

**NAPLES CENTRAL SCHOOL DISTRICT**

**AUDIT REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2011**

**NAPLES CENTRAL SCHOOL DISTRICT  
TABLE OF CONTENTS**

---

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 10
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet - Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Fiduciary Funds	
Statement of Fiduciary Net Assets	17
Statement of Changes in Fiduciary Net Assets	18
Notes to Financial Statements	19 - 35
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	36
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Change from Original Budget to Revised Budget - General Fund	37
Schedule of Use of Unreserved Fund Balance - General Fund	38
Schedule of Project Expenditures - Capital Projects Fund	39
Schedule of Certain Revenues and Expenditures Compared to ST-3 Data	40
Investment in Capital Assets - Net of Related Debt	41
SINGLE AUDIT REPORTS	
Schedule of Expenditures of Federal Awards	42
Note to Schedule of Expenditures of Federal Awards	43
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44
Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	46 - 47
Schedule of Findings and Questioned Costs	48



## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Naples Central School District  
Naples, New York

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Naples Central School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Naples Central 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 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 Naples Central School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011 and November 8, 2011, on our consideration of the Naples Central School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

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 36, respectively, 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.

We also audited the adjustments described in Note 13 that were applied to restate the opening balances of fund balance and net asset balance. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the Naples Central School District 2010 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2010 financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Naples Central School District financial statements as a whole. The other supplementary information listed on the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying 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 not a required part of the financial statements of the Naples Central School District. The other supplementary information 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*EFP Rotenberg, LLP*

EFP Rotenberg, LLP  
Rochester, New York  
September 30, 2011

(except for Note 14 and 15 of the Notes for the Financial Statements and the resulting impact to the Statement of Net Assets as to which the date is November 8, 2011.)

**NAPLES CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011**

---

The following is a discussion and analysis of the Naples Central School District's (the "District") financial performance for the fiscal year ended June 30, 2011. This section is a summary of the District's financial activities based on currently known facts, decisions or conditions. It is also based on both the district-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 District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Total District-wide general revenues, excluding charges for service and operating grants and contributions for the 2010-2011 year were \$14,982,188, or 91% of all revenues. This amount represents a decrease of \$111,920 in general revenues over the 2009-2010 year of \$15,094,108. The 2009-2010 general revenues as a percent of total revenues was 87%. Of the total general revenues, state and federal sources accounted for \$5,835,530, real property tax and real property tax items accounted for \$9,062,881, and other miscellaneous sources accounted for \$83,777 for the 2010-2011 fiscal year ended.

Total District expenses for the 2010-2011 year were \$15,787,791. These expenses were offset by program revenues that included \$337,682 in charges for services and \$1,199,841 in operating grants and contributions. The net cost for governmental activities that was ultimately financed by general revenues was \$14,250,268, which represents a decrease of \$408,254 from the 2009-2010 year.

During the current fiscal year, the District was able to fund the large increase in the mandatory contribution to the New York State Employee's Retirement System and Teacher's Retirement System (the "Systems") without the need to finance the payments. The total current year contributions to the retirement systems was \$607,733, which is a \$30,938, or 5.4%, increase over the 2009-2010 amount of \$576,795.

Total District capital assets, net of depreciation increased by \$320,185 to \$8,961,365 in the 2010-2011 year as compared to \$8,641,180 in the 2009-2010 year. Total long term debt decreased by \$258,393 to \$13,947,292 in the 2010-2011 year from \$14,205,685 in the 2009-2010 year.

The District reported \$436,162 in America Reinvestment and Recovery Act (ARRA) in which \$246,994 was reported in the general fund and \$189,168 was reported in the special aid fund.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of five parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, other supplementary information, and single audit reports. The basic financial statements include two kinds of statements that present different views of the District:

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

The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. The fund financial statements concentrate on the District's most significant funds with all other non-major funds listed in total in one column. For the fiscal year ended June 30, 2011, all of the District's governmental funds were considered major.

Fiduciary funds statements provide information about the financial relationships in which the 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 District's budget for the year.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2011**

---

### **District-Wide Statements**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. 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. While this document contains a large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities report information about the District as a whole and about its activities in a manner that helps to answer this question.

These two statements report the District's net assets and changes in those assets. The change in net assets provides the reader with a tool to assist in determining whether the District's financial health is improving or deteriorating. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, student enrollment growth, required educational programs, and facility conditions in arriving at their conclusion regarding the overall health of the District.

In the statement of net assets and the statement of activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to: general support, instruction, pupil transportation, employee benefits, debt interest and the school lunch program. The District does not have any business-like activities.

The government-wide financial statements can be found on pages 11 and 12 of this report.

### **Fund Financial Statements**

The fund financial statements are on pages 13 through 18 and provide more detailed information about the District's funds. Funds are accounting devices the 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 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 emphasis of the fund financial statements is on the major funds. For the 2010-2011 year, the District reports five major funds; the general fund, the school lunch fund, the special aid fund, the capital projects fund and the debt service fund.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds are reconciled in the basic financial statements. Activities in these funds and reconciliations to district-wide financial statements are reported on pages 13 through 16.

**Fiduciary Funds** - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The 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 District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and statement of changes in fiduciary net assets on pages 17 and 18.

**NAPLES CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011**

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The statement of net assets provides the perspective of the District as a whole.

**Table 1**

**Condensed Statement of Net Assets  
June 30, 2011 and 2010**

	<b>2011</b>	<b>Restated 2010</b>	<b>Total Percentage Change %</b>
<b>Assets</b>			
Current assets	\$ 9,471,463	\$ 8,970,969	5.6
Noncurrent assets	82,980	125,739	(34.0)
Capital assets	<u>8,961,365</u>	<u>8,641,180</u>	3.7
Total assets	<u>18,515,808</u>	<u>17,737,888</u>	4.4
<b>Liabilities</b>			
Current liabilities	2,392,562	2,307,631	3.7
Noncurrent liabilities	<u>12,688,319</u>	<u>12,727,250</u>	(0.3)
Total liabilities	<u>15,080,881</u>	<u>15,034,881</u>	0.3
<b>Net Assets</b>			
Investments in capital			
assets - net of related debt	3,047,128	2,135,376	42.7
Restricted	5,637,657	2,068,740	172.5
Unrestricted	<u>(5,249,858)</u>	<u>(1,501,109)</u>	249.7
Total net assets	<u>\$ 3,434,927</u>	<u>\$ 2,703,007</u>	27.1

As a result of the current year implementation of GASB 54, reclassifications were made within net assets between the unrestricted and restricted classifications.

**NAPLES CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011**

**Table 2**

**Changes in Net Assets from Operating Results  
For the Years Ended June 30, 2011 and 2010**

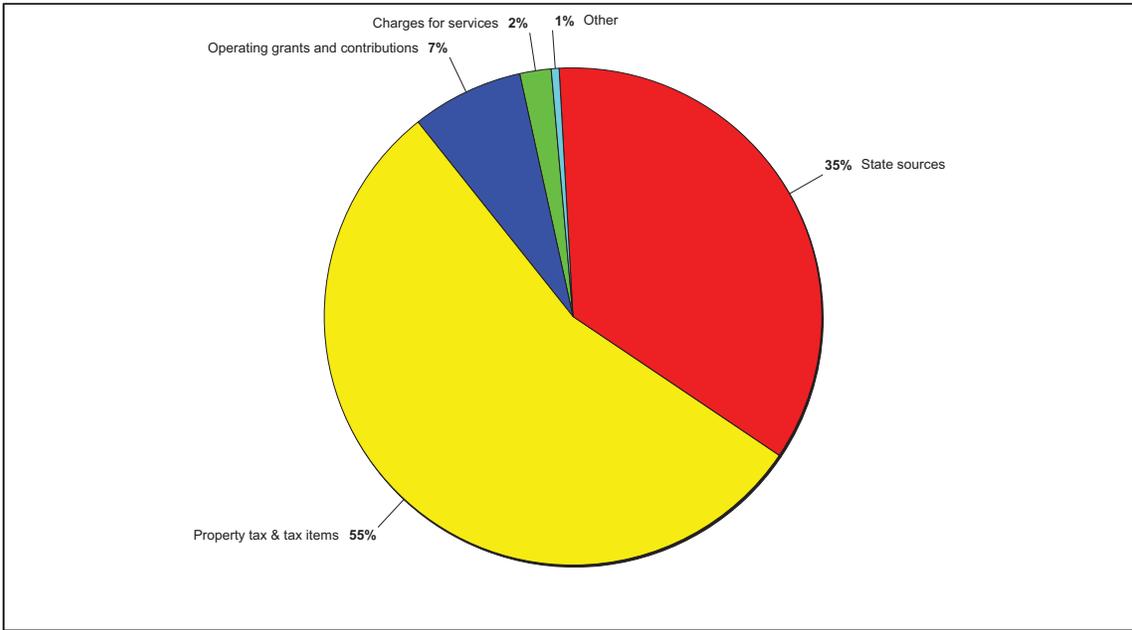
	<u>2011</u>	<u>2010</u>	<u>Total Percentage Change %</u>
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 337,682	\$ 272,748	23.8
Operating grants and contributions	1,199,841	1,745,650	(31.3)
Capital grants	<u>-</u>	<u>285,850</u>	(100.0)
Total program revenues	<u>1,537,523</u>	<u>2,304,248</u>	(33.3)
General revenues			
Property taxes	8,120,249	7,908,380	2.7
Other taxes	942,632	1,090,486	(13.6)
Federal & State sources	5,835,530	5,805,919	0.5
Other	<u>83,777</u>	<u>289,323</u>	(71.0)
Total general revenues	<u>14,982,188</u>	<u>15,094,108</u>	(0.7)
Total revenues	<u>16,519,711</u>	<u>17,398,356</u>	(5.1)
<b>Expenses</b>			
General support	1,959,540	2,410,799	(18.7)
Instructional	12,073,097	12,530,812	(3.7)
Pupil transportation	1,109,013	1,271,033	(12.7)
Community services	2,184	6,671	(67.3)
School lunch program	327,532	387,707	(15.5)
Interest on long-term debt	<u>316,425</u>	<u>355,748</u>	(11.1)
Total expenses	<u>15,787,791</u>	<u>16,962,770</u>	(6.9)
Change in net assets	<u>\$ 731,920</u>	<u>\$ 435,586</u>	68.0

As reported in the statement of activities on page 12 the cost of all governmental activities was \$15,787,791 and \$16,962,770 for 2011 and 2010, respectively. However, the amount that taxpayers ultimately financed for these activities through the District real property taxes was \$8,120,249 and \$7,908,380 for 2011 and 2010, respectively.

NAPLES CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

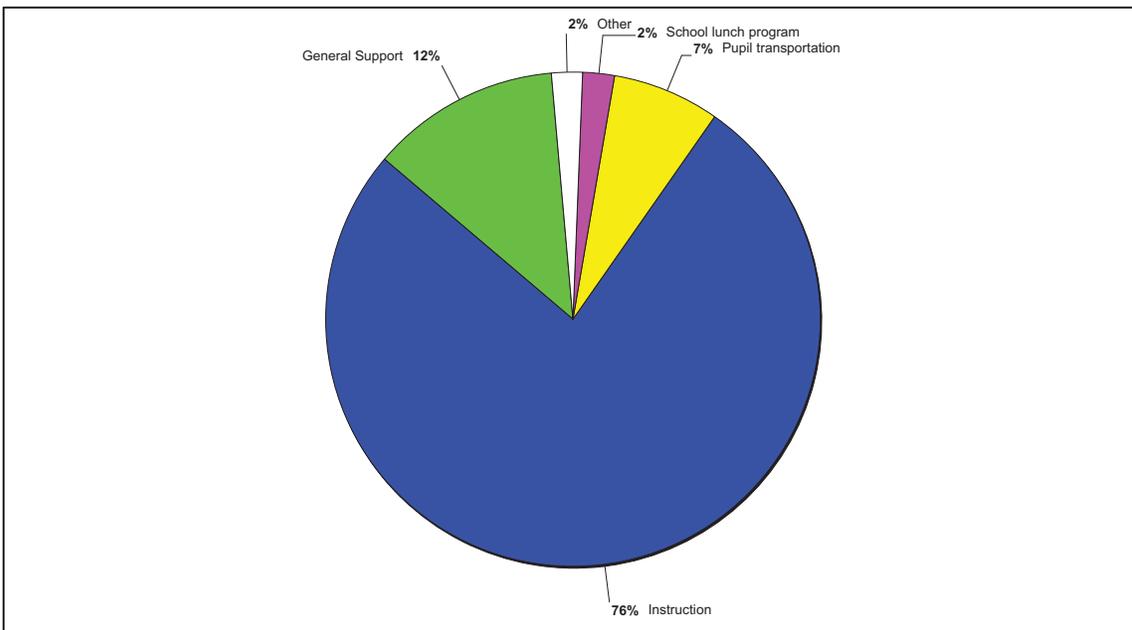
Sources of Revenues for Governmental Activities  
Fiscal Year 2011

Table 3



Program Expenses for Governmental Activities  
Fiscal Year 2011

Table 4



**NAPLES CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011**

**Governmental Activities**

In Table 5, we have presented the cost of each of the District's functions and programs, as well as each function's net cost (total cost less revenues generated by the activities). Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 5**

	<b>Total Cost of Services</b>		
	<b>2011</b>	<b>2010</b>	<b>Percentage Change %</b>
General support	\$ 1,959,540	\$ 2,410,799	(18.7)
Instructional	12,073,097	12,530,812	(3.7)
Pupil transportation	1,109,013	1,271,033	(12.7)
Community services	2,184	6,671	(67.3)
School lunch program	327,532	387,707	(15.5)
Interest on long-term debt	316,425	355,748	(11.1)
Total expenses	\$ 15,787,791	\$ 16,962,770	(6.9)
	<b>Net Cost (Profit) of Services</b>		
	<b>2011</b>	<b>2010</b>	<b>Percentage Change %</b>
General support	\$ 1,959,540	\$ 2,410,799	(18.7)
Instructional	10,861,307	10,566,555	2.8
Pupil transportation	1,109,013	1,271,033	(12.7)
Community services	2,184	6,671	(67.3)
School lunch program	1,799	47,716	96.2
Interest on long-term debt	316,425	355,748	11.1
Total expenses	\$ 14,250,268	\$ 14,658,522	(2.8)

- **General support** - Includes expenses of the Board of Education, district offices, contracted professional services, buildings and grounds maintenance, insurance and BOCES administrative/building expenses.
- **Instruction** - Includes curriculum and staff development, school supervision, regular K-12 programs, special education, BOCES vocational education, summer schools, libraries, computer-assisted education, pupil personnel services (counseling, health, psychological, social work), co-curricular activities and interscholastic athletics.
- **Pupil transportation** - Includes salaries for drivers, mechanics; expenses for the bus fleet, and garage.
- **Community services** - Includes expenses connected with annual school district census.
- **School lunch program** - Includes the preparation, delivery, and servicing of lunches, snacks, and other incidental meals to students and the school staff.
- **Interest on long-term debt** - Includes the transactions associated with the payment of interest and other related charges to debt for improvements to the District.

**NAPLES CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011**

**THE SCHOOL DISTRICT'S FUNDS**

Fund financial statements are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$17,391,893 and \$17,429,282 and expenditures and other financing uses of \$17,130,133 and \$16,631,119 in 2011 and 2010, respectively. The fund balance in the general fund increased by \$238,875 and by \$847,474 in 2011 and 2010, respectively. The school lunch fund reported a decrease in fund balance of \$8,533. The special aid funds had no change in fund balance for the current year. The capital projects fund reported an increase in fund balance of \$26,069 and the debt service fund reported an \$8,599 increase in fund balance. Total governmental fund balance increased by \$261,760 for the 2010-2011 fiscal year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The 2010-2011 general fund's actual revenue was \$15,423,816. That amount is slightly below the original and final budget estimates of \$15,468,946. There were minor reclassification adjustments between the original budget estimate and the final amended estimate for the year ended June 30, 2011. Total revenues did not change for these budget estimates. Revenue budget comparisons are shown on page 36.

The 2010-2011 actual expenditures and other financing uses of the general fund were \$15,184,941, which is below the original budget of \$15,995,946 and below the final budget estimate of \$16,826,059. The \$1,641,118 variance between the final amended budget and the June 30, 2011 actual results was due to conservative estimates of multiple final expenditures prior to year end. Expenditure budget comparisons are shown on page 36.

The general fund's fund balance increased by \$505,329 to \$4,921,407. Of the \$505,329 increase, \$266,454 was directly applicable to a restatement of the prior period fund balance. The District's fund balance is classified in five categories including nonspendable, restricted, committed, assigned and unassigned. For the fiscal year ended June 30, 2011, the District has \$3,090,068 classified as restricted, \$86,011 as assigned and \$645,328 as unassigned. More information regarding the District's specified reserves can be found on page 24.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal years 2011 and 2010, the District had \$15,567,116 and \$15,007,553 invested in land, buildings and renovations, buses, and furniture and equipment. Depreciation expense of \$502,241 and \$514,796 has been recorded in 2011 and 2010. The net book value at June 30, 2011 and 2010 were \$8,961,365 and \$8,641,180, respectively.

Table 6 shows the fiscal 2011 and 2010 balances for the major classes of assets:

**Table 6**

**Capital Assets (Net of Depreciation)  
At June 30, 2011 and 2010**

	<u>2011</u>	<u>Restated 2010</u>	<u>Total Percentage Change %</u>
Land	\$ 17,341	\$ 17,341	-
Construction in progress	418,015	4,824,707	(91.3)
Buildings and improvements	7,395,360	2,834,540	160.9
Furniture and equipment	<u>1,130,649</u>	<u>964,592</u>	17.2
Total	<u>\$ 8,961,365</u>	<u>\$ 8,641,180</u>	3.7

Additional information on the District's capital assets can be found in Notes 1 and 5 on pages 22 and 28, respectively, of this report. In addition, a schedule of project expenditures can be found on page 39.

**NAPLES CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011**

---

**Long-Term Debt**

At June 30, 2011 and 2010, the District had total debt of \$13,947,292 and \$14,205,685, respectively.

**Table 7**

**Outstanding Debt  
At June 30, 2011 and 2010**

	<u>2011</u>	<u>Restated 2010</u>	<u>Total Percentage Change %</u>
Bonds payable	\$ 7,385,000	\$ 8,057,917	(8.4)
Contractual obligations	110,423	162,885	(32.2)
Compensated absences	3,086,557	3,508,604	(12.0)
Other postemployment benefits liability	3,008,299	2,136,026	40.8
Flex medical reimbursement	<u>357,013</u>	<u>340,253</u>	4.9
Total	<u>\$13,947,292</u>	<u>\$ 14,205,685</u>	(1.8)

The District's bond rating for 2011 and 2010 was Aa3 and AAA, respectively.

Additional information on the District's long-term debt can be found in Note 6 beginning on page 29 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The School District, due to economic conditions at the State level, anticipates a reduction in school aid for the 2011-2012 school year. The District has positioned itself to absorb the loss in revenue by reducing expenses in the 2011-2012 budget. In addition, the District has appropriated additional reserves, toward the 2011-2012 budget.

The School District continues to experience increases in employee benefit costs due to higher health insurance premiums. Also, increased contribution rates for New York State Employees and Teacher's Retirement are anticipated for the next few years.

Beginning with the 2012-2013 school year the District's ability to increase its property tax revenues will be reduced through recently enacted "Property Tax Cap Legislation". Increases in the tax levy beyond the lesser of 2%, or the percent change in the CPI for the 12 month period ending December never to be lower than 1%, will need approval by a super majority (60%) of the voters.

Enrollment in the District remains stable. The District does not anticipate major fluctuations in enrollment in the near future. The economic conditions of the District's community are projected to remain stable for the foreseeable future.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

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

Naples Central Schools  
Attn: Kimberle Ward, Superintendent of Schools  
136 North Main Street  
Naples, New York 14512

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents - unrestricted	\$ 6,717,551
Taxes receivable - net	10,722
State and federal aid receivables	552,654
Due from other governments	188,149
Inventory	14,007
Cash and cash equivalents - restricted	1,779,649
Due from external parties	208,731
Deferred refunding proceeds - net	62,028
Bond issuance costs - net	20,952
Capital assets	
Capital assets - not depreciated	435,356
Capital assets - net of depreciation	<u>8,526,009</u>
Total assets	<u>18,515,808</u>
<b>Liabilities</b>	
Accounts payable	282,258
Accrued liabilities	199,788
Other liabilities	2,779
Due to other governments	70
Accrued interest	19,540
Due to teacher's and employee's retirement system	629,154
Long-term liabilities	
Portion due or payable within one year:	
Bonds payable	925,000
Contractual obligations	54,420
Compensated absences	188,995
Flex medical reimbursement	90,558
Portion due or payable after one year:	
Bonds payable	6,460,000
Contractual obligations	56,003
Compensated absences	2,897,562
Other postemployment benefits liability	3,008,299
Flex medical reimbursement	<u>266,455</u>
Total liabilities	<u>15,080,881</u>
<b>Net Assets</b>	
Investment in capital assets - net of related debt	3,047,128
Restricted for	
Unemployment insurance	112,229
Retirement contribution	750,000
Liability claims	20,485
Insurance reserve	33,723
Tax certiorari	377,719
Employee benefit accrued liability	1,795,912
Debt	1,447,589
Capital	1,100,000
Unrestricted	<u>(5,249,858)</u>
Total net assets	<u>\$ 3,434,927</u>

The accompanying notes are an integral part of these financial statements.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Year Ended June 30, 2011**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	
Governmental activities				
General support	\$ 1,959,540	\$ -	\$ -	\$ (1,959,540)
Instructional	12,073,097	176,790	1,035,000	(10,861,307)
Pupil transportation	1,109,013	-	-	(1,109,013)
Community services	2,184	-	-	(2,184)
School lunch program	327,532	160,892	164,841	(1,799)
Interest on long-term debt	316,425	-	-	(316,425)
Total governmental activities	\$ 15,787,791	\$ 337,682	\$ 1,199,841	(14,250,268)
<b>General Revenues</b>				
Real property taxes				8,120,249
Real property tax items				942,632
Use of money and property				38,041
Sale of property and compensation for gain (loss)				(26,513)
Miscellaneous local sources				72,249
State sources				5,835,530
Total general revenues				14,982,188
<b>Change in Net Assets</b>				731,920
<b>Net Assets - Beginning, as Previously Stated</b>				4,774,150
<b>Restatement</b>				(2,071,143)
<b>Net Assets - Beginning, as Restated</b>				2,703,007
<b>Net Assets - Ending</b>				\$ 3,434,927

The accompanying notes are an integral part of these financial statements.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	<u>General Fund</u>	<u>School Lunch Fund</u>	<u>Special Aid Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
<b>Assets</b>						
Cash and cash equivalents - unrestricted	\$ 4,940,871	\$ 188,224	\$ 112,093	\$ -	\$ 1,476,363	\$ 6,717,551
Taxes receivable - net	10,722	-	-	-	-	10,722
Due from other funds	567,445	1,685	30,887	-	976	600,993
State and federal aid receivables	332,676	11,480	208,498	-	-	552,654
Due from other governments	188,149	-	-	-	-	188,149
Inventory	-	14,007	-	-	-	14,007
Cash and cash equivalents - restricted	<u>122,402</u>	<u>-</u>	<u>-</u>	<u>1,657,247</u>	<u>-</u>	<u>1,779,649</u>
<b>Total Assets</b>	<b><u>\$ 6,162,265</u></b>	<b><u>\$ 215,396</u></b>	<b><u>\$ 351,478</u></b>	<b><u>\$ 1,657,247</u></b>	<b><u>\$ 1,477,339</u></b>	<b><u>\$ 9,863,725</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 113,594	\$ 6,656	\$ 3,943	\$ 158,065	\$ -	\$ 282,258
Accrued liabilities	185,985	9,456	4,347	-	-	199,788
Compensated absences payable	188,995	-	-	-	-	188,995
Other liabilities	-	-	2,779	-	-	2,779
Due to other funds	32,572	15,055	343,659	976	-	392,262
Due to other governments	-	70	-	-	-	70
Flex medical reimbursement payable	90,558	-	-	-	-	90,558
Due to teacher's and employee's retirement system	<u>629,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>629,154</u>
Total liabilities	<u>1,240,858</u>	<u>31,237</u>	<u>354,728</u>	<u>159,041</u>	<u>-</u>	<u>1,785,864</u>
<b>Fund Balances</b>						
Nonspendable						
Inventory	-	14,007	-	-	-	14,007
Restricted						
Unemployment insurance reserve	112,229	-	-	-	-	112,229
Retirement contribution reserve	750,000	-	-	-	-	750,000
Reserve for liability claims	20,485	-	-	-	-	20,485
Insurance reserve	33,723	-	-	-	-	33,723
Reserve for tax certiorari	377,719	-	-	-	-	377,719
Reserve for employee benefit accrued liability	1,795,912	-	-	-	-	1,795,912
Reserve for debt	-	-	-	-	1,447,589	1,447,589
Reserve for capital	500,000	-	-	600,000	-	1,100,000
Assigned						
Reserve for insurance recovery	35,964	-	-	-	-	35,964
Reserve for encumbrances	50,047	-	-	-	-	50,047
Reserve for school lunch fund	-	170,152	-	-	-	170,152
Reserve for debt	-	-	-	-	29,750	29,750
Reserve for capital	-	-	-	898,206	-	898,206
Reserve for subsequent year	600,000	-	(3,250)	-	-	596,750
Unassigned	<u>645,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>645,328</u>
Total fund balances	<u>4,921,407</u>	<u>184,159</u>	<u>(3,250)</u>	<u>1,498,206</u>	<u>1,477,339</u>	<u>8,077,861</u>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 6,162,265</u></b>	<b><u>\$ 215,396</u></b>	<b><u>\$ 351,478</u></b>	<b><u>\$ 1,657,247</u></b>	<b><u>\$ 1,477,339</u></b>	<b><u>\$ 9,863,725</u></b>

The accompanying notes are an integral part of these financial statements.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2011**

---

<b>Total Governmental Fund Balances</b>		<b>\$ 8,077,861</b>
<p>Amounts reported for governmental activities in the statement of net assets are different because</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of the following:</p>		
Capital assets - not depreciated		
Land	17,341	
Construction in progress	<u>418,015</u>	
Total capital assets - not depreciated		435,356
Capital assets - net of depreciation		
Buildings and improvements	12,865,472	
Furniture and equipment	<u>2,266,288</u>	
Total depreciable assets	15,131,760	
Less, accumulated depreciation	<u>(6,605,751)</u>	
Total capital assets - net of depreciation		8,526,009
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of the following:</p>		
Bonds payable	(7,385,000)	
Contractual obligations	(110,423)	
Compensated absences - net	(2,897,562)	
Other postemployment benefits liability	(3,008,299)	
Flex medical reimbursement - net	(266,455)	
Accrued interest	<u>(19,540)</u>	
Total liabilities		(13,687,279)
Other differences		
Deferred refunding proceeds - net	62,028	
Bond issuance costs - net	<u>20,952</u>	
Total other differences		<u>82,980</u>
<b>Net Assets of Governmental Activities</b>		<b>\$ <u>3,434,927</u></b>

The accompanying notes are an integral part of these financial statements.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>General Fund</u>	<u>School Lunch Fund</u>	<u>Special Aid Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>						
Real property taxes	\$ 8,120,249	\$ -	\$ -	\$ -	\$ -	\$ 8,120,249
Real property tax items	942,632	-	-	-	-	942,632
Charges for services	176,790	-	-	-	-	176,790
Use of money and property	29,211	231	-	-	8,599	38,041
Sale of property and compensation for gain (loss)	6,459	-	-	-	-	6,459
Miscellaneous local sources	67,269	4,980	-	-	-	72,249
State sources	5,757,743	7,864	143,117	-	-	5,908,724
Federal sources	246,994	156,977	646,207	-	-	1,050,178
Medicaid reimbursements	76,469	-	-	-	-	76,469
Sales - school lunch	-	160,892	-	-	-	160,892
Total revenues	<u>15,423,816</u>	<u>330,944</u>	<u>789,324</u>	<u>-</u>	<u>8,599</u>	<u>16,552,683</u>
<b>Other Financing Sources</b>						
Interfund transfers	-	-	24,282	600,000	-	624,282
Proceeds of obligations	-	-	-	214,928	-	214,928
Total revenues and other financing sources	<u>15,423,816</u>	<u>330,944</u>	<u>813,606</u>	<u>814,928</u>	<u>8,599</u>	<u>17,391,893</u>
<b>Expenditures</b>						
General support	1,775,024	-	-	16,087	-	1,791,111
Instructional	7,564,729	-	788,991	403,928	-	8,757,648
School lunch program	-	282,646	-	-	-	282,646
Pupil transportation	743,283	-	25,775	368,844	-	1,137,902
Community services	2,184	-	-	-	-	2,184
Employee benefits	3,257,318	56,831	2,090	-	-	3,316,239
Debt service - principal	940,309	-	-	-	-	940,309
Debt service - interest	277,812	-	-	-	-	277,812
Total expenditures	<u>14,560,659</u>	<u>339,477</u>	<u>816,856</u>	<u>788,859</u>	<u>-</u>	<u>16,505,851</u>
<b>Other Financing Uses</b>						
Interfund transfers	624,282	-	-	-	-	624,282
Total expenditures and other financing uses	<u>15,184,941</u>	<u>339,477</u>	<u>816,856</u>	<u>788,859</u>	<u>-</u>	<u>17,130,133</u>
<b>Change in Fund Balance</b>	<u>238,875</u>	<u>(8,533)</u>	<u>(3,250)</u>	<u>26,069</u>	<u>8,599</u>	<u>261,760</u>
<b>Fund Balances - Beginning, as Previously Stated</b>	4,416,078	192,692	-	1,472,137	1,468,740	7,549,647
<b>Restatement</b>	<u>266,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266,454</u>
<b>Fund Balances - Beginning, as Restated</b>	<u>4,682,532</u>	<u>192,692</u>	<u>-</u>	<u>1,472,137</u>	<u>1,468,740</u>	<u>7,816,101</u>
<b>Fund Balances - Ending</b>	<u>\$ 4,921,407</u>	<u>\$ 184,159</u>	<u>\$ (3,250)</u>	<u>\$ 1,498,206</u>	<u>\$ 1,477,339</u>	<u>\$ 8,077,861</u>

The accompanying notes are an integral part of these financial statements.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund**  
**Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2011**

---

**Net Change in Fund Balances - Total Governmental Funds** \$ 261,760

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are the following:

Capital outlay	855,398	
Depreciation expense	<u>(502,241)</u>	
Excess of capital outlay over depreciation		353,157

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current period, these amounts are the following:

Debt repayments - principal	940,307
-----------------------------	---------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. In the current period, these amounts are the following:

Compensated absences	335,480
----------------------	---------

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

(214,928)

Other differences:

OPEB liability	(872,273)	
Change in accrued interest	4,148	
Amortization - deferred refunding proceeds	(32,671)	
Amortization - bond issuance costs	(10,088)	
Disposition of assets	<u>(32,972)</u>	
Total other differences		<u>(943,856)</u>

**Change in Net Assets of Governmental Activities** **\$ 731,920**

The accompanying notes are an integral part of these financial statements.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2011**

	<u>Private- Purpose Trust</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents - restricted	\$ <u>222,052</u>	\$ <u>374,274</u>
Total assets	\$ <u>222,052</u>	\$ <u>374,274</u>
<b>Liabilities</b>		
Due to external parties	\$ -	\$ 208,731
Extraclassroom balances	-	129,924
Other liabilities	-	<u>35,619</u>
Total liabilities	<u>-</u>	\$ <u>374,274</u>
<b>Net Assets</b>		
Nonspendable - Held in trust for scholarships	<u>222,052</u>	
Total net assets	\$ <u>222,052</u>	

The accompanying notes are an integral part of these financial statements.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2011**

---

	<b><u>Private- Purpose Trust</u></b>
<b>Additions</b>	
Gifts and donations	\$ 22,551
Interest and earnings	<u>583</u>
Total additions	<u>23,134</u>
<b>Deductions</b>	
Scholarships and awards	<u>14,963</u>
<b>Change in Net Assets</b>	8,171
<b>Net Assets - Beginning</b>	<u>213,881</u>
<b>Net Assets - Ending</b>	<u>\$ 222,052</u>

The accompanying notes are an integral part of these financial statements.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**Note 1. Summary of Significant Accounting Policies**

The financial statements of the Naples Central School District, (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units (hereinafter referred to as generally accepted accounting principals ("GAAP")). The Government Accounting Standards Board ("GASB") is the accepted standard setting body for establishing government accounting and financial reporting principles. The following is a summary of significant accounting policies and reporting practices of the District:

**A. Reporting Entity**

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 Extra classroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extra classroom 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 Extra classroom activity funds can be found at the District's business office. 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 the Wayne County Finger Lakes 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.

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.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**C. Basis of Presentation**

**1. District-Wide Statements**

The 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 non-exchange 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 direct expenses and program 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 expensed 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. All remaining governmental funds are aggregated and reported as non-major funds.

**The District reports the following funds -**

**a. Major Governmental**

- i. 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. The general fund is always reported as a major fund.
- ii. School Lunch Fund** - This fund accounts for transactions of the District's lunch, breakfast and milk programs.
- iii. Special Aid Fund** - This fund accounts for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specified purposes.
- iv. Capital Projects Fund** - This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.
- v. 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 Fund (Trust and Agency Funds)** - This fund is used to account for fiduciary activities. 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.

- 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.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

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.

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

**1. Accrual**

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 and sales taxes are recognized in the fiscal year for which the taxes are levied or earned. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**2. Modified Accrual**

The governmental fund financial 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 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.

**3. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. 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.

**4. 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. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Investments are stated at fair value.

**5. 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.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**6. 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.

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 assets on the statement of net assets or balance sheet using 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.

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

The amounts reported on the statement of net assets for due to and due from other funds represents amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year end is provided subsequently in these Notes.

**8. Capital Assets**

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. 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. Depreciation on all assets is provided on the straight-line basis over the following useful lives:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 5,000	20-40 Years
Furniture and equipment	\$ 5,000	5-20 Years

**9. Long-Term Obligations**

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

**10. Vested Employee Benefits**

The District employees are provided benefits as follows:

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

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

- b. Compensated Absences** - 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 fund 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.
- c. Retirement** - The District provides retirement benefits for substantially all its regular full-time teachers and employees, and its part-time teachers and employees who elect to participate, through contributions to the New York State Teachers' Retirement System (TRS), and New York State and Local Retirement System (ERS), respectively. The systems provide various plans and options, some of which require employee contributions. The retirement systems compute the cost of retirement benefits based on their respective fiscal years: TRS - July 1st to June 30th, and ERS - April 1st to March 31st.
- d. Post Employment Benefits** - In addition to providing pension benefits, the District provides health insurance coverage and survivor. 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 or operating transfer to other funds in the general fund, in the year paid. See further Note 10 for additional information.

**11. Budgetary Procedures and Budgetary Accounting**

The District administration prepares a proposed budget for approval by the Board of Education for the general fund. The voters of the District approved the proposed appropriation budget for the general fund on May 18, 2010.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which 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. 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. There were no supplemental appropriations during the 2010 - 2011 fiscal year.

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. The special revenue funds have not been included in the budget and actual comparison because they do not have legally authorized (appropriated) budgets.

**12. Deferred Revenue**

Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has 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 deferred 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.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**13. Restricted Resources**

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

**14. Fund Balance and Net Assets**

Beginning in the 2010-2011 fiscal year, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness and clarity of fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable Fund Balance** - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact.
- **Restricted Fund Balance** - amounts with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments.
- **Committed Fund Balance** - amounts constrained to specific purposes by a government itself, using its highest level of decision making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint. For the purposes of the District, the highest level of decision making authority resides with the Board of Education.
- **Assigned Fund Balance** - amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the Board of Education delegates the authority.
- **Unassigned Fund Balance** - amounts that are available for any purpose.

For the classification of governmental fund balances, the District considers an expenditure to be made from the budgetary appropriations first when more than one classification is available. The District established and modifies fund balance commitments by a passage of a resolution in meetings of the Board of Education. Assigned fund balance is established by the District through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service or for other purposes). The District's Purchasing Agent is responsible for all the purchasing activities of the District and encumbrances at year end, which be considered assigned funds and therefore, the purchasing agent is designated as having the authority to assign amounts intended to be used for specific purposes. The Board of Education approves the adoption and amendment of the budget and has the authority of final review of all assignments of fund balance.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

The District has implemented a policy in accordance with Real Property Tax Law §1318 which limits the amount of unexpended surplus funds a school district can retain to no more than 4% of next year's budgetary appropriations. Funds properly retained under other sections of law are excluded from the 4% limitation. Under GASB Statement No. 54 classifications, the 4% limitation is interpreted to be the total of committed, assigned, and unassigned classifications, minus the appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction and encumbrances included in committed and assigned fund balance.

The following is a summary of the Districts fund balance classifications and categories within those classifications. Restricted and assigned fund balance categories are available to the District. Any capital gains or interest earned on restricted or assigned fund resources becomes part of the respective restricted or assigned fund balance category. While a separate bank account is not necessary for each restricted or assigned fund, a separate identity for each reserve fund must be maintained.

**A. Nonspendable**

**1. Reserve for Inventory** - Reserve for Inventory is used to restrict that portion of fund balance, which is not available for appropriation. These reserves are accounted for in the school lunch fund. The balance at June 30, 2011 is \$14,007.

**B. Restricted**

**1. Unemployment Insurance Reserve** - Unemployment Insurance Reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the general fund. The balance at June 30, 2011 is \$112,229.

**2. Retirement Contribution Reserve** - Retirement Contribution Reserve (GML §6-r) is used for the purpose of financing contributions to the New York State and local employee's retirement system. The reserve must be accounted for separate and apart from all other funds, and a detailed report of the operation and condition of the reserve must be provided to the Board. The balance at June 30, 2011 is \$750,000.

**3. Property Loss Reserve and Liability Reserve** - Property Loss Reserve and Liability Reserve (Education Law §1709(8)(c)) are used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than 125,000. These reserves are accounted for in the general fund. The balance at June 30, 2011 is \$20,485.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**4. Insurance Reserve** - Insurance Reserve is used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action, and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. This reserve is accounted for in the general fund. The balance at June 30, 2011 is \$33,723.

**5. Tax Certiorari Reserve** - Tax Certiorari Reserve (Education Law §3651.1-a) is used to establish a reserve fund for tax certiorari and to expend from the fund without voter approval. The monies held in the reserve shall not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings. Any resources deposited to the reserve which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the general fund on or before the first day of the fourth fiscal year after deposit of these monies. The reserve is accounted for in the general fund. The balance at June 30, 2011 is \$377,719.

**6. Employee Benefit Accrued Liability Reserve** - Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefit due to 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. The balance at June 30, 2011 is \$1,795,912.

**7. 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 improvement. The reserve is accounted for in the debt service fund. The balance at June 30, 2011 is \$1,447,589.

**8. Capital Reserve** - Capital Reserve (Education Law §3651) is used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the capital projects fund and the general fund. The balance at June 30, 2011 for the capital reserve is \$1,100,000.

**C. Assigned**

**1. Reserve for Insurance Recovery** - The Reserve for Insurance Recoveries is used at the end of the fiscal year to account for unexpended proceeds of insurance recoveries. They will be held there pending action by the Board on their disposition. This reserve will not be used if the insurance recovery is expended in the same fiscal year in which it was received. This reserve is accounted for in the general fund. The balance at June 30, 2011 is \$35,964.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**2. Reserve for Encumbrances** - Reserve for encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year. Encumbrance accounting, under which purchase orders, contracts or other commitments for the expenditures of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in the general, District-wide capital improvement project and non-major funds. Encumbrances are reported as reservations of fund balance since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred. The balance at June 30, 2011 is \$50,047.

**3. Reserve for School Lunch Fund** - Reserve for school lunch fund represents the remaining assigned portion of fund balance in the school lunch fund. The reserve is accounted for in the school lunch fund. The balance at June 30, 2011 is \$170,152.

**4. Reserve for Debt** - Reserve for debt represents the remaining assigned portion of fund balance in the debt service fund. The reserve is accounted for in the debt service fund. The balance at June 30, 2011 is \$29,750.

**5. Reserve for Capital Projects** - Reserve for capital projects represents the remaining assigned portion of fund balance in the capital projects fund. The reserve is accounted for in the capital projects fund. The balance at June 30, 2011 is \$898,206.

**6. Reserve for Subsequent Year** - Reserve for subsequent year represents the estimated fund balance that is appropriated into the adopted budet. The balance at June 30, 2011 is \$596,750.

**15. Property Taxes**

Real property taxes are levied annually by the Board of Education no later than September 1, and became a lien on August 11, 2010. Taxes are collected during the period September 1 through October 31, 2010. Uncollected real property taxes are subsequently enforced by the Counties of Livingston, Ontario, Steuben and Yates. 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 1st.

**Note 2. Cash**

**A. Cash and Investments**

The District's investment policies are governed by State statutes. In addition, the District has its own written investment policy. The District monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The District 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.

Collateral is required for 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 District's custodial bank in the District's name. They consisted of:

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash and cash equivalents	\$ <u>9,093,526</u>	\$ <u>9,359,990</u>
Collateralized amounts		\$ 753,004
Covered by FDIC insurance		<u>8,606,986</u>
Total deposits		\$ <u>9,359,990</u>

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

**Note 3. Accounts Receivable**

Receivables at June 30, 2011 consisted of the following, which are stated at net realizable value. District management has deemed the amounts to be fully collectible:

<u>Description</u>	<u>Amount</u>
State and federal aid	\$ 552,654
Due from other governments	188,149
Taxes receivable	<u>10,722</u>
Total	<u>\$ 751,525</u>

**Note 4. Participation in BOCES**

During the year, the District was billed \$1,577,828 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$333,645. Financial statements for the Ontario, Seneca, Yates, Cayuga and Wayne Counties BOCES are available from the BOCES administrative office at 131 Drumlin Court, Newark, New York 14513-1863.

**Note 5. Capital Assets**

Capital asset balances and activity for the year ended June 30, 2011 were as follows:

	<u>Restated Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>					
<b>Capital Assets Not Depreciated</b>					
Land	\$ 17,341	\$ -	\$ -	\$ -	\$ 17,341
Construction in progress	<u>4,824,707</u>	<u>420,015</u>	<u>-</u>	<u>(4,826,707)</u>	<u>418,015</u>
Total capital assets not depreciated	<u>4,842,048</u>	<u>420,015</u>	<u>-</u>	<u>(4,826,707)</u>	<u>435,356</u>
<b>Capital Assets Depreciated</b>					
Buildings and improvements	8,038,765	-	-	4,826,707	12,865,472
Furniture and equipment	<u>2,126,740</u>	<u>435,383</u>	<u>(295,835)</u>	<u>-</u>	<u>2,266,288</u>
Total capital assets depreciated	<u>10,165,505</u>	<u>435,383</u>	<u>(295,835)</u>	<u>4,826,707</u>	<u>15,131,760</u>
<b>Less - Accumulated Depreciation</b>					
Buildings and improvements	5,204,225	265,887	-	-	5,470,112
Furniture and equipment	<u>1,162,148</u>	<u>236,354</u>	<u>(262,863)</u>	<u>-</u>	<u>1,135,639</u>
Total accumulated depreciation	<u>6,366,373</u>	<u>502,241</u>	<u>(262,863)</u>	<u>-</u>	<u>6,605,751</u>
Total capital assets depreciated - net	<u>3,799,132</u>	<u>(66,858)</u>	<u>(32,972)</u>	<u>4,826,707</u>	<u>8,526,009</u>
<b>Governmental Activities Capital Assets - Net</b>	<u>\$ 8,641,180</u>	<u>\$ 353,157</u>	<u>\$ (32,972)</u>	<u>\$ -</u>	<u>\$ 8,961,365</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities</b>	
General government support	\$ 22,639
Instruction	277,252
Pupil transportation	199,241
School lunch	<u>3,109</u>
Total depreciation expense	<u>\$ 502,241</u>

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

**Note 6. Indebtedness**

**A. Long-Term Debt**

**Serial Bonds/Statutory Installment Bonds**

The District borrows money in order to acquire land or high cost equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the District, are recorded in the District-wide financial statements (statement of net assets).

The District had the following serial bonds outstanding as of June 30, 2011:

<u>Purpose</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Serial Bonds, Refunding 2003	06/2015	1.50-3.60%	\$ 2,085,000	\$ -	\$ 405,000	\$ 1,680,000
Serial Bonds, Series 2009	06/2024	2.50-4.00%	5,555,000	-	320,000	5,235,000
Statutory Installment Bonds, 2007	06/2012	4.30%	90,000	-	45,000	45,000
Statutory Installment Bonds, 2008	06/2013	3.68%	135,000	-	40,000	95,000
Statutory Installment Bonds, 2009	06/2014	3.75%	192,917	-	42,917	150,000
Statutory Installment Bonds, 2010	06/2015	2.15-2.30%	-	214,928	34,928	180,000
Total bonds			<u>\$ 8,057,917</u>	<u>\$ 214,928</u>	<u>\$ 887,845</u>	<u>\$ 7,385,000</u>

**Contractual Obligations**

During the 1996-1997 fiscal year, the District entered into an Energy Performance Contract. Energy Performance Contracts may be found in Section 9-102(4) of the Energy Law. These contracts are agreements for provision of energy services in which a person or entity agrees to manage, install, or maintain energy equipment or systems to improve energy efficiency or produce energy for facilities in exchange for a portion of the energy savings or revenues. As a part of their agreement, the District received funds to be used for capital improvements intended to improve energy efficiency in District buildings. During the 1998-1999 fiscal year the project was completed. This contract was refinanced on August 28, 2003 with an interest rate of 3.71% payable in annual installments through June 2013.

<u>Purpose</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Contractual Obligation	12/2012	3.71%	\$ 162,885	\$ -	\$ 52,462	\$ 110,423

**Interest Expense**

Interest on long-term debt for the year amounted to:

Interest paid	\$ 277,812
Less: interest accrued in the prior year	(23,686)
Add: interest accrued in the current year	19,540
Add: amortization of deferred refunding and issuance costs	<u>42,759</u>
Total interest expense	<u>\$ 316,425</u>

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

**B. Changes in Long-Term Debt**

The changes in the District's long-term indebtedness during the year ended June 30, 2011 are summarized as follows:

	<b>Restated Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Bonds payable	\$ 8,057,917	\$ 214,928	\$ 887,845	\$ 7,385,000
Contractual obligations	162,885	-	52,462	110,423
Compensated absences	3,508,604	-	422,047	3,086,557
Other postemployment benefits liability	2,136,026	872,273	-	3,008,299
Flex medical reimbursement	<u>340,253</u>	<u>16,760</u>	-	<u>357,013</u>
Total	<u>\$ 14,205,685</u>	<u>\$ 1,103,961</u>	<u>\$ 1,362,354</u>	<u>\$ 13,947,292</u>
Due in one year				\$ 1,258,973
Due in more than one year				<u>12,688,319</u>
Total				<u>\$ 13,947,292</u>

**C. Maturity**

The following is the amortization schedule for the long-term liability resulting from bonds:

	<b>Principal</b>	<b>Interest</b>	<b>Balance</b>
2012	\$ 925,000	\$ 246,737	\$ 6,460,000
2013	910,000	218,634	5,550,000
2014	890,000	191,063	4,660,000
2015	815,000	163,900	3,845,000
2016	380,000	137,400	3,465,000
2017 - 2021	2,135,000	496,188	1,330,000
2022 - 2027	<u>1,330,000</u>	<u>100,613</u>	-
Total	<u>\$ 7,385,000</u>	<u>\$ 1,554,535</u>	

The following is the amortization schedule for the long-term liability resulting from contractual obligations:

	<b>Principal</b>	<b>Interest</b>	<b>Balance</b>
2012	\$ 54,420	\$ 3,606	\$ 56,003
2013	<u>56,003</u>	<u>1,042</u>	-
Total	<u>\$ 110,423</u>	<u>\$ 4,648</u>	

On May 22, 2003, the District issued \$5,005,000 in general obligation bonds, with interest rates ranging between 1.50% and 3.60%. The District issued the bonds to advance refund the \$4,475,000 of outstanding various general obligation bonds. The District used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the bonds. As a result, the \$4,475,000 in bonds are considered defeased and the liability has been removed from the financial statements.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**Note 7. Interfund Balances and Activity**

Interfund receivables and payables at June 30, 2011 are as follows:

	<b>Interfund Receivable</b>	<b>Interfund Payable</b>
General fund	\$ 567,445	\$ 32,572
School lunch fund	1,685	15,055
Special aid fund	30,887	343,659
Capital projects fund	-	976
Debt service fund	976	-
Subtotal	600,993	392,262
Trust and agency fund	-	208,731
Total	<b>\$ 600,993</b>	<b>\$ 600,993</b>

Interfund receivables and payables, other than between governmental activities are eliminated on the statement of net assets. Intergovernmental receivables between governmental and fiduciary activities are listed as due from external parties.

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

All interfund payables are expected to be repaid within one year.

**Note 8. Interfund Transfers**

Interfund transfers for the year ending June 30, 2011 consisted of the following:

	<b>Transfers In</b>	<b>Transfers Out</b>
General fund	\$ -	\$ 624,282
Special aid fund	24,282	-
Capital project funds	600,000	-
Total	<b>\$ 624,282</b>	<b>\$ 624,282</b>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) move residual cash from closed projects to debt service to be used for debt payments at a later date.

The purpose of interfund transfers within the District is to consolidate funding from multiple funds into others for several reasons, such as purchases of capital improvements or the completion of a project that is to benefit multiple funds.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**Note 9. Pension Plans**

**A. 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.

**B. Plan Descriptions**

**Teachers' Retirement System (TRS)**

The New York State Teachers' Retirement Board administers NYSTRS. The System provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

**Employees' Retirement System (ERS)**

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

**C. Funding Policies**

The Systems are noncontributory, except for employees who joined the Systems after July 27, 1976, who contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the NYSERS contribute 3% of their salary through their active memberships and those in NYSTRS contribute 3.5% throughout active membership. For NYSERS, the Comptroller certifies 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 an actuarially determined rate. The District contributions made to the Systems were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

	<u>ERS</u>		<u>TRS</u>		<u>Total</u>
2011	\$ 181,042	\$	426,691	\$	607,733
2010	\$ 142,058	\$	434,737	\$	576,795
2009	\$ 138,687	\$	444,913	\$	583,600

The total unpaid liability for NYSERS and NYSTRS was \$629,154.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**Note 10. Post Employment Healthcare Plan**

**Plan Description** - The District administers the Naples Central School District Retiree Medical Plan (the "Plan") as a single-employer defined benefit other postemployment benefit plan. The Plan provides for continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of the District subject to applicable collective bargaining and employment agreements.

**Funding Policy** - The obligations of the plan members, employers and other entities are established by action of the District pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The employer currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the District.

**Actuarial Methods and Assumptions** - The accrual basis of accounting is used. The fair market value of assets is determined by the market value of assets paid by a willing buyer to a willing seller. The schedule of funding progress presents multiyear trend information that is useful in determining whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability. The projections of benefits are based on the types of benefits provided under the substantive plan at the time of the valuation date and on the pattern of cost-sharing between the employer and plan members. In addition, the projections do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. The actuarial calculations reflect a long-term perspective; actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

As of July 1, 2010 the most recent actuarial valuation date, the Other Post Employment Benefits ("OPEB") plan was unfunded, resulting in an unfunded accrued liability for the District of \$11,212,162. The assumed discount rate is 4.00% compounded annually.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 1,132,897
Interest on net OPEB obligation	85,441
Adjustment to annual required contribution	<u>(123,527)</u>
Annual OPEB cost (expense)	1,094,811
Contributions made	<u>(222,538)</u>
Increase in OPEB obligation - net	872,273
Net OPEB obligation - beginning	<u>2,136,026</u>
Net OPEB obligation - ending	<u>\$ 3,008,299</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2011	\$ 1,094,811	20.3%	\$ 3,008,299
6/30/2010	\$ 1,286,813	16.5%	\$ 2,136,026

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**Note 11. Risk Management**

**A. General Information**

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 the past two years.

**B. Workers' Compensation**

The District incurs costs related to the Wayne-Finger Lakes Area School Workers' Compensation Plan (Plan) sponsored by the Board of Cooperative Educational Services, of Ontario, Seneca, Yates, Cayuga and Wayne Counties and its component districts. The Plan's objectives are to furnish workers' compensation benefits to participating districts at a significant cost savings. Membership in the Plan may be offered to any component district of the Ontario, Seneca, Yates, Cayuga and Wayne Counties BOCES with the approval of the Board of Directors. Voluntary withdrawal from the Plan may be effective only once annually on the last day of the Plan year as may be established by the Board of Directors. Notice of the Intention to withdraw must be given in writing to the Chairman of the Board of Directors and the Treasurer not less than one year prior to the end of the Plan year.

Plan membership is currently comprised of thirteen districts. If a surplus of participants' assessments exist after the close of a Plan year, the Board may retain from such surplus an amount sufficient to establish and maintain a claim contingency fund. Surplus funds in excess of the amount transferred to or included in such contingency fund shall be applied in reduction of the next annual assessment or to the billing of Plan participants. All monies paid to the Treasurer by participants shall be commingled and administered as a common fund. No refunds shall be made to a participant and no assessments shall be charged to a participant other than the annual assessment. However, if it appears to the Board of Directors that the liabilities of the Plan will exceed its cash assets, after taking into account any "excess insurance", the Board shall determine the amount needed to meet such deficiency and shall assess such amounts against all participants pro-rata per enrollee.

The Plan purchases, on an annual basis, stop-loss insurance to limit its exposure for claims paid. The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. During the year ended June 30, 2011, the Naples Central School District incurred premiums or contribution expenditures totaling \$35,431.

The Plan is audited on an annual basis and the Plan's financial statements are available at the BOCES administrative offices. The most recent audit available, for the year ended June 30, 2010, revealed that the Plan is fully funded.

**C. Unemployment**

District employees are entitled to coverage under the New York State Unemployment Insurance Law. The District has elected to discharge its liability to the New York State Unemployment Insurance Fund (the Fund) by the benefit reimbursement method, a dollar-for-dollar reimbursement to the Fund for benefits paid from the Fund to former employees. The District has established a self insurance fund to pay these claims. There were no claims and judgment expenditures of this program for the 2010-2011 fiscal year. The balance of the fund at June 30, 2011 was \$112,229 and is recorded in the general fund as an unemployment insurance reserve. In addition, as of June 30, 2011, no loss contingencies existed or were considered probable or estimable for incurred but not reported claims payable.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Notes to Financial Statements**

---

**Note 12. Federal and State Funded Programs**

The District participates in a number of Federal and New York State grant and assistance programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

**Note 13. Restatement**

The District restated their capital asset records to be in accordance with generally accepted accounting principles. The effect of this restatement was to decrease net assets by \$634,013 in the district-wide statement of activities.

The District restated their compensated absences to properly reflect actual liabilities as of July 1, 2010. The effect of this restatement was to decrease net assets by \$1,437,130 in the district-wide statement of activities.

The District restated their flexible medical reimbursement liability to properly reflect the current liabilities in accordance with the modified accrual basis of accounting. The amount of this restatement is equivalent to the long-term portion of the liability and the effect of this restatement increased the general fund balance by \$266,454 in the statement of revenues, expenditures and changes in fund balance. The long-term portion of this liability now appears on the district wide statement of net assets.

**Note 14. Restatement of Net Assets**

The Statement of Net Assets was revised to reflect a reclassification between unrestricted and restricted net assets. The impact of this reclassification was a \$3,590,068 decrease in unrestricted net assets, offset by a corresponding increase in restricted net assets.

**Note 15. Subsequent Event**

On August 11, 2011, the District issued serial bonds in the amount of \$187,125 for the purchase of buses.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
<b>Revenues</b>				
Real property tax	\$ 9,024,683	\$ 8,120,087	\$ 8,120,249	\$ 162
Real property tax items	31,076	935,672	942,632	6,960
Charges for services	68,100	68,100	176,790	108,690
Use of money and property	20,000	20,000	29,211	9,211
Sale of property & compensation for loss	500	500	6,459	5,959
Miscellaneous	49,500	49,500	67,269	17,769
State aid	5,775,493	5,775,493	5,757,743	(17,750)
Federal aid	246,994	246,994	246,994	-
Medical reimbursements	<u>20,000</u>	<u>20,000</u>	<u>76,469</u>	<u>56,469</u>
Total revenues	15,236,346	15,236,346	15,423,816	187,470
<b>Other Financing Sources</b>				
Interfund transfers	<u>232,600</u>	<u>232,600</u>	-	(232,600)
Total revenues and other financing sources	<u>15,468,946</u>	<u>15,468,946</u>	<u>15,423,816</u>	<u>(45,130)</u>
<b>Expenditures</b>				
General support	2,103,319	2,183,082	1,775,024	408,058
Instruction	8,123,430	8,158,710	7,564,729	593,981
Transportation	626,376	789,883	743,283	46,600
Community services	7,096	7,096	2,184	4,912
Employee benefits	3,888,145	3,828,927	3,257,318	571,609
Debt principal	935,382	940,309	940,309	-
Debt interest	<u>283,698</u>	<u>278,770</u>	<u>277,812</u>	<u>958</u>
Total expenditures	15,967,446	16,186,777	14,560,659	1,626,118
<b>Other Financing Uses</b>				
Interfund transfers	<u>28,500</u>	<u>639,282</u>	<u>624,282</u>	<u>15,000</u>
Total expenditures and other financing uses	<u>15,995,946</u>	<u>16,826,059</u>	<u>15,184,941</u>	<u>1,641,118</u>
<b>Change in Fund Balance</b>	<u>(527,000)</u>	<u>(1,357,113)</u>	<u>238,875</u>	<u>1,595,988</u>
<b>Fund Balances - Beginning, as Previously Stated</b>	4,416,078	4,416,078	4,416,078	-
<b>Restatement</b>	-	-	<u>266,454</u>	<u>266,454</u>
<b>Fund Balances - Beginning, as Restated</b>	<u>4,416,078</u>	<u>4,416,078</u>	<u>4,682,532</u>	<u>266,454</u>
<b>Fund Balances - Ending</b>	<u>\$ 3,889,078</u>	<u>\$ 3,058,965</u>	<u>\$ 4,921,407</u>	<u>\$ 1,862,442</u>

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Schedule of Changes from Original Budget to Revised Budget**  
**General Fund**  
**For the Year Ended June 30, 2011**

---

Original budget	\$ 15,995,946
Add: Prior year's encumbrances	154,702
Add: Budget revisions	<u>675,411</u>
Final budget	<u>\$ 16,826,059</u>

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Schedule of Use of Unreserved Fund Balance**  
**General Fund**  
**For the Year Ended June 30, 2011**

---

Unreserved Fund Balance - As of the beginning of the year	\$ 1,162,826
Less: Designated fund balance used for the levy of taxes - Original budget	<u>(527,000)</u>
Undesignated Fund Balance - As of the beginning of the year	<u>\$ 635,826</u>

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Schedule of Project Expenditures**  
**Capital Projects Fund**  
**For the Year Ended June 30, 2011**

PROJECT TITLE	Expenditures				Methods of Financing						
	Original Budget	Amended Budget	Prior Years	Current Year	Total	Unexpended Balance	Obligations	State Aid	Interfund Transfers	Total	Fund Balance
2004-2005 Buses	\$ 180,000	\$ 180,000	\$ 167,345	\$ -	\$ 167,345	\$ 12,655	\$ 180,000	\$ -	\$ -	\$ 180,000	\$ 12,655
2005-2006 Buses	180,000	180,000	165,512	-	165,512	14,488	180,000	-	-	180,000	14,488
2006-2007 Buses	165,512	165,512	165,512	-	165,512	-	165,512	-	-	165,512	-
2007-2008 Buses	171,689	171,689	164,616	-	164,616	7,073	188,869	-	-	188,869	24,253
2008-2009 Buses	192,917	192,917	180,516	-	180,516	12,401	193,109	-	(12,400)	180,709	193
2009-2010 Buses	204,306	204,306	33,209	181,719	214,928	(10,622)	214,928	-	-	214,928	-
2010-2011 Buses	-	-	-	187,124	187,124	(187,124)	-	-	-	-	(187,124)
Other Capital Projects	-	-	152,857	-	152,857	(152,857)	279,321	-	-	279,321	126,464
Naples HS 0001-010	2,498,600	2,498,600	3,199,771	2,000	3,201,771	(703,171)	3,189,150	168,652	-	3,357,802	156,031
Naples Elementary 0002-008	3,651,400	3,651,400	1,622,936	-	1,622,936	2,028,464	2,675,000	117,198	-	2,792,198	1,169,262
Naples Phase 2	21,710,000	21,710,000	-	297,760	297,760	21,412,240	-	-	600,000	600,000	302,240
Naples Phase 1A	1,335,334	1,335,334	-	120,256	120,256	1,215,078	-	-	-	-	(120,256)
	<u>\$ 30,289,758</u>	<u>\$ 30,289,758</u>	<u>\$ 5,852,274</u>	<u>\$ 788,859</u>	<u>\$ 6,641,133</u>	<u>\$ 23,648,625</u>	<u>\$ 7,265,889</u>	<u>\$ 285,850</u>	<u>\$ 587,600</u>	<u>\$ 8,139,339</u>	<u>\$ 1,498,206</u>

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Schedule of Certain Revenues and Expenditures Compared to ST-3 Data**  
**For the Year Ended June 30, 2011**

---

	<u>Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>	<u>Variance</u>
<b>Revenues</b>				
Real property taxes	A-1001	\$ 8,120,249	\$ 8,120,249	\$ -
Non property taxes	AT-1199	\$ -	\$ -	\$ -
State aid - Medicaid reimbursements	AT-3999	\$ 5,834,212	\$ 5,834,212	\$ -
Federal aid	AT-4999	\$ 246,994	\$ 246,994	\$ -
Total revenues and other financing sources	AT-5999	\$ 15,423,816	\$ 15,423,816	\$ -
<b>Expenditures</b>				
General support	AT-1999	\$ 1,775,024	\$ 1,775,024	\$ -
Pupil transportation	AT-5599	\$ 743,283	\$ 743,283	\$ -
Debt service - principal	AT-9798.6	\$ 940,309	\$ 940,309	\$ -
Debt service - interest	AT-9798.7	\$ 277,812	\$ 277,812	\$ -
Total expenditures and other financing uses	AT-9999	\$ 15,184,941	\$ 15,184,941	\$ -

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Investment in Capital Assets - Net of Related Debt**  
**June 30, 2011**

---

<b>Capital assets - net</b>	\$ <u>8,961,365</u>
<b>Add-</b>	
Deferred refunding proceeds - net	62,028
Bond issuance costs - net	20,952
Unspent bond proceeds	<u>1,498,206</u>
Subtotal	<u>1,581,186</u>
<b>Deduct -</b>	
Short-term portion of bonds payable	979,420
Long-term portion of bonds payable	<u>6,516,003</u>
Subtotal	<u>7,495,423</u>
<b>Investment in capital assets - net of related debt</b>	\$ <u>3,047,128</u>

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

<u>Federal Grantor/Pass Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Pass through programs from:			
New York State Department of Education:			
National School Breakfast Program	10.553		\$ 30,375
National School Lunch Program	10.555		106,390
New York State Office of General Services:			
Surplus Food Distribution	10.555		<u>20,212</u>
Total U.S. Department of Agriculture			<u>156,977</u>
<b>U.S. Department of Education</b>			
Pass through program from:			
New York State Department of Education:			
Special Education Cluster:			
IDEA Part B - Section 611	84.027		192,396
IDEA Part B - Section 611 - ARRA	84.391		102,323
IDEA Part B - Section 619	84.173		5,021
IDEA Part B - Section 619 - ARRA	84.392		<u>4,758</u>
Total Special Education Cluster			<u>304,498</u>
Other pass through programs:			
Title I - ESEA Basic Grant	84.010		198,641
Title I - ESEA Basic Grant - ARRA	84.389		82,087
Title IIA - Teacher Training	84.367		60,981
New York State Fiscal Stabilization Fund - ARRA	84.394		<u>246,994</u>
Total other pass through programs			<u>588,703</u>
Total U.S. Department of Education			<u>893,201</u>
<b>Total Expenditures of Federal Awards</b>			<b>\$ <u>1,050,178</u></b>

See accompanying note to schedule of expenditures of federal awards.

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Note to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

---

**Note 1. Basis of Presentation**

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



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

To the Board of Education  
Naples Central School District  
Naples, New York

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Naples Central School District as of and for the year ended June 30, 2011, which collectively comprise the Naples Central School District's basic financial statements and have issued our report thereon dated September 30, 2011 and November 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Naples Central School District's internal control over financial reporting 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 Naples Central School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Naples Central School District's internal control over financial reporting.

*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.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Naples Central School District in a separate letter dated September 30, 2011.

This report is intended solely for the information and use of the Board of Education, management, 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.

*EFP Rotenberg, LLP*

EFP Rotenberg, LLP  
Rochester, New York  
September 30, 2011

(except for Note 14 and 15 of the Notes for the Financial Statements and the resulting impact to the Statement of Net Assets as to which the date is November 8, 2011.)



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

To the Board of Education  
Naples Central School District  
Naples, New York

Compliance

We have audited Naples Central School District's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Naples Central School District's major federal programs for the year ended June 30, 2011. Naples Central School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Naples Central School District's management. Our responsibility is to express an opinion on Naples Central School District's compliance based on our audit.

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

In our opinion, Naples Central School District complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of Naples Central School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Naples Central School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 Naples 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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the Board of Education, management, 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.

*EFP Rotenberg, LLP*

EFP Rotenberg, LLP  
Rochester, New York  
September 30, 2011

**NAPLES CENTRAL SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

---

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of the Naples Central School District.
2. No material weaknesses relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Naples Central School District were disclosed during the audit.
4. The auditors' report on compliance for the major federal award programs for the Naples Central School District expresses an unqualified opinion on major federal programs.
5. There were no material weaknesses noted relative to the major federal award programs for the Naples Central School District reported in this schedule.
6. The programs tested as a major programs are:
  - U.S. Department of Education - IDEA Part B - Section 611 - CFDA No. 84.027
  - U.S. Department of Education - IDEA Part B - Section 611 - ARRA - CFDA No. 84.391
  - U.S. Department of Education - IDEA Part B - Section 619 - CFDA No. 84.173
  - U.S. Department of Education - IDEA Part B - Section 619 - ARRA - CFDA No. 84.392
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The Naples Central School District was determined to be a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

NONE

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

NONE