

CARMEL CENTRAL  
SCHOOL DISTRICT

FINANCIAL STATEMENT  
AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

# CARMEL CENTRAL SCHOOL DISTRICT

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Education of the  
Carmel Central School District:

We have audited the accompanying financial statements of the Carmel Central School District as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Carmel Central School District as of June 30, 2006, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards* , we have also issued our report dated August 8, 2006 on our consideration of Carmel Central School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Carmel Central School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Claverack, New York  
August 8, 2006

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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**I. Summary of Significant Accounting Policies**

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

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

**A. Prior Period Adjustment**

The reconciliation of restated amounts to the June 30, 2005 year-end balance is:

Beginning net assets	\$ 9,882,080
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The following adjustments are necessary to determine the beginning net assets for the Statement of Activities:

Accrued interest	<u>(112,947)</u>
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Beginning net assets reported on Statement of Activities for governmental activities, July 1, 2005	<u>\$ 9,769,133</u>
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**B. Reporting Entity**

The Carmel 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 7 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. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the School 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 review of certain entities included in the School District's reporting entity:

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

The Extraclassroom Activity Funds

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

**C. Joint Venture**

The Carmel Central School District is one of 19 component school districts in the Putnam/Northern Westchester Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities.

BOCES are organized under Section 1950 of the Education Law. A BOCES Board is considered a corporate body. All BOCES property is held by the BOCES Board as a corporation (Section 1950(6)). In addition, BOCES Boards are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section 119-n(a) of the General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program, and capital costs. Each component school district's share of administrative and capital cost is determined by resident public school district enrollment as defined in Education Law, Section 1950(4)(b)(7).

There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which their students participate. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section 1950 of the Education Law.

During the year ended June 30, 2006, the Carmel Central School District was billed \$4,904,367 for BOCES administrative and program costs. The District's share of BOCES Aid amounted to \$843,634. Financial statements for the BOCES Aid are available from the BOCES administrative office.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**D. Basis of Presentation**

**1. Districtwide Statements**

The districtwide Statement of Net Assets 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 program 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. 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, are presented as general revenues. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas.

**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.

The District reports the following funds:

**a. Major Governmental Funds**

- (1) **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.
- (2) **Special Aid Fund-** 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 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.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**D. Basis of Presentation (Continued)**

**2. Fund Financial Statements (Continued)**

**a. Major Governmental Funds (Continued)**

- (3) **School Lunch Fund-** Used to account for transactions of the District's lunch and breakfast programs.
- (4) **Capital Projects Fund-** This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.
- (5) **Debt Service Fund-** This fund accounts for the accumulation of resources and the payment of principal and interest on long-term obligations for governmental activities.

**b. Fiduciary Funds**

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 districtwide 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:

- (1) **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.
- (2) **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.

**E. Measurement Focus and Basis of Accounting**

The districtwide 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.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**E. Measurement Focus and Basis of Accounting (Continued)**

The 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 measureable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after the end of the fiscal year.

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

**F. Cash and 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. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and districts.

**G. Property Taxes**

Real property taxes are levied by the Board of Education no later than September 1 and become a lien on August 16, 2005. Taxes are collected during the period September 1, 2005 to October 31, 2005.

Uncollected real property taxes are subsequently enforced by the County of Putnam. An amount representing uncollected real property taxes transmitted to the County for enforcement is paid by the County to the School District no later than the following April 1.

**H. Restricted Resources**

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

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**I. Due To/From Other Funds**

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 districtwide statements, the amounts reported on the Statement of Net Assets for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between 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 IV for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

**J. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**K. Accounts Receivable**

Accounts receivable 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.

**L. 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.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**M. Capital Assets**

Capital assets are reflected in the districtwide financial statements. Capital assets are reported at historical cost or estimated historical costs, based on appraisals conducted by independent third-party professionals. Donated assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Capitalization thresholds, except land, are depreciated on a straight-line basis over their estimated useful lives. Estimated useful lives of capital assets reported in the districtwide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Site Improvements	\$ 5,000	20
Buildings and Improvements	\$ 5,000	20-50
Furniture and Equipment	\$ 5,000	5-15
Vehicles	\$ 5,000	8

**N. 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, the liability has been calculated using the vested/termination method and an accrual for that liability is included in the districtwide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**N. Compensated Absences (Continued)**

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

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

Payables, accrued liabilities and long-term obligations are reported in the districtwide 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 due in one year or due within more than one year are reported in the Statement of Net Assets.

**P. Deferred Revenue**

Deferred revenues are reported on the combined balance sheet. Deferred revenues arise when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Consequently, such amounts are recognized as revenue in the subsequent fiscal year rather than when measurable and available.

**Q. Post-Employment Benefits**

In addition to providing pension benefits, the School District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the School District's employees may become eligible for these benefits if they reach normal retirement age while working for the School 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 School District and the retired employee. The School District recognizes the cost of providing health insurance by recording its share of insurance premiums (for retirees and their dependents) as an expenditure in the General Fund in the year paid. Post-employment benefits aggregated \$3,635,444 for fiscal year ended June 30, 2006.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**I. Summary of Significant Accounting Policies (Continued)**

**R. Equity Classifications**

1. Districtwide Statements

In the districtwide statements there are three classes of net assets:

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

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

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

2. Funds Statements

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

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

Reserve for Encumbrances

This reserve represents the amount of outstanding encumbrances at the end of the fiscal year to be potentially expended in the subsequent year.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**I. Summary of Significant Accounting Policies (Continued)**

**S. Budgetary Procedures and Budgetary Accounting**

1. Budget Policies

The budget policies are as follows:

- a. The School District administration prepares a proposed budget for approval by the Board of Education for the General Fund.
- b. The proposed appropriation budget for the General Fund is approved by the voters within the School District.
- c. Appropriations are adopted at the program level.
- d. Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the fiscal year end. 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.

2. Budget Basis of Accounting

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

The budget and actual comparison in the Schedule of Revenues and Expenditures-Budget and Actual, reflects budgeted and actual amounts for the General Fund which is a legally authorized (appropriated) budget.

Special Aid Fund and School Lunch Fund have not been included in the comparison because they do not have legally authorized budgets.

**II. Explanation of Certain Differences Between Governmental Fund Statements and Districtwide Statements**

Due to differences in the measurement focus and basis of accounting used in the governmental fund statements and the districtwide 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 Statement of Activities, compared with the current financial resources focus of the governmental funds.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**II. Explanation of Certain Differences Between Governmental Fund Statements and Districtwide Statements (Continued)**

1. Total fund balances of governmental funds vs. net assets of governmental activities:

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

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

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

- a. 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.

- b. Capital related differences:

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental 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 governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

- c. Long-term debt transaction differences:

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

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**II. Explanation of Certain Differences Between Governmental Fund Statements and Districtwide Statements (Continued)**

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

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 Assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.

Original cost of capital assets	<u>\$ 50,862,362</u>
Accumulated depreciation	<u>\$ 21,379,961</u>

Long-term liabilities are reported in the Statement of Net Assets, but not in the governmental funds, because they are not due and payable in the current period. Balances at year-end were:

Bonds and notes payable	<u>\$ 11,750,000</u>
Compensated absences payable	<u>\$ 2,021,931</u>
Other liabilities	<u>\$ 1,051,650</u>

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. Depreciation of \$990,545 was less than capital expenditures of \$5,907,574 in the current year.

Repayment of bond principal of \$900,000 is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets, and does not affect the Statement of Activities.

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. The additional interest reported in the Statement of Activities increased by \$217,509.

**III. Cash and Investments**

**A. Deposits**

The Carmel Central School District's investment policies are governed by State statutes. The Carmel Central School District's monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**III. Cash and Investments (Continued)**

**A. Deposits (Continued)**

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are: Obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Deposits and investments at year end were entirely covered by Federal Deposit Insurance or by collateral held by the School District's custodial bank in the School District's name.

**B. Investment Pool**

The School District participates in a multi-municipal cooperation investment pool agreement pursuant to New York State General Municipal Law Article 5-G, Section 119-0, whereby it holds a portion of the investments in cooperation with other participants. At June 30, 2006, the School District held \$4,704,497 in investments consisting of various investments in securities issued by the United States and its agencies. The investments are highly liquid and considered to be cash equivalents. The investment pool is categorically exempt from the New York State collateralization requirements.

**IV. Interfund Transaction**

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

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	\$ 878,017	\$ 249,375	\$ -	\$ 99,948
Special Aid Fund	-	402,679	99,948	-
Capital Fund	-	20,041	-	-
Debt Service Fund	249,375	-	-	-
Total governmental activities	<u>1,127,392</u>	<u>672,095</u>	<u>\$ 99,948</u>	<u>\$ 99,948</u>
Fiduciary Agency Fund	<u>-</u>	<u>455,297</u>		
Totals	<u>\$ 1,127,392</u>	<u>\$ 1,127,392</u>		

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Assets.

CARMEL CENTRAL SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**V. Capital Assets**

A summary of changes in general fixed assets follows:

	Balance 7/1/2005	Additions	Deletions	Balance 6/30/2006
<u>Capital assets that are not depreciated:</u>				
Land	\$ 2,156,600	\$ -	\$ -	\$ 2,156,600
Construction in Progress	10,459,367	5,864,236	-	16,323,603
Total capital assets that are not depreciated	12,615,967	5,864,236	-	18,480,203
<u>Other capital assets:</u>				
Buildings and improvements	23,085,607	-	-	23,085,607
Machinery and equipment	2,974,671	23,099	4,866	2,992,904
Vehicles	6,347,409	-	64,000	6,283,409
Total other capital assets	32,407,687	23,099	68,866	32,361,920
<u>Less accumulated depreciation:</u>				
Buildings and improvements	13,608,571	419,029	-	14,027,600
Machinery and equipment	2,451,845	157,512	4,866	2,604,491
Vehicles	4,397,866	414,004	64,000	4,747,870
Total accumulated depreciation	20,458,282	990,545	68,866	21,379,961
Other capital assets, net	11,949,405	(967,446)	-	10,981,959
Total	\$ 24,565,372	\$ 4,896,790	\$ -	\$ 29,462,162

Depreciation expense for the period was reported as unallocated in the Statement of Activities.

**VI. Pension Plans and Post- Employment Benefits**

1. General Information

The Carmel Central School District participates in the New York State and Local Employees' Retirement System (ERS), and the New York State Teachers' Retirement System (TRS). These systems 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.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**VI. Pension Plans and Post- Employment Benefits (Continued)**

2. Plan Descriptions

a. **Teachers' Retirement System (TRS)**

As an employer, the School District makes contributions to the New York State Teachers' Retirement System (TRS), a cost sharing, multiple employer defined benefit pension plan administered by the New York State Teachers' Retirement Board. The System provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

b. **Employees' Retirement System (ERS)**

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

3. Funding Policies

For the Teachers' Retirement System, plan members who joined the system before July 27, 1976 are not required to make contributions. Those joining after July 26, 1976 who have less than 10 years of service or membership are required to contribute 3% of their salary. Employers are required to contribute at an actuarially determined rate. Rates applicable to the fiscal years ended June 30, 2006, 2005, and 2004 were 7.97%, 5.63%, and 2.52%. For the New York State and Local Employees' Retirement System, Chapter 126 of the laws of 2000 provide for the cessation of the 3% employee contribution for those Tier 3 and 4 members who, as of October 1, 2001, have either 10 years of membership or credited service.

The required and actual contributions for the current year and two preceding years were:

<u>Year</u>	<u>ERS</u>	<u>TRS</u>
2006	\$ 1,143,058	\$ 2,379,137
2005	\$ 1,159,204	\$ 1,235,692
2004	\$ 544,237	\$ 479,512

The School District contributions made to the Systems were equal to 100% of the contribution required for each year.

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**VII. Short-Term Debt**

**1. Revenue and Tax Anticipation Notes**

The School District may issue Revenue and Tax Anticipation Notes in anticipation of 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 revenue anticipation and tax anticipation notes represent a liability that will be extinguished by the use of expendable, available resources of the fund.

**2. Bond Anticipation Notes**

The School District may issue Bond Anticipation Notes in anticipation of proceeds from the subsequent sale of bonds. These bonds are recorded as a current liability of the fund that will actually receive the proceeds from the issuance of bonds. State law requires that bond anticipation notes issued for capital purposes be converted to long-term financing within five years after the original issue date.

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

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Balance 6/30/2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance 6/30/2006</u>
BAN	2006	4.50%	\$ -	\$ 9,500,000	\$ -	\$ 9,500,000

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

Interest Paid	\$ 36,042
Less interest accrued in the prior year	-
Plus interest accrued in the current year	<u>225,624</u>
Total expense	<u>\$ 261,666</u>

**VIII. Long-Term Debt Obligations**

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

**1. Long-Term Debt Interest**

Interest Paid	\$ 435,323
Less interest accrued in the prior year	(130,947)
Plus interest accrued in the current year	<u>122,832</u>
Total expense	<u>\$ 427,208</u>

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**VIII. Long-Term Debt Obligations (Continued)**

2. **Changes**

	Balance 7/1/2005	Additions	Deletions	Balance 6/30/2006	Amounts Due Within One Year
Serial Bonds	\$ 12,650,000	\$ -	\$ 900,000	\$ 11,750,000	\$ 940,000
Other Liability	1,091,880	-	40,230	1,051,650	
Compensated Absences	3,215,365	-	1,193,434	2,021,931	
<b>Totals</b>	<b>\$ 16,957,245</b>	<b>\$ -</b>	<b>\$ 2,133,664</b>	<b>\$ 14,823,581</b>	

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

In prior years, the District defeased certain general obligations and other bonds 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 defeased bonds are not included in the District's financial statements.

3. **Maturity**

a. The following is a summary of the debt issued:

	Purpose	Issue Date	Final Maturity	Interest Rate	Outstanding 6/30/2006
Serial Bonds:	Advanced Refunding	2002	2008	3.35%	\$ 325,000
	Advanced Refunding	2002	2012	3.62%	560,000
	Construction	2004	2018	3.25-4.0%	10,865,000
<b>Total</b>					<b>\$ 11,750,000</b>

b. The following is a summary of maturing principal debt service requirements:

Serial Bonds:

Year	Principal	Interest	Total
2007	\$ 940,000	\$ 407,501	\$ 1,347,501
2008	975,000	377,053	1,352,053
2009	815,000	344,250	1,159,250
2010	845,000	315,544	1,160,544
2011	855,000	285,975	1,140,975
2012 and thereafter	7,320,000	1,161,063	8,481,063
<b>Total</b>	<b>\$ 11,750,000</b>	<b>\$ 2,891,386</b>	<b>\$ 14,641,386</b>

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**IX. Commitments and Contingencies**

**A. Risk Financing and Related Insurance**

1. General Information

The Carmel Central School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

2. Non-Risk, Risk Retained

The Carmel Central School District established a self-insured plan for risk associated with employee health and accident insurance coverage. The School District pays a monthly premium to the plan. The Plan provides coverage for its members up to \$100,000 per insured event. The Carmel Central School District plan obtains independent coverage for insured events in excess of the \$100,000. The School District's liability for open claims is approximately \$1,051,650. This liability is reported as a Long-Term Debt item.

3. Non-Pool, Risk Retained

The Carmel Central School District has chosen to participate in a self-insured plan, the Putnam/Northern Westchester Cooperative Self-Insurance Plan, for risks associated with workmen's compensation and employers liability, which is accounted for in the School District's General Fund. The Plan is funded by contributions by the participants in proportion to their claims experience. The Cooperative Plan has purchased excess insurance policies for all participants, to cover catastrophic losses.

**B. Operating Leases**

The School District leases property and equipment under operating leases. Total rental expenditures on such leases for the fiscal year ended June 30, 2006 was approximately \$97,458. The maximum future non-cancelable operating lease payments are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2007	\$ 89,680
2008	7,863
Total	<u>\$ 97,543</u>

See auditors' report.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**IX. Commitments and Contingencies (Continued)**

**C. Other Items**

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

**D. Litigation**

The parents of a disabled student (student V.P.) brought a proceeding seeking tuition reimbursement for her attendance at a private school for the 2002/03 school year. The student prevailed before an impartial hearing officer and the State Review Officer. The District appealed the decision to Federal Court, which overturned the hearing officer's decision. The parents appealed to the Second Circuit. The proceeding has been fully submitted and argued. We are awaiting a decision from the Second Circuit. In addition, the District is also defending a claim for the 2003/04 school year. The parents prevailed before the IHO and SRO. The District filed an appeal to Federal Court, and we are awaiting a decision. The District has a good chance of successfully defending the claims. If the student were to prevail, the District's exposure, is approximately, \$165,000 in tuition and the parents' attorneys' fees for all of the claims.

The parents of a disabled student (student R.C.) brought a proceeding seeking reimbursement for additional services provided to the student for the 2003/04 school year. An impartial hearing officer ruled in favor of the parents. The District has not yet determined whether it intends to appeal. The District has a fair chance of successfully defending the proceeding. If the parents prevail, the District's exposure is approximately \$25,000.

The parents of a disabled student (student C.D.) brought a proceeding seeking tuition reimbursement for her attendance at a private school for the 2004/05 school year. The impartial hearing officer and the State Review Officer ruled in favor of the parents. The District has not appealed the matter further. The only issue remaining is the amount of reimbursement owed to the parents. The District's exposure if the parents prevail on all claims is approximately \$28,000.

The parents of a disabled student (student S.P.) brought a proceeding seeking tuition reimbursement for her attendance at a private school for the 2004/05 school year. The impartial hearing officer ruled in favor of the parents. The District appealed to the SRO who reversed the hearing officer's decision. The parents appealed to Federal Court. The parties are in the process of submitting motions for summary judgment. The District has a good chance of successfully defending the claim. If the parents prevail, the exposure to the District is approximately \$90,000.

CARMEL CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**IX. Commitments and Contingencies (Continued)**

**D. Litigation**

There is a claim against the District, a Contractor, and the Surety by a manufacturer, EFCO Corporation, alleging that it has not been paid for materials supplied to the Contractor for a District construction project. EFCO filed several liens against the monies that the District would have paid to C/S Windows. The Surety has filed a bond discharging the liens. The District has filed an answer in the Putnam County Supreme Court. The District has a good chance of successfully defending the claim and has a payment bond securing the payment of the manufacturer.

A mechanical contractor, Southeast Mechanical Corp., has filed an action for delay damages and change orders associated with the heating and ventilation work at each of the schools in the District. The District has rejected most of the claims and attempted to get its carrier to pay the uncontested claim relating to the fire at the Patterson School. Southeast Mechanical claims approximately \$12,000 of the obligation. It has since incurred substantial funds correcting defective work by the Contractor. The District has filed a motion to dismiss the claim. In the event the District is required to litigate the action, the District has a good chance of successfully defending the claim.

There are tax certiorari claims against the municipalities which compromise the District. The claims are generally defended by the individual towns. If the petitioners were to prevail upon all of their claims in the amounts reflected in the petitions, the estimated exposure to the District would be approximately \$5,000,000. In practice, the refunds are usually substantially less.

See auditors' report.

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REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS* .

To the Board of Education of  
Carmel Central School District:

We have audited the financial statements of Carmel Central School District as of and for the year ended June 30, 2006 and have issued our report thereon dated August 8, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

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

See auditors' report.

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See auditors' report.

### Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the Board of Education, management, the New York State Education Department, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Claverack, New York

August 8, 2006

See auditors' report.

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To the Board of Education of the  
Carmel Central School District:

We have audited the financial statements of the Carmel Central School District at June 30, 2006, and have reported thereon under date of August 8, 2006. As an inherent part of our audit, we reviewed those accounting procedures and internal controls used to effect the accurate and suitable recording and summarization of authorized financial transactions.

As a result of such review, we are submitting for your consideration a memorandum of suggestions intended to improve internal control and to achieve certain operating efficiencies. Such suggestions are listed by subject, rather than in order of importance, and refer exclusively to accounting principles and operating techniques. Please understand that our comments should not be construed as a reflection upon the integrity, competence or character of your personnel, but are made solely to assist you in improving operations.

After you have had the opportunity to review the accompanying comments and recommendations, we shall be pleased to discuss any questions you might have.

Internal Controls:

The internal controls of a school district are the checks and balances that exist within the business operations. The key element in any internal control system is the concept of **segregation of duties**. This concept ensures that one person can not execute a transaction without at least one other individual checking his or her work.

In addition, there are some important concepts that should be understood when reviewing internal controls. These concepts are:

- An internal control system is designed to provide reasonable but not absolute assurance in safeguarding the assets of the district.
- The concept of reasonable assurance recognizes that the cost of the internal control should not exceed the benefits derived.

See auditors' report.

Internal Controls: (Continued)

- There are inherent limitations that should be recognized in considering the potential effectiveness of any internal control system, e.g., errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. More importantly, it is **collusion** that poses the greatest threat to any internal control system. If two employees collude in order to circumvent the controls set up by the district, they could perpetrate a fraud.

The following comments are recommendations for consideration in the improvement of internal controls. As always, any enhancement of controls should be done after a careful cost-benefit analysis.

During our current audit, we noted that:

1. Journal entries prepared by the Accountant are not approved by another person.

We recommend that the Business Official approve all journal entries.

2. We noted that bank reconciliations are prepared by the accountant. There are compensating controls relating to the disbursements function as the internal auditor does account for the check sequence each month during the process of approving disbursements. There is no compensating control relating to the receipts function, although the ability to implement a control is present. It was noted that there is no log of checks received, prepared by someone separate from the recording of revenue and receivables, and separate from the bank reconciliation function. A log should be created and matched against the deposits posted to the bank statement.
3. Checks received in the mail are not restrictively endorsed when the mail is opened, nor at any point prior to deposit. All mail should be opened by an individual having no access to cash records. This person should apply a restrictive bank endorsement to the checks received and maintain a log of all receipts.

Claims Auditor:

A claims auditor who is properly trained and motivated presents a protective shield for the District's resources. The claims auditing process is an integral part of the District's internal control, assuring that only claims that are proper charges against the District are paid. The Claims Auditor is directly responsible to the Board.

See auditors' report.

Claims Auditor: (Continued)

During our audit, we reviewed the procedures that the Claims Auditor follows. We noted that the Claims Auditor reviewed the supporting documentation for claims payable prior to the generation of the check. However, there is no review of the supporting documentation for goods and services procured through the bidding process or through approved contracts, i.e., state and county municipal contracts.

We recommend that the claims auditor review the supporting documentation for all cash disbursement transactions.

Documentation of Invoice Processing:

An important element of the auditor's function is to perform a proper evaluation of the existing system of internal control in order to determine the degree of reliance which may be placed on the system in performing the various auditing procedures. As part of our audit of the School District's financial statements, we reviewed, evaluated and tested the controls with respect to purchasing.

During our audit, we noted that within the sample of transactions we tested:

1. Two instances where goods were purchased prior to the issuance of a purchase order.
2. Several instances where receipt of goods or work completed were not noted.
3. Several instances where purchase orders lacked detail information that the district obtained verbal or written quotes for public works jobs.
4. One instance where District reimbursed for sales tax.
5. Two instances where the approved conference request was not attached.
6. Two instances where payment exceeded the purchase order amount without second approval from the purchasing agent.

Fixed Assets:

The fixed asset inventory process of the district needs to be more regularly addressed. All assets should receive inventory tags when being placed into service. A physical inventory should be performed annually to be sure all inventory is intact and in its proper location.

Fund Equity:

Section 1318 of Real Property Tax Law establishes the maximum undesignated fund balance that can be retained by a school district. The current law limits this amount to 2% of the ensuing year's budget. The District's financial statements for the year ended June 30, 2006, indicate that the undesignated balance is in excess of the legal limit by \$36,809.

See auditors' report.

### Salary Certification:

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

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

The District should identify a responsible employee or supervisor to monthly sign a certification attesting to the salaries and wages charged to each federal award.

### Fraud Policy:

Our audit found that a Fraud Policy has not been adopted by the Board of Education.

We recommend that the Board develop and adopt a fraud policy. This policy would specify a confidential process for reporting and investigating suspected occurrences of fraud against the district.

A proven and effective deterrent to fraud and abuse is the establishment of an anti-fraud culture within the district. A strong and highly ethical tone at top can provide significant strength to deter fraud. The following suggestions would assist management in communicating throughout the organization:

- Defining the role of the Board of Education and related committees as they relate to fraud and abuse.

Management and supervisory staff should set an example.

- Management and supervisors should be aware of fraud risks and indicators.
- Fraud related policies should be enforced.
- Internal controls should be given high priority.
- Reports of potential fraud and abuse should be investigated promptly.

### Code of Ethics:

School districts are required to comply with Section's 806 and 807 of the General Municipal Law which stipulates that a board of education must adopt a code of ethics for all its officers and employees setting forth the standards of conduct reasonably expected of them. In addition, the statute requires, that the Superintendent distribute a copy to every officer and employee of the school district. The statute further requires that a copy be posted in each building of the district.

Code of Ethics: (Continued)

We could find no evidence that a code of ethics was distributed to the employee or posted in each building of the district.

We recommend the the Superintendent should take the necessary action to assure compliance with that portion of Section 806 and 807 of the General Municipal Law which requires the posting of the code of ethics in each building of the district and distribution to all new officers and employees.

We would like to acknowledge the Business Office personnel for their courtesies received during the course of our audit.

Very truly yours,  
RAYMOND G. PREUSSER, CPA, P.C.

Raymond G. Preusser

RGP/srp