

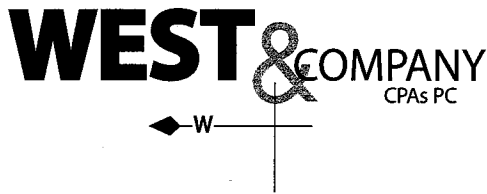
KINDERHOOK CENTRAL SCHOOL DISTRICT

**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL SCHEDULES**

JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, New York

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Kinderhook Central School District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these 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 *Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Kinderhook Central School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is 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 is also not a required part of the basic financial statements.

The supplementary information on pages 43 through 45, as described in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

WEST & COMPANY CPAs PC

Gloversville, New York
September 3, 2013

KINDERHOOK CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The following is a discussion and analysis of the School District's financial performance for the fiscal year ended June 30, 2013. This section is a summary of the School District's financial activities based on currently known facts, decisions or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Net Position of the School District was a (deficit) of \$(9,597,049).
- 76% of all function/program expenses were for instruction.
- State and federal aid made up 33% and real property taxes made up 52%, respectively, of all revenues generated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (this section), the financial statements and required supplementary information. The financial statements include two kinds of statements that present different views of the School District:

The first two statements are *District-wide* financial statements that provide both *short-term* and *long-term* information about the School District's *overall* financial status.

The remaining statements are *fund* financial statements that focus on individual parts of the School District, reporting the School District's operations in *more detail* than the District-wide statements. The fund financial statements concentrate on the School District's most significant funds with all other nonmajor funds listed in total in one column.

The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short-term*, as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the School District acts solely as a *trustee* or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District's budget for the year.

Table A-1 summarizes the major features of the School District’s financial statements, including the portion of the School District’s activities that they cover and the types of information that they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

Table A-1 Major Features of the District-wide and Fund Financial Statements

	Fund Financial Statements		
	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The daily operating activities of the School District, such as instruction and special education	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statements of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities and deferred inflows of resources (if any), both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

District-Wide Statements

The District-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School District’s assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the School District’s *net position* and how it has changed. Net position – the difference between the School District’s assets, deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the School District’s financial health or *position*.

- Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the School District, additional nonfinancial factors such as changes in the property tax bases and the condition of buildings and other facilities should be considered.

In the District-wide financial statements, the School District’s activities are shown as Governmental activities. Most of the School District’s basic services are included here, such as regular and special education, transportation and administration. Property taxes and State formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on the most significant or "major" funds – not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by bond covenants.
- The School District establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal grants).

The District has two kinds of funds:

- **Governmental Funds:** Most of the School District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can be readily converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs.

Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The governmental fund statements focus primarily on current financial resources and often have a budgetary orientation. Governmental funds include the general fund, special aid fund, school lunch fund and the capital project fund. Required financial statements are the balance sheet and the statement of revenues, expenditures and changes in fund balances.

- **Fiduciary Funds:** The School District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table A-2

Condensed Statement of Net Position (in thousands)

	<u>Fiscal Year 2013</u>	<u>Fiscal Year 2012</u>	<u>% Change (Incr.; - Decr.)</u>
Assets			
Current and other assets	\$ 9,805	\$ 9,134	7
Capital assets - net	11,860	12,819	-7
Total Assets	<u>21,665</u>	<u>21,953</u>	-1
Liabilities			
Current liabilities	1,338	1,576	-15
Long-term liabilities	29,891	27,188	10
Total Liabilities	<u>31,229</u>	<u>28,764</u>	9
Deferred Inflows of Resources			
Deferred revenue	32	26	23
Total Deferred Inflows of Resources	<u>32</u>	<u>26</u>	23
Net Position			
Net investment in capital assets	3,479	3,049	-14
Restricted	3,032	2,844	7
Unrestricted	(16,107)	(12,730)	-27
Total Net Position	<u>\$ (9,596)</u>	<u>\$ (6,837)</u>	40

Table A-3

Changes in Net Position from Operating Results (in thousands)

	<u>Fiscal Year 2013</u>	<u>Fiscal Year 2012</u>	<u>% Change Incr.; - Decr.)</u>
Revenues			
Program Revenues			
Charges for services	\$ 571	\$ 611	-7
Operating grants and contributions	1,091	1,722	-37
General Revenues			
Property taxes	20,805	20,259	3
State sources	11,694	11,822	-1
Federal sources	128	50	156
Use of money and property	134	125	7
Sale of property and compensation for loss	537	0	100
Miscellaneous	945	796	19
Total Revenues	<u>35,905</u>	<u>35,385</u>	1
Expenses			
General support	5,291	5,440	-3
Instruction	29,503	28,622	3
Transportation	2,755	2,861	-4
Debt service	299	336	-11
Cost of sales – Lunch Program	819	838	-2
Total Expenses	<u>38,667</u>	<u>38,097</u>	1
Change in Net Position	<u>(2,762)</u>	<u>(2,712)</u>	-2
Other Change in Net Position	<u>0</u>	<u>(4)</u>	-100
Total Change in Net Position	<u>\$ (2,762)</u>	<u>\$ (2,716)</u>	-2

Table A-4 Revenues by Source – Governmental Activities

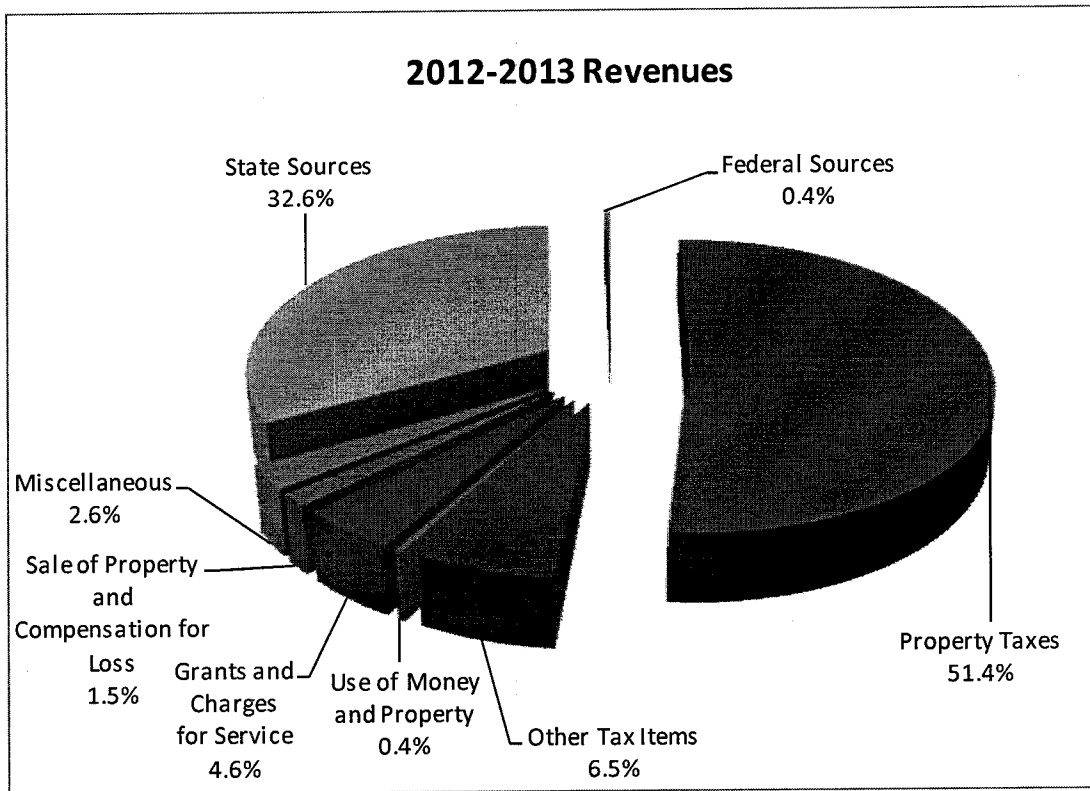


Table A-5 Expenditures by Function – Governmental Activities

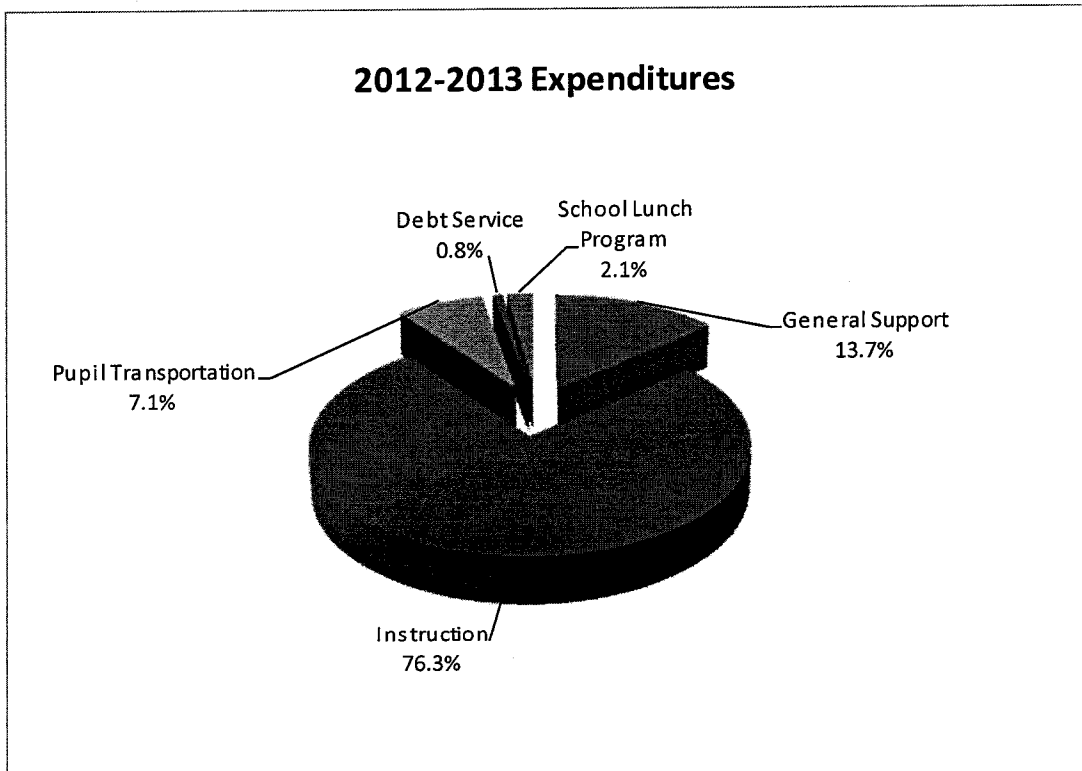


Table A-6 presents the cost of several of the School District's major activities. The table also shows each activity's net cost (total cost less fees generated by the activity and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the School District's taxpayers by each of these functions.

Table A-6

Net Cost of Governmental Activities (in thousands)

	Total Cost of Services		% Change (Incr.; -Decr.)	Net Cost of Services		% Change (Incr.; -Decr.)
	2013	2011		2012	2011	
General support	\$ 5,291	\$ 5,440	-3%	\$ 5,291	\$ 5,440	-3%
Instruction	29,503	28,622	3%	28,421	26,911	6%
Pupil transportation	2,755	2,861	-4%	2,755	2,861	-4%
Debt service - interest	299	336	-11%	299	336	-11%
Cost of sales - lunch program	819	838	-2%	239	216	11%
Totals	<u>\$ 38,667</u>	<u>\$ 38,097</u>	1%	<u>\$ 37,005</u>	<u>\$ 35,764</u>	3%

- The cost of all governmental activities for the year was \$38,666,499.
- The users of the School District's programs financed \$570,609 of the costs.
- The federal and State government grants financed \$1,091,197.
- The majority of costs (84%) had been financed by the School District's taxpayers and State aid.

Changes in Net position

The School District's revenue for 2013 was \$35,905,445. See Table A-4 for a breakdown of this revenue.

The total cost for all School District programs and services for 2013 was \$38,666,499. See Table A-5 for a breakdown of this total cost by program and service.

District-wide assets from school operations for 2013 decreased \$2,761,054, due to the District recording a \$4,069,864 liability in accordance with GASB 45. This represents a total of \$19,753,607 of OPEB liability reflected in the entity-wide financial statements as of fiscal year end. 2013 is the fifth year that the District is required to record OPEB liabilities per GASB 45.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Significant variances reflected in the governmental fund financial statements for 2013 were:

1. The District did not receive any ARRA jobs funding from the federal government for the 2012-2013 year.
2. In 2012-2013, the District received a refund in the amount of \$418,599, as a result of a settlement with the RCG Health trust. The District anticipates another \$109,751 refund settlement during 2013-2014. Refund settlements from the Health Trust have and will be applied to the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2013, the School District had \$11,869,543 invested in a broad range of capital assets including land, buildings, buses, athletic facilities, computers and other educational equipment.

Capital Assets

TableA-7

Capital Assets (net of depreciation) (in thousands)

	<u>Fiscal Year 2013</u>	<u>Fiscal Year 2012</u>
Land, land improvements and construction in progress	\$ 4,128	\$ 3,610
Buildings and equipment	<u>7,732</u>	<u>9,210</u>
Totals	<u>\$ 11,860</u>	<u>\$ 12,820</u>

Long-Term Debt

More detailed information about the School District's long-term debt is included in the notes to the financial statements.

Table A-8

Outstanding long-term debt (in thousands)

	<u>Fiscal Year 2013</u>	<u>Fiscal Year 2012</u>
General obligation bonds (financed with property taxes)	\$ 7,580	\$ 8,530
All other debt	<u>20,491</u>	<u>16,365</u>
Totals	<u>\$ 28,071</u>	<u>\$ 24,895</u>

During 2013, the School District's bond debt decreased \$950,000 for the retirement of outstanding bonds. Other debt represented compensated absences and other post-employment benefits.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District is aware of existing circumstances that could significantly affect its financial health in the future.

1. The District settled three Collective Bargaining Agreements in 2012-2013, including CSEA (2012-2016), Ichabod Crane Teacher's Association (2011-2015), and the Ichabod Crane Nurse's Association (2012-2016). The Ichabod Crane Administrator's Association is set to expire as of June 30, 2014 and the District anticipates beginning the negotiation process in the near future. The District experienced budget savings due to the newly collective bargaining agreements, particular in the area of health insurance and expects this to continue through the end of each agreement. Additionally, settled contracts provide the District with increased financial stability and a higher degree of predictability in terms of budget planning.
2. In 2012-2013, the District sold the Martin Van Buren Elementary School in Kinderhook, NY for \$550,000 and the Martin H. Glynn Elementary School in Valatie, NY was transferred to the Town of Kinderhook and the Village of Valatie. The District realized significant operations savings with the release of both buildings.
3. The Tax Cap legislation, declining property assessments, decreased enrollment, and the lack of complete restoration of Gap Elimination Aid will continue to challenge the District in its capacity to raise adequate revenue.
4. The District successfully passed a \$7 million bond referendum on December 12, 2012 and Phase I of II of the Capital Project was implemented in the summer of 2013. The Capital Project focuses primarily on the critical needs assessment survey, including \$1.275 million set aside specifically for technology upgrades.
5. The District is in the planning stages of a two – four classroom addition at the Primary School (K-3), which has experienced overcrowding issues since the closing of the Martin Van Buren and Martin H. Glynn buildings. The District is currently awaiting approval from the State Education Department. If approved, the Primary School project will be in the range of \$1 million - \$1.4 million and be voted on as part of a Bond Referendum.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Kinderhook Central School District
Michael Brennan, Business Manager
2910 Route 9
Valatie, NY 12184
(518) 758-7575

KINDERHOOK CENTRAL SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013

ASSETS

Cash		
Unrestricted	\$	5,110,064
Restricted		3,351,127
Receivables		
State and Federal aid		927,233
Due from fiduciary funds		6,646
Other receivables		245,093
Inventories		22,475
Prepaid expense		142,350
Capital assets, net of depreciation		11,859,543
		21,664,531
Total Assets		21,664,531

LIABILITIES

Payables		
Accounts payable		318,791
Accrued liabilities		144,875
Accrued interest payable		73,142
Due to other governments		287
Bond anticipation notes payable		801,028
Long-term liabilities		
Due and payable within one year		
Due to Teachers' Retirement System		1,653,874
Due to Employees' Retirement System		165,792
Bonds payable		990,000
Due and payable after one year		
Bonds payable		6,590,000
Other post-employment benefits		19,753,607
Compensated absences payable		737,592
		31,228,988
Total Liabilities		31,228,988

DEFERRED INFLOWS OF RESOURCES

Deferred revenues - other		32,592
		32,592
Total Deferred Inflows of Resources		32,592

NET POSITION

Net investment in capital assets		3,478,515
Restricted		
Reserve for employee benefit liability		459,418
Reserve for debt service		993,934
Unemployment insurance reserve		453,894
Reserve for retirement contribution		796,340
Workers compensation reserve		250,000
Reserve for repairs		78,160
Unrestricted		(16,107,310)
		(9,597,049)
Total Net Postion		\$ (9,597,049)

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS/PROGRAMS				
General support	\$ 5,290,812	\$ 0	\$ 0	\$ (5,290,812)
Instruction	29,503,196	(282,843)	(799,252)	(28,421,101)
Pupil transportation	2,754,667	0	0	(2,754,667)
Debt service	298,919	0	0	(298,919)
School lunch program	818,905	(287,766)	(291,945)	(239,194)
Total Functions and Programs	<u>\$ 38,666,499</u>	<u>\$ (570,609)</u>	<u>\$(1,091,197)</u>	<u>(37,004,693)</u>
GENERAL REVENUES				
Real property taxes				18,477,262
Other tax items				2,327,656
Use of money and property				134,145
Sale of property and compensation for loss				536,597
Miscellaneous				945,170
State sources				11,694,364
Federal sources				128,445
Total General Revenues				<u>34,243,639</u>
CHANGE IN NET POSITION (DECREASE)				<u>(2,761,054)</u>
TOTAL NET POSITION - BEGINNING OF YEAR				<u>(6,835,995)</u>
TOTAL NET POSITION - END OF YEAR				<u>\$ (9,597,049)</u>

See notes to basic financial statements.

**KINDERHOOK CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2013

	General	Special Aid	School Lunch	Debt Service	Capital	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 3,746,396	\$ 75,170	\$ 13,878	\$ 0	\$ 1,274,620	\$ 5,110,064
Restricted	2,037,812	0	0	1,313,315	0	3,351,127
Due from other funds	1,043,836	0	0	0	400,000	1,443,836
Due from fiduciary funds	6,646	0	0	0	0	6,646
State and Federal aid	634,619	272,373	20,241	0	0	927,233
Other receivables	243,473	0	1,620	0	0	245,093
Prepaid expense	142,350	0	0	0	0	142,350
Inventories	0	0	22,475	0	0	22,475
TOTAL ASSETS	\$ 7,855,132	\$ 347,543	\$ 58,214	\$ 1,313,315	\$ 1,674,620	\$ 11,248,824
LIABILITIES						
Accounts payable	\$ 154,806	\$ 0	\$ 12,544	\$ 0	\$ 151,441	\$ 318,791
Accrued liabilities	143,668	0	1,207	0	0	144,875
Due to other funds	400,000	328,751	166,792	319,381	228,912	1,443,836
Bond anticipation notes payable	0	0	0	0	801,028	801,028
Due to other governments	0	0	287	0	0	287
Due to Employees' Retirement System	165,792	0	0	0	0	165,792
Due to Teachers' Retirement System	1,653,874	0	0	0	0	1,653,874
Total Liabilities	2,518,140	328,751	180,830	319,381	1,181,381	4,528,483
DEFERRED INFLOWS OF RESOURCES						
Collections in advance	13,800	18,792	0	0	0	32,592
Total Deferred Inflows of Resources	13,800	18,792	0	0	0	32,592
FUND BALANCE						
Nonspendable	0	0	22,475	0	0	22,475
Reserved for inventory	459,418	0	0	0	0	459,418
Restricted	0	0	0	993,934	0	993,934
Reserve for employee benefit liability	453,894	0	0	0	0	453,894
Reserve for debt service	796,340	0	0	0	0	796,340
Unemployment insurance reserve	250,000	0	0	0	0	250,000
Reserve for retirement contribution	78,160	0	0	0	0	78,160
Workers compensation reserve	1,003,549	0	0	0	493,239	1,496,788
Reserve for repairs	2,281,831	0	(145,091)	0	0	2,136,740
Assigned	5,323,192	0	(122,616)	993,934	493,239	6,687,749
Unassigned	\$ 7,855,132	\$ 347,543	\$ 58,214	\$ 1,313,315	\$ 1,674,620	\$ 11,248,824
Total Fund Balance	\$ 7,855,132	\$ 347,543	\$ 58,214	\$ 1,313,315	\$ 1,674,620	\$ 11,248,824
TOTAL LIABILITIES AND FUND BALANCE						

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION**

JUNE 30, 2013

Total fund balance - governmental funds balance sheet (page 13)	\$ 6,687,749
Add:	
Land, building and equipment, net of accumulated depreciation	11,859,543
Deduct:	
Compensated absences	737,592
Other post-employment benefits	19,753,607
Accrued interest payable	73,142
Long and short-term bonds payable	<u>7,580,000</u>
Total	<u>28,144,341</u>
NET POSITION, GOVERNMENTAL ACTIVITIES	<u><u>\$ (9,597,049)</u></u>

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	General	Special Aid	School Lunch	Debt Service	Capital	Total Governmental Funds
REVENUES						
Real property taxes	\$ 18,477,262	\$ 0	\$ 0	\$ 0	\$ 0	\$ 18,477,262
Other tax items	2,327,656	0	0	0	0	2,327,656
Charges for services	282,843	0	0	0	0	282,843
Use of money and property	128,061	0	4	6,080	0	134,145
Sale of property and compensation for loss	16,293	0	0	520,304	0	536,597
Miscellaneous	920,917	24,253	4,957	0	0	950,127
State sources	11,090,264	149,996	12,632	0	454,104	11,706,996
Federal sources	128,445	799,252	261,182	0	0	1,188,879
Surplus food	0	0	13,170	0	0	13,170
Sales - school lunch	0	0	287,766	0	0	287,766
Total Revenues	33,371,741	973,501	579,711	526,384	454,104	35,905,441
EXPENDITURES						
General support	3,228,868	0	238,194	0	0	3,467,062
Instruction	17,054,869	950,291	0	0	0	18,005,160
Pupil transportation	1,666,949	23,210	0	0	0	1,690,159
Employee benefits	8,810,409	0	138,127	0	0	8,948,536
Debt service						
Principal	1,216,217	0	0	0	0	1,216,217
Interest	306,872	0	0	0	0	306,872
Cost of sales	0	0	276,776	0	0	276,776
Capital outlay	0	0	0	0	893,780	893,780
Total Expenditures	32,284,184	973,501	653,097	0	893,780	34,804,562
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,087,557	0	(73,386)	526,384	(439,676)	1,100,879
OTHER FINANCING SOURCES AND USES						
Operating transfers in	288,115	0	22,000	0	1,200,000	1,510,115
Operating transfers (out)	(1,222,000)	0	0	(288,115)	0	(1,510,115)
BANs redeemed from appropriations	0	0	0	0	266,217	266,217
Total Other Sources (Uses)	(933,885)	0	22,000	(288,115)	1,466,217	266,217
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND USES	153,672	0	(51,386)	238,269	1,026,541	1,367,096
OTHER CHANGES IN FUND BALANCE	(299,870)	0	0	299,870	0	0
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	5,469,390	0	(71,230)	455,795	(533,302)	5,320,653
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 5,323,192	\$ 0	\$ (122,616)	\$ 993,934	\$ 493,239	\$ 6,687,749

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

REVENUES

Governmental funds \$ 35,905,441

EXPENDITURES

\$ 34,804,562

Add:

Depreciation 963,770

Accrued interest 73,142

Increase in other post-employment benefits 4,069,864

Increase in compensated absences 56,354

5,163,130

Deduct:

Principal payments of long-term debt 950,000

Prior year accrued interest 81,095

BANs redeemed from appropriations 266,217

Change in fixed assets 3,885

1,301,197

EXPENDITURES - STATEMENT OF ACTIVITIES

38,666,495

CHANGE IN NET POSITION

\$ (2,761,054)

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	<u>Private Purpose Trust</u>	<u>Agency</u>
ASSETS		
Cash	\$ 311,780	\$ 142,763
Accounts receivable	0	4,113
Total Assets	<u>\$ 311,780</u>	<u>\$ 146,876</u>
LIABILITIES		
Due to governmental funds	\$ 0	\$ 6,646
Extraclassroom activity balances	0	100,636
Other liabilities	0	39,594
Total Liabilities	<u>0</u>	<u>\$ 146,876</u>
NET POSITION	<u>\$ 311,780</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

ADDITIONS	
Interest	\$ 13,569
Gifts and contributions	12,194
Total additions	25,763
DEDUCTIONS	
Scholarships and awards	19,408
Changes in Net Assets	6,355
NET POSITION - BEGINNING OF YEAR	<u>305,425</u>
NET POSITION - END OF YEAR	<u>\$ 311,780</u>

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Kinderhook Central School District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as apply to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Certain significant accounting principles and policies utilized by the District are described below:

A) Reporting Entity

The Kinderhook Central School 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 nine 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 reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *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 and other organizational entities determined to be includable in the District’s financial reporting entity. 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, the following is a brief description of certain entities included in the District’s reporting entity.

1) 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. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found included with these financial statements. The District accounts for assets held as an agent for various student organizations in an agency fund.

B) Joint Venture

The District is a component district in Rensselaer-Greene-Columbia Counties (Questar III) Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services and programs which provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

B) Joint Venture – (Continued)

BOCES are organized under §1950 of the New York State 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 §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (§1950 (6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n(a) of the New York State 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 the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

During the year, the District was billed \$3,388,659 for BOCES administrative and program costs. Participating school districts issue debt on behalf of BOCES. During the year, the District issued \$-0- of serial bonds on behalf of BOCES. As of year end, the District had outstanding BOCES debt of \$-0-.

The District's share of BOCES aid amounted to \$638,698.

Financial statements for the BOCES are available from the BOCES administrative office.

C) Basis of Presentation

1) District-Wide Statements

The Statement of Net Position and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal 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, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended in those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and basic State aid, are presented as general revenues.

2) Fund Financial Statements

The fund 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, each displayed in a separate column.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

C) Basis of Presentation – (Continued)

2) Fund Financial Statements – (Continued)

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Special Revenue Funds: These funds account for the proceeds of specific revenue sources, such as federal and State grants, that are legally restricted to expenditures for specified purposes, child nutrition and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

Capital Projects Funds: These funds are used to account for the financial resources used for acquisition, construction or major repair of capital facilities.

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

The District reports the following fiduciary funds:

Fiduciary Fund: Fiduciary activities are those 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:

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

D) Measurement Focus and Basis of Accounting

The District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 property taxes, grants and donations. On an accrual basis, revenue from 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.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, 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.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

D) Measurement Focus and Basis of Accounting – (Continued)

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) Property Taxes

Real property taxes are levied annually by the Board of Education no later than September 1 and become a lien on September 1. Taxes are collected during the period September 1 to November 1.

Uncollected real property taxes are subsequently enforced by the counties in which the District is located. The counties pay an amount representing uncollected real property taxes transmitted to the counties for enforcement to the District no later than the following April 1.

F) Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net position 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 expenditures and revenues to provide financing or other services.

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

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be 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.

Refer to Note 9 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

H) 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. 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.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

I) Cash (and Cash Equivalents)/Investments

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States 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. Investments are stated at fair value.

J) Receivables

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

K) Inventories and Prepaid Items

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value which approximates market. 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 position 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.

A reserve for the nonliquid asset (inventory) has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

L) Other Assets

In the District-wide financial statements, bond issuance costs are capitalized and amortized over the life of the debt issue. In the fund statements, these same costs are netted against proceeds and recognized in the period of issuance.

M) Capital Assets

Capital assets are reported at actual cost or estimated historical costs. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 5,000	Straight-line	40
Building improvements	5,000	Straight-line	20
Furniture and equipment	5,000	Straight-line	5-15

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

N) Unearned Revenues

Unearned revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to the incidence 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 unearned revenues is removed and revenues are recorded.

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. In the current year, these amounts are recognized as deferred inflows of resources.

O) Vested Employee Benefits

Compensated Absences

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

Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement 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 funds 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

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

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits to retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially, all of the District's employees may become 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.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Q) Short-Term Debt

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

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

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 funds 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 Position.

S) Equity Classifications

District-Wide Statements

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

i) Net Investment in Capital Assets

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.

ii) Restricted Net Position

Reports net position when constraints placed on the assets or deferred outflows of resources 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.

iii) Unrestricted Net Position

Reports the balance of net position that does not meet the definition of the above two classifications and is deemed to be available for general use by the District.

KINDERHOOK CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES – (CONTINUED)

S) Equity Classifications – (Continued)

Fund Statements

In the fund basis statements there are five classification of fund balance:

1. Nonspendable

Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes in the inventory recorded in the School Lunch Fund of \$22,475.

2. Restricted

Includes amounts with constraints placed on the use of resources 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. The School District has established the following restricted fund balances:

Currently Utilized by the District:

Employee Benefit Accrued Liability

According to General Municipal Law §6-p, must be used for the payment of accrued employee benefits 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 under Restricted Fund Balance.

Repairs

According to General Municipal Law §6-d, must be used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. The Board of Education without voter approval may establish a repair reserve fund by a majority vote of its members. Voter approval is required to fund this reserve (Opinion of the New York State Comptroller 81-401). Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years. This reserve is accounted for in the General Fund under Restricted Fund Balance.

Retirement Contributions

According to General Municipal Law §6-r, must be used for financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the Board. This reserve is accounted for in the General Fund under Restricted Fund Balance.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES – (CONTINUED)

S) Equity Classifications – (Continued)

Restricted – (Continued)

Currently Utilized by the District:

Workers' Compensation

According to General Municipal Law §6-j, must be 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. This reserve is accounted for in the General Fund under Restricted Fund Balance.

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 which remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvements and interest and earnings on borrowed proceeds of a capital project if the interest and earnings causes the proceeds for the project to exceed authorized levels. The reserve is accounted for in the Debt Service Fund.

Unemployment Insurance

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgeting purposes in order to reserve applicable appropriations is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the General Fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

3. Committed

Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the School Districts highest level of decision making authority, i.e., the Board of Education. The School District has no committed fund balances as of June 30, 2013.

KINDERHOOK CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES – (CONTINUED)

S) Equity Classifications – (Continued)

4. Assigned

Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed, except for stabilization arrangements. The Board of Education is not required to impose or remove the constraint. Assignments of fund balance cannot be made if it would result in a negative unassigned fund balance.

Encumbrances

All encumbrances are classified as Assigned Fund Balance. There were no significant encumbrances as of June 30, 2013.

5. Unassigned

Includes the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications.

NYS Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the School District's budget for the General Fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation.

Order of Use of Fund Balance

The District's policy is to annually determine the appropriate use of fund balance upon recommendation of the Superintendent and Board of Education.

T) New Accounting Standards

The District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2013, the District implemented the following new standards issued by GASB:

GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*

GASB 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and amends the net asset reporting provisions of GASB 34 by incorporating deferred inflows and outflows into the definitions of the residual measure and by renaming that measure as net position, rather than net assets.

U) Future Changes in Accounting Standards

GASB has issued Statement 65, *Items Previously Reported as Assets and Liabilities*, effective for the year ending June 30, 2014.

GASB has issued Statement 66, *GASB Technical Corrections – 2012 – an Amendment of Statements 10 and 62*, effective for the year ending June 30, 2014.

KINDERHOOK CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES – (CONTINUED)

U) Future Changes in Accounting Standards – (Continued)

GASB has issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*, effective for the year ending June 30, 2015.

GASB has issued Statement 69, *Government Combinations and Disposals of Government Operations*, effective for the year ending June 30, 2015.

GASB has issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending June 30, 2015.

The District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND 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 focus of the District-wide Statements compared with the current financial resources focus of the governmental funds.

A) Total Fund Balance of Governmental Funds vs. Net Position of Governmental Activities

Total fund balance of the District's governmental funds differs from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position 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 governmental funds' Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories. The amounts shown below represent:

1) Long-Term Revenue 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.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS – (CONTINUED)

B) Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities – (Continued)

2) 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.

3) 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 Position.

The costs of building and acquiring capital assets (land, buildings and equipment) financed from 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 Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.

Long-term liabilities are reported in the Statement of Net Position, but not in the governmental funds, because they are not due and payable in the current period.

In the Statement of Activities, certain operating expenses (compensated absences and special termination benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

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

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.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District’s unassigned General Fund balance exceed the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the Districts appropriation budget for the upcoming school year.

Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted.

The voters of the District defeated the proposed appropriation budget; consequently, the Board of Education adopted a contingency budget, which includes appropriations for teachers’ salaries and other ordinary contingent expenses. The contingency budget total is capped at the lesser of 120% of the CPI or 4% over the prior year’s budget. In addition, the administrative component of a contingency budget, exclusive of the capital component, may not comprise a greater percentage of the budget than the lesser of that percentage of the prior year’s budget or that percentage in the last defeated budget.

Appropriations are adopted at the program line item level.

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

Funding Sources

Gifts and donations	\$ 39,148
Reserve amendments	<u>1,226,268</u>
TOTAL	<u>\$ 1,265,416</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.

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 assigned 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.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (CONTINUED)

Encumbrances – (Continued)

The District's unassigned General Fund balance exceeds the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's appropriation budget for the upcoming school year.

The School Lunch Fund had a deficit fund balance of \$122,616. This will be funded with future transfers from the General Fund.

NOTE 4 – CASH AND CASH EQUIVALENTS – CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE AND FOREIGN CURRENCY RISKS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. While the District does not have a specific policy for custodial credit risk, New York State statutes govern the District's investment policies, as discussed previously in these Notes.

The District's aggregate bank balances (disclosed in the financial statements), included balances not covered by depository insurance at year-end, collateralized as follows:

Uncollateralized	\$	0
Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the District's name		8,461,191

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 \$3,351,127 within the governmental funds and \$454,543 in fiduciary funds.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 5 – CAPITAL ASSETS

Capital assets balances and activity for the year ended June 30, 2013, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 10,001	\$ 0	\$ 0	\$ 10,001
Construction in process	2,417,827	517,944	0	2,935,771
Total nondepreciable historical cost	<u>2,427,828</u>	<u>517,944</u>	<u>0</u>	<u>2,945,772</u>
Capital assets that are depreciated:				
Land improvements	1,181,916	0	0	1,181,916
Buildings	18,340,787	0	1,579,012	16,761,775
Furniture and equipment	7,797,222	375,836	343,549	7,829,509
Total depreciable historical cost	<u>27,319,925</u>	<u>375,836</u>	<u>1,922,561</u>	<u>25,773,200</u>
Less accumulated depreciation:				
Buildings, furniture and equipment	16,928,325	963,770	1,032,666	16,859,429
Total accumulated depreciation	<u>16,928,325</u>	<u>963,770</u>	<u>1,032,666</u>	<u>16,859,429</u>
Net depreciable historical cost	<u>10,391,600</u>	<u>(587,934)</u>	<u>889,895</u>	<u>8,913,771</u>
GRAND TOTAL	<u><u>\$ 12,819,428</u></u>	<u><u>\$ (69,990)</u></u>	<u><u>\$ 889,895</u></u>	<u><u>\$ 11,859,543</u></u>

Depreciation was allocated to the following programs as follows:

General support	\$ 132,117
Instruction	736,723
Pupil transportation	68,207
School lunch program	26,723
TOTAL	<u><u>\$ 963,770</u></u>

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 6 - SHORT-TERM DEBT

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

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
BAN	12/21/2012	0.99	\$ 549,000	\$ 0	\$ 549,000	\$ 0
BAN	11/1/2013	1.31	691,408	375,837	266,217	801,028
TOTALS			<u>\$1,240,408</u>	<u>\$ 375,837</u>	<u>\$ 815,217</u>	<u>\$ 801,028</u>

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

Interest paid	\$ 6,807
Less interest accrued in the prior year	(7,310)
Add interest accrued in the current year	6,879
TOTAL	<u>\$ 6,376</u>

NOTE 7 - LONG-TERM DEBT

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Bonds and notes payables	\$ 8,530,000	\$ 0	\$ 950,000	\$ 7,580,000	\$ 990,000
Other liabilities:					
Other post-employment benefits	15,683,743	4,069,864	0	19,753,607	0
Compensated absences, net	681,238	56,354	0	737,592	0
TOTAL LONG-TERM LIABILITIES	<u>\$ 24,894,981</u>	<u>\$ 4,126,218</u>	<u>\$ 950,000</u>	<u>\$ 28,071,199</u>	<u>\$ 990,000</u>

Additions and deletions to compensated absences are shown net since it is impractical to determine these amounts separately.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 7 – LONG-TERM DEBT – (CONTINUED)

The following is a summary of the maturity of long-term indebtedness:

<u>Decription of Issue</u>	<u>Serial Bond</u>	<u>Serial Bond</u>	<u>Serial Bond</u>	<u>Serial Bond</u>
Issue date	2/26/2003	4/1/2002	7/1/2006	6/24/2010
Final maturity	6/15/2016	5/15/2016	7/1/2020	6/15/2025
Interest rate	3.299%	4.125-4.5%	3.722%	2-4%
Outstanding at year end	\$ 830,000	\$ 400,000	\$ 3,385,000	\$ 2,965,000
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
Fiscal year ended June 30:				
2014	\$ 980,000	\$ 266,846	\$ 1,246,846	
2015	1,010,000	232,212	1,242,212	
2016	1,045,000	196,409	1,241,409	
2017	645,000	158,416	803,416	
2018	695,000	136,894	831,894	
Thereafter	3,205,000	433,331	3,638,331	
TOTALS	<u>\$ 7,580,000</u>	<u>\$ 1,424,108</u>	<u>\$ 9,004,108</u>	

In 2003, the District defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

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

Interest paid	\$ 300,065
Less interest accrued in the prior year	(73,785)
Add interest accrued in the current year	66,263
TOTAL EXPENSE	<u>\$ 292,543</u>

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 8 – PENSION PLANS

General Information

The District participates in the New York State Employees' Retirement System (NYSERS) and the New York State Teachers' Retirement System (NYSTRS). 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.

Provisions and Administration

The New York State Teachers' Retirement Board administers NYSTRS. NYSTRS 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. NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law govern obligations of employers and employees to contribute and benefits to employees. NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Office of the State Comptroller, 110 State Street, Albany, New York 12244.

Funding Policies

The Systems are noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% to 3.5% of their salary. With the exception of ERS tier V and VI employees, employees in the system more than ten years are no longer required to contribute. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For the NYSERS, the Comptroller certified the rates expressed as proportions of members' payroll annually, which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

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

	<u>NYSTRS</u>	<u>NYSERS</u>
2012-2013	\$ 1,520,763	\$ 635,419
2011-2012	1,716,571	741,885
2010-2011	1,219,361	579,456

Since 1989, the NYSERS billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 over a 17 year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability, which the District did not exercise.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	\$ 1,050,482	\$ 400,000	\$ 288,115	\$ 1,222,000
Special Aid Funds	0	328,751	0	0
School Lunch Fund	0	166,792	22,000	0
Debt Service Fund	0	319,381	0	288,115
Capital Projects Fund	400,000	228,912	1,200,000	0
Total Governmental Activities	1,450,482	1,443,836	1,510,115	1,510,115
Fiduciary Agency Fund	0	6,646	0	0
TOTALS	\$ 1,450,482	\$ 1,450,482	\$ 1,510,115	\$ 1,510,115

The District typically loans resources between the Special Aid and School Lunch Funds for the purpose of mitigating the effects of transient cash flow issues.

NOTE 10 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS

The District provides post-employment health insurance coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District’s contractual agreements.

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the District is required to calculate and record a net other post-employment benefit obligation at year-end. The net other post-employment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the funds financial statements as payments are made. For the year ended June 30, 2013, the District recognized \$1,962,556 for its share of insurance premiums for currently enrolled retirees.

Plan Description

Kinderhook Central School District provides medical and Medicare Part B, dental and vision benefits to its eligible retirees. The benefits are provided through fully insured plans that are sponsored by a regional health consortium. Employees are required to reach age 55 and have 10 years of service to qualify for OPEB. The School District pays between 88% and 100% of the retiree’s medical benefits depending on the employee group. The School District also reimburses the employee and dependent spouse for the full cost of Medicare Part B. The School District contributes towards the cost of eligible spouses during the retiree’s lifetime. Spouses pay 50% for coverage. Once the spouse or retiree reach age 65, the coverage changes to two individual policies. The spouse is required to pay 100% of the cost of the benefits following the death of the retired employee.

The District issues a publicly available financial report that includes financial statements and required supplementary information.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS – (CONTINUED)

Funding Policy

The contribution requirements of the plan members and the District are established by the Board of Education. The required contribution is based on projected pay-as-you-go financing requirements.

For the fiscal year ended June 30, 2013, the District contributed \$5,221,817 to the employee health insurance.

Annual Other Post-employment Benefit (OPEB) Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the component's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the healthcare plan:

Annual required contribution	\$ 6,294,449
Interest on net OPEB obligation	627,350
Adjustment to annual required contribution	<u>889,379</u>
Annual OPEB cost (expense)	6,032,420
Contributions made	<u>1,962,556</u>
Increase in net OPEB obligation	4,069,864
Net OPEB obligation - beginning of year	<u>15,683,743</u>
Net OPEB obligation - end of year	<u><u>\$ 19,753,607</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/13	\$6,032,420	33%	\$19,753,607
06/30/12	6,493,677	29%	15,683,743
06/30/11	5,907,618	25%	11,050,217

Funding Status and Funding Progress

As of June 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$70,520,812 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$70,520,812. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumption about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS – (CONTINUED)

Funding Status and Funding Progress – (Continued)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is based on the expected earnings of the District's General Fund investments at the valuation date, and an annual healthcare cost trend rate of 10%, initially reduced by decrements to an ultimate rate of 5% after nine years. The UAAL is being amortized as a level percentage of projected unit credit basis. The remaining amortization period at June 30, 2013, was 30 years.

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters and other risks. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage.

For its employee health and accident insurance coverage, the District is a participant in the Rensselaer-Columbia-Greene Counties Health Insurance Trust, a public entity risk pool operated for the benefit of 23 districts located within Rensselaer-Columbia-Greene Counties BOCES region and the Rensselaer-Columbia-Greene Counties BOCES. The School District pays an annual premium to the Plan for this health insurance coverage. The Rensselaer-Columbia-Greene Health Insurance Trust obtains independent coverage for insured events in excess of set limits.

The District participates in the Rensselaer-Columbia-Greene Workers' Compensation Consortium, a risk-sharing pool, to insure Workers' Compensation claims. This is a public entity risk pool created under Article 5 of the Workers' Compensation Law, to finance liability and risks related to Workers' Compensation claims.

NOTE 12 – DONOR-RESTRICTED ENDOWMENTS

The District administers endowment funds, which are restricted by the donor for the purpose of scholarships.

The District authorizes expenditures from donor-restricted endowments in compliance with the wishes expressed by the donor, which varies among the unique endowments administered by the District.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 13 – CONTINGENCIES AND COMMITMENTS

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 years' experience, the District's administration believes disallowances, if any, will be immaterial.

NOTE 14 – OTHER CHANGES IN FUND BALANCE

General Fund decrease of fund balance and the debt service increase in fund balance in the amount of \$299,870 was to transfer debt service reserves out of the general fund and properly record them in the debt service fund.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 3, 2013, the date of the issuance of the audit report. There were no issues to report that would have a material effect on the financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Revenues</u>	<u>Final Budget Variance with Budgetary Actual Over (Under)</u>
REVENUES:				
Local Sources				
Real property taxes	\$ 20,712,882	\$ 18,488,417	\$ 18,477,262	\$ (11,155)
Real property tax items	85,480	2,309,945	2,327,656	17,711
Charges for services	145,200	145,200	282,843	137,643
Use of money and property	106,000	106,000	128,061	22,061
Sale of property and compensation for loss	500	500	16,293	15,793
Miscellaneous	230,933	270,081	920,917	650,836
Total Local Sources	<u>21,280,995</u>	<u>21,320,143</u>	<u>22,153,032</u>	<u>832,889</u>
State Sources	11,593,089	11,593,089	11,090,264	(502,825)
Federal Sources	<u>100,000</u>	<u>100,000</u>	<u>128,445</u>	<u>28,445</u>
Total Revenues	32,974,084	33,013,232	33,371,741	358,509
OTHER FINANCING SOURCES				
Transfers from other funds	<u>250,000</u>	<u>250,000</u>	<u>288,115</u>	<u>38,115</u>
Total Revenues and Other Financing Sources	<u>33,224,084</u>	<u>33,263,232</u>	<u>33,659,856</u>	<u>\$ 396,624</u>

See paragraph on supplemental schedules included in independent auditors' report.

KINDERHOOK CENTRAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Year-End Encumbrances</u>	<u>Final Budget Variance With Budgetary Actual and Encumbrances (Over) Under</u>
EXPENDITURES					
General Support					
Board of Education	65,887	70,499	66,647	\$ 2,734	\$ 1,118
Central administration	203,810	205,687	205,494	45	148
Finance	291,856	302,406	266,642	6,943	28,821
Staff	112,563	112,563	78,291	0	34,272
Central services	2,796,984	2,903,468	2,269,442	243,800	390,226
Special items	369,222	365,426	342,352	0	23,074
Instructional					
Instruction, administration and improvements	936,208	1,008,249	964,588	4,883	38,778
Teaching – regular school	8,543,278	8,694,762	8,636,066	6,798	51,898
Programs for children with handicapping conditions	5,011,157	5,052,189	4,886,663	36,936	128,590
Occupational education	956,073	956,073	946,756	9,317	0
Teaching - special school	72,478	72,478	53,861	10,000	8,617
Instructional media	511,118	563,935	550,244	6,782	6,909
Pupil services	981,674	1,141,731	1,016,691	221	124,819
Pupil Transportation	1,883,482	1,958,707	1,666,949	212	291,546
Employee Benefits	9,681,589	9,220,496	8,810,409	0	410,087
Debt Service	1,537,434	2,746,606	1,523,089	0	1,223,517
Total Expenditures	33,954,813	35,375,275	32,284,184	328,671	2,762,420
Other Financing Uses					
Transfers to other funds	0	0	1,222,000	0	(1,222,000)
Total Expenditures and Other Uses	33,954,813	35,375,275	33,506,184	\$ 328,671	\$ 1,540,420
NET CHANGE IN FUND BALANCE	(730,729)	(2,112,043)	153,672		
OTHER CHANGES IN FUND BALANCE	(299,870)	(299,870)	(299,870)		
FUND BALANCE – BEGINNING	5,469,390	5,469,390	5,469,390		
FUND BALANCE – ENDING	\$ 4,438,791	\$ 3,057,477	\$ 5,323,192		

See paragraph on supplemental schedules included in independent auditors' report.

KINDERHOOK CENTRAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS OTHER POST-EMPLOYMENT BENEFITS PLAN

FOR THE YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/12	\$ 0	\$ 70,520,812	\$70,520,812	0%	\$ 16,098,712	438%
07/01/11	0	73,862,065	73,862,065	0%	15,635,000	472%
07/01/10	0	65,413,650	65,413,650	0%	15,856,832	413%

See paragraph on supplemental schedules included in independent auditors' report.

KINDERHOOK CENTRAL SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO
FINAL BUDGET AND REAL PROPERTY TAX LIMIT**

FOR THE YEAR ENDED JUNE 30, 2013

CHANGE FROM ADOPTED TO FINAL BUDGET

ADOPTED BUDGET \$ 33,954,813

ADDITIONS:

Prior year's encumbrances 155,046
Donations 39,148
Reserve amendments 1,226,268

FINAL BUDGET \$ 35,375,275

SECTION §1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2013-14 voter-approved expenditure budget \$ 34,911,862
Maximum allowed (4% of 2013-14 budget) 1,396,474

General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law:

Unrestricted fund balance:
Assigned fund balance 1,003,549
Unassigned fund balance 2,281,831
Total unrestricted fund balance 3,285,380

Less:

Appropriated fund balance 674,878
Encumbrances included in assigned fund balance 328,671
Tax Reduction reserve 288,115
Total Adjustments 1,291,664

General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law \$ 1,993,716

Actual percentage 5.7%

See paragraph on supplemental schedules included in independent auditors' report.

**KINDERHOOK CENTRAL SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION**

**SCHEDULE OF PROJECT EXPENDITURES – CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2013**

Project Title	Original Appropriation	Revised Appropriation	Expenditures		Total	Unexpanded Balance	Methods of Financing			Fund Balances
			Prior Year	Current Year			Local Sources	State Aid	Proceeds of Obligations	
Project 67 Elevator	\$ 595,000	\$ 595,000	\$ 494,901	\$ 0	\$ 494,901	\$ 100,099	\$ 0	\$ 123,621	\$ 371,280	\$ 0
Project 73 Phase I & II	4,360,000	4,360,000	3,372,219	5,405	3,377,624	982,376	0	585,867	3,228,720	436,963
Project 74 Transfer 08-09	203,300	203,300	79,810	53,285	133,095	70,205	203,300	0	0	70,205
Project 76 Transfer 09-10	265,000	265,000	248,275	0	248,275	16,725	265,000	0	0	16,725
Heat Exchanger	63,000	63,000	31,377	0	31,377	31,623	63,000	0	0	31,623
Project 80 Phases I & II	7,000,000	7,000,000	0	459,254	459,254	6,540,746	1,200,000	0	0	740,746
Various buses, etc.	2,132,442	2,132,442	1,698,888	375,836	2,074,724	57,718	1,271,701	0	0	(803,023)
TOTALS	\$ 14,618,742	\$ 14,618,742	\$ 5,925,470	\$ 893,780	\$ 6,819,250	\$ 7,799,492	\$ 3,003,001	\$ 709,488	\$ 3,600,000	\$ 493,239

See paragraph on supplemental schedules included in independent auditors' report.

KINDERHOOK CENTRAL SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT

FOR THE YEAR ENDED JUNE 30, 2013

CAPITAL ASSETS, NET		\$ 11,859,543
DEDUCT:		
Bond anticipation note payable	\$ 801,028	
Short-term portion of bonds payable	990,000	
Long-term portion of bonds payable	6,590,000	
		<u>8,381,028</u>
NET INVESTMENT IN CAPITAL ASSETS		<u><u>\$ 3,478,515</u></u>

See paragraph on supplementary schedules included in independent auditors' report.

**KINDERHOOK CENTRAL SCHOOL DISTRICT
FEDERAL AWARD PROGRAM INFORMATION
(SINGLE AUDIT)**

(OMB CIRCULAR A-133)

JUNE 30, 2013



**INDEPENDENT AUDITORS' 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 President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, New York

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kinderhook Central School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kinderhook Central School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kinderhook Central School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Kinderhook Central School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

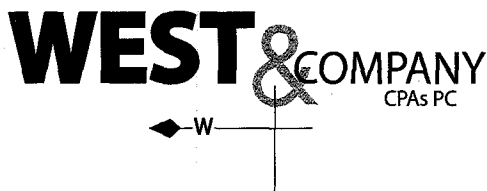
As part of obtaining reasonable assurance about whether Kinderhook Central School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

WEST & COMPANY CPAs PC

Gloversville, New York
September 3, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, New York

Report on Compliance for Each Major Federal Program

We have audited Kinderhook Central School District's compliance with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement*, that could have a direct and material effect on each of Kinderhook Central School District's major federal programs for the year ended June 30, 2013. Kinderhook Central School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Kinderhook Central School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Kinderhook Central School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Kinderhook Central School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Kinderhook Central School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Kinderhook Central School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kinderhook Central School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kinderhook Central School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

WEST & COMPANY CPAs PC

Gloversville, New York
September 3, 2013

KINDERHOOK CENTRAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>		
Passed Through NYS Education Department:		
Title I, Part A & D - Improving Academic Achievement	84.010	\$ 234,773
Title II A - Innovative Education Program Strategies	84.367	66,960
ARRA-Race to the Top	84.395	13,068
Title I School Improvement	84.010	19,176
IDEA, Part B Section 611 - Special Ed Grants to State	84.027	443,658
IDEA, Part B Section 619 - Special Ed Preschool Grant	84.173	21,617
		<u>799,252</u>
Total U.S. Department of Education		<u>799,252</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
Direct:		
Food Distribution	10.555	13,170
Passed Through NYS Education Department:		
National School Lunch Program	10.555	214,705
National School Breakfast Program	10.553	46,477
		<u>274,352</u>
Total U.S. Department of Agriculture		<u>274,352</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 1,073,604</u></u>

See notes to schedule of expenditures of federal awards.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE A – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the 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 from 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 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.

NOTE B – SUBRECIPIENTS

No amounts were provided to subrecipients.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2013, the District had food commodities totaling \$17,490 in inventory.

KINDERHOOK CENTRAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. Type of auditors' report issued: unqualified
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? ___ Yes X No
 - b. Significant deficiency(ies) identified? ___ Yes X No
3. Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness(es) identified? ___ Yes X No
 - b. Significant deficiency(ies) identified? ___ Yes X No
2. Type of auditors' report issued on compliance for major programs: unqualified
3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ___ Yes X No
4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.027	Special Education – Part B, Sec. 611
84.173	Special Education – Part B, Sec. 619
10.555	National School Lunch Program
10.555	Food Distribution
10.553	National School Breakfast Program

5. Dollar threshold used to distinguish between type A and B programs: \$300,000.
6. Auditee qualified as low-risk auditee? X Yes ___ No

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

KINDERHOOK CENTRAL SCHOOL DISTRICT

EXTRACLASSROOM ACTIVITY FUNDS

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013



INDEPENDENT AUDITORS' REPORT

To the President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, New York

We have audited the statement of assets and liabilities arising from cash transactions of the Extraclassroom Activity Funds of Kinderhook Central School District as of June 30, 2013, and the accompanying statement of revenues collected and expenses paid for the year then ended. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 opinion.

Insufficient accounting controls are exercised over cash receipts at the point of collections to the time of submission to the Central Treasurer. Accordingly, it was impracticable to extend our audit of such receipts beyond the amounts recorded.

As described in Note 1, the District prepares these financial statements on the cash basis of accounting. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of any adjustments that might have been determined to be necessary had we been able to perform adequate auditing procedures in regards to the cash receipts referred to in the third paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Extraclassroom Activity Funds of the Kinderhook Central School District as of June 30, 2013, and the revenues collected and expenses paid for the year then ended, on the basis of accounting described in Note 1.

WEST & COMPANY CPAs PC

Gloversville, New York
September 3, 2013

KINDERHOOK CENTRAL SCHOOL DISTRICT

EXTRACLASSROOM ACTIVITY FUNDS

STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS

JUNE 30, 2013

ASSETS	
Cash	<u>\$ 100,636</u>
TOTAL ASSETS	<u><u>\$ 100,636</u></u>
LIABILITIES AND CLUB BALANCES	
Club balances	<u>\$ 100,636</u>
TOTAL LIABILITIES AND CLUB BALANCES	<u><u>\$ 100,636</u></u>

See independent auditors' report.

KINDERHOOK CENTRAL SCHOOL DISTRICT

EXTRACLASSROOM ACTIVITY FUNDS

STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID

FOR THE YEAR ENDED JUNE 30, 2013

	Balance			Balance
	July 1, 2012	Receipts	Disbursements	June 30, 2013
High School and Middle Schools:				
Class of 2010	\$ 94	\$ 0	\$ 94	\$ 0
Class of 2011	314	0	314	0
Class of 2012	1,954	2	1,501	455
Class of 2013	2,924	29,933	31,789	1,068
Class of 2014	6,725	26,228	27,735	5,218
Class of 2015	958	6,791	5,111	2,638
Class of 2016	0	1,887	1,314	573
Student Council	575	1,806	1,351	1,030
High School Yearbook	3,003	19,218	20,346	1,875
Music	9,382	4,376	4,115	9,643
Honor Society	530	2,636	2,398	768
Crane Acting Troupe	3,011	15,664	18,193	482
Ski Club	4,140	25,592	26,629	3,103
Girls Athletic Council	8,291	5,515	3,859	9,947
Varsity Club	1,110	1,057	1,991	176
Magazine	1,199	168	4	1,363
French Club	936	1,051	1,185	802
Students Against Drunk Drivers	52	0	4	48
Spanish Club	305	2	4	303
S.A.V. E.	1,974	11	575	1,410
Kids of America	1,166	7	4	1,169
School Store	60	6	5	61
NCBI	679	4	117	566
Art Club	694	2,439	2,126	1,007
Habitat for Humanity	1,270	985	1,462	793
Garden Club	0	271	100	171
Middle School:				
Student Council	3,464	4,472	5,888	2,048
Futures Cities	160	1	0	161
School Store	107	169	108	168
Yearbook	1,518	12,407	12,537	1,388
DC Club	54,492	110,727	113,042	52,177
JR Save	3	157	135	25
TOTALS	\$ 111,090	\$ 273,582	\$ 284,036	\$ 100,636

See accompanying notes to financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

EXTRACLASSROOM ACTIVITY FUNDS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Extraclassroom Activity Funds of the Kinderhook Central School District represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the School District with respect to its financial transactions, and the designation of student management. However, since the Board of Education does exercise general oversight, these funds and their corresponding cash accounts are reflected in the Trust and Agency Funds of the basic financial statements of the District.

The books and records of the Kinderhook Central School District's Extraclassroom Activity Funds are maintained on the cash basis of accounting. Under this basis of accounting, revenues are recognized when cash is received and expenditures are recognized when cash is disbursed.

NOTE 2 – MANAGEMENT LETTER

Management letter items associated with the Extraclassroom Activity Funds are included in the management letter accompanying the District's financial statements.



September 3, 2013

To the President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, New York

Re: Management Letter
June 30, 2013

Dear Board Members:

In planning and performing our audit of the financial statements of the Kinderhook Central School District for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and improving operating efficiency. We previously reported on the District's internal control in our report dated September 3, 2013. This letter does not affect our report dated September 3, 2013, on the financial statements of Kinderhook Central School District.

Our comments and recommendations for the year ended June 30, 2013, are as follows:

Prior-Year Conditions and Recommendations

1. School Lunch Fund Deficit

Prior Condition: For the year ended June 30, 2012, the District had a deficit balance in the School Lunch Fund of \$71,230.

Status: This condition has not been corrected. The deficit has increased to \$122,616 in the current year.

Recommendation: We recommend that the District continue to evaluate pricing and costs within the School Lunch Fund and the support provided from the General Fund in order to eliminate deficits in future years.

2. Extraclassroom Activity Funds

Prior Condition: Through testing of extraclassroom activity funds, we noted that there were several fundraisers for which profit and loss statements were not filled out.

Status: This condition remains unchanged as of June 30, 2013.

Recommendation: We recommend that the District review its procedures for extraclassroom activity funds and ensure profit and loss statements are received for all fundraisers.

3. General Fund – Assigned and Unassigned Fund Balance

Prior Condition: The District currently has unassigned fund balance that has exceeded 4% of the subsequent year’s General Fund appropriation budget. Real property tax law states that the assigned and unassigned fund balance should not exceed 4% of the subsequent year’s General Fund appropriation budget.

Status: This condition remains unchanged as of June 30, 2013.

Recommendation: We recommend that the Board of Education take the necessary actions to reduce the District’s General Fund assigned and unassigned fund balance to statutory limits.

4. Reserves

Prior Condition: We noted that the District does not have any formal reserve plan policy in place outlining planned funding and use of reserves over the upcoming years.

Status: This condition has been corrected as of June 30, 2013.

Current-Year Conditions and Recommendations

1. Extraclassroom Activity Funds

Condition: Through testing of extraclassroom activity funds, we noted that there was one instance where required signatures were not present.

Recommendation: We recommend that the District review its procedures for extraclassroom activity funds and ensure compliance with NYS Pamphlet #2.

2. Tax Reduction Reserve

Condition: The District sold one of its elementary schools during the school year. The proceeds from the sale of this building exceeded the debt related to the building. The District incorrectly recorded the entire proceeds from the sale of the building in the debt service fund. The proceeds of the sale that exceeded the existing debt should have been placed in a tax reduction reserve in the General Fund. This was done through a proposed audit adjustment.

Recommendation: We recommend that if the District has future building sales, prior to recording the revenue, management review and properly record revenue in either the appropriate reserves or in debt service fund.

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This report is intended solely for the information and use of the Board of Education, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with management, and we will be pleased to discuss them with the Board at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

We appreciate the courtesies, assistance and cooperation given us during our audit by Mr. Brennan, Ms. Mazure and the other Business Office personnel.

Very truly yours,

WEST & COMPANY CPAs PC

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