



HUNTINGTON UNION FREE SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES WITH
INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2006

**HUNTINGTON UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Huntington Union Free School District
Huntington, New York

We have audited the financial statements of the governmental activities, each major fund and the fiduciary funds of the Huntington Union Free School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund as well as the fiduciary funds of the Huntington Union Free School District as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2006, on our consideration of the Huntington Union Free School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 10 and 35 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The other supplementary information on pages 36 through 39 is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the other supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the Huntington Union Free School District basic financial statements. The accompanying schedule of expenditures, summary schedule of prior audit findings and corrective action plan are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements of Huntington Union Free School District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The summary schedule of prior audit findings and corrective action plan have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Coughlin, Fournelle, Cullen, Demowski, LLP

September 28, 2006

HUNTINGTON UNION FREE SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

The Huntington Union Free 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, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole. This should be read in conjunction with the financial statements, which immediately follow this section.

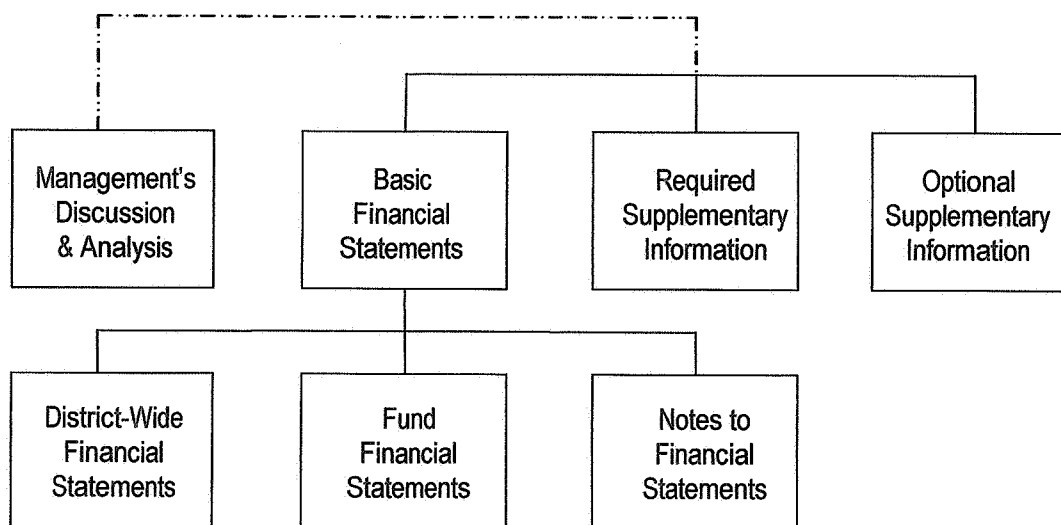
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2006 are as follows:

- On the district-wide financial statements, the District's total net assets increased by \$3,792,880 or 26.39%. This was due to an excess of revenues over expenses on the accrual basis of accounting.
- The District funded \$1,500,000 into a capital reserve originally established in accordance with a proposition approved by the voters in June 2003. The District has thus far funded the reserve with \$6,352,000. The maximum funding allowed is \$8,000,000. The District continues to seek voter approval to spend these funds for district-wide improvements in the future.
- On December 6, 2005, voters approved a bond in the amount of \$3,365,000. The District's favorable bond rating will have a positive financial impact on the borrowing.
- On the balance sheet, the District's unreserved, undesignated fund balance at year end was \$1,889,273. This represents an increase of 5.76% over the prior year. The unreserved, undesignated fund balance at year end was within the statutory limit authorized by New York State Law.
- On the district-wide financial statements, the District's expenses for the year totaled \$90,983,884. Of this amount, \$4,979,193 was offset by program charges for services and operating grants. General revenues of \$89,797,571 amounted to 94.75% of total revenues, and were adequate to cover the balance of program expenses.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



**HUNTINGTON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

A. District-wide Financial Statements

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

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

The Statement of Net Assets

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

The Statement of Activities

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

B. Fund Financial Statements

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

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

Governmental Funds

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

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

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

HUNTINGTON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Fiduciary Funds

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

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Assets

The Districts total net assets increased by \$3,792,880 between fiscal year 2005 and 2006. A summary of the District's Statement of Net Assets for June 30, 2006 and 2005 is as follows:

| | 2006 | 2005 | Increase (Decrease) | Percentage Change |
|--|----------------------|----------------------|------------------------|----------------------|
| Current and Other Assets | \$ 17,987,165 | \$ 19,135,197 | \$ (1,148,032) | (6.00)% |
| Capital Assets | <u>20,822,337</u> | <u>17,733,647</u> | <u>3,088,690</u> | 17.42 % |
| Total Assets | <u>38,809,502</u> | <u>36,868,844</u> | <u>1,940,658</u> | 5.26 % |
| Long-Term Liabilities | 16,098,878 | 18,164,871 | (2,065,993) | (11.37)% |
| Other Liabilities | <u>4,547,920</u> | <u>4,334,149</u> | <u>213,771</u> | 4.93 % |
| Total Liabilities | <u>20,646,798</u> | <u>22,499,020</u> | <u>213,771</u> | (8.23)% |
| Net Assets | | | | |
| Invested in Capital Assets, Net of Related Debt | 10,420,375 | 6,912,495 | 3,507,880 | 50.75 % |
| Restricted for capital reserve | 2,552,802 | 4,026,339 | (1,473,537) | (36.60)% |
| Unrestricted | <u>5,189,527</u> | <u>3,430,990</u> | <u>1,758,537</u> | 51.25 % |
| Total Net Assets | <u>\$ 18,162,704</u> | <u>\$ 14,369,824</u> | <u>\$ 3,792,880</u> | 26.39 % |

The majority of the District's net assets are invested in capital assets - land, buildings and improvements, site improvements, and furniture and equipment, net of related debt.

B. Changes in Net Assets

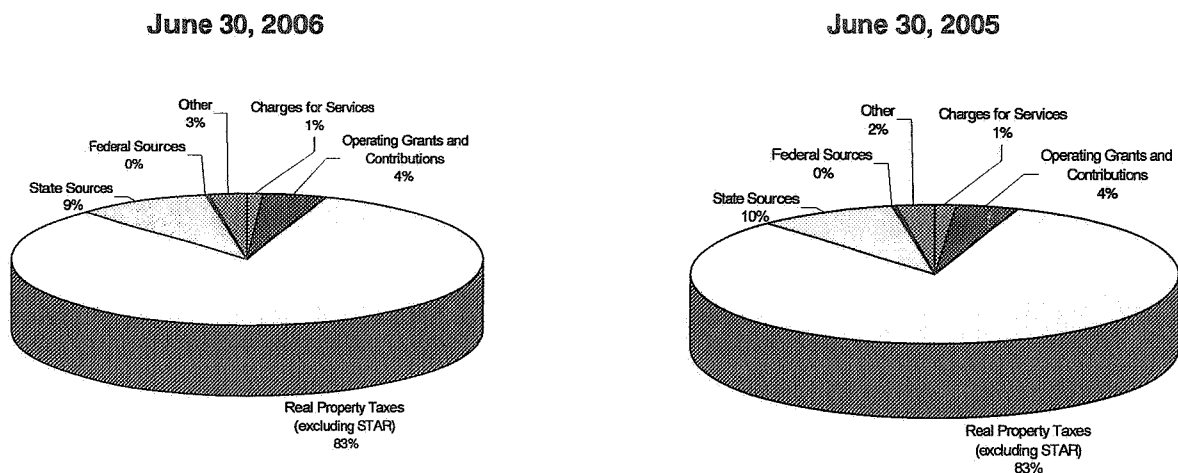
The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. A summary of this statement for the years ended June 30, 2006 and 2005 is as follows:

**HUNTINGTON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

| | <u>2006</u> | <u>2005</u> | <u>Increase (Decrease)</u> | <u>Percentage Change</u> |
|--------------------------------------|---------------------|---------------------|--------------------------------|------------------------------|
| Revenues | | | | |
| Program Revenues | | | | |
| Charges for Services | \$ 1,149,673 | \$ 1,143,141 | \$ 6,532 | 0.57 % |
| Operating Grants and Contributions | 3,829,520 | 3,806,767 | 22,753 | 0.60 % |
| General Revenues | | | | |
| Real Property Taxes (excluding STAR) | 78,116,838 | 73,382,818 | 4,734,020 | 6.45 % |
| State Sources | 8,779,348 | 8,286,138 | 493,210 | 5.95 % |
| Federal Sources | 317,179 | 354,353 | (37,174) | (10.49)% |
| Other | 2,584,206 | 2,106,873 | 477,333 | 22.66 % |
| Total Revenues | <u>94,776,764</u> | <u>89,080,090</u> | <u>5,696,674</u> | 6.40 % |
| Expenses | | | | |
| General Support | 10,414,607 | 10,692,233 | (277,626) | (2.60)% |
| Instruction | 71,160,555 | 65,935,069 | 5,225,486 | 7.93 % |
| Transportation | 6,782,193 | 6,486,600 | 295,593 | 4.56 % |
| Community Services | 124,620 | | 124,620 | 100.00 % |
| Debt Service | 1,067,410 | 783,955 | 283,455 | 36.16 % |
| Cost of Sales - Food | 1,434,499 | 1,364,047 | 70,452 | 5.16 % |
| Depreciation | | 858,194 | (858,194) | (100.00)% |
| Total Expenses | <u>90,983,884</u> | <u>86,120,098</u> | <u>4,863,786</u> | 5.65 % |
| Change in Net Assets | <u>\$ 3,792,880</u> | <u>\$ 2,959,992</u> | <u>\$ 832,888</u> | 28.14 % |
| Other Changes in Net Assets | | <u>(213,703)</u> | | |
| Increase in Net Assets | | <u>\$ 2,746,289</u> | | |

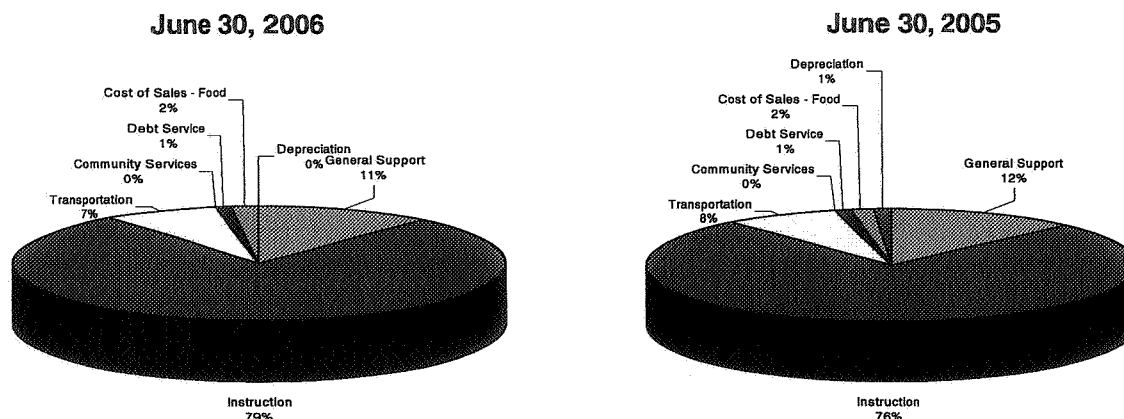
The District's net assets increased by \$3,792,880 and \$2,746,289 for the years ended June 30, 2006 and 2005, respectively. As indicated on the pie charts that follow, real property taxes comprise the largest component of revenues recognized, 83% of the total for the two years. Instructional expenses are the largest category of expenses incurred comprising 79% and 76% of the total for the years ended June 30, 2006 and 2005.

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



**HUNTINGTON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2006, the District's governmental funds reported a combined fund balance of \$12,509,898 which is a decrease of \$1,075,722 from the prior year. This decrease is due to an excess of expenditures over revenues. A summary of the change in fund balance by fund is as follows:

| | 2006 | 2005 | Changes |
|--|----------------------|----------------------|-----------------------|
| General Fund | | | |
| Reserve for encumbrances | \$ 819,478 | \$ 845,418 | \$ (25,940) |
| Reserve for Workers' Compensation | 1,876,600 | 1,103,000 | 773,600 |
| Reserve for Employee Benefit | | | |
| Accrued Liability | 1,218,330 | 1,218,330 | - |
| Unreserved - Designated for subsequent year's expenditures | 1,350,000 | 1,175,000 | 175,000 |
| Unreserved - Undesignated | 1,889,273 | 1,786,378 | 102,895 |
| | <u>7,153,681</u> | <u>6,128,126</u> | <u>1,025,555</u> |
| School Lunch Fund | | | |
| Reserve for Encumbrances | | 9,424 | (9,424) |
| Reserve for Inventory | 21,264 | 46,483 | (25,219) |
| Unreserved - Undesignated | 188,032 | 130,431 | 57,601 |
| | <u>209,296</u> | <u>186,338</u> | <u>22,958</u> |
| Debt Service Fund | | | |
| Reserve for Debt | 107,229 | 58,994 | 48,235 |
| Capital Projects Fund | | | |
| Reserve for Encumbrances | 1,560,972 | 1,052,529 | 508,443 |
| Reserve for Capital | 2,552,802 | 4,026,339 | (1,473,537) |
| Unreserved - Undesignated | 925,918 | 2,133,294 | (1,207,376) |
| | <u>5,039,692</u> | <u>7,212,162</u> | <u>(2,172,470)</u> |
| Total Fund Balance | <u>\$ 12,509,898</u> | <u>\$ 13,585,620</u> | <u>\$ (1,075,722)</u> |

A. General Fund

The District increased the reserve for workers' compensation and the unreserved – designated for subsequent year's expenditures during fiscal year 2006. The District was able to provide funding in the amount of \$773,600 for the reserve for workers' compensation and to increase the unreserved – designated for subsequent year's expenditures amount to \$1,350,000. The underexpenditure of the budget was the source of these fundings.

**HUNTINGTON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

B. Capital Projects Fund

In the Capital Projects fund the District had significant expenditures on projects that were funded from the usage of capital reserve monies, resulting in a \$2,172,470 decrease in equity. The increase in reserve for encumbrance is due to projects in process at year end.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2005-06 Budget

The District's General fund original budget for the year ended June 30, 2006 was \$89,347,634. This amount was increased by encumbrances carried forward from the prior year in the amount of \$845,418, budget revisions of \$97,126 and a transfer into the capital reserve for \$1,500,000, for a total revised budget of \$91,790,178.

The budget was funded through a combination of revenues and designated fund balance. The majority of this funding source was \$78,116,838 in property taxes and STAR receipts.

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 prior years' budgets. 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 | \$ 1,786,378 |
| Revenues Over Budget | 1,011,936 |
| Expenditures and Encumbrances Under Budget | 2,714,559 |
| Net Change in Reserves | (773,600) |
| Transfer to Capital Reserves in Capital Projects Fund | (1,500,000) |
| Appropriated for June 30, 2007 Budget | <u>(1,350,000)</u> |
| Closing, Unreserved - Undesignated Fund Balance | <u><u>\$ 1,889,273</u></u> |

Opening, Unreserved - Undesignated Fund Balance

The \$1,786,378 shown in the table is the portion of the District's June 30, 2005 fund balance that was retained as undesignated. This was approximately 2.0% of the District's 2005-06 approved operating budget of \$89,347,634. It is the maximum undesignated fund balance permitted by law, and is generally regarded as a positive financial management indicator.

Revenues Over Budget

The 2005-06 budget for revenues was \$88,269,761. Actual revenues received for the year were \$89,281,697. The excess of actual revenue over estimated or budgeted revenue was \$1,011,796 as shown in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund. The majority of this excess revenue was due to excesses of \$395,707 in charges for services, \$217,057 in use of money and property and \$334,423 in miscellaneous revenue. This change contributes directly to the change to the undesignated portion of the general fund fund balance from June 30, 2005 to June 30, 2006.

**HUNTINGTON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

Expenditures and Encumbrances Under Budget

The 2005-06 budget for expenditures, including budget revisions and prior year open encumbrances as of June 30, 2005, was \$91,790,179. Actual expenditures as of June 30, 2006 were \$88,256,142 plus outstanding encumbrances of \$819,478. Combined, the expenditures plus encumbrances for 2005-06 was \$89,075,620. The final budget was under-expended by \$2,714,559. The under-expenditure of the 2005-06 budget is shown in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund. This under-expenditure contributes to the change to the undesignated portion of the general fund fund balance from June 30, 2005 to June 30, 2006.

Reserves

Monies transferred from budget lines within the general fund operating budget into required reserves such as the workers' compensation reserve, the employee benefit accrued liability reserve or the repair reserve do not affect the combined reserved, designated and undesignated fund balance unless, and until these monies are actually expended. The transfers do, however, reduce the District's discretion regarding the use of these transferred monies, and thus, reduce the undesignated portion of the fund balance by the amount of the transfers.

The above table reflects one approved transfer of \$773,600 to the reserve for workers' compensation.

The \$1,500,000 of transfer to the capital reserve was in accordance with Proposition No. 2, passed by the voters on June 3, 2003.

Appropriated Fund Balance

The District has chosen to use \$1,350,000 of its available June 30, 2006 fund balance to partially fund its 2006-07 approved operating budget.

Closing, Unreserved - Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2006-07 fiscal year with an undesignated fund balance of \$1,889,273. This is a slight increase of \$102,895 over the undesignated balance from the prior year as of June 30, 2005. This undesignated portion remains within the permissible 2.0% statutory maximum and is an indicator of stability in the District's management of its undesignated general fund fund balance.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2006, the District had \$20,822,337 invested in a broad range of capital assets, including land, buildings and improvements, site improvements, and furniture and equipment. This amount represents a 17.42% increase over the prior year. Capital assets net of depreciation at June 30 were as follows:

| | <u>2006</u> | <u>2005</u> | <u>Increase (Decrease)</u> |
|----------------------------|----------------------|----------------------|--------------------------------|
| Land | \$ 1,545,142 | \$ 1,545,142 | \$ |
| Buildings and improvements | 13,908,127 | 12,150,855 | 1,757,272 |
| Site improvements | 679,195 | 149,862 | 529,333 |
| Construction in progress | 3,168,018 | 2,195,164 | 972,854 |
| Furniture and equipment | 1,521,855 | 1,692,624 | (170,769) |
| Capital assets, net | <u>\$ 20,822,337</u> | <u>\$ 17,733,647</u> | <u>\$ 3,088,690</u> |

**HUNTINGTON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

B. Debt Administration

At June 30, 2006, the District had total bonds payable of \$8,135,000. The District made principal payments of \$1,660,000 and interest payments of \$428,500.

Outstanding debt at June 30 was as follows:

| <u>Issue Date</u> | <u>2006</u> | <u>2005</u> | <u>Increase (Decrease)</u> |
|-------------------|---------------------|---------------------|--------------------------------|
| May 1998 | \$ 5,565,000 | \$ 6,240,000 | \$ (675,000) |
| February 1999 | 2,275,000 | 2,975,000 | (700,000) |
| September 2002 | 295,000 | 580,000 | (285,000) |
| | <u>\$ 8,135,000</u> | <u>\$ 9,795,000</u> | <u>\$ (1,660,000)</u> |

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The general fund budget, the only fund with a legally adopted budget, as approved by the voters for the year ending June 30, 2007 is \$94,480,693. This is an increase of 5.75% over the previous year's budget. The District's budgeted revenues anticipated an increase in state aid and an increase in expenditures coming predominantly from salary and benefit costs. A property tax increase of 5.82% was needed to meet the revenue shortfall and cover the increase in projected expenditures.

8. CONTACTING THE DISTRICT

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

Mr. David Grackin
Assistant Superintendent, Finance & Management Services
Huntington Union Free School District
P.O. Box 1500
Huntington, New York 11743

HUNTINGTON UNION FREE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

ASSETS

| | |
|----------------------------|-----------------------------|
| Cash | |
| Unrestricted | \$ 14,782,745 |
| Restricted | 33,843 |
| Receivables | |
| Accounts receivable | 703,571 |
| Due from other governments | 1,917,556 |
| Other assets | 528,186 |
| Inventory | 21,264 |
| Capital assets, net | <u>20,822,337</u> |
| Total Assets | <u><u>\$ 38,809,502</u></u> |

LIABILITIES

| | |
|-------------------------------------|-------------------|
| Payables | |
| Accounts payable | \$ 370,036 |
| Accrued liabilities | 270,376 |
| Retained percentages | 235,069 |
| Due to other funds | 6,500 |
| Due to other governments | 832 |
| Deferred revenues | 20,400 |
| Due to teachers' retirement system | 3,364,418 |
| Due to employees' retirement system | 280,289 |
| Long-term liabilities | |
| Due and payable within one year | |
| Bonds payable | 1,720,000 |
| Installment purchase debt | 116,827 |
| Compensated absences payable | 291,203 |
| Due and payable after one year | |
| Bonds payable | 6,415,000 |
| Installment purchase debt | 2,235,732 |
| Compensated absences payable | 4,044,800 |
| Other liabilities | <u>1,275,316</u> |
| Total Liabilities | <u>20,646,798</u> |

NET ASSETS

| | |
|---|-----------------------------|
| Investment in capital assets, net of related debt | 10,420,375 |
| Restricted for: | |
| Capital reserve | 2,552,802 |
| Unrestricted | <u>5,189,527</u> |
| Total Net Assets | <u>18,162,704</u> |
| Total Liabilities and Net Assets | <u><u>\$ 38,809,502</u></u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT

Statement of Activities

For The Year Ended June 30, 2006

| | | Program Revenues | | Net (Expense) |
|--|----------------------|----------------------|---------------------|-----------------------------------|
| | Expenses | Charges for Services | Operating Grants | Revenue and Changes in Net Assets |
| FUNCTIONS/PROGRAMS | | | | |
| Governmental Activities: | | | | |
| General support | \$ 10,414,607 | \$ | \$ | \$ (10,414,607) |
| Instruction | 71,160,555 | 387,085 | 3,148,141 | (67,625,329) |
| Pupil transportation | 6,782,193 | | | (6,782,193) |
| Community services | 124,620 | | | (124,620) |
| Interest | 1,067,410 | | | (1,067,410) |
| School lunch program | 1,434,499 | 762,588 | 681,379 | 9,468 |
| | | | | |
| Total Governmental Activities | <u>\$ 90,983,884</u> | <u>\$ 1,149,673</u> | <u>\$ 3,829,520</u> | <u>(86,004,691)</u> |
| GENERAL REVENUES | | | | |
| Real property taxes | | | | 78,116,838 |
| Other tax items | | | | 139,814 |
| Use of money and property | | | | 1,166,902 |
| Sale of property and compensation for loss | | | | 2,000 |
| Miscellaneous | | | | 460,137 |
| Intergovernmental revenue | | | | 815,353 |
| State sources | | | | 8,779,348 |
| Medicaid reimbursement | | | | 317,179 |
| | | | | |
| Total General Revenues | | | | <u>89,797,571</u> |
| Change in Net Assets | | | | 3,792,880 |
| Net Assets - Beginning of year | | | | <u>14,369,824</u> |
| Net Assets - End of year | | | | <u>\$ 18,162,704</u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2006

| | General | Special Aid | School Lunch | Debt Service | Capital Projects | Total Governmental Funds |
|--|----------------------|---------------------|-------------------|-------------------|---------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash | | | | | | |
| Unrestricted | \$ 13,131,974 | \$ 457,791 | \$ 107,034 | \$ 63,697 | \$ 1,022,249 | \$ 14,782,745 |
| Restricted | | | | 33,843 | | 33,843 |
| Receivables | | | | | | |
| Accounts receivable | 703,571 | | | | | 703,571 |
| Due from other funds | 1,366,094 | | | 9,689 | 4,531,644 | 5,907,427 |
| Due from other governments | 1,187,174 | 639,973 | 90,409 | | | 1,917,556 |
| Other assets | 528,186 | | | | | 528,186 |
| Inventory | | | 21,264 | | | 21,264 |
| Total Assets | <u>\$ 16,916,999</u> | <u>\$ 1,097,764</u> | <u>\$ 218,707</u> | <u>\$ 107,229</u> | <u>\$ 5,553,893</u> | <u>\$ 23,894,592</u> |
| LIABILITIES | | | | | | |
| Payables | | | | | | |
| Accounts payable | \$ 348,762 | | \$ 8,579 | | \$ 12,695 | \$ 370,036 |
| Accrued liabilities | 74,473 | | | | | 74,473 |
| Retained percentages | | | | | 235,069 | 235,069 |
| Due to other funds | 4,549,726 | 1,097,764 | | | 266,437 | 5,913,927 |
| Due to other governments | | | 832 | | | 832 |
| Due to teachers' retirement system | 3,364,418 | | | | | 3,364,418 |
| Due to employees' retirement system | 280,289 | | | | | 280,289 |
| Compensated absences payable | 291,203 | | | | | 291,203 |
| Deffered Credits | | | | | | |
| Deferred revenues | 854,447 | | | | | 854,447 |
| Total Liabilities | <u>9,763,318</u> | <u>1,097,764</u> | <u>9,411</u> | <u>-</u> | <u>514,201</u> | <u>11,384,694</u> |
| FUND BALANCES | | | | | | |
| Reserved for encumbrances | 819,478 | | | | 1,560,972 | 2,380,450 |
| Reserved other | 3,094,930 | | 21,264 | 107,229 | 2,552,802 | 5,776,225 |
| Unreserved - Designated for subsequent year's expenditures | 1,350,000 | | | | | 1,350,000 |
| Unreserved - Undesignated | 1,889,273 | | 188,032 | | 925,918 | 3,003,223 |
| Total Fund Balances | <u>7,153,681</u> | <u>-</u> | <u>209,296</u> | <u>107,229</u> | <u>5,039,692</u> | <u>12,509,898</u> |
| Total Liabilities and Fund Balances | <u>\$ 16,916,999</u> | <u>\$ 1,097,764</u> | <u>\$ 218,707</u> | <u>\$ 107,229</u> | <u>\$ 5,553,893</u> | <u>\$ 23,894,592</u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2006

| | |
|----------------------------------|----------------------|
| Total Governmental Fund Balances | <u>\$ 12,509,898</u> |
|----------------------------------|----------------------|

Amounts reported for governmental activities in the statement of net assets are different because:

The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the district as a whole, and their original costs are expensed annually over their useful lives.

| | |
|---------------------------------|---------------------|
| Original cost of capital assets | 42,374,501 |
| Accumulated depreciation | <u>(21,552,164)</u> |
| | <u>20,822,337</u> |

| | |
|---|----------------|
| Other long-term assets that are not available to pay current-period expenditures and, therefore deferred in the governmental funds. | <u>834,047</u> |
|---|----------------|

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

| | |
|-----------------------------------|---------------------|
| Bonds payable | (8,135,000) |
| Accrued interest on bonds payable | (195,903) |
| Installment purchase debt | (2,352,559) |
| Compensated absences | (4,044,800) |
| Workers' compensation liabilities | <u>(1,275,316)</u> |
| | <u>(16,003,578)</u> |

| | |
|------------------|----------------------|
| Total Net Assets | <u>\$ 18,162,704</u> |
|------------------|----------------------|

HUNTINGTON UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2006

| | General | Special Aid | School Lunch | Debt Service | Capital Projects | Total Governmental Funds |
|--|---------------------|------------------|-------------------|-------------------|---------------------|--------------------------------|
| REVENUES | | | | | | |
| Real property taxes | \$ 78,116,838 | \$ | \$ | \$ | \$ | \$ 78,116,838 |
| Other tax items | 139,814 | | | | | 139,814 |
| Charges for services | 466,707 | | | | | 466,707 |
| Use of money and property | 1,113,184 | | 2,284 | 51,434 | | 1,166,902 |
| Sale of property and compensation for loss | 2,000 | | | | | 2,000 |
| Miscellaneous | 334,423 | | 31,851 | | | 366,274 |
| Intergovernmental revenue | | | | 815,353 | | 815,353 |
| State sources | 8,779,348 | 1,078,136 | 37,374 | | | 9,894,858 |
| Medicaid reimbursement | 317,179 | | | | | 317,179 |
| Federal sources | | 2,070,005 | 571,795 | | | 2,641,800 |
| Surplus food | | | 72,210 | | | 72,210 |
| Sales - school lunch | | | 730,737 | | | 730,737 |
| Total Revenues | 89,269,493 | 3,148,141 | 1,446,251 | 866,787 | - | 94,730,672 |
| EXPENDITURES | | | | | | |
| General support | 8,423,386 | | | | | 8,423,386 |
| Instruction | 49,572,812 | 3,142,562 | | | | 52,715,374 |
| Pupil transportation | 6,598,019 | 144,005 | | | | 6,742,024 |
| Employee benefits | 19,930,992 | | | | | 19,930,992 |
| Debt service | | | | | | |
| Principal | 112,252 | | | 1,660,000 | | 1,772,252 |
| Interest | 672,103 | | | 428,500 | | 1,100,603 |
| Cost of sales | | | 1,423,293 | | | 1,423,293 |
| Capital outlay | | | | | 3,698,470 | 3,698,470 |
| Total Expenditures | 85,309,564 | 3,286,567 | 1,423,293 | 2,088,500 | 3,698,470 | 95,806,394 |
| Excess (Deficiency) of Revenues Over Expenditures | 3,959,929 | (138,426) | 22,958 | (1,221,713) | (3,698,470) | (1,075,722) |
| OTHER FINANCING SOURCES AND USES | | | | | | |
| Operating transfers in | 12,204 | 150,630 | | 1,269,948 | 1,526,000 | 2,958,782 |
| Operating transfers (out) | (2,946,578) | (12,204) | | | | (2,958,782) |
| Total Other Financing Sources and (Uses) | (2,934,374) | 138,426 | - | 1,269,948 | 1,526,000 | - |
| Net Change in Fund Balances | 1,025,555 | - | 22,958 | 48,235 | (2,172,470) | (1,075,722) |
| Fund Balances - Beginning of year | 6,128,126 | | 186,338 | 58,994 | 7,212,162 | 13,585,620 |
| Fund Balances - End of year | \$ 7,153,681 | \$ - | \$ 209,296 | \$ 107,229 | \$ 5,039,692 | \$ 12,509,898 |

HUNTINGTON UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2006

| | |
|---|----------------|
| Deficiency of Revenues and Other Sources Over Expenditures and Other Uses | \$ (1,075,722) |
|---|----------------|

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

Long-Term Revenue and Expense Differences

Other items reported in the Statement of Activities which do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|---|--------------|----------|
| Increase in unfunded compensated absences liability | \$ (191,519) | |
| Decrease in workers' compensation claims liability | 108,259 | (83,260) |

Potential revenues that do not meet both the measurable and available criteria for recognition in the current year are reported as deferred revenues in the governmental funds, but they are recognized as current revenues in the Statement of Activities. This is the amount by which deferred revenues decreased from June 30, 2005 to June 30, 2006.

57,727

Capital Related Differences

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

| | | |
|----------------------|-----------|-----------|
| Capital outlays | 4,084,670 | |
| Depreciation expense | (995,980) | 3,088,690 |

Long-Term Debt Transactions Differences

Repayment of bonds payable is an expenditure in governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.

1,772,252

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2005 to June 30, 2006.

33,193

1,805,445

Change in Net Assets of Governmental Activities

\$ 3,792,880

HUNTINGTON UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Assets -
Fiduciary Funds
June 30, 2006

| | <u>Agency</u> | <u>Private Purpose Trusts</u> | <u>Permanent Trusts</u> |
|----------------------------------|--------------------------|---------------------------------------|-----------------------------|
| ASSETS | | | |
| Cash | \$ 350,679 | \$ 45,410 | \$ 59,962 |
| Due from other funds | <u>6,500</u> | | |
| Total Assets | <u><u>\$ 357,179</u></u> | <u><u>\$ 45,410</u></u> | <u><u>\$ 59,962</u></u> |
| LIABILITIES | | | |
| Extraclassroom activity balances | \$ 122,045 | \$ | \$ |
| Other liabilities | <u>235,134</u> | | |
| Total Liabilities | <u><u>\$ 357,179</u></u> | - | - |
| NET ASSETS | | | |
| Reserved for scholarships | | <u>45,410</u> | <u>59,962</u> |
| Total Liabilities and Net Assets | | <u><u>\$ 45,410</u></u> | <u><u>\$ 59,962</u></u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets -
Fiduciary Funds
For The Year Ended June 30, 2006

| | Private Purpose Trusts | Permanent Trusts |
|--------------------------------|------------------------------|---------------------|
| ADDITIONS | | |
| Miscellaneous | \$ 10,372 | \$ |
| Investment earnings | 4,249 | |
| Total Additions | <u>14,621</u> | <u>-</u> |
| DEDUCTIONS | | |
| Scholarships and awards | <u>14,886</u> | |
| Change in Net Assets | (265) | - |
| Net Assets - Beginning of year | <u>45,675</u> | <u>59,962</u> |
| Net Assets - End of Year | <u>\$ 45,410</u> | <u>\$ 59,962</u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of seven members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The financial reporting entity is based on criteria set forth by GASB Statement No. 14, *The Financial Reporting Entity* and No. 39, *Determining Whether Certain Organizations are Component Units*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no other entities which would be included in the District's reporting entity.

Extraclassroom Activity Funds

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management. The District reports these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Assets - Fiduciary Fund. Separate audited financial statements of the extraclassroom activity funds can be found at the District's business office.

B. Joint Venture

The District is one of 18 component school districts in the Board of Cooperative Educational Services of Western Suffolk, (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.

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Basis of Presentation

District-Wide Financial Statements

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

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

Fund Financial Statements

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

Governmental Funds:

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

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

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

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

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

Fiduciary Funds - are used to account for activities in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the district-wide financial statements, because their resources do not belong to the District, and are not available to be used. There are two classes of fiduciary funds:

Private Purpose Trust Funds - These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.

Agency Funds - These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Basis of Accounting and Measurement Focus

The district-wide and fiduciary fund financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include real property taxes, grants and donations. On an accrual basis, revenue from real property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the related expenditures are incurred.

The fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

E. Real Property Taxes

Calendar

Real property taxes are levied annually by the Board no later than November 1st and become a lien on December 1st. Taxes are collected by the Town of Huntington.

Enforcement

Uncollected real property taxes are subsequently enforced by Suffolk County. An amount representing uncollected real property taxes transmitted to the County for enforcement is paid by the County to the District no later than the forthcoming April 1st.

F. Restricted Resources

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

G. Interfund Transactions

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

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

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

H. Use of Estimates

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

I. Cash and Cash Equivalents/Investments

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

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

J. Accounts Receivable

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

K. Inventories and Prepaid Items

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

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

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

L. Restricted Assets

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

M. Capital Assets

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

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

| | <u>Capitalization Threshold</u> | <u>Estimated Useful Life</u> |
|----------------------------|-------------------------------------|----------------------------------|
| Buildings and improvements | \$ 50,000 | 50 years |
| Site improvements | 25,000 | 20 years |
| Furniture and equipment | 1,000 | 5-20 years |

N. Deferred Revenue

Deferred revenue arises when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred revenues is removed and revenues are recognized.

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

O. Vested Employee Benefits – Compensated Absences

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

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

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

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

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

P. Other Benefits

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

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

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Q. Short-Term Debt

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

The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which there is an insufficient or no provision made in the annual budget. The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued.

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

R. Accrued Liabilities and Long-Term Obligations

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

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

S. Equity Classifications

District-Wide Statements

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

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

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

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

Fund Statements

Unreserved fund balance consists of two classifications. A designation of unreserved fund balance indicates the planned use of these resources in the subsequent year's budget. The undesignated portion reports remaining fund balance that has not been designated or reserved. NYS Real Property Tax Law 1318 restricts the unreserved, undesignated fund balance of the general fund to an amount not greater than 2% of the District's budget for the ensuing fiscal year.

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. These reserve funds are established through Board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

become part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund. Fund balance reserves currently in use by the District include the following:

Reserve for Encumbrances

Reserve for Encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year.

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.

Reserve for Inventory

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

Reserve for Debt Service

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

Capital Reserve

Capital Reserve (Education Law §3651) is used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the capital 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.

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

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

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

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

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the general fund, the only fund with a legally adopted budget.

The voters of the District approved the proposed appropriation budget for the general fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The following supplemental appropriations occurred during the year:

| | |
|---|------------------|
| Contingent expenditures funded by grant | \$ 55,000 |
| Contingent expenditures funded by donations | <u>42,127</u> |
| | <u>\$ 97,127</u> |

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. Interfund Transfer

The District made an interfund transfer during the year, which exceeded the amount provided in the District's budget. The \$1,500,000 was in accordance with the voter approved proposition to fund the capital reserve.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

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

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

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

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes \$33,843 within the governmental funds and \$105,372 in the fiduciary funds.

Investment pool

The District participates in a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article 5-G, §119-O, whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents.

Total investments of the cooperative as of year-end are \$1,052,256,261, which consisted of \$570,343,538 in repurchase agreements, \$242,367,643 in U. S. Treasury Securities, \$14,795,080 in U.S. Government Guaranteed Securities and \$224,750,000 in collateralized bank deposits, with various interest rate and due dates.

The following amounts are included as unrestricted and restricted cash:

| <u>Fund</u> | <u>Carrying Amount</u> |
|-----------------|----------------------------|
| Capital Fund | \$ 300,000 |
| Fiduciary Funds | <u>105,372</u> |
| | <u>\$ 405,372</u> |

The above amounts represent the cost of the investment pool shares, and are considered to approximate market value. The investment pool is categorically exempt from the New York State collateral requirements.

Cash with Escrow Agent

The District entered into a master lease agreement for the acquisition of energy savings equipment. In accordance with the agreement, an escrow agent was named to hold the proceeds of the \$2,464,811 financing until such time as the funds are disbursed for the equipment acquisition. The escrow monies are invested in a U.S. Treasury money market fund.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2006, the District was billed \$5,528,445 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$863,480. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, Dix Hills, NY 11746.

6. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2006 consisted of:

| | |
|--|---------------------|
| General Fund | |
| New York State aid | \$ 754,910 |
| Medicaid reimbursements | 43,698 |
| BOCES aid | <u>388,566</u> |
| | 1,187,174 |
| Special Aid Fund | |
| Federal and State grants | 639,973 |
| School Lunch Fund | |
| Federal and State food service program reimbursements | <u>90,409</u> |
| | <u>\$ 1,917,556</u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

7. CAPITAL ASSETS

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

| | Balance June 30, 2005 | Additions | Reductions | Balance June 30, 2006 |
|---|--------------------------|--------------|----------------|--------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 1,545,142 | \$ | \$ | \$ 1,545,142 |
| Construction in progress | 2,195,164 | 3,698,470 | (2,725,616) | 3,168,018 |
| Total capital assets not being depreciated | 3,740,306 | 3,698,470 | (2,725,616) | 4,713,160 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 27,670,757 | 2,259,587 | | 29,930,344 |
| Site improvements | 715,909 | 577,500 | | 1,293,409 |
| Furniture and equipment | 6,162,859 | 274,729 | | 6,437,588 |
| Total capital assets being depreciated | 34,549,525 | 3,111,816 | | 37,661,341 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 15,519,902 | 502,315 | | 16,022,217 |
| Site improvements | 566,047 | 48,167 | | 614,214 |
| Furniture and equipment | 4,470,235 | 445,498 | | 4,915,733 |
| Total accumulated depreciation | 20,556,184 | 995,980 | - | 21,552,164 |
| Capital assets, net | \$ 17,733,647 | \$ 5,814,306 | \$ (2,725,616) | \$ 20,822,337 |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|------------|
| General support | \$ 97,165 |
| Instruction | 762,289 |
| Community service | 124,620 |
| School lunch program | 11,906 |
| Total depreciation expense | \$ 995,980 |

8. INTERFUND TRANSACTIONS

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

| | Interfund Receivable | Interfund Payable | Interfund Revenues | Interfund Expenditures |
|-----------------------|-------------------------|----------------------|-----------------------|---------------------------|
| General Fund | \$ 1,366,094 | \$ 4,549,726 | \$ 12,204 | \$ 2,946,578 |
| Special Aid Fund | | 1,097,764 | 150,630 | 12,204 |
| Debt Service Fund | 9,689 | | 1,269,948 | |
| Capital Projects Fund | 4,531,644 | 266,437 | 1,526,000 | |
| Fiduciary Fund | 6,500 | | | |
| Total | \$ 5,913,927 | \$ 5,913,927 | \$ 2,958,782 | \$ 2,958,782 |

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

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The District also made a one-time transfer of \$1,500,000 from the general fund to the capital projects fund.

9. SHORT-TERM DEBT

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

| | <u>Maturity</u> | <u>Interest Rate</u> | <u>Balance June 30, 2005</u> | <u>Issued</u> | <u>Redeemed</u> | <u>Balance June 30, 2006</u> |
|-----|-----------------|--------------------------|----------------------------------|----------------------|------------------------|----------------------------------|
| TAN | 6/29/06 | 4.0% | <u>\$</u> | <u>\$ 23,000,000</u> | <u>\$ (23,000,000)</u> | <u>\$</u> |

Interest on short term debt for the year was \$571,637.

10. LONG-TERM LIABILITIES

The following table summarizes the changes in governmental activities in long-term liabilities for the year ended June 30, 2006:

| | <u>Balance June 30, 2005</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2006</u> | <u>Amounts Due Within One Year</u> |
|------------------------------|----------------------------------|------------------|-----------------------|----------------------------------|--|
| Long-term debt: | | | | | |
| Bonds payable | \$ 9,795,000 | \$ | \$ (1,660,000) | \$ 8,135,000 | \$ 1,720,000 |
| Other long-term liabilities: | | | | | |
| Compensated absences | 4,521,485 | | (185,482) | 4,336,003 | 291,203 |
| Installment purchase debt | 2,464,811 | | (112,252) | 2,352,559 | 116,827 |
| Other liabilities | 1,383,575 | | (108,259) | 1,275,316 | |
| | <u>\$ 18,164,871</u> | <u>\$</u> | <u>\$ (2,065,993)</u> | <u>\$ 16,098,878</u> | <u>\$ 2,128,030</u> |

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

Bonds payable 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, 2006</u> |
|--------------------|-----------------------|---------------------------|--------------------------|---|
| Serial Bonds | 5/1998 | 7/2012 | 4.0 - 5.5% | \$ 5,565,000 |
| Serial Bonds | 2/1999 | 2/2009 | 3.8 - 4.1% | 2,275,000 |
| Serial Bonds | 9/2002 | 6/2007 | 2.625% - 2.75% | <u>295,000</u> |
| | | | | <u>\$ 8,135,000</u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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> |
|------------------------------------|---------------------|---------------------|---------------------|
| 2007 | \$ 1,720,000 | \$ 361,544 | \$ 2,081,544 |
| 2008 | 1,490,000 | 290,869 | 1,780,869 |
| 2009 | 1,550,000 | 226,564 | 1,776,564 |
| 2010 | 785,000 | 158,541 | 943,541 |
| 2011 | 825,000 | 118,731 | 943,731 |
| 2012 - 2013 | 1,765,000 | 98,313 | 1,863,313 |
| Total | <u>\$ 8,135,000</u> | <u>\$ 1,254,562</u> | <u>\$ 9,389,562</u> |

The following is a summary of installment purchase debt requirements:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|---------------------|-------------------|---------------------|
| 2007 | \$ 116,827 | \$ 95,891 | \$ 212,718 |
| 2008 | 121,589 | 91,129 | 212,718 |
| 2009 | 126,545 | 86,173 | 212,718 |
| 2010 | 131,703 | 81,015 | 212,718 |
| 2011 | 137,072 | 75,646 | 212,718 |
| 2012-2016 | 773,859 | 289,730 | 1,063,589 |
| 2017-2021 | 944,964 | 118,625 | 1,063,589 |
| Total | <u>\$ 2,352,559</u> | <u>\$ 838,209</u> | <u>\$ 3,190,768</u> |

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

| | |
|---|-------------------|
| Interest paid | \$ 528,966 |
| Less interest accrued in the prior year | (229,096) |
| Plus interest accrued in the current year | <u>195,903</u> |
| Total interest expense on long-term debt | <u>\$ 495,773</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.

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Employees' Retirement System

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

C. Funding Policies

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

The District is required to contribute at an actuarially determined rate. The District contributions made to the Systems were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

| <u>Year</u> | <u>NYSTRS</u> | <u>NYSERS</u> |
|-------------|---------------|---------------|
| 2006 | \$ 2,871,097 | \$ 1,170,235 |
| 2005 | 1,985,060 | 1,103,296 |
| 2004 | 802,299 | 548,483 |

12. POSTEMPLOYMENT BENEFITS

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

The District covers between 50% and 100% of the premium cost for the retirees' health insurance in accordance with the contract terms in place at the time of the employee's retirement.

The District recognizes the cost of providing health insurance for retirees annually as expenditures in the general fund at the time the expenditure is incurred. For the year ended June 30, 2006, the District recorded approximately \$4,139,027 as its share of insurance premiums for currently enrolled retirees.

13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters. These risks are covered by a combination of self-insurance reserves and commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded available reserves and commercial insurance coverage for the past two 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 should include an amount for reported and unreported claims which were incurred on or before year end but not reported (IBNR). Claims activity exclusive of IBNRs is summarized below:

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

| | <u>2005</u> | <u>2006</u> |
|---|---------------------|---------------------|
| Unpaid claims at beginning of year | \$ 1,559,551 | \$ 1,383,575 |
| Incurred claims and claim adjustment expenses | 319,635 | 516,099 |
| Claim payments | <u>(495,611)</u> | <u>(624,358)</u> |
| Unpaid claims at year-end | <u>\$ 1,383,575</u> | <u>\$ 1,275,316</u> |

14. FUND BALANCES

A. Reserved Other

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

General Fund:

| | |
|--|------------------|
| Reserve for Workers' Compensation | \$ 1,876,600 |
| Reserve for Employee Benefit Accrued Liability | <u>1,218,330</u> |
| | 3,094,930 |

School Lunch Fund

| | |
|-----------------------|--------|
| Reserve for Inventory | 21,264 |
|-----------------------|--------|

Debt Service Fund

| | |
|--------------------------|---------|
| Reserve for Debt Service | 107,229 |
|--------------------------|---------|

Capital Projects Fund

| | |
|------------------------------|-----------|
| Reserve for Capital Projects | 2,552,802 |
|------------------------------|-----------|

Permanent Trust Fund

| | |
|--------------------------|--------|
| Reserve for Scholarships | 59,962 |
|--------------------------|--------|

Private Purpose Trust Fund

| | |
|--------------------------|---------------|
| Reserve for Scholarships | <u>45,410</u> |
|--------------------------|---------------|

| | |
|--------------------------------------|---------------------|
| Total Fund Balances Reserved - Other | <u>\$ 5,881,597</u> |
|--------------------------------------|---------------------|

B. Unreserved – Designated for Subsequent Year's Expenditures

The amount of \$1,350,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2007.

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.

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$227,400. The minimum remaining operating lease payments are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|-------------------|
| 2007 | \$ 222,848 |
| 2008 | 177,468 |
| 2009 | 22,379 |
| 2010 | 14,096 |
| 2011 | 6,710 |
| | <u>\$ 443,501</u> |

16. SUBSEQUENT EVENTS

On September 14, 2006 the District issued tax anticipation notes in the amount of \$24,000,000, which are due June 28, 2007 and bear interest at 4.250%.

HUNTINGTON UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2006

| | Original Budget | Revised Budget | Actual | | Variance |
|---|--------------------|-------------------|---------------|--------------------------|--------------|
| REVENUES | | | | | |
| Local Sources | | | | | |
| Real property taxes | \$ 78,116,425 | \$ 78,116,425 | \$ 78,116,838 | \$ | 413 |
| Other tax items | 125,000 | 125,000 | 139,814 | | 14,814 |
| Charges for services | 416,000 | 71,000 | 466,707 | | 395,707 |
| Use of money and property | 347,000 | 896,127 | 1,113,184 | | 217,057 |
| Sale of property and compensation for loss | | | 2,000 | | 2,000 |
| Miscellaneous | 162,000 | | 334,423 | | 334,423 |
| Total Local Sources | 79,166,425 | 79,208,552 | 80,172,966 | | 964,414 |
| State Sources | 8,771,209 | 8,826,209 | 8,779,348 | | (46,861) |
| Medicaid Reimbursement | 225,000 | 225,000 | 317,179 | | 92,179 |
| Total Revenues | 88,162,634 | 88,259,761 | 89,269,493 | | 1,009,732 |
| OTHER SOURCES | | | | | |
| Operating transfers in | 10,000 | 10,000 | 12,204 | | 2,204 |
| Total Revenues and Other Sources | 88,172,634 | 88,269,761 | 89,281,697 | | \$ 1,011,936 |
| | | | | Year End Encumbrances | |
| EXPENDITURES | | | | | |
| General Support | | | | | |
| Board of education | 45,163 | 36,163 | 26,081 | \$ 447 | \$ 9,635 |
| Central administration | 331,502 | 335,302 | 326,232 | 330 | 8,740 |
| Finance | 878,137 | 885,017 | 709,843 | 13,797 | 161,377 |
| Staff | 867,081 | 980,771 | 852,235 | 64,788 | 63,748 |
| Central services | 6,010,389 | 6,407,919 | 5,783,389 | 174,991 | 449,539 |
| Special items | 707,475 | 743,775 | 725,606 | 18,122 | 47 |
| Total General Support | 8,839,747 | 9,388,947 | 8,423,386 | 272,475 | 693,086 |
| Instruction | | | | | |
| Instruction, administration & improvement | 3,535,998 | 3,949,002 | 3,804,184 | 22,816 | 122,002 |
| Teaching - regular school | 27,226,904 | 26,754,384 | 26,070,715 | 191,616 | 492,053 |
| Programs for children with handicapping conditions | 14,827,275 | 14,525,578 | 13,723,490 | 253,163 | 548,925 |
| Occupational education | 876,234 | 878,559 | 877,634 | 72 | 853 |
| Teaching - special school | 150,921 | 222,080 | 206,709 | | 15,371 |
| Instructional media | 1,649,498 | 1,617,310 | 1,498,092 | 26,114 | 93,104 |
| Pupil services | 3,542,241 | 3,538,304 | 3,391,988 | 36,819 | 109,497 |
| Total Instruction | 51,809,071 | 51,485,217 | 49,572,812 | 530,600 | 1,381,805 |
| Pupil Transportation | 6,595,086 | 6,675,405 | 6,598,019 | 1,859 | 75,527 |
| Employee Benefits | 20,603,635 | 20,483,597 | 19,930,992 | 14,544 | 538,061 |
| Debt Service | | | | | |
| Principal | 108,402 | 112,302 | 112,252 | | 50 |
| Interest | 811,163 | 690,263 | 672,103 | | 18,160 |
| Total Debt Service | 919,565 | 802,565 | 784,355 | - | 18,210 |
| Total Expenditures | 88,767,104 | 88,835,731 | 85,309,564 | 819,478 | 2,706,689 |
| OTHER USES | | | | | |
| Operating transfers out | 1,425,948 | 2,954,448 * | 2,946,578 | | 7,870 |
| Total Expenditures and Other Uses | 90,193,052 | 91,790,179 | 88,256,142 | \$ 819,478 | \$ 2,714,559 |
| Net Change in Fund Balances | (2,020,418) | (3,520,418) | 1,025,555 | | |
| Fund Balances - Beginning of Year | 2,020,418 | 3,520,418 | 6,128,126 | | |
| Fund Balances - End of Year | \$ - | \$ - | \$ 7,153,681 | | |

* The appropriation for interfund transfers was increased to provide for the appropriation of monies in the capital reserve as approved by the voters.

Note to Required Supplementary Information

Budget Basis of Accounting

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

HUNTINGTON UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
And Use of Unreserved Fund Balance - General Fund
For The Year Ended June 30, 2006

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

| | |
|---|-----------------------------|
| Original Budget | \$ 89,347,634 |
| Additions: | |
| Prior year's encumbrances | <u>845,418</u> |
| Original Budget | 90,193,052 |
| Budget revision | 97,127 |
| Transfer into capital reserve in capital projects fund in accordance with Proposition No. 2, passed June 3, 2003 | <u>1,500,000</u> |
| Final Budget | <u><u>\$ 91,790,179</u></u> |

| | |
|--|-----------------------------|
| Next year's budget is a voter-approved budget of | <u><u>\$ 94,480,693</u></u> |
|--|-----------------------------|

USE OF UNRESERVED FUND BALANCE

| | |
|--|----------------------------|
| Unreserved Fund Balance - | |
| As of the beginning of the year | \$ 2,961,378 |
| Less: | |
| Designated fund balance used for the levy of taxes - Adopted budget | <u>1,175,000</u> |
| Undesignated Fund Balance - | |
| As of the beginning of the year | <u><u>\$ 1,786,378</u></u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund
For The Year Ended June 30, 2006

| PROJECT TITLE | Budget June 30, 2005 | Budget June 30, 2006 | Prior Years | Expenditures Current Year | | Total | Unexpended Balance | Proceeds of Obligations | Methods of Financing | | Fund Balance June 30, 2006 |
|---------------------------------|-------------------------|-------------------------|----------------|---------------------------------|---------------|--------------|-----------------------|----------------------------|----------------------|---------------|----------------------------------|
| | | | | | | | | | State Aid | Local Sources | Total |
| Capital Reserve: | | | | | | | | | | | |
| High School - Chemistry Labs | \$ 135,000 | \$ 135,000 | \$ 77,357 | \$ 17,191 | \$ 94,548 | \$ 40,452 | \$ 40,452 | \$ | \$ | \$ 135,000 | \$ 135,000 |
| Jefferson - Doors | 125,000 | 125,000 | 84,584 | 3,000 | 87,584 | 37,416 | 37,416 | | | 125,000 | 125,000 |
| Finley, South Down, Flower Hill | | | | | | | | | | | |
| Sidewalk and Parking Lot | 221,000 | 221,000 | 210,830 | (9,376) | 201,454 | 19,546 | 19,546 | | | 221,000 | 221,000 |
| Unallocated (General Fund) | 93,743 | 99,644 | | | | 99,644 | 99,644 | | | 99,644 | 99,644 |
| Total Capital Reserve | 574,743 | 580,644 | 372,771 | 10,815 | 383,586 | 197,058 | 197,058 | | | 580,644 | 197,058 |
| 02/03 Capital Reserve: | | | | | | | | | | | |
| Building Improvement Fund | 3,500,000 | 6,352,000 | 129,693 | 1,735,889 | 1,865,582 | 4,486,418 | 4,486,418 | | | 6,352,000 | 4,486,418 |
| Interfund Transfers: | | | | | | | | | | | |
| Southdown - Cesspools | 40,000 | 40,000 | 2,430 | 2,713 | 5,143 | 34,857 | 34,857 | | | 40,000 | 34,857 |
| Unallocated | 54,274 | 54,274 | | | - | 54,274 | 54,274 | | | 54,274 | 54,274 |
| 2003-04 transfers | 626,000 | 626,000 | 447,020 | 35,253 | 482,273 | 143,727 | 143,727 | | | 626,000 | 143,727 |
| 2004-05 transfers | 626,000 | 626,000 | 53,501 | 321,365 | 374,866 | 251,134 | 251,134 | | | 626,000 | 251,134 |
| 2004-05 transfers | | 26,000 | | 24,686 | 24,686 | 1,314 | 1,314 | | | 26,000 | 1,314 |
| Total Interfund Transfers | 1,346,274 | 1,372,274 | 502,951 | 384,017 | 886,968 | 485,306 | 485,306 | | | 1,372,274 | 485,306 |
| Bond Issue: | | | | | | | | | | | |
| Library - Main St. Branch | 5,850,000 | 5,850,000 | 5,764,403 | | 5,764,403 | 85,597 | 85,597 | 5,850,000 | | 5,850,000 | 85,597 |
| Library - Station Branch | 750,000 | 750,000 | 750,000 | | 750,000 | - | - | 750,000 | | 750,000 | - |
| Total Bond Issue | 6,600,000 | 6,600,000 | 6,514,403 | | 6,514,403 | 85,597 | 85,597 | 6,600,000 | | 6,600,000 | 85,597 |
| 05-06 Bond Issue | | | | | | | | | | | |
| Bond Issue | | | | 214,687 | 214,687 | (214,687) | (214,687) | | | - | (214,687) |
| Installment Debt | | | | | | | | | | | |
| Energy savings contract | 2,464,811 | 2,464,811 | 1,111,749 | 1,353,062 | 2,464,811 | - | - | 2,464,811 | | 2,464,811 | - |
| Totals | \$ 14,485,828 | \$ 17,369,729 | \$ 8,631,567 | \$ 3,698,470 | \$ 12,330,037 | \$ 5,039,692 | \$ 5,039,692 | \$ 9,064,811 | \$ - | \$ 8,304,918 | \$ 17,369,729 |
| | | | | | | | | | | | \$ 5,039,692 |

HUNTINGTON UNION FREE SCHOOL DISTRICT
Schedule of Certain Revenues and Expenditures
Compared to ST-3 Data
For The Year Ended June 30, 2006

| | Audited Code | ST-3 Amount | Audited Amount |
|---------------------------------------|-----------------|---------------|-------------------|
| REVENUES | | | |
| Real Property Taxes | A -1001 | \$ 78,116,838 | \$ 78,116,838 |
| Non-Property Taxes | AT-1199 | - | - |
| State Aid | AT-3999 | 8,779,348 | 8,779,348 |
| Federal Aid - Medicaid Reimbursements | AT-4999 | 317,179 | 317,179 |
| Total Revenues | AT-5999 | 89,281,697 | 89,281,697 |
| EXPENDITURES | | | |
| General Support | AT-1999 | 8,423,386 | 8,423,386 |
| Pupil Transportation | AT-5599 | 6,598,019 | 6,598,019 |
| Debt Service - Principal | AT-9798.6 | 112,252 | 112,252 |
| Debt Service - Interest | AT-9798.7 | 672,103 | 672,103 |
| Total Expenditures | AT-9999 | 88,256,142 | 88,256,142 |

HUNTINGTON UNION FREE SCHOOL DISTRICT
Investment in Capital Assets, Net of Related Debt
For The Year Ended June 30, 2006

| | |
|---|-----------------------------|
| Capital assets, net | <u>\$ 20,822,337</u> |
| Deduct: | |
| Short-term portion of bonds payable | (1,720,000) |
| Long-term portion of bonds payable | (6,415,000) |
| Short-term portion of installment purchase debt | (116,827) |
| Long-term portion of installment purchase debt | (2,235,732) |
| Less: | |
| Unspent bond proceeds | 85,597 |
| | <u>(10,401,962)</u> |
| Investment in capital assets, net of related debt | <u><u>\$ 10,420,375</u></u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

| <u>Federal Grantor/Pass-through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Agency or Pass-through Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|--|---------------------------------|
| <u>United States Department of Education</u> | | | |
| Passed Through New York State, | | | |
| Department of Education: | | | |
| Special Education Cluster | | | |
| Special Education Grants to States | 84.027 | 0032-05-0906 | \$ 234,920 |
| Special Education Grants to States | 84.027 | 0032-06-0906 | 561,941 |
| Special Education Preschool Grants | 84.173 | 0033-05-0906 | 6,464 |
| Special Education Preschool Grants | 84.173 | 0033-06-0906 | 44,902 |
| Special Education Preschool Grants | 84.173 | 0232-05-0906 | 238 |
| Special Education Preschool Grants | 84.173 | 0232-06-0906 | 16,987 |
| Total Special Education Cluster | | | <u>865,452</u> |
| Adult Education State Grant Program | 84.002 | 0040-05-0112 | 11,847 |
| Adult Education State Grant Program | 84.002 | 0040-06-0112 | 52,563 |
| Title I, Grants to Local Education Agencies | 84.010 | 0021-05-3080 | 15,086 |
| Title I, Grants to Local Education Agencies | 84.010 | 0021-06-3080 | 704,823 |
| Safe and Drug Free Schools & Comm. State Grants | 84.186 | 0180-05-3080 | 5,798 |
| Safe and Drug Free Schools & Comm. State Grants | 84.186 | 0180-06-3080 | 21,911 |
| Education for Homeless Children and Youth | 84.196 | 0212-05-3080 | 3,745 |
| Education for Homeless Children and Youth | 84.196 | 0212-06-3080 | 31,390 |
| State Grants for Innovative Programs | 84.298 | 0002-05-3080 | 4,071 |
| State Grants for Innovative Programs | 84.298 | 0002-06-3080 | 10,741 |
| Education Technology State Grants | 84.318 | 0292-05-3080 | 3,927 |
| Education Technology State Grants | 84.318 | 0292-06-3080 | 9,923 |
| English Language Acquisition Grants | 84.365 | 0293-05-3080 | 52,371 |
| English Language Acquisition Grants | 84.365 | 0293-06-3080 | 86,797 |
| Improving Teacher Quality State Grants | 84.367 | 0147-05-3080 | 72,693 |
| Improving Teacher Quality State Grants | 84.367 | 0147-06-3080 | 116,867 |
| Total Department of Education | | | <u>2,070,005</u> |
| <u>United States Department of Agriculture</u> | | | |
| Passed Through New York State, | | | |
| Department of Education | | | |
| Child Nutrition Cluster | | | |
| Non-Cash Assistance (food distribution) | | | |
| National School Lunch Program | 10.555 | N/A | 72,210 |
| Cash Assistance | | | |
| National School Lunch Program | 10.555 | N/A | <u>571,795</u> |
| Total Department of Agriculture | | | <u>644,005</u> |
| Total Federal Awards Expended | | | <u>\$ 2,714,010</u> |

HUNTINGTON UNION FREE SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

1. GENERAL

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

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

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

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

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

2. SUBRECIPIENTS

No amounts were provided to subrecipients.

3. OTHER DISCLOSURES

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

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

**HUNTINGTON UNION FREE SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2006**

Department of Education

06-1. Adjusting Journal Entries

Condition: Adjusting journal entries to the District's general ledger are not reviewed and approved by management.

Recommendation: Procedures should be implemented requiring written approval of all adjusting journal entries by the District's Business Official.

Current Status: Adjusting journal entries are being approved subsequent to the time they are input into the financial software.

06-2. Financial Accounting Software

Condition: The system administrator is also the Business Manager of the District.

Recommendation: The financial accounting software administrator should be a third party who is not responsible for maintaining the books and records.

Current Status: System administration is being performed by a staff person in the District independent of the business operations.

**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
Huntington Union Free School District
Huntington, New York

We have audited the financial statements of the governmental activities, each major fund and the fiduciary funds of the Huntington Union Free School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Huntington Union Free School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Huntington Union Free 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 other matters involving the internal control over financial reporting that we have reported to the Board of Education of the Huntington Union Free School District in a separate letter dated September 26, 2006.

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

Coughlin Foundotos Cullen Danowski, LLP

September 28, 2006

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

To the Board of Education
Huntington Union Free School District
Huntington, New York

Compliance

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

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

In our opinion, the Huntington Union Free School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

Coughlin, Fournabotte, Cullen, Demowski, LLP

September 28, 2006

HUNTINGTON UNION FREE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

1. SUMMARY OF AUDITORS' RESULTS

- A. The auditors' report expresses an unqualified opinion on the financial statements of the Huntington Union Free School District.
- B. No material weaknesses relating to the audit of the financial statements are reported.
- C. No reportable conditions relating to the audit of the financial statements are reported.
- D. No instances of noncompliance material to the financial statements of the Huntington Union Free School District were disclosed during the audit.
- E. No material weaknesses relating to the audit of the major federal awards are reported.
- F. No reportable conditions relating to the audit of the major federal awards are reported.
- G. The auditors' report on compliance for the major federal awards for the Huntington Union Free School District expresses an unqualified opinion.
- H. Audit findings that are required to be reported in accordance with Section 510(a) of Circular A-133 for the Huntington Union Free School District are reported in Part III of this Schedule.
- I. The programs tested as major programs were:

| | |
|---|-----------------|
| Title I, Grants to Local Education Agencies | CFDA No. 84.010 |
| English Language Acquisition Grants | CFDA No. 84.365 |
| Improving Teacher Quality State Grants | CFDA No. 84.367 |
- J. The dollar threshold used to distinguish between Type A and B programs was \$300,000.
- K. The Huntington Union Free School District qualified as a low-risk auditee.

2. FINANCIAL STATEMENTS FINDINGS

There are no findings to be reported.

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no findings and questioned costs to be reported.

HUNTINGTON UNION FREE SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2006

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

