<u>6,234,233</u>	<u>-</u>	<u>68,898,481</u>
Capital assets, net	<u>\$ 116,406,185</u>	<u>\$ 5,606,230</u>	<u>\$ -</u>	<u>\$ 122,012,415</u>

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

Depreciation expense was charged to governmental functions as follows:

General support	\$ 259,211
Instruction	5,480,066
Pupil transportation	384,008
Community service	56,907
School lunch program	54,041
	<u>5,934,233</u>
Total depreciation expense	<u>\$ 6,234,233</u>

During the year ended June 30, 2006, the District had a third-party vendor perform a physical inventory of the District's capital assets. As a result of the June 30, 2006 physical inventory, it was necessary for the District to adjust the June 30, 2005 capital assets and accumulated depreciation balances as follows:

	<u>As Reported June 30, 2005</u>	<u>As Adjusted June 30, 2005</u>	<u>Change Increase (Decrease)</u>
Governmental activities			
Capital assets not being depreciated			
Land	\$ 2,629,860	\$ 2,629,860	\$
Construction in progress	6,966,717		(6,966,717)
Total capital assets not being depreciated	<u>9,596,577</u>	<u>2,629,860</u>	<u>(6,966,717)</u>
Capital assets being depreciated			
Buildings and improvements	133,497,420	166,276,713	32,779,293
Site improvements	3,467,859	2,350,000	(1,117,859)
Vehicles		2,598,541	2,598,541
Furniture and equipment	20,462,771	5,215,319	(15,247,452)
Total capital assets being depreciated	<u>157,428,050</u>	<u>176,440,573</u>	<u>19,012,523</u>
Less accumulated depreciation for:			
Buildings and improvements	40,587,547	58,179,484	17,591,937
Site improvements	2,065,375	796,494	(1,268,881)
Vehicles		1,280,838	1,280,838
Furniture and equipment	17,308,742	2,407,432	(14,901,310)
Total accumulated depreciation	<u>59,961,664</u>	<u>62,664,248</u>	<u>2,702,584</u>
Capital assets, net	<u>\$ 107,062,963</u>	<u>\$ 116,406,185</u>	<u>\$ 9,343,222</u>

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

**8. INTERFUND TRANSACTIONS**

Interfund balances and activities at June 30, 2006, are as follows:

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	\$ 2,418,315	\$	\$ 54,771	\$ 1,040,288
Special Aid Fund		387,924	158,288	54,771
School Lunch Fund	6,407	872,600		
Debt Service Fund	989,417			
Capital Fund	58,083	1,841,715	882,000	
Fiduciary Fund		369,983		
Total	<u>\$ 3,472,222</u>	<u>\$ 3,472,222</u>	<u>\$ 1,095,059</u>	<u>\$ 1,095,059</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, 2005	Issued	Redeemed	Balance June 30, 2006
TAN	6/30/06	3.84%	<u>\$</u>	<u>\$ 46,000,000</u>	<u>\$ (46,000,000)</u>	<u>\$</u>

Interest on short term debt for the year was \$1,147,132.

**10. LONG-TERM LIABILITIES**

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

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 93,595,000	\$	\$ (3,605,000)	\$ 89,990,000	\$ 4,690,000
Other long-term liabilities:					
Compensated absences	11,912,000	493,177	-	12,405,177	743,900
Judgements and claims	801,367	956,175	(581,585)	1,175,957	577,200
	<u>\$ 106,308,367</u>	<u>\$ 1,449,352</u>	<u>\$ (4,186,585)</u>	<u>\$ 103,571,134</u>	<u>\$ 6,011,100</u>

The general fund has typically been used to liquidate 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, 2006
<b>Serial Bonds</b>				
Sunquam construction	1999	2010	4.0% - 4.1%	\$ 3,200,000
District-wide construction	2001	2021	4.25% - 5.0%	27,200,000
District-wide construction	2003	2023	3.50% - 4.375%	14,810,000
District-wide construction	2004	2024	3.50% - 4.250%	19,280,000
District-wide construction	2005	2025	4.0 - 4.75%	25,500,000
				<u>\$ 89,990,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 4,690,000	\$ 3,801,524	\$ 8,491,524
2008	4,770,000	3,615,486	8,385,486
2009	4,865,000	3,423,236	8,288,236
2010	5,070,000	3,227,249	8,297,249
2011	4,370,000	3,039,386	7,409,386
2012-2016	24,165,000	12,350,338	36,515,338
2017-2021	28,340,000	6,723,715	35,063,715
2022-2024	13,720,000	1,247,986	14,967,986
Total	<u>\$ 89,990,000</u>	<u>\$ 37,428,920</u>	<u>\$ 127,418,920</u>

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

Interest paid	\$ 3,944,274
Less interest accrued in the prior year	(714,795)
Plus interest accrued in the current year	<u>695,690</u>
Total interest expense on long-term debt	<u>\$ 3,925,169</u>

## 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.

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

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>
2006	\$ 5,755,211	\$ 1,972,650
2005	3,922,090	2,128,264
2004	1,662,460	1,117,253

**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 \$7,010,485 for 887 former employees.

**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; 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:

	<u>2005</u>	<u>2006</u>
Unpaid claims at beginning of year	\$ 740,819	\$ 801,367
Incurred claims and claim adjustment expenses	633,374	956,175
Claim payments	<u>(572,826)</u>	<u>(581,585)</u>
Unpaid claims at year end	<u>\$ 801,367</u>	<u>\$ 1,175,957</u>



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

**14. FUND BALANCES – RESERVED OTHER**

The District utilizes various fund balance reserves, which are more fully described in Note 1 to these financial statements. The balances in the governmental funds are comprised of the following:

General Fund	
Reserve for Workers' Compensation	\$ 1,367,762
Reserve for Unemployment	264,703
Reserve for Employee Benefit Accrued Liability	10,998,180
Reserve for Property Loss	459,404
Reserve for Liability	299,999
Reserve for Retirement Contribution	2,323,665
	<u>15,713,713</u>
School Lunch Fund	
Reserve for Inventory	52,964
Debt Service Fund	
Reserve for Debt Service	<u>2,613,057</u>
Total Reserved - Other	<u>\$ 18,379,734</u>

**15. 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, 2007.

**16. 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:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 292,289
2008	292,289
2009	285,355
2010	217,487
	<u>\$ 1,087,420</u>



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

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**17. SUBSEQUENT EVENTS**

On July 11, 2006, the District issued tax anticipation notes in the amount of \$48,000,000, which are due June 29, 2007 and bear interest at a stated rate of 4.40% and an effective rate of 3.71%.

**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, 2006

	Original Budget	Final Budget	Actual		Final Budget Variance with Actual
<b>REVENUES</b>					
Local Sources					
Real property taxes	\$ 134,805,117	\$ 134,805,117	\$ 134,805,570		\$ 453
Other tax items	10,396,527	10,396,527	11,653,912		1,257,385
Charges for services	617,560	617,560	1,668,749		1,051,189
Use of money and property	536,000	536,000	2,125,674		1,589,674
Sale of property and compensation for loss			101,267		101,267
Miscellaneous	200,000	200,000	327,634		127,634
Interfund revenues	10,000	10,000			(10,000)
Total Local Sources	146,565,204	146,565,204	150,682,806		4,117,602
State Sources	19,253,585	19,253,585	19,888,125		634,540
Medicaid Reimbursement	10,000	10,000	36,747		26,747
Total Revenues	165,828,789	165,828,789	170,607,678		4,778,889
<b>OTHER SOURCES</b>					
Operating transfers in			54,771		54,771
Total Revenues and Other Sources	165,828,789	165,828,789	170,662,449		\$ 4,833,660
<b>EXPENDITURES</b>					
General Support				Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
Board of education	\$ 82,861	\$ 82,781	\$ 74,134	\$	\$ 8,647
Central administration	446,356	468,585	461,866	1,215	5,504
Finance	1,231,781	1,279,936	1,219,634	38,489	21,813
Staff	939,850	896,683	751,877	62,507	82,299
Central services	12,206,383	12,527,878	12,174,237	74,138	279,503
Special items	1,259,700	1,367,876	1,363,667		4,209
Total General Support	16,166,931	16,623,739	16,045,415	176,349	401,975
Instruction					
Instruction, administration & improvement	6,760,001	6,777,271	6,414,369	46,828	316,074
Teaching - regular school	58,612,328	58,718,855	56,807,161	86,535	1,825,159
Programs for children with handicapping conditions	17,400,874	17,105,218	15,798,564	381,533	925,121
Occupational education	554,400	554,400	553,200		1,200
Teaching - special school	597,562	596,062	439,428		156,634
Instructional media	4,244,667	4,179,259	4,032,548	80,736	65,975
Pupil services	8,495,904	8,639,314	8,484,959	110,724	43,631
Total Instruction	96,665,736	96,570,379	92,530,229	706,356	3,333,794
Pupil Transportation	10,167,603	10,076,628	9,728,132	278	348,218
Community Services	61,770	69,617	69,452		165
Employee Benefits	36,740,098	36,528,810	34,778,142	21,000	1,729,668
Debt Service					
Principal	3,605,000	3,605,000	3,605,000		-
Interest	5,159,565	5,092,530	5,091,406		1,124
Total Debt Service	8,764,565	8,697,530	8,696,406	-	1,124
Total Expenditures	168,566,703	168,566,703	161,847,776	903,983	5,814,944
<b>OTHER USES</b>					
Operating transfers out	1,040,288	1,040,288	1,040,288		-
Total Expenditures and Other Uses	169,606,991	169,606,991	162,888,064	\$ 903,983	\$ 5,814,944
Net Change in Fund Balances	(3,778,202)	(3,778,202)	7,774,385		
Fund Balances - Beginning of Year	3,778,202	3,778,202	14,934,082		
Fund Balances - End of Year	\$ -	\$ -	\$ 22,708,467		

**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, 2006

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 168,798,789
Additions:	
Prior year's encumbrances	<u>808,202</u>
Original Budget	\$ 169,606,991
Budget revisions	<u>-</u>
Final Budget	<u><u>\$ 169,606,991</u></u>

Next year's budget is a voter-approved budget of	<u><u>\$ 179,538,535</u></u>
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USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -	
As of the beginning of the year	\$ 3,375,976
Less:	
Designated fund balance used for	
the levy of taxes - Adopted budget	<u>2,970,000</u>
Undesignated Fund Balance -	
As of the beginning of the year	<u><u>\$ 6,345,976</u></u>



HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT  
Schedule of Project Expenditures -  
Capital Projects Fund  
For The Year Ended June 30, 2006

PROJECT TITLE	Budget June 30, 2005	Budget June 30, 2006	Expenditures			Unexpended Balance	Proceeds of Obligations	Methods of Financing			Fund Balance June 30, 2006
			Prior Years	Current Year	Total			State Aid	Local Sources	Total	
1998 - 99 Projects	\$ 1,033,200	\$ 1,033,200	\$ 1,026,111	\$ 2,853	\$ 1,028,964	\$ 4,236	\$	\$	\$ 1,033,200	\$ 1,033,200	\$ 4,236
1999 - 00 Projects	1,503,462	1,503,462	1,345,556	25,015	1,370,571	132,891			1,503,462	1,503,462	132,891
2000 - 01 Projects	967,818	967,818	809,352		809,352	158,466			967,818	967,818	158,466
2001 - 02 Projects	988,000	988,000	665,314	69,158	734,472	253,528			988,000	988,000	253,528
2002 - 03 Projects	755,000	755,000	150,256	99,804	250,060	504,940			755,000	755,000	504,940
2003 - 04 Projects	1,282,000	1,282,000	30,674	39,675	70,349	1,211,651			1,282,000	1,282,000	1,211,651
2004 - 05 Projects	1,082,000	1,082,000			-	1,082,000			1,082,000	1,082,000	1,082,000
2005 - 06 Projects		882,000		77,952	77,952	804,048			882,000	882,000	804,048
District-wide Bond Projects	95,000,000	95,000,000	72,390,362	8,962,483	81,352,845	13,647,155	95,000,000			95,000,000	13,647,155
Totals	<u>\$ 102,611,480</u>	<u>\$ 103,493,480</u>	<u>\$ 76,417,625</u>	<u>\$ 9,276,940</u>	<u>\$ 85,694,565</u>	<u>\$ 17,798,915</u>	<u>\$ 95,000,000</u>	<u>\$ -</u>	<u>\$ 8,493,480</u>	<u>\$ 103,493,480</u>	<u>\$ 17,798,915</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT  
Schedule of Certain Revenues and Expenditures  
Compared to ST-3 Data  
For The Year Ended June 30, 2006

	Audited Code	ST-3 Amount	Audited Amount
<b>REVENUES</b>			
Real Property Taxes	A -1001	\$ 134,805,570	\$ 134,805,570
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	19,888,125	19,888,125
Federal Aid - Medicaid Reimbursements	AT-4999	36,747	36,747
Total Revenues	AT-5999	170,662,449	170,662,449
<b>EXPENDITURES</b>			
General Support	AT-1999	16,045,415	16,045,415
Pupil Transportation	AT-5599	9,728,132	9,728,132
Debt Service - Principal	AT-9798.6	3,605,000	3,605,000
Debt Service - Interest	AT-9798.7	5,091,406	5,091,406
Total Expenditures	AT-9999	162,888,064	162,888,064

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT  
Investment in Capital Assets, Net of Related Debt  
For The Year Ended June 30, 2006

Capital assets, net	<u>\$ 122,012,415</u>
Deduct:	
Short-term portion of bonds payable	(4,690,000)
Long-term portion of bonds payable	(85,300,000)
Less:	
Unspent bond proceeds	<u>13,647,155</u>
	<u>(76,342,845)</u>
Investment in capital assets, net of related debt	<u>\$ 45,669,570</u>



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
<u>United States Department of Education</u>			
Passed Through New York State,			
Department of Education:			
Special Education Cluster			
Special Education Grants to States	84.027	0032-05-0908	\$ 591,028
Special Education Grants to States	84.027	0032-06-0908	1,315,518
Special Education Preschool Grants	84.173	0033-05-0908	20,976
Special Education Preschool Grants	84.173	0033-06-0908	74,682
Special Education Preschool Grants	84.173	0232-05-0908	834
Special Education Preschool Grants	84.173	0232-06-0908	28,881
			<u>2,031,919</u>
Title I Grants to Local Educational Agencies	84.010	0021-05-3090	89,347
Title I Grants to Local Educational Agencies	84.010	0021-06-3090	624,767
Safe & Drug Free Schools and Communities State Grants	84.186	0180-05-3090	16,895
Safe & Drug Free Schools and Communities State Grants	84.186	0180-06-3090	18,089
State Grants for Innovative Programs	84.298	0002-05-3090	12,282
State Grants for Innovative Programs	84.298	0002-06-3090	19,175
Education Technology State Grants	84.318	0292-05-3090	17,473
Education Technology State Grants	84.318	0292-06-3090	2,264
English Language Acquisition Grants	84.365	0149-05-0106	6,200
English Language Acquisition Grants	84.365	0293-06-0101	36,751
English Language Acquisition Grants	84.365	0293-05-3090	21,730
Improving Teacher Quality State Grants	84.367	0147-05-3090	82,997
Improving Teacher Quality State Grants	84.367	0147-06-3090	138,615
			<u>3,118,504</u>
<u>United States Department of Agriculture</u>			
Passed Through New York State,			
Department of Education			
Child Nutrition Cluster			
Non-Cash Assistance (food distribution)			
National School Lunch Program	10.555	N/A	95,114
Cash Assistance			
National School Breakfast Program	10.553	N/A	29,972
National School Lunch Program	10.555	N/A	367,954
			<u>493,040</u>
Total Department of Agriculture			<u>493,040</u>
Total Federal Awards Expended			<u>\$ 3,611,544</u>

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2006

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**1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs administered by the Half Hollow Hills Central School District, which is described in Note 1 to the District's accompanying financial statements, using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through other government agencies. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented. Certain of the District's federal award programs may have been charged with indirect costs, based upon an established rate applied to overall expenditures. There is no other indirect cost allocation plan in effect.

Matching costs (the District's share of certain program costs) are not included in the reported expenditures.

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures were obtained from the federal financial reports for the applicable program and periods. The amounts reported in these reports are prepared from records maintained for each program, which are reconciled with the District's financial reporting system.

**2. SUBRECIPIENTS**

No amounts were provided to subrecipients.

**3. OTHER DISCLOSURES**

No insurance is carried specifically to cover equipment purchased with federal funds. Any equipment purchased with federal funds has only a nominal value, and is covered by the District's casualty insurance policies.

There were no loans or loan guarantees outstanding at year end.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended June 30, 2006

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There were no prior audit findings.



**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, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Half Hollow Hills Central School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 06-1.

We noted other matters involving the internal control over financial reporting that we have reported to the Board of Education of the Half Hollow Hills Central School District in a separate letter dated September 26, 2006.

This report is intended solely for the use and information of the Board of Education and the management of the Half Hollow Hills Central School District as well as federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Coughlin Foundotos Cullen Danowski, LLP*

September 26, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Half Hollow Hills Central School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Half Hollow Hills Central School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Half Hollow Hills Central School District's management. Our responsibility is to express an opinion on the Half Hollow Hills Central School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Half Hollow Hills Central School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Half Hollow Hills Central School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 06-1.

Internal Control Over Compliance

The management of the Half Hollow Hills Central School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Half Hollow Hills Central School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the use and information of the Board of Education and the management of the Half Hollow Hills Central School District as well as federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Coughlin, Fournelle, Cullen, Penawski, LLP*

September 26, 2006



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2006

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**1. SUMMARY OF AUDITORS' RESULTS**

- A. The auditors' report expresses an unqualified opinion on the financial statements of the Half Hollow Hills Central School District.
  - B. No material weaknesses relating to the audit of the financial statements are reported.
  - C. No reportable conditions relating to the audit of the financial statements are reported.
  - D. No instances of noncompliance material to the financial statements of the Half Hollow Hills Central School District were disclosed during the audit.
  - E. No material weaknesses relating to the audit of the major federal awards are reported.
  - F. No reportable conditions relating to the audit of the major federal awards are reported.
  - G. The auditors' report on compliance for the major federal awards for the Half Hollow Hills Central School District expresses an unqualified opinion.
  - H. Audit findings that are required to be reported in accordance with Section 510(a) of Circular A-133 for the Half Hollow Hills Central School District are reported in Part 3 of this Schedule.
  - I. The programs tested as major programs were:
    - Special Education Cluster
    - Special Education Grants to States
    - Special Education Preschool Grants
- |  |                 |
|--|-----------------|
|  | CFDA No. 84.027 |
|  | CFDA No. 84.173 |
- J. The dollar threshold used to distinguish between Type A and B programs was \$300,000.
  - K. The Half Hollow Hills Central School District qualified as a low-risk auditee.

**2. FINANCIAL STATEMENTS FINDINGS**

There are no findings to be reported.

**3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

06-1. Payroll Certification

Special Education Cluster	
Special Education Grants to States	CFDA No. 84.027
Special Education Preschool Grants	CFDA No. 84.173

*Condition:* The District has not been certifying payroll expenditures for federal awards.

*Criteria:* Compensation for personal services – support of salaries and wages.

Charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2006

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Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.

Personnel activity reports or equivalent documentation must meet the following standards:

- a. They must reflect an after-the-fact distribution of the actual activity of each employee,
- b. They must account for the total activity for which each employee is compensated,
- c. They must be prepared at least monthly and must coincide with one or more pay periods, and
- d. They must be signed by the employee.
- e. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting procedures, provided that:
  - i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
  - ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
  - iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

*Statement of Condition:* During our audit testwork, we determined that charges to federal awards for salaries and wages were not supported by periodic certifications signed by an employee or supervisory official having first hand knowledge of the work performed by the employee.

*Auditors' Recommendation:* The District should identify a responsible employee or supervisor to periodically, at least semi-annually, sign a certification attesting to the salaries and wages charged to each federal award.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**CORRECTIVE ACTION PLAN**  
For the Year Ended June 30, 2006

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The District's corrective action plan for the year ended June 30, 2006 is under separate cover.



