



FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES WITH
INDEPENDENT AUDITORS' REPORTS

June 30, 2008

HALF HOLLOW HILLS SCHOOL DISTRICT
TABLE OF CONTENTS
For the Year Ended June 30, 2008

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (MD&A)	3
Basic Financial Statements:	
District-Wide Financial Statements	
• Statement of Net Assets	12
• Statement of Activities	13
Fund Financial Statements	
• Balance Sheet – Governmental Funds	14
• Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Funds	15
• Reconciliation of the Statement of Revenues and Expenditures of the Governmental Funds to the Statement of Activities	16
Fiduciary Fund Financial Statements	
• Statement of Fiduciary Net Assets	17
• Statement of Changes in Fiduciary Net Assets	18
Notes to Basic Financial Statements	19
Required Supplementary Information other than MD&A:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	35
Other Supplementary Information:	
Schedules of Change from Original Budget to Final Budget and Use of Unreserved Fund Balance – General Fund	37
Schedule of Project Expenditures - Capital Projects Fund	38
Schedule of Certain Revenues and Expenditures Compared to ST-3	39
Investment in Capital Assets, Net of Related Debt	40
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41
Summary Schedule of Prior Findings	43
Schedule of Findings	44
Corrective Action Plan	45

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, 2008, 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, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008, 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 11 and 35 through 36, respectively are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The other supplementary information on pages 37 through 40 is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the other supplementary information. However, we did not audit the information and express no opinion on it.

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

Coughlin-Fornalotto Cullen Demowski, LLP

October 10, 2008

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008**

The Half Hollow Hills Central School District's discussion and analysis of financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. 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.

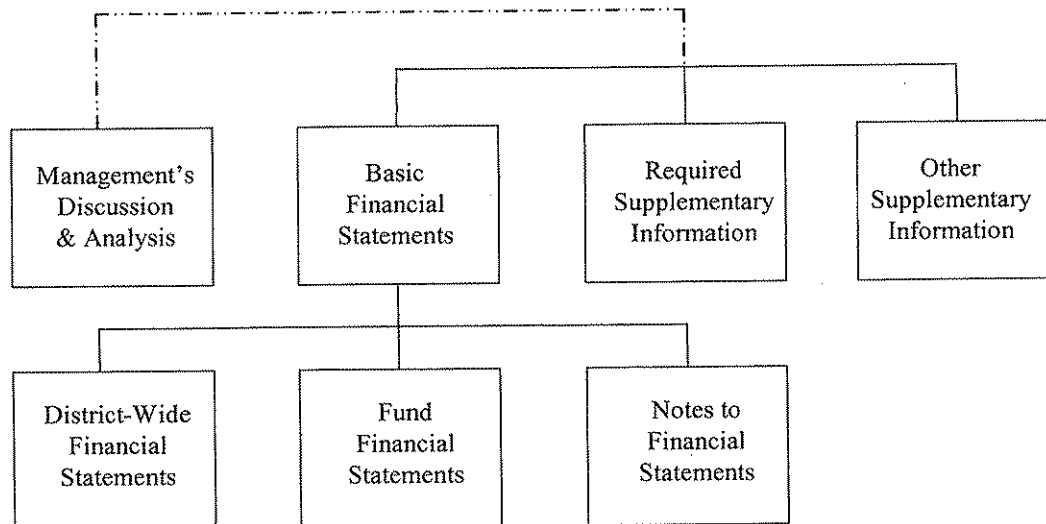
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2008, are as follows:

- The District's total net assets, as reflected in the district-wide financial statements, increased by \$7,449,063.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$192,081,965. Of this amount, \$3,423,377 was offset by program charges for services and \$4,986,035 by operating grants. General revenues of \$191,121,616 amount to 95.8% of total revenues. These revenues covered the balance of program expenses.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$3,798,401. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- The District received \$4,348,490 in operating grants to support instructional programs.
- State aid revenue increased by 23.42% to \$28,160,744 in 2008 from \$22,816,094 in 2007.
- The general fund's total fund balance, as reflected in the fund financial statements, is \$33,339,447.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008**

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, school lunch fund, special aid 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
For the Year Ended June 30, 2008**

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 \$7,449,063 between fiscal year 2007 and 2008. A summary of the District's Statement of Net Assets for June 30, 2008 and 2007, is as follows:

	2008	2007	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 54,318,903	\$ 53,723,388	\$ 595,515	1.1%
Capital Assets, Net	<u>130,620,461</u>	<u>125,228,394</u>	<u>5,392,067</u>	<u>4.3%</u>
Total Assets	<u>184,939,364</u>	<u>178,951,782</u>	<u>5,987,582</u>	<u>3.3%</u>
Non-Current Liabilities	97,255,143	99,913,163	(2,658,020)	2.7%
Other Liabilities	<u>11,522,815</u>	<u>10,326,276</u>	<u>1,196,539</u>	<u>11.6%</u>
Total Liabilities	<u>108,777,958</u>	<u>110,239,439</u>	<u>(1,461,481)</u>	<u>(1.3%)</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	49,735,992	46,074,325	3,661,667	7.9%
Restricted	342,220	190,521	151,699	44.3%
Unrestricted	<u>26,083,194</u>	<u>22,447,497</u>	<u>3,635,697</u>	<u>13.9%</u>
Total Net Assets	<u>\$ 76,161,406</u>	<u>\$ 68,712,343</u>	<u>\$ 7,449,063</u>	<u>10.8%</u>

Current and other assets increased by \$595,515 as compared to the prior year. The increase is primarily due to an increase in the District's accrual of revenues as amounts due from other governments.

Capital assets, net increased by \$5,392,067 as compared to the prior year. This increase is primarily due to amounts expended for construction that was in progress at year end, net of depreciation expense on existing capital assets. Note No. 7 to the Financial Statements provides additional information.

Non-current liabilities decreased by \$2,658,020 as compared to the prior year. This decrease is primarily the result of repayments of bonds exceeding proceeds of new bonds.

Other liabilities increased by \$1,196,539 as compared to the prior year. This increase is primarily in connection with accounts payable and accrued liabilities.

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

The restricted net assets at June 30, 2008, are \$342,220 which represents the amount which the District is required to use toward the payment of future debt service.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008**

The unrestricted net assets at June 30, 2008, is \$26,083,194 which represents the amount by which the District's assets other than capital assets exceeded liabilities, excluding debt related to capital construction.

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, 2008 and 2007 is as follows.

Revenues	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Program Revenues				
Charges for Services	\$ 3,423,377	\$ 3,509,620	\$ (86,243)	(2.5%)
Operating Grants	4,986,035	4,395,146	590,889	13.4%
General Revenues				
Property Taxes and STAR	157,531,391	151,986,509	5,544,882	3.6%
State Sources	28,160,744	22,816,094	5,344,650	23.4%
Other	<u>5,429,481</u>	<u>6,512,155</u>	<u>(1,082,674)</u>	<u>(16.6%)</u>
Total Revenues	<u>199,531,028</u>	<u>189,219,524</u>	<u>10,311,504</u>	<u>5.4%</u>
Expenses				
General Support	20,615,829	20,314,194	301,635	1.5%
Instruction	150,216,985	141,268,282	8,948,703	6.3%
Pupil Transportation	13,064,493	11,804,833	1,259,660	10.7%
Community Service	165,909	161,223	4,686	2.9%
Debt Service-Unallocated Interest	4,897,344	5,305,080	(407,736)	(7.7%)
Food Service	<u>3,121,405</u>	<u>2,819,027</u>	<u>302,378</u>	<u>10.7%</u>
Total Expenses	<u>192,081,965</u>	<u>181,672,639</u>	<u>10,409,326</u>	<u>5.7%</u>
Total Change in Net Assets	<u>\$ 7,449,063</u>	<u>\$ 7,546,885</u>		

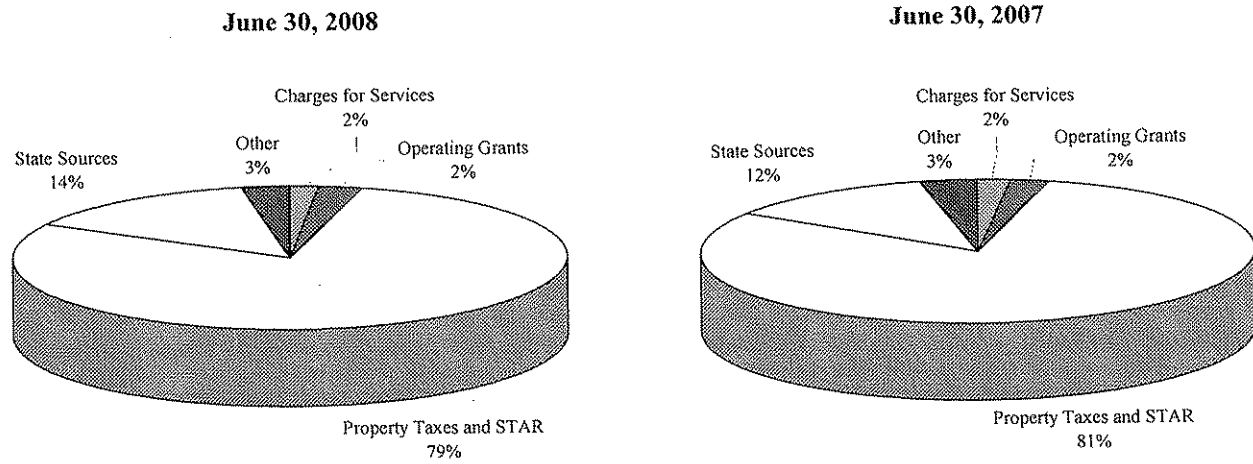
The District's revenues increased by \$10,311,504 in 2008 or 5.4%. The major factors that contributed to the increase were:

- Property tax and STAR revenues increased by \$5,544,882.
- The District received additional state aid of \$5,344,650, including EXCEL Aid of \$3,261,961.

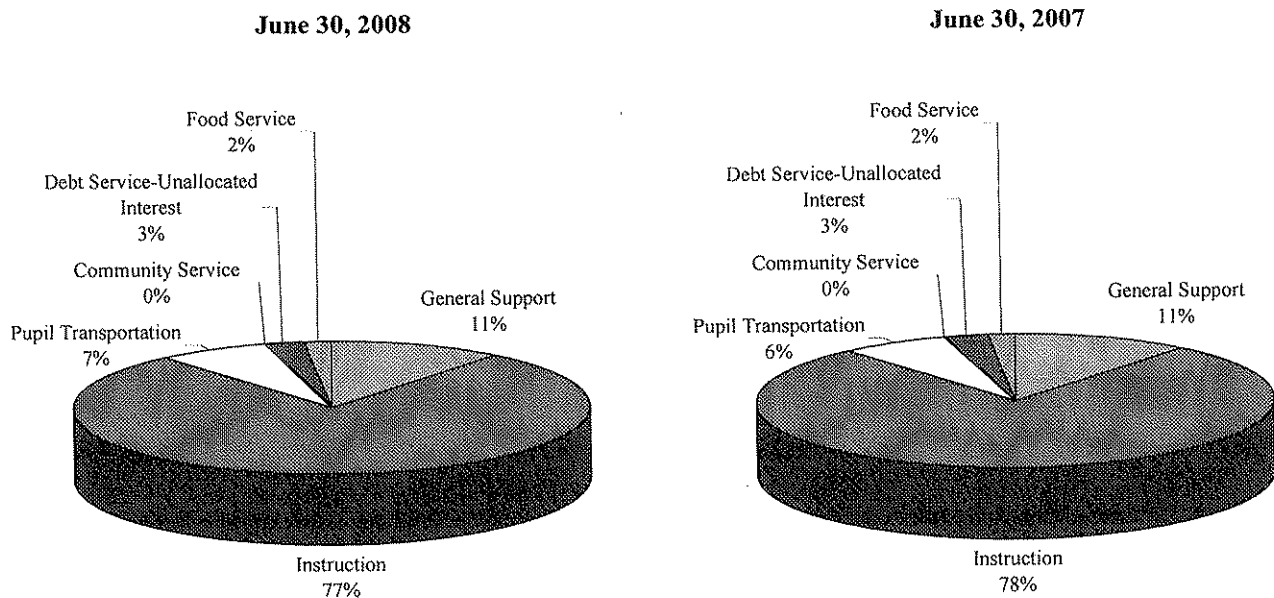
The District's expenditures for the year increased by \$10,409,326 or 5.7%.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008**

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



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



4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUND BALANCES

At June 30, 2008, the District's governmental funds reported a combined fund balance of \$43,305,334 which is a decrease of \$605,678 from the prior year. This decrease is due to an excess of expenditures over revenues for the year. A summary of the change in fund balance by fund is as follows:

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008**

	2008	2007	Increase (Decrease)
General Fund			
Reserve for:			
Encumbrances	\$ 427,675	\$ 668,405	\$ (240,730)
Workers' Compensation	2,306,408	2,232,213	74,195
Unemployment Insurance	283,880	274,748	9,132
Employee Benefit Accrued Liability	12,962,183	12,545,193	416,990
Retirement Contribution	5,087,322	4,923,665	163,657
Property Loss	474,674	459,404	15,270
Liability	309,971	299,999	9,972
Unreserved - Designated for Subsequent Year's Expenditures	3,639,948	2,500,000	1,139,948
Unreserved - Undesignated	<u>7,847,386</u>	<u>5,637,419</u>	<u>2,209,967</u>
	<u>33,339,447</u>	<u>29,541,046</u>	<u>3,798,401</u>
School Lunch Fund			
Reserve for Inventory	46,705	57,585	(10,880)
Unreserved - Undesignated	<u>330,070</u>	<u>267,244</u>	<u>62,826</u>
	<u>376,775</u>	<u>324,829</u>	<u>51,946</u>
Debt Service Fund			
Reserve for Debt	<u>342,220</u>	<u>190,521</u>	<u>151,699</u>
	<u>342,220</u>	<u>190,521</u>	<u>151,699</u>
Capital Projects Fund			
Reserve for Encumbrances	5,479,414	7,842,566	(2,363,152)
Unreserved - Undesignated	<u>3,767,478</u>	<u>6,012,050</u>	<u>(2,244,572)</u>
	<u>9,246,892</u>	<u>13,854,616</u>	<u>(4,607,724)</u>
 Total Fund Balance	 <u>\$ 43,305,334</u>	 <u>\$ 43,911,012</u>	 <u>\$ (605,678)</u>

Combined increases of \$689,216 to the general fund reserved fund balances during the year ended June 30, 2008, were a result of interest earned on existing reserve balances.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2007-08 Budget

The District's general fund adopted budget for the year ended June 30, 2008, was \$187,913,969. This was an increase over the prior year of \$8,375,384.

The budget was funded through a combination of revenues and designated fund balance. The majority of this funding source was \$157,530,742 in estimated property taxes, other real property taxes, and STAR and State Aid in the amount of \$24,630,727.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008**

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

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

Opening, Unreserved - Undesignated Fund Balance	\$ 5,637,419
Revenues over Budget	3,433,270
Expenditures and Encumbrances Under Budget	3,105,861
Interest Allocated to Reserves	(689,216)
Appropriated for June 30, 2009 Budget	<u>(3,639,948)</u>
Closing, Unreserved - Undesignated Fund Balance	\$ <u>7,847,386</u>

Opening, Unreserved - Undesignated Fund Balance

The \$5,637,419 shown in the table is the portion of the District's June 30, 2007, fund balance that was retained as undesignated. This was 3.0% of the District's 2007-08 approved operating budget. At June 30, 2007 it was 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 2007-08 final budget for revenues was \$185,426,969. The actual revenues received for the year were \$188,860,239. The surplus of actual revenue over estimated or budgeted revenue was \$3,433,270. This variance contributes directly to the change to the undesignated portion of the general fund balance from June 30, 2007 to June 30, 2008.

Expenditures and Encumbrances Under Budget

The 2007-08 final budget for expenditures was \$188,595,374. The actual expenditures were \$185,061,838 and encumbrances were \$427,675. The final budget was under expended by \$3,105,861. This under expenditure contributes to the change to the undesignated portion of the general fund balance from June 30, 2007 to June 30, 2008.

Interest Allocated to Reserves

During the year, the District's reserve balances were invested and earned interest revenue of \$689,216.

Appropriated Fund Balance

The District has chosen to use \$3,639,948 of its available June 30, 2008, fund balance to partially fund its 2008-2009 approved operating budget. This is an increase of \$1,139,948 over the balance appropriated at June 30, 2007.

Closing, Unreserved - Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2008-09 fiscal year with an undesignated fund balance of \$7,847,386. This is an increase of \$2,209,967 over the undesignated balance from the prior year as of June 30, 2007. The undesignated portion is at the permissible 4% statutory maximum, as of June 30, 2008, and is an indicator of stability in the District's management of the general fund's undesignated fund balance.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008**

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2008, the District had invested in a broad range of capital assets, including land, buildings and improvements and equipment. The net increase in capital assets is due to capital additions less depreciation recorded for the year ended June 30, 2008. A summary of the District's capital assets, net of depreciation at June 30, 2008 and 2007, is as follows:

	2008	2007	Increase (Decrease)
Land	\$ 2,629,860	\$ 2,629,860	\$
Construction in Process	18,194,973	7,804,819	10,390,154
Buildings	101,941,886	106,636,020	(4,694,134)
Improvements	2,734,509	2,853,237	(118,728)
Vehicle, Furniture, and Equipment	5,119,233	5,304,458	(185,225)
Capital Assets, Net	<u>\$ 130,620,461</u>	<u>\$ 125,228,394</u>	<u>\$ 5,392,067</u>

B. Debt Administration

At June 30, 2008, the District had total bonds payable of \$82,113,272. A summary of the outstanding debt at June 30, 2008 and 2007, is as follows:

Issue Date	Interest Rate	2008	2007	Increase (Decrease)
1999	4.00% - 4.10%	\$ 1,600,000	\$ 2,400,000	\$ (800,000)
2001	4.25% - 5.00%	5,000,000	6,600,000	(1,600,000)
2003	3.50% - 4.375%	13,565,000	14,200,000	(635,000)
2004	3.50% - 4.25%	17,755,000	18,530,000	(775,000)
2005	4.00% - 4.75%	23,610,000	24,570,000	(960,000)
2007	3.778% - 4.350%	18,405,000	18,410,000	(5,000)
2008	3.50% - 4.00%	<u>2,178,272</u>		<u>2,178,272</u>
		<u>\$ 82,113,272</u>	<u>\$ 84,710,000</u>	<u>\$ (2,596,728)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's total outstanding indebtedness currently does not exceed its debt limit, which is 10% of the full valuation of the taxable real property within the District.

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 20, 2008, for the year ending June 30, 2009, is \$196,188,300. This is an increase of \$8,274,331 or 4.4% over the previous year's budget.

The District budgeted non-property tax revenues at \$34,191,420. This increase over the 2007-08 budgeted amount, and is principally due to an estimated increase in state aid. Additionally, the designated fund balance applied to the June 30, 2009 budget in the amount of \$3,639,948 is a \$1,139,948 increase over the previous year. A property tax increase of 2.8% (tax levy to tax levy) was needed to cover the increase in projected expenditures.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008**

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 and Facilities
Half Hollow Hills Central School District
525 Half Hollow Road
Dix Hills, NY 11746

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2008

Assets

Cash and Cash Equivalents	\$ 43,973,037
Receivables	
Accounts Receivable	85,312
Other Governments	6,816,929
Due from Fiduciary Funds	3,254,231
Inventory	46,705
Other Assets	142,689
Capital Assets Not Being Depreciated	20,824,833
Capital Assets Being Depreciated, Net of Accumulated Depreciation	109,795,628
Total Assets	<u>\$ 184,939,364</u>

Liabilities

Payables	
Accounts Payable	\$ 1,557,200
Accrued Liabilities	850,159
Due to Other Governments	1,274
Due to Teachers' Retirement System	8,231,217
Due to Employees' Retirement System	556,527
Deferred Credits	
Deferred Revenue	326,438
Noncurrent Liabilities	
Due Within One Year	5,677,262
Due in More Than One Year	91,577,881
Total Liabilities	<u>108,777,958</u>

Net Assets

Investment in Capital Assets (Net of Related Debt)	49,735,992
Restricted For	
Debt Service	342,220
Unrestricted	26,083,194
Total Net Assets	<u>76,161,406</u>

Total Liabilities and Net Assets

\$ 184,939,364

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
General Support	\$ 20,615,829	\$	\$	\$ (20,615,829)
Instruction	150,216,985	1,106,893	4,348,490	(144,761,602)
Pupil Transportation	13,064,493			(13,064,493)
Community Service	165,909			(165,909)
Debt Service - Unallocated Interest	4,897,344			(4,897,344)
Food Service	3,121,405	2,316,484	637,545	(167,376)
Total Functions/Programs	<u>\$ 192,081,965</u>	<u>\$ 3,423,377</u>	<u>\$ 4,986,035</u>	<u>(183,672,553)</u>
General Revenues				
Real Property Taxes				147,012,262
School Tax Relief Reimbursement				10,519,129
Other Real Property Tax Items				2,024,121
Use of Money and Property				2,481,821
State Sources				28,160,744
Medicaid Reimbursement				1,741
Miscellaneous				788,770
Sale of Property and Compensation for Loss				<u>133,028</u>
Total General Revenues				<u>191,121,616</u>
Change in Net Assets				7,449,063
Net Assets, Beginning of Year				<u>68,712,343</u>
Net Assets, End of Year				<u>\$ 76,161,406</u>

See Notes to Financial Statements

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
(INCLUDING THE RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES)

June 30, 2008

	General	School Lunch	Special Aid	Debt Service	Capital Projects	Total
Assets						
Cash and Cash Equivalents	\$ 34,880,179	\$ 479,196	\$ 1,091,463	\$ 160,712	\$ 7,361,487	\$ 43,973,037
Receivables						
Account Receivables	81,465	3,847				85,312
Other Governments	3,131,763	53,121	1,370,944		2,261,101	6,816,929
Due from Other Funds	6,128,183	63,049	120,000	193,755	44,561	6,549,548
Inventory		46,705				46,705
Total Assets	<u>\$ 44,221,590</u>	<u>\$ 645,918</u>	<u>\$ 2,582,407</u>	<u>\$ 354,467</u>	<u>\$ 9,667,149</u>	<u>\$ 57,471,531</u>
Liabilities						
Payables						
Accounts Payables	\$ 1,557,200	\$	\$	\$	\$	\$ 1,557,200
Accrued Liabilities	142,028	420	55,776			198,224
Due To						
Other Governments		1,274				1,274
Other Funds	120,000	240,040	2,502,773	12,247	420,257	3,295,317
Teachers' Retirement System	8,231,217					8,231,217
Employees' Retirement System	556,527					556,527
Deferred Revenue	275,171	27,409	23,858			326,438
Total Liabilities	<u>10,882,143</u>	<u>269,143</u>	<u>2,582,407</u>	<u>12,247</u>	<u>420,257</u>	<u>14,166,197</u>
Fund Balance						
Fund Balance - Reserved						
Special Reserves	21,424,438	46,705		342,220		21,813,363
Reserve for Encumbrances	427,675		107,648		5,479,414	6,014,737
Fund Balance - Unreserved						
Designated for Subsequent Year's Expenditures	3,639,948					3,639,948
Undesignated	7,847,386	330,070	(107,648)		3,767,478	11,837,286
Total Fund Balance	<u>33,339,447</u>	<u>376,775</u>	<u></u>	<u>342,220</u>	<u>9,246,892</u>	<u>43,305,334</u>
Total Liabilities and Fund Balance	<u>\$ 44,221,590</u>	<u>\$ 645,918</u>	<u>\$ 2,582,407</u>	<u>\$ 354,467</u>	<u>\$ 9,667,149</u>	

Amounts reported for governmental activities in the statement of net assets are different due to the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	130,620,461
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	142,689
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Serial Bonds	(82,567,390)
Accrued Interest Payable	(651,935)
Workers' Compensation Claims Payable	(1,624,565)
Compensated Absences	(13,063,188)
Net Assets of Governmental Activities	<u>\$ 76,161,406</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General	School Lunch	Special Aid	Debt Service	Capital Projects	Total
Revenues						
Real Property Taxes	\$ 147,012,262	\$	\$	\$	\$	\$ 147,012,262
Other Real Property Tax Items	2,024,121					2,024,121
School Tax Relief Reimbursement	10,519,129					10,519,129
Charges for Services	1,106,893					1,106,893
Use of Money and Property	2,334,019	3,504		144,298		2,481,821
Sale of Property and Compensation for Loss	133,028					133,028
Miscellaneous	785,213	3,557	5,927			794,697
State Aid	24,898,783	149,174	1,209,288		3,261,961	29,519,206
Medicaid Reimbursement	1,741					1,741
Federal Aid		488,371	3,133,275			3,621,646
School Lunch Sales		2,316,484				2,316,484
Total Revenues	<u>188,815,189</u>	<u>2,961,090</u>	<u>4,348,490</u>	<u>144,298</u>	<u>3,261,961</u>	<u>199,531,028</u>
Expenditures						
General Support	17,562,797					17,562,797
Instruction	105,956,674		4,352,881			110,309,555
Pupil Transportation	11,126,029		253,026			11,379,055
Community Service	79,669					79,669
Food Service		2,645,968				2,645,968
Employee Benefits	39,316,425	263,176				39,579,601
Capital Outlay					10,929,962	10,929,962
Debt Service - Principal				4,775,000		4,775,000
Debt Service - Interest	1,450,290			3,603,086		5,053,376
Total Expenditures	<u>175,491,884</u>	<u>2,909,144</u>	<u>4,605,907</u>	<u>8,378,086</u>	<u>10,929,962</u>	<u>202,314,983</u>
Excess (Deficit) Revenues Over Expenditures	<u>13,323,305</u>	<u>51,946</u>	<u>(257,417)</u>	<u>(8,233,788)</u>	<u>(7,668,001)</u>	<u>(2,783,955)</u>
Other Financing Sources (Uses)						
Proceeds of Debt					2,178,277	2,178,277
Transfers from Other Funds	45,050		302,467	8,385,487	882,000	9,615,004
Transfers to Other Funds	(9,569,954)		(45,050)			(9,615,004)
Total Other Financing Sources (Uses)	<u>(9,524,904)</u>		<u>257,417</u>	<u>8,385,487</u>	<u>3,060,277</u>	<u>2,178,277</u>
Excess (Deficit) Revenues Over Expenditures and Other Financing Sources (Uses)	<u>3,798,401</u>	<u>51,946</u>		<u>151,699</u>	<u>(4,607,724)</u>	<u>(605,678)</u>
Fund Balance, Beginning of Year	<u>29,541,046</u>	<u>324,829</u>		<u>190,521</u>	<u>13,854,616</u>	<u>43,911,012</u>
Fund Balance, End of Year	<u>\$ 33,339,447</u>	<u>\$ 376,775</u>	<u>\$</u>	<u>\$ 342,220</u>	<u>\$ 9,246,892</u>	<u>\$ 43,305,334</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES AND
EXPENDITURES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Net Changes in Fund Balance - Total Governmental Funds \$ (605,678)

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

	Capital Outlays, net	11,754,676	
	Depreciation and Loss on Disposal Expense	<u>(6,362,609)</u>	5,392,067

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayments of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.

	Amortized Costs of Closing	151,373	
	Amortized Deferred Bond Cost	(10,971)	
	Proceeds of Bonds	(2,178,277)	
	Repayment Bond Principal	<u>4,775,000</u>	2,737,125

Certain expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

	Accrued Interest on Serial Bonds	15,630	
	Workers' Compensation Claims	61,561	
	Compensated Absences	<u>(151,642)</u>	(74,451)

Change in Net Assets Governmental Activities \$ 7,449,063

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Private Purpose Trusts	Agency
Assets		
Cash and Cash Equivalents - Unrestricted	\$ 488,460	\$ 3,615,887
Due from Other Funds		<u>9,448</u>
Total Assets	<u>\$ 488,460</u>	<u>\$ 3,625,335</u>
Liabilities		
Due to Other Fund		\$ 3,263,679
Agency Liabilities		58,750
Extraclassroom Activity Balances		<u>302,906</u>
Total Liabilities		<u>\$ 3,625,335</u>
Net Assets		
Restricted for Scholarships	<u>\$ 488,460</u>	
Total Liabilities and Net Assets	<u>\$ 488,460</u>	

See Notes to Financial Statements

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2008

	<u>Private Purpose Trusts</u>
Additions	
Use of Money and Property	\$ 19,715
Donations	<u>104,576</u>
Total Additions	124,291
 Deductions	
Scholarships and Awards	<u>42,275</u>
 Change in Net Assets	82,016
 Net Assets, Beginning of Year	<u>406,444</u>
 Net Assets, End of Year	<u><u>\$ 488,460</u></u>

See Notes to Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education. 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**

C. Basis of Presentation

District-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the overall governmental 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.

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

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.

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:

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**

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.

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 of Education no later than October 31st and become a lien on December 1. Taxes were 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 the County of Suffolk. An amount representing uncollected real property taxes transmitted to the County for enforcement are paid by the County to the District by June.

F. Restricted Resources

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

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.

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

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

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

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

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

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

J. Receivables

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

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. 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**

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and Building Improvements	\$ 2,000	Straight Line	20-50 Years
Site Improvements	\$ 2,000	Straight Line	20 Years
Furniture and Equipment	\$ 2,000	Straight Line	5-20 Years

M. 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.

N. Vested Employee Benefits – Compensated Absences

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

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

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

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

In the fund financial statements only the amount of matured liabilities is accrued within the general fund based upon expendable and available financial resources.

O. Other Benefits

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

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if District employees are eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. Survivors of retired employees reimburse the District for 100% of the cost. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the general fund, in the year paid.

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

P. Short-Term Debt

The District may issue revenue anticipation notes (RAN) and tax anticipation notes (TAN), in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RANs and TANs represent a liability that will be extinguished by the use of expendable, available resources of the fund.

The District may issue bond anticipation notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

Q. Accrued Liabilities and Long-Term Obligations

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

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

R. Equity Classifications

District-Wide Statements

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

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

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, as amended with an effective date of July 1, 2007, restricts the unreserved, undesignated fund balance of the general fund to an amount not greater than 4% of the 2008-09 budget.

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

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

Reserve for Encumbrances

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

Workers' Compensation Reserve

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

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.

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 years budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. The reserve is accounted for in the general fund.

Property Loss Reserve and Liability Reserve

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

Retirement Contribution Reserve

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

Reserve for Debt Service

Mandatory reserve for debt service (GML §6-1) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvement. Unexpended balances of proceeds of borrowings for capital projects; interest and earnings from investing proceeds of obligations, and premium and accrued interest are recorded in the reserve for debt and held until appropriated for debt payments. The reserve is accounted for in the debt service fund.

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

Reserve for Inventory

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

Reserve for Scholarships

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

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

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

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

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

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

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

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

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

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. Supplemental appropriations in the amount of \$12,856 occurred during the year, which were funded by gifts and donations.

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.

C. Over Expenditure of Certain Appropriations

Certain general fund appropriations were over expended. These were in the following appropriation categories of the budget: general support and instruction. The general fund budget in total was not over expended.

D. Interfund Transactions

The District made interfund transfers during the year, which exceeded amounts provided in the District's budget.

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.

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

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

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

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

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

5. PARTICIPATION IN BOCES

During the year ended June 30, 2008, the District was billed \$6,861,167 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$778,862. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, Dix Hills, New York 11746.

6. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2008, consisted of:

General Fund	
New York State – General Aid	\$ 262,558
New York State – Excess Cost Aid	623,307
BOCES Aid	424,020
Payments In Lieu of Taxes	1,003,819
Other Districts – Charges for Services	<u>818,059</u>
	<u>3,131,763</u>
 School Lunch Fund	
Federal and State School Lunch Reimbursements	53,121
 Special Aid Fund	
Federal and State Grants	786,660
Other Governments Charges for Services	<u>584,284</u>
	<u>1,370,944</u>
 Capital Fund	
Dormitory Authority of the State of New York	<u>2,261,101</u>
 Total	<u>\$ 6,816,929</u>

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

7. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2008, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 2,629,860	\$	\$	\$ 2,629,860
Construction in Progress	<u>7,804,819</u>	<u>10,390,154</u>		<u>18,194,973</u>
	<u>10,434,679</u>	<u>10,390,154</u>		<u>20,824,833</u>
Capital Assets Being Depreciated				
Buildings and Improvements	173,726,719		(367)	173,726,352
Site Improvements	3,995,538	79,368		4,074,906
Vehicles	3,056,200	386,061		3,442,261
Furniture, Equipment, and Vehicles	<u>8,369,533</u>	<u>899,093</u>	<u>(3,856)</u>	<u>9,264,770</u>
	<u>189,147,990</u>	<u>1,364,522</u>	<u>(4,223)</u>	<u>190,508,289</u>
Accumulated Depreciation				
Buildings and Improvements	67,090,699	4,693,767		71,784,466
Site Improvements	1,142,301	198,096		1,340,397
Vehicles	1,840,497	287,581		2,128,078
Furniture, Equipment, and Vehicles	<u>4,280,778</u>	<u>1,181,499</u>	<u>2,557</u>	<u>5,459,720</u>
	<u>74,354,275</u>	<u>6,360,943</u>	<u>2,557</u>	<u>80,712,661</u>
Net Capital Assets	<u>\$ 125,228,394</u>	<u>\$ 5,393,733</u>	<u>\$ (1,666)</u>	<u>\$ 130,620,461</u>

Depreciation expense was allocated to governmental functions as follows:

General Support	\$ 330,196
Instruction	5,562,930
Pupil Transportation	409,918
Community Services	56,907
School Lunch	992
Total Depreciation Expense	<u>\$ 6,360,943</u>

8. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2008, are as follows:

<u>Fund</u>	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenues</u>	<u>Expenditures</u>
General	\$ 6,128,183	\$ 120,000	\$ 45,050	\$ 9,569,954
School Lunch	63,049	240,040		
Special Aid	120,000	2,502,773	302,467	45,050
Debt Service	193,755	12,247	8,385,487	
Capital Projects	44,561	420,257	882,000	
Fiduciary	<u>9,448</u>	<u>3,263,679</u>		
Total Government Activities	<u>\$ 6,558,996</u>	<u>\$ 6,558,996</u>	<u>\$ 9,615,004</u>	<u>\$ 9,615,004</u>

- The District transferred \$302,467 from the General Fund to the Special Aid Fund to cover the District's portion of the summer handicapped program.
- The District made an annual transfer of \$8,385,487 from the General Fund to the Debt Service Fund for required annual debt service expenditures.

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

- The District also made a transfer of \$882,000 of local appropriations from the General Fund to the Capital Projects Fund for 2007-2008 voter approved capital projects.
- The District transferred \$45,050 from the Special Aid Fund to the General Fund for indirect costs.

9. SHORT-TERM DEBT

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

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
TAN	06/27/08	3.69-4.25%	\$ 0	\$ 43,000,000	\$ 43,000,000	\$ 0

Interest paid on short-term debt for the year was \$1,450,290.

10. LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Long-Term Debt					
Bonds Payable	\$ 84,710,000	\$ 2,178,272	\$ (4,775,000)	\$ 82,113,272	\$ 4,870,000
Deferred Amounts on Refunding	605,491		(151,373)	454,118	151,373
	<u>85,315,491</u>	<u>2,178,272</u>	<u>(4,926,373)</u>	<u>82,567,390</u>	<u>5,021,373</u>
Other Long-Term Liabilities					
Workers' Compensation	1,686,126	721,209	(782,770)	1,624,565	634,313
Compensated Absences	12,911,546	1,155,850	(1,004,208)	13,063,188	21,576
	<u>14,597,672</u>	<u>1,877,059</u>	<u>(1,786,978)</u>	<u>14,687,753</u>	<u>655,889</u>
Total Long-Term Liabilities	<u>\$ 99,913,163</u>	<u>\$ 4,055,331</u>	<u>\$ (6,713,351)</u>	<u>\$ 97,255,143</u>	<u>\$ 5,677,262</u>

In prior years, the District defeased certain general obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2008, \$19,000,000 of defeased bonds are still outstanding.

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

Bonds payable, which were issued for capital construction, are comprised of the following:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2008</u>
Serial Bonds				
Sunquam Construction	1999	2010	4.00-4.10%	\$ 1,600,000
District-wide Construction	2001	2021	4.25-5.00%	5,000,000
District-wide Construction	2003	2023	3.50-4.38%	13,565,000
District-wide Construction	2004	2024	3.50-4.25%	17,755,000
District-wide Construction	2005	2025	4.00-4.75%	23,610,000
District-wide Construction	2007	2021	3.78-4.35%	18,405,000
District-wide Construction	2008	2023	3.50-4.00%	2,178,272
Total				<u>\$ 82,113,272</u>

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

The following is a summary of debt service requirements:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 4,870,000	\$ 4,407,332	\$ 9,277,332
2010	5,213,272	4,211,145	9,424,417
2011	4,500,000	4,018,243	8,518,243
2012	4,555,000	2,921,561	7,476,561
2013	4,750,000	2,740,805	7,490,805
2014-2018	26,280,000	10,440,025	36,720,025
2019-2023	26,745,000	4,338,241	31,083,241
2024-2025	5,200,000	291,094	5,491,094
Total	\$ <u>82,113,272</u>	\$ <u>33,368,446</u>	\$ <u>115,481,718</u>

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

Interest Paid	\$ 3,603,086
Less: Interest Accrued in the Prior Year	(667,565)
Plus: Interest Accrued in the Current Year	651,935
Plus: Amortization of Bond Costs (Prepaid)	10,971
Less: Amortization Closing Costs (Deferral)	<u>(151,373)</u>
Total Interest Expense on Long-Term Debt	<u>\$ 3,447,054</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.

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

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

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>
2008	\$ 6,722,100	\$ 1,804,318
2007	\$ 6,340,247	\$ 2,016,912
2006	\$ 5,755,211	\$ 1,972,650

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 \$7,596,022 for 917 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; and natural disasters. These risks are covered by a combination of self-insurance reserves and commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded available reserves and commercial insurance coverage for the past three years.

The District has established a self-insured plan for risks associated with workers' compensation claims. 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>2008</u>	<u>2007</u>
Unpaid Claims at Beginning of Year	\$ 1,686,126	\$ 1,175,957
Incurred Claims and Claim Adjustment Expenses	721,209	984,090
Claim Payments	(782,770)	(473,921)
Unpaid Claims at Year End	<u>\$ 1,624,565</u>	<u>\$ 1,686,126</u>

14. FUND BALANCES

Unreserved: Designated for Subsequent Year's Expenditures

The amount of \$3,639,948 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2009.

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

Summary of Special Reserves – General Fund:

The following is a summary of the change in General Fund Special Reserve funds during the year ended June 30, 2008:

<u>Reserve</u>	<u>Balance at 07/01/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 06/30/08</u>
Workers Compensation	\$ 2,232,213	\$ 74,195	\$	\$ 2,306,408
Unemployment Insurance	274,748	9,132		283,880
Employee Benefit Accrued Liability	12,545,193	416,990		12,962,183
Retirement Contribution	4,923,665	163,657		5,087,322
Liability	299,999	9,972		309,971
Property Loss	459,404	15,270		474,674
Total	<u>\$ 20,735,222</u>	<u>\$ 689,216</u>	<u>\$</u>	<u>\$ 21,424,438</u>

15. COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$292,289. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 265,612
2010	259,933
2011	<u>22,836</u>
Total	<u>\$ 548,381</u>

16. SUBSEQUENT EVENTS

On July 30, 2008, the District issued tax anticipation notes in the amount of \$40,000,000, which are due June 30, 2009 and bear interest at rates ranging from 1.54% to 3.00%.

18. NEW ACCOUNTING PRONOUNCEMENTS

In June 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". GASB 45 requires employer governments to account for and report the annual cost of other postemployment benefits in the same manner as they do for pensions. This statement is effective for the School District's financial statements for year ending June 30, 2009.

The School District provides certain health care benefits for its retired employees. Retired employees meeting certain qualifications are eligible to participate in the School District's Health Insurance Program along with the School District's active employees. In addition, retirees receive a direct subsidy to offset health care costs during retirement.

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

In 2008, the School District contracted with an actuarial firm to determine its preliminary liability assuming no changes to the benefit package in place at the time. The process will yield an unfunded actuarial accrued liability (AAL) with an annual required contribution (ARC).

A portion of the AAL must be accrued annually on the District-wide financial statements.

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, 2008

	Original Budget	Final Budget	Actual	Final Budget Variance With Actual
Revenues				
Local Sources				
Real Property Taxes	\$ 147,530,742	\$ 147,530,742	\$ 147,012,262	\$ (518,480)
Other Real Property Tax Items	1,100,000	1,100,000	2,024,121	924,121
School Tax Relief Reimbursement	10,000,000	10,000,000	10,519,129	519,129
Charges for Services	546,500	546,500	1,115,962	569,462
Use of Money and Property	1,236,000	1,236,000	2,324,950	1,088,950
Sale of Property and Compensation for Loss			133,028	133,028
Miscellaneous	350,000	363,000	785,213	422,213
Interfund revenues	10,000	10,000		(10,000)
State Aid	24,630,727	24,630,727	24,898,783	268,056
Federal Aid - Medicaid Reimbursement	10,000	10,000	1,741	(8,259)
Total Revenues	185,413,969	185,426,969	188,815,189	3,388,220
Other Financing Sources				
Transfers from Other Funds			45,050	45,050
Total Revenues and Other Financing Sources	185,413,969	185,426,969	188,860,239	3,433,270
Appropriated Fund Balance	3,168,549	3,168,405		(3,168,405)
Total Revenues, Other Financing Sources and Appropriated Fund Balance	\$ 188,582,518	\$ 188,595,374	188,860,239	\$ 264,865

See Paragraph on Supplementary Information Including in Auditors' Report

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, 2008

	Original Budget	Final Budget	Actual	Year-End Encumbrances	Final Budget Variance With Actual And Encumbrances
Expenditures					
General Support					
Board of Education	\$ 97,083	\$ 97,177	\$ 92,161	\$	\$ 5,016
Central Administration	487,032	520,907	521,138		(231)
Finance	1,416,578	1,462,140	1,448,279	14,094	(233)
Staff	952,464	933,041	866,458		66,583
Central Services	13,810,243	13,687,495	12,992,290	126,077	569,128
Special Items	1,563,484	1,650,593	1,642,471		8,122
Total General Support	18,326,884	18,351,353	17,562,797	140,171	648,385
Instruction					
Instruction, Administration, and Improvement	7,098,261	7,229,097	7,068,509	9,004	151,584
Teaching - Regular School	65,541,976	65,425,594	63,996,776	140,309	1,288,509
Programs for Children With Special Needs	19,526,991	19,968,865	19,947,215	27,388	(5,738)
Occupational Education	633,600	633,600	633,600		
Teaching - Special School	530,605	552,387	500,635	1,199	50,553
Instructional Media	4,486,845	4,469,299	4,203,036	47,042	219,221
Pupil Services	9,870,203	9,868,900	9,606,903	62,302	199,695
Total Instruction	107,688,481	108,147,742	105,956,674	287,244	1,903,824
Pupil Transportation	11,309,043	11,376,028	11,126,029	260	249,739
Community Services	68,900	79,073	79,669		(596)
Employee Benefits	39,872,555	39,634,233	39,316,425		317,808
Debt Service - Interest	1,760,000	1,450,290	1,450,290		
Total Expenditures	179,025,863	179,038,719	175,491,884	427,675	3,119,160
Other Financing Uses					
Transfers to Other Funds	9,556,655	9,556,655	9,569,954		(13,299)
Total Expenditures and Other Financing Uses	\$ 188,582,518	\$ 188,595,374	\$ 185,061,838	\$ 427,675	\$ 3,105,861
Net Change in Fund Balances			\$ 3,798,401		

See Paragraph on Supplementary Information Including in Auditors' Report

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
SCHEDULES OF CHANGE FROM ORIGINAL BUDGET TO FINAL BUDGET
AND USE OF UNRESERVED FUND BALANCE - GENERAL FUND
For the Year Ended June 30, 2008

Change from Adopted Budget to Final Budget

Adopted Budget	\$ 187,913,969
Add: Prior Year's Encumbrances	<u>668,549</u>
Original Budget	188,582,518
Add: Budget Revisions	<u>12,856</u>
Final Budget	<u>\$ 188,595,374</u>

Next year's budget is a voter-approved budget of \$ 196,188,300

Use of Unreserved Fund Balance

Unreserved Fund Balance - As of the Beginning of the Year	\$ 8,137,419
Less: Designated Fund Balance Used For Subsequent Year's Appropriations	<u>2,500,000</u>
Undesignated Fund Balance - As of the Beginning of the Year	<u>\$ 5,637,419</u>

HALE HOLLOW HILLS CENTRAL SCHOOL DISTRICT

Less: EXCEL aid due to District

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES
COMPARED TO ST-3 DATA
For the Year Ended June 30, 2008

	Audited Code	ST-3 Amount	Audited Amount
Revenues			
Real Property Taxes	A -1001	\$ 147,012,262	\$ 147,012,262
Non-Property Taxes	AT-1199	\$	\$
State Aid	AT-3999	\$ 24,898,783	\$ 24,898,783
Federal Aid - Medicaid Reimbursements	AT-4999	\$ 1,741	\$ 1,741
Total Revenues	AT-5999	\$ 188,860,239	\$ 188,860,239
Expenditures			
General Support	AT-1999	\$ 17,562,797	\$ 17,562,797
Pupil Transportation	AT-5599	\$ 11,126,029	\$ 11,126,029
Debt Service - Principal	AT-9798.6	\$	\$
Debt Service - Interest	AT-9798.7	\$ 1,450,290	\$ 1,450,290
Total Expenditures	AT-9999	\$ 185,061,838	\$ 185,061,838

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
For the Year Ended June 30, 2008

Capital Assets, Net	\$ 130,620,461
Add:	
Unamortized Bond Issuance Costs	142,689
Less:	
Serial Bonds Payable	(82,567,390)
Less: Capital Fund Unspent Bond Proceeds	<u>1,540,232</u>
	<u>(80,884,469)</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 49,735,992</u>

See Paragraph on Supplementary Information Including in Auditors' Report

**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, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Half Hollow Hills Central School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Half Hollow Hills Central School District in a separate letter dated October 10, 2008.

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

Coughlin, Foundatos, Cullen, & Demowski, LLP

October 10, 2008

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR FINDINGS
For the Year Ended June 30, 2008

There were no prior findings.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008

There are no findings to be reported.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2008

The corrective action plan is not required.