

HOMER CENTRAL SCHOOL DISTRICT

Homer, New York

FINANCIAL REPORT

June 30, 2012

HOMER CENTRAL SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

Board of Education
Homer Central School District
Homer, New York

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Central School District (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 basic 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 School District, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2012 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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 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.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information and the Schedule of Funding Progress on pages 2 through 2j and 30 through 33 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The supplementary financial information on pages 34 to 37 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary financial 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, 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.

A handwritten signature in black ink that reads "Lisa Dietershagen, Little, Ninkler & Company, CPA". The signature is written in a cursive style.

September 18, 2012
Ithaca, New York

**HOMER CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

The following is a discussion and analysis of the School District's financial performance for the fiscal year ended June 30, 2012. This section is a summary of the School District's financial activities based on currently known facts, decisions or conditions. It is also based on both the District-wide and Governmental 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. The Management's Discussion and Analysis (MD&A) section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- During 2009, the School District adopted Governmental Accounting Standards Board (GASB) Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions." This statement requires the School District to record an expense of \$1,565,093 in 2012, and recognize a liability for retiree health insurance that amounted to \$7,730,074 at June 30, 2012.
- The School District's net assets decreased by \$(2,598,612) as a result of this year's operations. Revenues increased by \$633,598, or 1.7%, while expenses decreased by \$(94,214), or (0.2)%.
- During the year, the School District had expenses from providing functions and programs of \$39,851,311, of which it received \$21,295,846 from State and Federal sources. The balance was funded by taxes and other miscellaneous revenues.
- The General Fund reported an excess of expenditures and other uses over revenues and other sources this year of \$(1,275,825). This was largely the result of increased employee benefit expenditures and reduced state and federal aid. The deficit was less than originally budgeted.
- Changes in enrollment:

As the schedule below indicates, enrollment over the past several years peaked in 2000-2001. Recent kindergarten enrollments indicate a continuing slight annual decline. However, current trends indicate the decline may be slowing.

School Year	Enrollment
2000-2001	2,464
2001-2002	2,431
2002-2003	2,427
2003-2004	2,363
2004-2005	2,318
2005-2006	2,275
2006-2007	2,265
2007-2008	2,201
2008-2009	2,215
2009-2010	2,169
2010-2011	2,202
2011-2012	2,154

HOMER CENTRAL SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

- Known changes in State aid:

Estimating state aid has become a nearly impossible task for school districts during the last several years. The School District had another substantial reduction in State Aid for 2011-2012. It is difficult for the State to support public education in the wake of fiscal distress in the economy and natural disasters throughout the nation. Increases in retirement and health insurance costs continue to stress our ability to provide educational programming for our children. State aid will continue to be reduced substantially for 2012-2013 via the GAP Elimination Adjustment and further as a result of ARRA funding coming to an end. The School District has planned to use reserves to offset the impact of the aid reduction if the Foundation Aid funding formula is not reinstated.

The School District is a labor-intensive enterprise, and the cost of benefits continues to out-pace the inflation rate. State aid continues to lag behind School District expenses.

In response, as noted below in the discussion of tax levy, community support has increased at a far greater rate than State support over the past three years.

Below is a detail of the School District's budget, State aid and required property tax levy to meet the budget.

Year	Budget	State Aid	Levy
2001-2002	\$ 25,433,397	\$ 14,226,684	\$ 8,698,930
2002-2003	\$ 28,434,163	\$ 16,326,691	\$ 9,477,860
2003-2004	\$ 28,366,636	\$ 15,079,697	\$ 10,828,620
2004-2005	\$ 29,397,295	\$ 15,802,920	\$ 11,529,815
2005-2006	\$ 31,165,450	\$ 16,556,920	\$ 12,215,850
2006-2007	\$ 33,261,250	\$ 18,011,890	\$ 12,927,370
2007-2008	\$ 36,162,815	\$ 19,361,255	\$ 13,419,900
2008-2009	\$ 37,198,050	\$ 20,292,070	\$ 13,969,410
2009-2010	\$ 40,078,343	\$ 20,553,032	\$ 13,969,410
2010-2011	\$ 38,286,495	\$ 18,378,786	\$ 14,282,650
2011-2012	\$ 39,846,943	\$ 18,461,864	\$ 14,865,845

Textbook, computer software, and library material aid has remained stagnant for many years. As program requirements for students increase in the classroom and libraries, the State has reneged on the level of funding for textbooks and library materials identified several years ago. The State has encouraged school districts to share services in an effort to reduce costs. The School District participates in the Central Business Office through OCM BOCES for its business office functions. The services include the positions of School District Treasurer, Payroll Clerk and Accounts Payable. The School District also began sharing its transportation supervisor with a nearby district during 2011-12.

The implementation of new rules commonly referred to as the NYS Tax Cap Law during 2011-12 introduced a new level of complication to the District's tax levy process as well as new restrictions on its ability to raise revenue to support educational programs. The School District's residents have continued to be supportive through the difficult times. The voters approved a 2.67% increase in the tax levy in May 2012 for the 2012-13 budget.

HOMER CENTRAL SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

Year	Levy Amount	Increase
Tax Levy 2002-2003	\$ 9,477,860	8.95%
Tax Levy 2003-2004	\$ 10,828,620	14.25%
Tax Levy 2004-2005	\$ 11,529,815	6.48%
Tax Levy 2005-2006	\$ 12,215,850	5.95%
Tax Levy 2006-2007	\$ 12,927,370	5.82%
Tax Levy 2007-2008	\$ 13,419,900	3.81%
Tax Levy 2008-2009	\$ 13,969,410	4.09%
Tax Levy 2009-2010	\$ 13,969,410	0%
Tax Levy 2010-2011	\$ 14,282,650	2.24%
Tax Levy 2011-2012	\$ 14,865,845	4.08%

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (this section), the basic financial statements and supplementary information, both required and not required. The basic financial statements include two kinds of statements that present different views of the School District.

- The first two statements are District-wide financial statements that provide both short-term and long-term information about the School District's overall financial status.
- The remaining statements are Governmental Fund financial statements that focus on individual parts of the School District, reporting the School District's operations in greater detail than the District-wide financial statements. The Governmental Fund financial statements concentrate on the School District's most significant funds.

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

District-wide Financial Statements

The District-wide financial statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the School 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.

The two District-wide financial statements report the School District's net assets and how they have changed. Net assets - the difference between the School District's assets and liabilities - are one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the School District's overall health, one needs to consider additional nonfinancial factors such as changes in the School District's property tax base and the condition of school buildings and other facilities.

HOMER CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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

Governmental Fund Financial Statements

The Governmental Fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "Major" Funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs. The School District has two kinds of funds:

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

Because this information does not encompass the additional long-term focus of the District-wide financial statements, additional information following the Governmental Funds statements explains the relationship (or differences) between them.

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The School District's combined net assets for fiscal year ended June 30, 2012 decreased by \$(2,598,612). Our analysis below focuses on the net assets (*Figure 1*) and changes in net assets (*Figure 2*) of the School District's Governmental Activities.

Figure 1

Condensed Statement of Net Assets	Governmental Activities and Total School District		Total Dollar Change
	2011	2012	2011 - 2012
<i>Current assets</i>	\$ 7,485,768	\$ 6,246,872	\$ (1,238,896)
<i>Noncurrent assets</i>	16,595,167	16,661,072	65,905
<i>Capital assets, net</i>	49,441,754	47,546,710	(1,895,044)
Total assets	73,522,689	70,454,654	(3,068,035)
<i>Current liabilities</i>	5,865,916	6,604,274	738,358
<i>Noncurrent liabilities</i>	39,289,120	38,081,339	(1,207,781)
Total liabilities	45,155,036	44,685,613	(469,423)
<i>Invested in capital assets</i>	14,711,260	15,959,026	1,247,766
<i>Restricted</i>	16,769,740	16,542,992	(226,748)
<i>Unrestricted net (deficit)</i>	(3,113,347)	(6,732,977)	(3,619,630)
Total net assets	\$ 28,367,653	\$ 25,769,041	\$ (2,598,612)

HOMER CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

The decrease in current assets was primarily due to the use of capital project funds and expenses exceeding revenue. The decrease in capital assets, net of accumulated depreciation, is primarily the result of depreciation expense in excess of capital outlay.

The increase in current liabilities was the result of increased employee retirement plan contribution rates. The decrease in noncurrent liabilities was primarily due to increases in the retiree health insurance liability in the amount of \$1,565,093 and compensated absences in the amount of \$256,055, offset by payments on long-term debt of \$3,468,300.

The increase in the amount invested in capital assets, net of the related debt, was primarily due to the net effect of a decrease in capital assets offset by a decrease in long-term debt due to the payment of principal. The net effect of the School District's activities resulted in a decrease in unrestricted net assets.

Our analysis in *Figure 2* considers the operations of the School District's activities.

Figure 2

Changes in Net Assets	Governmental Activities and Total School District		Total Dollar Change
	2011	2012	2011 - 2012
REVENUES			
<i>Program revenues:</i>			
<i>Charges for services</i>	\$ 698,442	\$ 714,819	\$ 16,377
<i>Operating grants and contributions</i>	1,511,278	2,794,420	1,283,142
<i>General revenues:</i>			
<i>Property taxes</i>	11,803,790	12,332,531	528,741
<i>Other taxes</i>	2,535,501	2,536,642	1,141
<i>Unrestricted State sources</i>	18,414,882	18,490,524	75,642
<i>Federal sources</i>	1,170,192	-	(1,170,192)
<i>Use of money and property</i>	161,298	137,533	(23,765)
<i>Other general revenues</i>	323,718	246,230	(77,488)
Total revenues	36,619,101	37,252,699	633,598
PROGRAM EXPENSES			
<i>General support</i>	4,488,204	4,461,058	(27,146)
<i>Instruction</i>	30,345,873	29,974,290	(371,583)
<i>Pupil transportation</i>	2,826,300	3,137,109	310,809
<i>Community services</i>	21,653	21,348	(305)
<i>School lunch program</i>	998,187	1,046,468	48,281
<i>Interest on debt</i>	1,265,308	1,211,038	(54,270)
Total expenses	39,945,525	39,851,311	(94,214)
(DECREASE) IN NET ASSETS	\$ (3,326,424)	\$ (2,598,612)	\$ 727,812

Total revenues for the School District's governmental activities increased by \$633,598, or 1.7%. Total expenses decreased by \$(94,214), or (0.2)% compared to 2011.

Operating grants and contributions, which consist primarily of grants for special education and the School District's school lunch program, increased by 84.9%, primarily due to increased federal funding for special education. In 2012, total taxes were up for the year \$528,741, most of which was due to a 4.0% increase in the tax levy for 2012. State aid reported in unrestricted State sources showed an increase of \$75,642, largely due to State aid modifications to school districts. Lower interest rates resulted in a decrease in the use of money and property. ARRA State Fiscal Stabilization Fund - Education State Grants funding ended June 30, 2011, resulting in the decrease of Federal sources.

HOMER CENTRAL SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

Figures 3 and 4 show the sources of revenue for 2012 and 2011.

Figure 3

Sources of Revenue for 2012

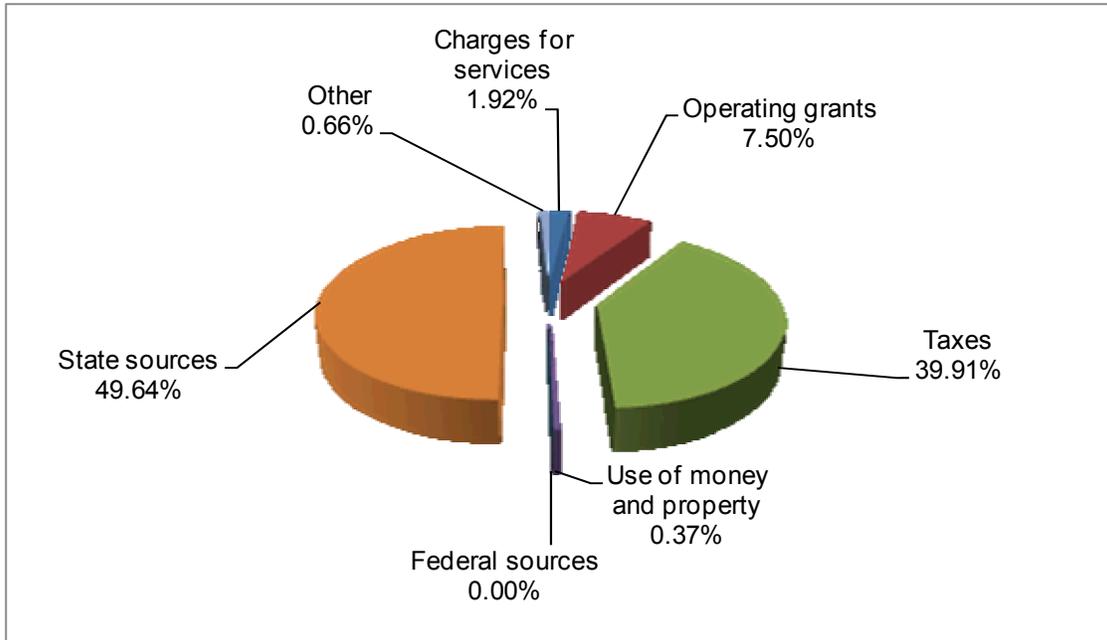
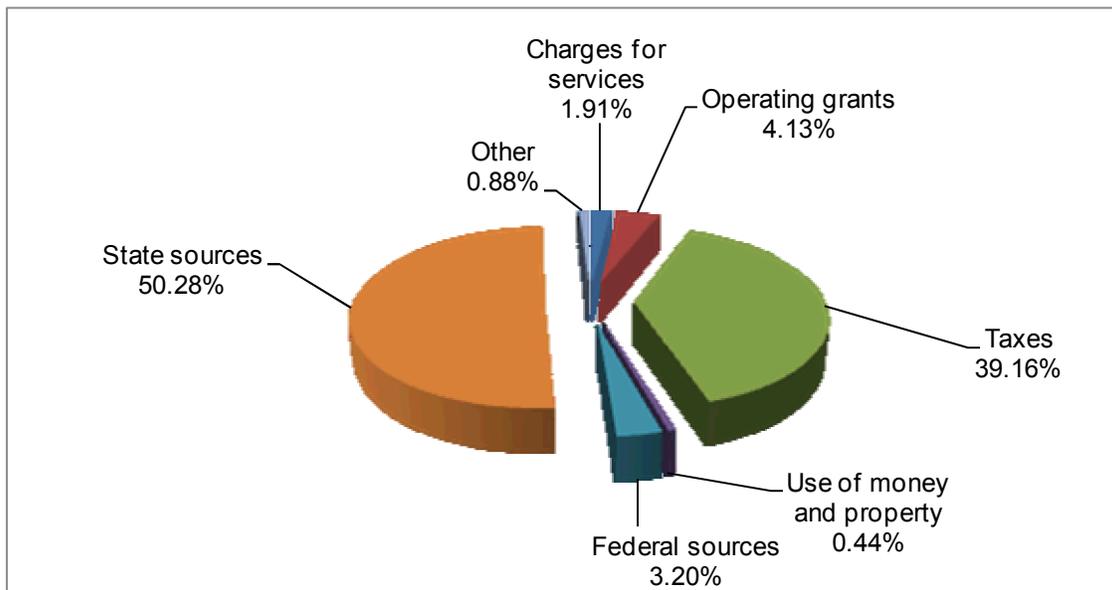


Figure 4

Sources of Revenue for 2011



HOMER CENTRAL SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

Figures 5 and 6 present the cost of each of the School District's programs for 2012 and 2011.

Figure 5

Cost of Programs for 2012

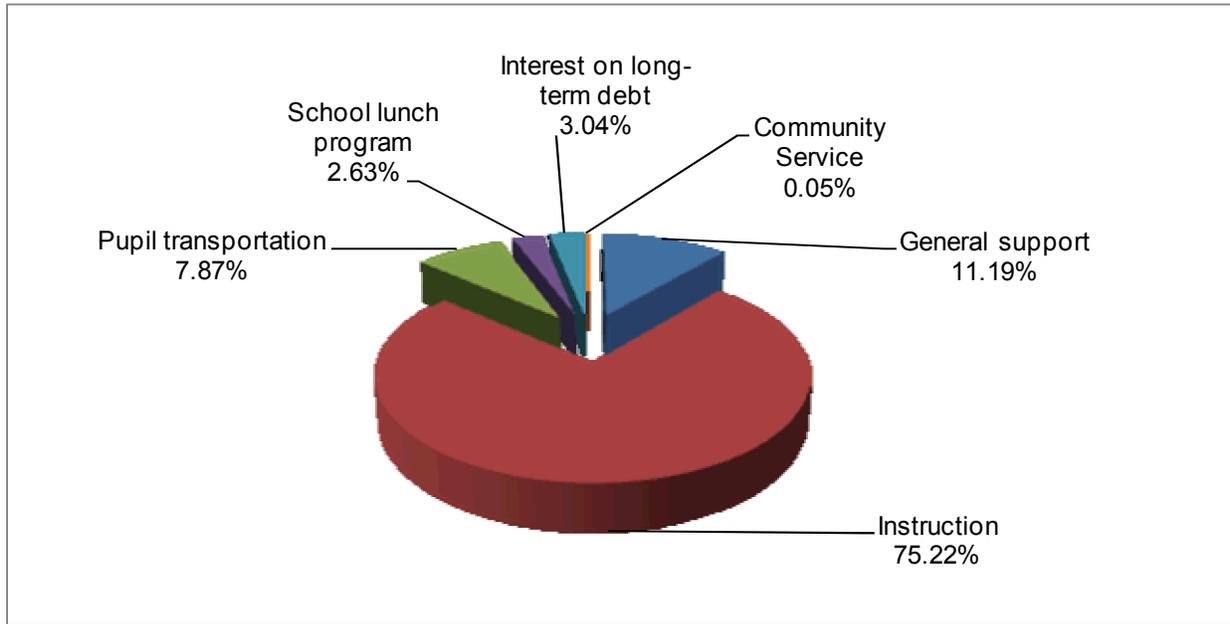
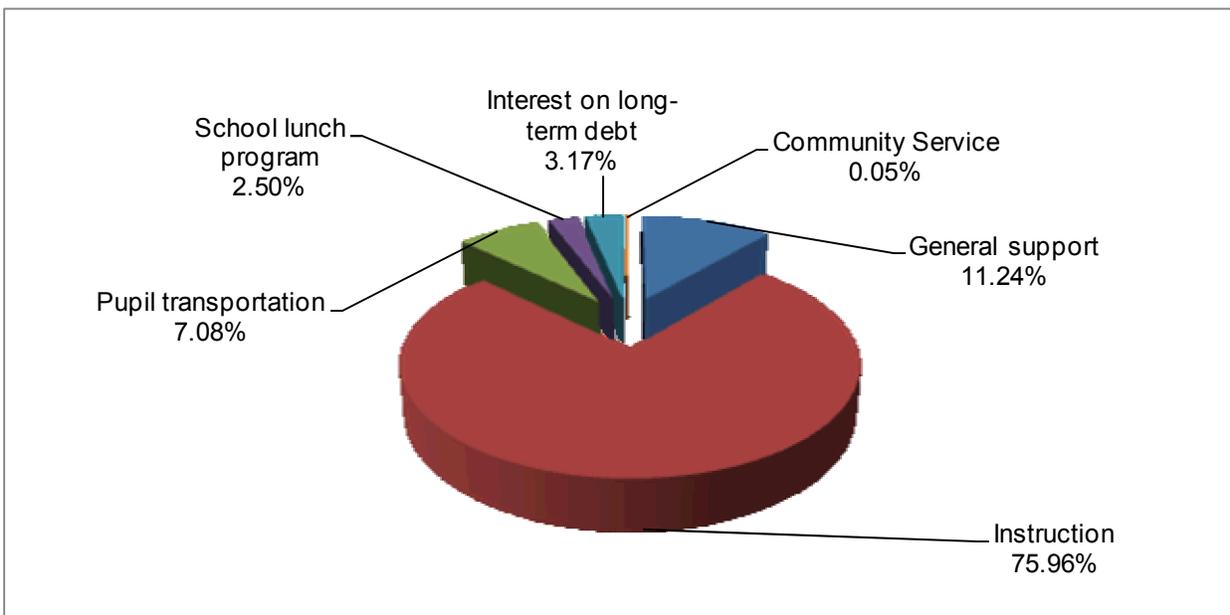


Figure 6

Cost of Programs for 2011



HOMER CENTRAL SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Figure 7 shows the changes in fund balance for the year for the School District's funds. As the School District completed the year, its Governmental Funds, as presented in the Balance Sheet, reported a combined fund balance of \$20,015,747; less than last year's balance of \$22,027,925. This is largely the result of current expenditures exceeding current revenues across all funds with the exception of the Capital Projects Fund – Buses.

Figure 7

Governmental Fund Balances	2011	2012	Total Dollar Change
			2011 - 2012
<i>General Fund</i>	\$ 10,806,078	\$ 9,530,253	\$ (1,275,825)
<i>School Lunch Fund</i>	478,174	432,882	(45,292)
<i>Special Aid Fund</i>	-0-	-0-	-0-
<i>Capital Funds</i>	436,192	(35,214)	(471,406)
<i>Debt Service Fund</i>	10,307,481	10,087,826	(219,655)
Totals	\$ 22,027,925	\$ 20,015,747	\$ (2,012,178)

GENERAL FUND BUDGETARY HIGHLIGHTS

Transfers made at year-end to balance the budget are caused by unforeseeable under-budgeting in a given code. When transfers into a code are necessary for three consecutive years, the situation has been addressed in the following year's budget development process.

Even with these adjustments, the actual charges to appropriations (expenditures) were below final budget amounts by \$3,960,740, including carry-over encumbrances.

Figure 8 summarizes the original and final budgets, the actual expenditures (including encumbrances) and variances for the year ending June 30, 2012.

HOMER CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Figure 8

Condensed Budgetary Comparison General Fund - 2012	Original Budget	Revised Budget	Actual w/ Encumbrances	Total Dollar Variance Fav (Unfav)
REVENUES				
Real property taxes	\$ 12,445,993	\$ 12,445,993	\$ 12,332,531	\$ (113,462)
Other tax items	2,546,792	2,546,792	2,536,642	(10,150)
State sources	19,478,033	19,478,033	18,461,864	(1,016,169)
Federal Sources	1,090,160	1,090,160	10,902	(1,079,258)
Miscellaneous	478,900	478,900	587,758	108,858
Other financing sources	249,730	249,730	249,730	-0-
Total Revenues and Other Financing Sources	\$ 36,289,608	\$ 36,289,608	\$ 34,179,427	\$ (2,110,181)
Appropriated Fund Balances and Carryover Encumbrances	\$ 3,557,335	\$ 3,557,335		(3,557,335)
EXPENDITURES				
General support	\$ 4,439,466	\$ 4,584,151	\$ 4,065,778	\$ 518,373
Instruction	20,339,422	20,212,565	17,687,228	2,525,337
Pupil transportation	1,824,831	1,838,774	1,643,143	195,631
Community services	13,935	13,935	13,931	4
Employee benefits	8,283,384	8,251,614	7,740,191	511,423
Debt service	4,915,905	4,915,904	4,715,904	200,000
Other financing (uses)	30,000	30,000	20,028	9,972
Total Expenditures, and Other Financing (Uses)	\$ 39,846,943	\$ 39,846,943	\$ 35,886,203	\$ 3,960,740

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the School District had invested in a broad range of capital assets. The net decrease in capital assets, including additions and disposals and charges to accumulated depreciation, was \$(1,895,044) compared to a net decrease in capital assets of \$(1,773,187) last year.

Figure 9

Changes in Capital Assets, net	Governmental Activities and Total School District		Total Dollar Change
	2011	2012	2011 - 2012
Land	\$ 49,400	\$ 49,400	\$ -0-
Buildings	47,133,529	45,314,887	(1,818,642)
Equipment	2,258,825	2,182,423	(76,402)
Totals	\$ 49,441,754	\$ 47,546,710	\$ (1,895,044)

HOMER CENTRAL SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

Capital outlay at June 30, 2012 included the following:	
Capital projects to renovate educational complexes	\$ 495,961
Buses	332,574
Other equipment	81,342
Total additions	909,877
Less: Depreciation expense	(2,791,625)
Net book value of disposed assets	(13,296)
Change in capital assets, net	\$ (1,895,044)

Debt Administration

Debt, both short and long-term, considered a liability of governmental activities, decreased by \$(3,111,013) in 2012, as shown in *Figure 10*. The School District issued a serial bond for \$375,105 to fund the purchase of buses. The total indebtedness represented 39.87% of the constitutional debt limit, exclusive of building aid estimates.

Figure 10

Outstanding Debt	Governmental Activities and Total School District		Total Dollar Change
	2011	2012	2011 - 2012
<i>Serial Bonds</i>	\$ 34,992,113	\$ 31,881,100	\$ (3,111,013)
Total	\$ 34,992,113	\$ 31,881,100	\$ (3,111,013)

Additional information on the maturities and terms of the School District's outstanding debt can be found in the notes to these financial statements.

The School District's bond rating is A2, which did not change from the prior year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The School District has created a Management Plan based upon the outcomes from a detailed strategic planning process in which it has engaged during 2011-12. This plan will play a pivotal role in guiding the School District during the next several years as it strives for academic excellence and sound stewardship of School District resources. The plan includes initiatives in curriculum, student achievement, community partnerships and facilities and includes the creation of several stakeholder groups to work on identified priorities.

The overall economic outlook for Cortland County seems to be following the larger state trend regarding unemployment. Many School District residents must commute to larger urban centers such as Binghamton and Syracuse in order to work. This could be particularly troublesome if gasoline prices continue to rise as has been the trend over recent months.

2011-12 saw an increase in tax certiorari claims impacting the School District totaling in excess of \$62,000. In response the District has bolstered its ability to pay such by creating Tax Certiorari Reserve funds for 2011 and more recently for 2012. However, the full impact of such claims is yet to be fully determined.

HOMER CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

The School District has made strides to reduce operating expenses by cutting certain contractual costs and by taking a fresh look and approach to overtime practices. The Health Insurance Consortium from which the School District obtains its insurance programs will be undergoing an eligibility audit that should result in some savings in premium costs. However, the total ramifications of national healthcare policy, if and when fully implemented, are not fully understood at this time. Costs for insurance and benefits continue to rise.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Homer Central School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Homer Central School District, at P.O. Box 500, Homer, NY.

HOMER CENTRAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Current assets	
Cash	
Unrestricted	\$ <u>3,544,147</u>
Receivables	
State and Federal aid	<u>2,576,170</u>
Other	<u>106,264</u>
Inventories	
Total current assets	<u>6,246,872</u>
Noncurrent assets	
Restricted cash	
	<u>16,542,993</u>
Unamortized Bond Issue Costs	
	<u>118,079</u>
Capital assets, net:	
Land and construction in progress	<u>49,400</u>
Depreciable capital assets, net	<u>47,497,310</u>
Total noncurrent assets	<u>64,207,782</u>
Total Assets	<u>70,454,654</u>

LIABILITIES

Current liabilities	
Payables	
Accounts payable	<u>443,347</u>
Accrued liabilities	<u>138,755</u>
Due to other governments	<u>26,374</u>
Bond interest and matured bonds	<u>252,233</u>
Retainages payable	
	<u>26,294</u>
Due to teachers' retirement system	
	<u>1,721,084</u>
Due to employees' retirement system	
	<u>198,945</u>
Deferred revenues - Planned balance	
	<u>100,000</u>
Deferred revenues - Other	
	<u>83,672</u>
Current portion of long-term liabilities	
Bonds payable	<u>3,577,923</u>
Compensated absences payable	<u>35,647</u>
Total current liabilities	<u>6,604,274</u>
Noncurrent liabilities and obligations	
Bonds payable	<u>28,303,177</u>
Compensated absences payable	<u>2,048,088</u>
Other postemployment benefits liability	<u>7,730,074</u>
Total noncurrent liabilities and obligations	<u>38,081,339</u>
Total Liabilities	<u>44,685,613</u>

NET ASSETS

Investment in capital assets, net of related debt	<u>15,959,026</u>
Restricted net assets	
	<u>16,542,992</u>
Unrestricted net (deficit)	
	<u>(6,732,977)</u>
Total Net Assets	<u>\$ 25,769,041</u>

See Independent Auditor's Report and Notes to Basic Financial Statements

HOMER CENTRAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	
General support	\$ 4,461,058	\$ 221,100	\$ _____	\$ (4,239,958)
Instruction	<u>29,974,290</u>	<u>10,902</u>	<u>2,301,748</u>	<u>(27,661,640)</u>
Pupil transportation	<u>3,137,109</u>	<u>_____</u>	<u>_____</u>	<u>(3,137,109)</u>
Community services	<u>21,348</u>	<u>_____</u>	<u>_____</u>	<u>(21,348)</u>
School lunch program	<u>1,046,468</u>	<u>482,817</u>	<u>492,672</u>	<u>(70,979)</u>
Interest	<u>1,211,038</u>	<u>_____</u>	<u>_____</u>	<u>(1,211,038)</u>
Total Functions and Programs	<u>\$ 39,851,311</u>	<u>\$ 714,819</u>	<u>\$ 2,794,420</u>	<u>\$ -0-</u>

GENERAL REVENUES

Real property taxes	<u>12,332,531</u>
Real property tax items	<u>2,536,642</u>
Use of money and property	<u>137,533</u>
State sources	<u>18,490,524</u>
Sale of property and compensation for loss	<u>(11,844)</u>
Miscellaneous	<u>258,074</u>
Total General Revenues	<u>33,743,460</u>
Change in Net Assets	(2,598,612)
Total Net Assets - Beginning of Year	<u>28,367,653</u>
Total Net Assets - End of Year	<u>\$ 25,769,041</u>

See Independent Auditor's Report and Notes to Basic Financial Statements

HOMER CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	Major Funds		
	General Fund	Special Aid Fund	School Lunch Fund
ASSETS			
Cash			
Unrestricted	\$ 3,014,424	\$	\$ 474,088
Restricted	6,455,166	56,581	
Receivables			
Due from other funds	776,895		
State and Federal aid	1,876,787	673,180	26,203
Other	106,264		
Inventories			20,291
Total Assets	\$ 12,229,536	\$ 729,761	\$ 520,582
LIABILITIES			
Payables			
Accounts payable	\$ 422,064	\$ 1,769	\$ 11,539
Accrued liabilities	133,956		4,799
Due to other funds		715,936	60,959
Due to other governments	26,247		127
Retainage payable			
Due to teachers' retirement system	1,721,084		
Due to employees' retirement system	198,945		
Deferred revenues	61,340	12,056	10,276
Planned balance	100,000		
Compensated absences payable	35,647		
Total Liabilities	2,699,283	729,761	87,700
FUND BALANCES			
Nonspendable			20,291
Restricted	6,455,166		
Assigned	1,830,951		412,591
Unassigned	1,244,136		
Total Fund Balances	9,530,253	-0-	432,882
Total Liabilities and Fund Balances	\$ 12,229,536	\$ 729,761	\$ 520,582

See Independent Auditor's Report and Notes to Basic Financial Statements

Major Funds			
Debt Service Fund	Capital Projects Fund Construction	Capital Projects Fund Buses	Total Governmental Funds
\$	\$	\$	\$
<u>8,657,053</u>	<u>1,368,329</u>	<u>61,499</u>	<u>3,488,512</u> <u>16,598,628</u>
<u>1,430,773</u>			<u>2,207,668</u>
			<u>2,576,170</u>
			<u>106,264</u>
			<u>20,291</u>
<u>\$ 10,087,826</u>	<u>\$ 1,368,329</u>	<u>\$ 61,499</u>	<u>\$ 24,997,533</u>
\$	\$	\$	\$
	<u>7,975</u>		<u>443,347</u>
			<u>138,755</u>
	<u>1,430,773</u>		<u>2,207,668</u>
			<u>26,374</u>
	<u>26,294</u>		<u>26,294</u>
			<u>1,721,084</u>
			<u>198,945</u>
			<u>83,672</u>
			<u>100,000</u>
			<u>35,647</u>
<u>-0-</u>	<u>1,465,042</u>	<u>-0-</u>	<u>4,981,786</u>
			<u>20,291</u>
<u>10,087,826</u>		<u>61,499</u>	<u>16,604,491</u>
			<u>2,243,542</u>
	<u>(96,713)</u>		<u>1,147,423</u>
<u>10,087,826</u>	<u>(96,713)</u>	<u>61,499</u>	<u>20,015,747</u>
<u>\$ 10,087,826</u>	<u>\$ 1,368,329</u>	<u>\$ 61,499</u>	<u>\$ 24,997,533</u>

HOMER CENTRAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Fund Balances - Total Governmental Funds		\$ 20,015,747
<p>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.</p>		
Total historical cost	\$ 64,628,777	
Less accumulated depreciation	<u>(17,082,067)</u>	47,546,710
<p>Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Bonds payable	\$ (31,803,184)	
Deferred charges on defeased debt	(77,916)	
Bond issue costs	<u>118,079</u>	(31,763,021)
<p>Certain accrued obligations and expenses reported in the Statement of Net Assets do not require the use of current financial resources and, therefore, are not reported as liabilities in the funds.</p>		
Compensated absences	\$ (2,048,088)	
Other postretirement benefits liability - GASB 45	(7,730,074)	
Accrued interest on long-term debt	<u>(252,233)</u>	<u>(10,030,395)</u>
Net Assets of Governmental Activities		\$ <u><u>25,769,041</u></u>

See Independent Auditor's Report and Notes to Basic Financial Statements

HOMER CENTRAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Major Funds		
	General Fund	Special Aid Fund	School Lunch Fund
REVENUES			
Real property taxes	\$ 12,332,531	\$ _____	\$ _____
Other tax items	2,533,314	_____	_____
Nonproperty taxes	3,328	_____	_____
Charges for services	221,100	_____	_____
Use of money and property	107,132	_____	326
Sale of property and compensation for loss	1,452	_____	_____
Miscellaneous	258,074	_____	_____
State sources	18,461,864	120,663	52,362
Federal sources	10,902	2,181,085	468,970
Sales - School lunch	_____	_____	482,817
Total Revenues	<u>33,929,697</u>	<u>2,301,748</u>	<u>1,004,475</u>
EXPENDITURES			
General support	3,746,691	_____	_____
Instruction	17,611,827	2,321,776	455,823
Pupil transportation	1,608,423	_____	_____
Community services	13,931	_____	_____
Employee benefits	7,738,451	_____	136,666
Debt service			
Principal	3,468,300	_____	_____
Interest	1,247,601	_____	_____
Cost of sales	_____	_____	457,278
Capital outlay	_____	_____	_____
Total Expenditures	<u>35,435,224</u>	<u>2,321,776</u>	<u>1,049,767</u>
(Deficiency) Excess of Revenues			
Over Expenditures	<u>(1,505,527)</u>	<u>(20,028)</u>	<u>(45,292)</u>
OTHER FINANCING SOURCES AND (USES)			
Proceeds of obligations	_____	_____	_____
Operating transfers in	249,730	20,028	_____
Operating transfers (out)	(20,028)	_____	_____
Total Other (Uses) Sources	<u>229,702</u>	<u>20,028</u>	<u>-0-</u>
Net Change in Fund Balances	(1,275,825)	-0-	(45,292)
Fund Balances - Beginning of Year	10,806,078	_____	478,174
Fund Balances - End of Year	<u>\$ 9,530,253</u>	<u>\$ -0-</u>	<u>\$ 432,882</u>

See Independent Auditor's Report and Notes to Basic Financial Statements

Major Funds			
Debt Service Fund	Capital Projects Fund - Construction	Capital Projects Fund - Buses	Total Governmental Funds
\$ _____	\$ _____	\$ _____	\$ 12,332,531
_____	_____	_____	2,533,314
_____	_____	_____	3,328
_____	_____	_____	221,100
30,075	_____	_____	137,533
_____	_____	_____	1,452
_____	_____	_____	258,074
_____	_____	_____	18,634,889
_____	_____	_____	2,660,957
_____	_____	_____	482,817
30,075	-0-	-0-	37,265,995
_____	_____	_____	3,746,691
_____	_____	_____	20,389,426
_____	_____	_____	1,608,423
_____	_____	_____	13,931
_____	_____	_____	7,875,117
_____	_____	_____	3,468,300
_____	_____	_____	1,247,601
_____	_____	_____	457,278
_____	513,937	332,574	846,511
-0-	513,937	332,574	39,653,278
30,075	(513,937)	(332,574)	(2,387,283)
_____	_____	375,105	375,105
_____	_____	_____	269,758
(249,730)	_____	_____	(269,758)
(249,730)	-0-	375,105	375,105
(219,655)	(513,937)	42,531	(2,012,178)
10,307,481	417,224	18,968	22,027,925
\$ 10,087,826	\$ (96,713)	\$ 61,499	\$ 20,015,747

HOMER CENTRAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (2,012,178)

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

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense and disposals exceeded capital outlay:

Capital outlay	\$ 909,877	
Net book value of disposed assets	(13,296)	
Depreciation expense	<u>(2,791,625)</u>	(1,895,044)

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments exceeded proceeds:

Proceeds of debt	\$ (375,105)	
Principal payment	<u>3,468,300</u>	3,093,195

Long-term obligations, such as those associated with compensated absences, are reported in the Statement of Net Assets. Therefore expenses which result in an (increase) or decrease in these long-term obligations are not reflected in the Governmental Fund financial statements. This is the change in the amount that is reported in the Statement of Activities:

(Increase) in compensated absences	\$ (256,055)	
(Increase) in other postemployment benefit liability - GASB 45	<u>(1,565,093)</u>	(1,821,148)

Some expenses 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. This is the amount of change from the prior year:

Amortization of charges on defeased debt	\$ 17,818	
Amortization of bond issue costs	(10,734)	
Decrease in accrued interest payable	<u>29,479</u>	<u>36,563</u>

Net Change in Net Assets of Governmental Activities \$ (2,598,612)

See Independent Auditor's Report and Notes to Basic Financial Statements

HOMER CENTRAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash		
Unrestricted	\$ <u> </u>	\$ <u> 279,372</u>
Restricted	<u> 129,472</u>	<u> </u>
Due from Governmental Funds	<u> </u>	<u> </u>
Total Assets	<u> 129,472</u>	<u> \$ 279,372</u>
 LIABILITIES		
Due to Governmental Funds	<u> </u>	\$ <u> </u>
Extraclassroom activity balances	<u> </u>	<u> 92,793</u>
Other liabilities	<u> </u>	<u> 186,579</u>
Total Liabilities	<u> -0-</u>	<u> \$ 279,372</u>
 NET ASSETS		
Reserved for scholarships	\$ <u> 129,472</u>	

See Independent Auditor's Report and Notes to Basic Financial Statements

HOMER CENTRAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	\$ <u>3,315</u>
Investment earnings	<u>313</u>
Total Additions	<u>3,628</u>
 DEDUCTIONS	
Scholarships and awards	<u>7,265</u>
Change in Net Assets	(3,637)
Net Assets - Beginning of Year	<u>133,109</u>
Net Assets - End of Year	<u><u>\$ 129,472</u></u>

See Independent Auditor's Report and Notes to Basic Financial Statements

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

Essentially, the primary function of the School District is to provide education for pupils. Services such as transportation of pupils, administration, finance and plant maintenance support the primary function.

The financial reporting entity consists of the following, as defined by Governmental Accounting Standards Board (GASB) Statement Number 14, "The Financial Reporting Entity," as amended by GASB Statement Number 39, "Determining Whether Certain Organizations are Component Units."

1. The primary government, which is the Homer Central School District;
2. Organizations for which the School District is financially accountable, and;
3. Other organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the School District. The School District is not a component unit of another reporting entity.

The decision to include a potential component unit in the School District's reporting entity is based on several criteria including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the Extraclassroom Activity Funds are included in the School District's reporting entity.

The Extraclassroom Activity Funds of the Homer Central School District represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the School District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be obtained from the School District's business office, P.O. Box 500, Homer, New York 13077-0500.

B. Joint Venture

The School District is a component school district in the Onondaga-Cortland-Madison Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services and programs which provide educational and support activities.

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

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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

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

C. Basis of Presentation

1. District-wide Financial Statements

The Statement of Net Assets and Statement of Activities present financial information about the School District's Governmental Activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary in nature. 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 School District's Governmental Activities. Direct expenses are those specifically associated with and 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 not classified as program revenues, including all taxes, are presented as general revenues.

2. Governmental Fund Financial Statements

The fund statements provide information about the School District's funds, including Fiduciary Funds. Separate statements for each fund category (Governmental and Fiduciary) are presented. The emphasis of Governmental Fund financial statements is on Major Governmental Funds, each displayed in a separate column.

The School District reports the following Major Governmental Funds:

- General Fund: The School District's primary operating fund. It accounts for all financial transactions not required to be accounted for in another fund.
- Special Aid Fund: Accounts for the proceeds of specific revenue sources, such as Federal, State and local grants, legally restricted to expenditures for specified purposes and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds or by outside parties.
- School Lunch Fund: Accounts for revenues and expenditures in connection with the School District's food service program.

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

- Capital Projects Fund - Buses: Accounts for the financial resources used to purchase school buses.
- Capital Projects Fund - Construction: Accounts for the financial resources used for the renovation of the educational complex.
- Debt Service Fund: Accounts for the accumulation of resources and payment of principal and interest on long-term general obligation debt of Governmental Activities.

Fiduciary Activities are those in which the School District acts as a trustee or agent for resources belonging to others. These activities are not included in the District-wide financial statements because their resources do not belong to the School District and are not available to be used.

The School District reports the following Fiduciary Funds:

- Private-Purpose Trust Fund: Accounts for scholarship funds awarded to individual students. These activities, and those of the Agency Funds described below, are not included in the District-wide financial statements because their resources do not belong to the School District and are not available to be used.
- Agency Funds: Strictly custodial in nature and do not involve measurement of results of operations. Assets are held by the School District as agent for various student groups or Extraclassroom Activity Funds and for payroll or employee withholding.

D. Measurement Focus and Basis of Accounting

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

The Governmental Fund 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 School District considers all revenues reported in the Governmental Funds to be available if the revenues are collected within one year 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.

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

E. Cash and Investments

The School 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 (the State) law governs the School 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 the 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. 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.

F. 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, as it is believed that such allowance would not be material. All receivables are expected to be collected within the subsequent fiscal year.

G. Due To/From Other 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.

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

Nonspendable fund balance for these non-liquid assets (inventories and prepaid items) has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

I. Capital Assets

Capital assets are reported at actual cost for acquisitions subsequent to June 30, 1998. For assets acquired prior to June 30, 1998, capital assets are reported at estimated historical costs, based on appraisals conducted by independent third-party professionals. Donated assets are reported at estimated fair market value at the time received.

HOMER CENTRAL SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

The School District depreciates capital assets using the straight-line method. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the District-wide financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings	\$ 50,000	50 years
Building improvements	50,000	20-50 years
Site improvements	25,000	20 years
Furniture and equipment	5,000	5-15 years

J. Vested Employee Benefits

Compensated Absences

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

Sick leave eligibility and accumulation is specified in negotiated labor contracts and individual employment contracts. Sick leave use is based on a last-in, first-out (LIFO) basis. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

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

Consistent with GASB Statement Number 16, "Accounting for Compensated Absences," the 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 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.

K. Postemployment Benefits

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

In addition to providing pension benefits, the School District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the School District's employees may become eligible for these benefits if they reach normal retirement age while working for the School District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the School District and the retired employee. The School District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure or operating transfer to other funds in the General Fund, in the year paid.

During 2009, the School District adopted GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The School District's liability for other postemployment benefits has been recorded in the Statement of Net Assets, in accordance with the Statement. See Note 11 for additional information.

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

L. Deferred Revenue

Deferred revenues arise when resources are received by the School 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 the School District has legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded.

The Governmental Fund financial statements also report deferred revenues when potential revenues do not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both recognition criteria are met, the liability for deferred revenues is removed and revenues are recorded.

Statute provides authority for the School 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.

M. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the School District's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

N. Equity Classifications

1. District-wide Financial Statements

Equity is classified as net assets and displayed in three components:

- Invested in Capital Assets, Net of Related Debt
Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.
- Restricted Net Assets
Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets
Consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

2. Governmental Fund Financial Statements

In the year ending June 30, 2011, the School District implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement No. 54 changes the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's net resources.

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Constraints are broken into five classifications: nonspendable, restricted, committed, assigned and unassigned. These classifications serve to inform readers of the financial statements of the extent to which the government is bound to honor any constraints on specific purposes for which resources in a fund can be spent.

- **Nonspendable**
Consists of assets inherently nonspendable in the current period either because of their form or because they must be maintained intact; including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale and endowments principal.
- **Restricted**
Consists of amounts subject to legal purpose restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and enforced externally; or through constitutional provisions or enabling legislation. Most of the School District's legally adopted reserves are reported here.
- **Committed**
Consists of amounts subject to a purpose constraint imposed by formal action of the School District's highest level of decision-making authority, the Board of Education, prior to the end of the fiscal year, which requires the same level of formal action to remove said constraint.
- **Assigned**
Consists of amounts subject to a purpose constraint representing an intended use established by the School District's highest level of decision-making authority, or their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.
- **Unassigned**
Represents the residual classification of the School District's General Fund and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance resulting from overspending amounts restricted, committed or assigned for specific purposes.

Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain in the General Fund to no more than 4% of the next year's budgetary appropriations. Funds properly retained under other sections of law (i.e., reserve funds established pursuant to Education Law or GML) are excluded from the 4% limitation. The 4% limitation is applied to unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction and encumbrances included in committed and assigned fund balance.

The Board of Education of the School District has not adopted any resolutions to commit fund balance. By resolution, the Board of Education is authorized to assign fund balance. The School District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance.

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

3. Legally Adopted Reserves

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

- **Capital Reserve**
The 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 General Fund.

- **Reserve for Employee Benefit Accrued Liability**
The Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds for the payment of employee benefits due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the General Fund and includes a provision for its contractual liability for retiree health insurance benefits. Although this is a significant liability of the School District, recent proposed legislation has made it apparent the Employee Benefit Accrued Liability Reserve is not intended to include the School District's liability for retiree health insurance benefits. The School District will be evaluating the use of this reserve in the subsequent year.

- **Reserve for Retirement Contributions**
Used to finance retirement contributions payable to the NY State and Local Employees' Retirement System. This reserve (GML §6-r) may be established without voter approval and funded with budgetary appropriations, revenues not required by law to be paid into other funds or accounts, transfers from other Reserve Funds as permitted by law and other such funds as the school board may legally appropriate. Funds from this reserve may be expended without voter approval. This reserve is accounted for in the General Fund.

- **Tax Certiorari Reserve**
Used to establish a reserve fund for tax certiorari and to expend from the fund without voter approval. The monies held in the reserve (Education Law §3651.1-a) 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. This reserve is accounted for in the General Fund.

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

- Reserves for Insurance
 - Workers' Compensation Reserve

The Workers' Compensation Reserve (GML Section 6-j) is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses for administering this self-insurance program. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within 60 days after the end of any fiscal year, excess amounts may either be transferred to another reserve or applied to the appropriations of the succeeding fiscal year's budget. The reserve is accounted for in the General Fund.
 - Unemployment Insurance Reserve

The Unemployment Insurance Reserve (GML Section 6-m) is used to pay the cost of reimbursement of 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 60 days after the end of any fiscal year, excess amounts may either be transferred to another reserve or applied to the appropriations of the succeeding fiscal year's budget. If the School District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to indemnify pending claims may be transferred to any other Reserve Fund. This reserve is accounted for in the General Fund.
- Mandatory Reserve for Debt Service

The Mandatory Reserve for Debt Service is established upon the sale of School District property that was financed by obligations, which remain outstanding at time of sale, for the purpose of retiring outstanding obligations. The funding of the reserve is from the proceeds of the sale of School District property or capital improvement. This reserve is accounted for in the Debt Service Fund.

O. Property Taxes

1. Calendar

Real property taxes are levied annually by the Board of Education no later than September 1, and became a lien on August 23, 2011. Taxes were collected during the period September 2, to October 31, 2011.

2. Enforcement

Uncollected real property taxes are subsequently enforced by the Counties of Cayuga, Onondaga, Cortland and Tompkins. An amount representing uncollected real property taxes transmitted to the Counties for enforcement is paid by the Counties to the School District no later than the following April 1.

P. Interfund Transfers

The operations of the School District give rise to certain transactions between funds, including transfers, to provide services and construct assets. The amounts reported on the Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds for interfund transfers have been eliminated from the Statement of Activities. A detailed description of the individual fund transfers that occurred during the year is provided subsequently in these notes.

HOMER CENTRAL SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Q. 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.

Note 2 - Participation in BOCES

During the year ended June 30, 2012, the School District's share of BOCES income amounted to \$1,721,189. The School District was billed \$4,032,531 for BOCES administration and program costs. Financial statements for BOCES are available from the BOCES administrative office at 6820 Thompson Road, Syracuse, NY 13221.

Note 3 - Cash and Cash Equivalents - Custodial Credit, Concentration of Credit, Interest Rate and Foreign Currency Risks

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. While the School District does not have a specific policy for custodial credit risk, State statutes govern the School District's investment policies, as discussed previously in these notes. Governmental Accounting Standards Board Statement Number 40 directs deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District's aggregate bank balances of \$21,579,100 are either insured or collateralized with securities held by the pledging financial institution in the School District's name.

Note 4 - Other Receivables

Other receivables consisted of the following, which are stated at net realizable value:

	Description	Amount
General Fund	Miscellaneous	\$ 106,264
Total Governmental Funds and Total School District		\$ 106,264

Note 5 - Interfund Balances and Activity

Interfund balances at June 30, 2012, are as follows:

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	\$ 776,895	\$	\$ 249,730	\$ 20,028
Special Aid Fund		715,936	20,028	
School Lunch Fund		60,959		
Capital Projects Fund-Construction		1,430,773		
Debt Service Fund	1,430,773			249,730
Total	\$ 2,207,668	\$ 2,207,668	\$ 269,758	\$ 269,758

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Interfund receivables and payables are eliminated on the Statement of Net Assets.

The School District typically transfers to and from the General Fund for the School District's share of expenditures of a Special Aid Fund project and from the General Fund and Capital Projects Fund - Construction to the Debt Service Fund for payment of long-term debt. The School District also transfers funds from the Capital Reserve in the General Fund to Capital Projects Funds, as needed, to fund capital projects. Periodically, the School District transfers funds as needed to subsidize the School Lunch Fund.

The School 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 6 - Capital Assets

Capital asset balances and activity for the year ended June 30, 2012, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Reclass- ifications</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital assets that are not depreciated				
Land	\$ 49,400	\$ -	\$ -	\$ 49,400
Total Nondepreciable Historical Cost	<u>49,400</u>	<u>-0-</u>	<u>-0-</u>	<u>49,400</u>
Capital assets that are depreciated				
Buildings	59,121,937	495,961		59,617,898
Furniture and equipment	<u>4,964,428</u>	<u>413,916</u>	<u>(416,865)</u>	<u>4,961,479</u>
Total Depreciable Historical Cost	<u>64,086,365</u>	<u>909,877</u>	<u>(416,865)</u>	<u>64,579,377</u>
Total Historical Cost	<u>64,135,765</u>	<u>909,877</u>	<u>(416,865)</u>	<u>64,628,777</u>
Less accumulated depreciation				
Buildings	(11,988,408)	(2,314,603)		(14,303,011)
Furniture and equipment	<u>(2,705,603)</u>	<u>(477,022)</u>	403,569	<u>(2,779,056)</u>
Total Accumulated Depreciation	<u>(14,694,011)</u>	<u>(2,791,625)</u>	<u>403,569</u>	<u>(17,082,067)</u>
Total Historical Cost, Net	<u>\$ 49,441,754</u>	<u>\$ (1,881,748)</u>	<u>\$ (13,296)</u>	<u>\$ 47,546,710</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 42,758
Instruction	1,732,123
Pupil transportation	985,691
School lunch	<u>31,053</u>
Total Depreciation Expense	<u>\$ 2,791,625</u>

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 7 - Short-term Debt

The School District may issue Revenue Anticipation Notes (RANs) and Tax Anticipation Notes (TANs), in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RANs and TANs represent a liability that will be extinguished by the use of expendable, available resources of the fund. The School District did not issue or redeem any RANs or TANs during the year.

The School District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which insufficient or no provision is made in the annual budget.

The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued. The School District did not issue or redeem any budget notes during the year.

The School District may issue Bond Anticipation Notes (BANs), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires BANs issued for capital purposes be converted to long-term financing within five years after the original issue date. The School District did not issue or redeem any BANs during the year.

Note 8 - Long-term Debt

At June 30, 2012, the total outstanding indebtedness of the School District represented 39.87% of its statutory debt limit, exclusive of building aids. Long-term debt is classified as follows:

- Serial Bonds and Statutory Installment Bonds - The School District borrows money in order to acquire land or 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.

The following is a summary of the School District's long-term debt for the year ended June 30, 2012:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding June 30, 2012
<u>Serial Bonds:</u>				
2003 Bond Series A	02/04/03	02/15/22	4.125-4.500%	\$ 565,000
2003 Bond Series B	02/04/03	02/15/17	3.500-4.125%	1,280,000
2006 Serial Bonds	03/14/06	03/15/21	3.625-4.000%	3,205,000
2008 Serial Bonds	02/15/08	02/15/13	3.000-3.100%	125,000
2008 Serial Bonds	11/15/08	11/15/14	5.000-5.250%	250,000
2009 Serial Bonds	07/15/09	06/15/24	3.000-3.750%	13,245,000
2009 Serial Bonds	11/01/09	11/01/14	2.250-2.500%	400,000
2010 Serial Bonds	11/01/10	11/01/15	1.050-2.500%	335,000
2011 Serial Bonds	09/15/11	09/15/17	1.375-2.000%	375,105
2010 Refunding Bond	10/01/10	02/15/22	3.000-4.000%	11,905,000
Add unamortized premium				945,753
Less unamortized deferred amount on Refunding Bonds				(749,758)
Total Refunding Bond				<u>12,100,995</u>
Total Serial Bonds				<u>\$ 31,881,100</u>

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Interest paid on long-term debt during the year was:

Interest paid	\$ 1,247,601
Less interest accrued in the prior year	(281,712)
Plus interest accrued in the current year	252,233
Plus amortization of bond issue costs	10,734
Less amortization of deferred charges on defeased debt	<u>(17,818)</u>
 Total Expense	 <u>\$ 1,211,038</u>

Interest paid on the Serial Bonds varies from year to year, in accordance with the interest rates specified in the bond agreements.

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

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Serial Bonds	\$ 34,778,300	\$ 375,105	\$ (3,468,300)	\$ 31,685,105	\$ 3,560,105
Less: deferred charges on defeased debt	(817,918)		68,160	(749,758)	(68,160)
Premium on defeased debt	<u>1,031,731</u>		<u>(85,978)</u>	<u>945,753</u>	<u>85,978</u>
Serial Bonds	<u>\$ 34,992,113</u>	<u>\$ 375,105</u>	<u>\$ (3,486,118)</u>	<u>\$ 31,881,100</u>	<u>\$ 3,577,923</u>

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

<u>Fiscal Year Ending 6/30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,560,105	\$ 1,129,758	\$ 4,689,863
2014	3,595,000	1,004,314	4,599,314
2015	3,620,000	889,841	4,509,841
2016	3,615,000	754,181	4,369,181
2017	3,680,000	470,131	4,150,131
2018-2022	10,965,000	1,703,620	12,668,620
2023-2024	<u>2,650,000</u>	<u>150,000</u>	<u>2,800,000</u>
Total	<u>\$ 31,685,105</u>	<u>\$ 6,101,845</u>	<u>\$ 37,786,950</u>

On October 1, 2010, the School District issued \$11,905,000 in general obligation bonds, with interest rates ranging between 3.000% and 4.000%. The School District issued the bonds to advance refund the \$11,990,000 of outstanding various general obligation bonds with interest rates ranging from 4.000% to 4.500%. The School 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 \$11,990,000 in bonds is considered defeased and the liability has been removed from the financial statements. The outstanding principal of the defeased bonds was \$11,990,000 at June 30, 2012.

Bond issue costs related to the above debt refunding are amortized over the life of the old bonds. The unamortized balance and activity for the year is summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Unamortized bond issue costs	\$ 128,813	\$ -0-	\$ (10,734)	<u>\$ 118,079</u>

HOMER CENTRAL SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 9 - Other Long-term Obligations

Other long-term obligations consist of:

- Compensated absences, which represent the value of the earned and unused portion of the liability for vacation. This liability is liquidated from the General and School Lunch Funds. Additions and decreases to compensated absences are shown net as it is impractical to separately determine these amounts.
- Other postretirement benefits, which represents the expected obligation for the postretirement health care benefits program. See Note 11 for further information.

The 2011-2012 activity consists of the following:

	Beginning Balance	Additions	Deletions	Ending Balance
Compensated absences	\$ 1,792,033	\$ 256,055	\$	\$ 2,048,088
Other postemployment benefits liability	6,164,981	3,218,132	(1,653,039)	7,730,074
Total Other Long-term Obligations	\$ 7,957,014	\$ 3,474,187	\$ (1,653,039)	\$ 9,778,162

Note 10 - Pension Plans

The School 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 defined benefit employee retirement systems. The Systems offer a wide range of plans and benefits related to years of service and final average salary, vesting of retirement benefits, death and disability.

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

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

The Systems are noncontributory, except for employees who joined the Systems after July 27, 1976, who contribute 3% of their salary. Employees in the Systems more than ten years are no longer required to contribute. 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 School District is required to contribute at an actuarially determined rate. The School 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:

Year	ERS	TRS
2012	\$ 461,529	\$ 1,342,598
2011	354,860	999,847
2010	255,573	1,211,277

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 11 - Other Postemployment Benefits

A. Postemployment Benefits Other than Pensions

In 2009, the School District adopted Government Accounting Standards Board (GASB) Statement Number 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions." In the past, the School District reported the cost of its retiree health care postretirement benefits on a "pay-as-you-go" basis. An actuarial valuation of Homer Central School District Postretirement Health Care Plans (Plan) was performed as of July 1, 2011 for fiscal years ending June 30, 2012.

Plan Description - The Plan provides medical and dental benefits to eligible retirees and their spouses. The dental plan is self-funded. The medical plans are defined benefit healthcare plans and are experience-rated based on the experience of a group of 25 school districts and one BOCES. The plans are administered by a third party. Benefit provisions are established through negotiations between the School District and bargaining units and are renegotiated each three-year period. The School District assigns authority to establish and amend benefit provisions to the Board of Education for non-bargaining unit employees. The Plan does not issue a stand-alone financial report.

The contribution requirements of Plan members and the School District are established through negotiations between the School District and bargaining unit. Plan members receiving benefits may be required to contribute to the Plan depending on their collective bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2012, the School District contributed \$1,062,982 on behalf of 241 retirees to the Plan for current premiums. The expected contributions of \$1,653,039 below represents an actuarially determined estimate of premiums and claims paid on behalf of retirees.

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and accumulate sufficient total accruals for all postretirement benefits when due.

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

Normal cost	\$	1,682,467
Amortization of Unfunded Actuarial Accrued Liability (UAAL)		1,458,323
Total Annual Required Contribution		3,140,790
Interest on net OPEB obligation		308,249
Adjustment to annual required contribution		(230,907)
Annual OPEB Cost (Expense)		3,218,132
Expected contributions		(1,653,039)
Increase in Net OPEB Obligation		1,565,093
Net OPEB Obligation - July 1, 2011		6,164,981
Net OPEB Obligation - June 30, 2012	\$	7,730,074

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/12	\$ <u>3,218,132</u>	51.4%	\$ <u>7,730,074</u>
06/30/11	\$ <u>3,007,868</u>	35.0%	\$ <u>6,164,981</u>
06/30/10	\$ <u>2,966,637</u>	27.8%	\$ <u>4,208,880</u>

Funded Status and Funding Progress - As of June 30, 2012, the Plan was not funded. The actuarial accrued liability for benefits was approximately \$38,935,751; there are no assets legally segregated for the Plan. The covered payroll (annual payroll of active employees covered by the Plan) was approximately \$18,076,096, and the ratio of the Unfunded Actuarial Accrued Liability (UAAL) to the covered payroll was 215.4 %.

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding funded status of the Plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the July 1, 2011 Actuarial Valuation Report, the projected unit credit cost method was used. The actuarial value of assets was determined as the accumulation of prior accruals, less benefits paid. Actuarial assumptions included annual discount and payroll growth rates of 5.0% and 4.0%, respectively. Additional actuarial assumptions included a dental trend rate of 5.0% per year and an annual medical cost trend rate of 7.0% initially, reduced by decrements of 1.0% to an ultimate rate of 6.0% after one year.

Note 12 - Commitments and Contingencies

A. Risk Financing and Related Insurance

1. General Information

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

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

2. Health Insurance

The School District incurs costs related to an employee health insurance plan (Plan) sponsored by BOCES and its component districts. The Plan's objectives are to formulate, develop and administer a program of insurance to obtain lower costs for that coverage and to develop a comprehensive loss control program.

School districts joining the Plan must remain members for a minimum of one year; a member school district may withdraw from the Plan after that time by providing notice to the consortium prior to May 1, immediately preceding the commencement of the next school year. Plan members include 26 school districts, with the School District bearing a proportionate share of the Plan's assets and claims liabilities. Plan members are subject to a supplemental assessment in the event of deficiencies. If the Plan's assets were to be exhausted, members would be responsible for the Plan's liabilities.

The Plan uses a reinsurance agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the Plan as direct insurer of the risks reinsured.

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 expense in the periods in which they are made.

During the year ended June 30, 2012, the School District incurred premiums or contribution expenditures totaling \$4,379,870.

The Plan financial statements may be obtained from Central New York Health Insurance Trust, 6820 Thompson Road, PO Box 4754, Syracuse, NY 13221.

3. Workers' Compensation

The School District is self-insured for workers' compensation claims. Judgments and claims are recorded when it is probable that a liability has been incurred and the claim amount can be reasonably estimated. As of June 30, 2012, the School District had reserved \$2,256,070 in the General Fund to fund any claims. Workers' compensation charges for the year ended June 30, 2012 were \$77,774.

B. Other Litigation

The School District is and may be a named party in certain litigations. The School District is being represented by legal counsel of the School District and insurance companies as applicable. In the opinion of School District officials and legal counsel, these claims are either adequately covered by insurance, will not result in material judgments against the School District, or will not be pursued and, accordingly, are not expected to have a material effect on the financial statements.

C. Other Items

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

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 13 - Restricted Cash and Investments

Restricted cash at June 30, 2012 consists of the following:

<u>Governmental Activities:</u>	
General Fund reserves	\$ 6,455,166
Debt Service Fund	<u>10,087,826</u>
Total Governmental Activities	<u>\$ 16,542,993</u>
 <u>Fiduciary Activities:</u>	
Restricted for scholarships	<u>\$ 129,472</u>

Note 14 - Fund Balance Detail

At June 30, 2011, nonspendable, restricted and assigned fund balance in the Governmental Funds was as follows:

	General Fund	School Lunch Fund	Debt Service Fund	Capital Fund Construction	Capital Fund Buses
<u>Nonspendable:</u>					
Inventory	\$ <u>-0-</u>	\$ <u>20,291</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
 <u>Restricted:</u>					
Retirement contribution reserve	\$ 911,354	\$	\$	\$	\$
Unemployment insurance reserve	246,992				
Workers compensation reserve	2,256,070				
Employee benefit accrued liability reserve	1,862,474				
Tax certiorari reserve	250,305				
Capital reserve	927,971				
Debt			10,087,826		
Capital - Buses					<u>61,499</u>
Total Restricted Fund Balance	<u>\$ 6,455,166</u>	<u>\$ -0-</u>	<u>\$ 10,087,826</u>	<u>\$ -0-</u>	<u>\$ 61,499</u>
 <u>Assigned:</u>					
Appropriated for next year's budget	\$ 1,400,000	\$	\$	\$	\$
Encumbered for:					
General support	319,087				
Instruction	75,401				
Pupil transportation	34,720				
Employee benefits	1,740				
School lunch		<u>412,591</u>			
Total Assigned Fund Balance	<u>\$ 1,830,951</u>	<u>\$ 412,591</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

A. Reconciliation between Restricted Fund Balance and Restricted Net Assets

Restricted fund balances and restricted net assets differ because unspent debt proceeds are reported as restricted fund balance in fund financial statements and as part of invested in capital, net of related debt in the Statement of Net Assets.

Restricted fund balance in the fund financial statements	\$ 16,604,491
Less capital projects fund - buses	<u>(61,499)</u>
Restricted net assets in the District-wide financial statements	<u>\$ 16,542,992</u>

Note 15 - Restricted Fund Balances

Portions of fund balance are restricted and not available for current expenditures as reported in the Governmental Funds Balance Sheet. The balances and activity for the year ended June 30, 2012 of the General Fund reserves were as follows:

General Fund Restricted Fund Balances	Beginning Balance	Additions	Interest Earned	Appropriated	Ending Balance
Retirement contribution reserve	\$ 909,935	\$	\$ 1,419	\$	\$ 911,354
Reserved for employee benefit accrued liability	1,856,183		6,291		1,862,474
Reserved for unemployment insurance	246,607		385		246,992
Workers compensation reserve	2,249,580		6,490		2,256,070
Tax certiorari reserve	-0-	250,000	305		250,305
Capital reserve	<u>896,568</u>	<u>30,000</u>	<u>1,403</u>		<u>927,971</u>
 Total Restricted Fund Balance	 <u>\$ 6,158,873</u>	 <u>\$ 280,000</u>	 <u>\$ 16,293</u>	 <u>\$ -0-</u>	 <u>\$ 6,455,166</u>

HOMER CENTRAL SCHOOL DISTRICT
SCHEDULE OF REVENUES COMPARED TO BUDGET (NON-GAAP) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local Sources				
Real property taxes	\$ 12,445,993	\$ 12,445,993	\$ 12,332,531	\$ (113,462)
Planned balance	100,000	100,000	100,000	-0-
Real property tax items	2,443,792	2,443,792	2,433,314	(10,478)
Nonproperty taxes	3,000	3,000	3,328	328
Charges for services	118,500	118,500	221,100	102,600
Use of money and property	260,000	260,000	107,132	(152,868)
Sale of property and compensation for loss	4,000	4,000	1,452	(2,548)
Miscellaneous	96,400	96,400	258,074	161,674
Total Local Sources	15,471,685	15,471,685	15,456,931	(14,754)
State sources	19,478,033	19,478,033	18,461,864	(1,016,169)
Federal sources	1,090,160	1,090,160	10,902	(1,079,258)
Total Revenues	36,039,878	36,039,878	33,929,697	(2,110,181)
OTHER FINANCING SOURCES				
Operating transfers in	249,730	249,730	249,730	-0-
Total Revenues and Other Financing Sources	36,289,608	36,289,608	\$ 34,179,427	\$ (2,110,181)
Appropriated Reserves	1,621,417	1,621,417		
Appropriated Fund Balance	1,400,000	1,400,000		
Designated Fund Balance and Encumbrances Carried Forward from Prior Year	535,918	535,918		
Total Revenues, Appropriated Reserves and Designated Fund Balance	\$ 39,846,943	\$ 39,846,943		

See Independent Auditor's Report and Notes to Required Supplementary Information

HOMER CENTRAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET (NON-GAAP) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>
EXPENDITURES		
General Support		
Board of Education	\$ 26,806	\$ 28,806
Central administration	196,169	196,169
Finance	519,969	541,650
Staff	143,672	164,257
Central services	3,216,987	3,254,156
Special items	335,863	399,113
Total General Support	<u>4,439,466</u>	<u>4,584,151</u>
Instruction		
Instruction, administration and improvement	1,458,182	1,157,876
Teaching - Regular school	10,818,207	10,507,552
Programs for children with handicapping conditions	4,244,890	4,454,216
Occupational education	1,064,282	1,064,282
Teaching - Special school		17,164
Instructional media	1,220,658	1,245,831
Pupil services	1,533,203	1,765,644
Total Instruction	<u>20,339,422</u>	<u>20,212,565</u>
Pupil Transportation	1,824,831	1,838,774
Community Services	13,935	13,935
Employee Benefits	8,283,384	8,251,614
Debt Service		
Principal	3,468,300	3,468,300
Interest	1,447,605	1,447,604
Total Debt Service	<u>4,915,905</u>	<u>4,915,904</u>
Total Expenditures	<u>39,816,943</u>	<u>39,816,943</u>
OTHER FINANCING USES		
Operating transfers out	30,000	30,000
Total Expenditures and Other Financing Uses	<u>\$ 39,846,943</u>	<u>\$ 39,846,943</u>
Net Change in Fund Balance		
Fund Balance - Beginning of Year		
Fund Balance - End of Year		

See Independent Auditor's Report and Notes to Required Supplementary Information

<u>Actual</u>	<u>Encumbrances</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 26,535	\$	\$ 2,271
184,154		12,015
417,495	57,839	66,316
126,421	7,785	30,051
2,693,212	253,463	307,481
298,874		100,239
3,746,691	319,087	518,373
1,029,466	1,174	127,236
9,236,213	61,720	1,209,619
3,663,052	1,556	789,608
951,496		112,786
17,082		82
1,131,186	9,161	105,484
1,583,332	1,790	180,522
17,611,827	75,401	2,525,337
1,608,423	34,720	195,631
13,931		4
7,738,451	1,740	511,423
3,468,300		-0-
1,247,601	3	200,000
4,715,901	3	200,000
35,435,224	430,951	3,950,768
20,028		9,972
35,455,252	\$ 430,951	\$ 3,960,740
(1,275,825)		
10,806,078		
\$ 9,530,253		

HOMER CENTRAL SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2011

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
06/30/2012	7/1/2011	\$ -0-	\$ 38,935,751	\$ 38,935,751	0.0%	\$ 18,076,096	215.4%
06/30/2011	7/1/2010	\$ -0-	\$ 36,519,766	\$ 36,519,766	0.0%	\$ 17,997,195	202.9%
06/30/2010	7/1/2008	\$ -0-	\$ 34,458,000	\$ 34,458,000	0.0%	\$ 16,500,000	208.8%
06/30/2009	39,630	\$ -0-	\$ 32,022,000	\$ 32,022,000	0.0%	\$ 15,803,000	203.0%

See Independent Auditor's Report and Notes to Supplementary Information

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

Note 1 - Budgetary Procedures and Budgetary Accounting

The School District administration prepares a proposed budget for approval by the Board of Education for the General Fund for which a legal (appropriated) budget is adopted. The voters of the School District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line level. 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.

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

Annual legal budgets are not adopted for the Special Revenue Funds (Special Aid and School Lunch). Budgetary controls for the Special Aid Fund are established in accordance with the applicable grant agreements. In addition, special aid funds may also cover a period other than the School District's fiscal year. Budgetary controls for the Special Aid Fund are established based on prior performances and anticipated future activity.

Note 2 - Reconciliation of the General Fund Budget Basis to GAAP

No adjustment is necessary to convert the General Fund's excess of revenues and other sources over expenditures and other uses on the GAAP basis to the budget basis as encumbrances are presented in a separate column and are not included in the actual results at June 30, 2012.

Note 3 - Schedule of Funding Progress

The Schedule of Funding Progress, presented as required supplementary information presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

HOMER CENTRAL SCHOOL DISTRICT
 SCHEDULES OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
 AND USE OF UNRESERVED FUND BALANCE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 39,311,025
Prior year's encumbrances		<u>535,918</u>
Original Budget		<u>39,846,943</u>
Final Budget		<u>\$ 39,846,943</u>
Next year's budget is a voter approved budget	\$ 38,400,000	

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -		
As of the beginning of the year - July 1, 2011		\$ <u>4,111,287</u>
Less:		
Designated fund balance used for the levy of taxes - Adopted budget		<u>2,495,341</u>
Undesignated Fund Balance -		
As of the beginning of the year - July 1, 2011		<u>\$ 1,615,946</u>

See Independent Auditor's Report

HOMER CENTRAL SCHOOL DISTRICT
 SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES
 COMPARED TO ST-3 DATA
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Real property taxes	A -1001	\$ 12,332,531	\$ 12,332,531
Nonproperty taxes	AT-1199	3,328	3,328
State aid	AT-3999	18,461,864	18,461,864
Federal aid	AT-4999	10,902	10,902
Total Revenues and Other Financing Sources	AT-5999	34,179,427	34,179,427
 EXPENDITURES			
General support	AT-1999	3,746,691	3,746,691
Pupil transportation	AT-5599	1,608,423	1,608,423
Debt service - Principal	AT-9798.6	3,468,300	3,468,300
Debt service - Interest	AT-9798.7	1,247,601	1,247,601
Total Expenditures and Other Uses	AT-9999	35,455,252	35,455,252

See Independent Auditor's Report

HOMER CENTRAL SCHOOL DISTRICT
 SCHEDULE OF INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2012

Capital assets, net		\$ <u>47,546,710</u>
Add:		
Unamortized bond issuance costs		118,079
Amounts deferred on refunding		<u>749,758</u>
Deduct:		
Premium on bonds payable		<u>(945,753)</u>
Short-term portion of bonds payable		<u>(3,560,105)</u>
Long-term portion of bonds payable		<u>(28,125,000)</u>
Less: unspent bond proceeds		<u>175,337</u>
Investment in Capital Assets, Net of Related Debt		\$ <u><u>15,959,026</u></u>

See Independent Auditor's Report

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**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**

Board of Education
Homer Central School District
Homer, New York

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Central School District (the School District) as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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 School District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the School District, in a separate letter dated September 18, 2012.

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

A handwritten signature in cursive script that reads "Lisa Dietershagen, Little, Niblick & Company, CPA".

September 18, 2012
Ithaca, New York

John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
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INDEPENDENT AUDITOR'S 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

Board of Education
Homer Central School District
Homer, New York

Compliance

We have audited the Homer Central School District's (the School District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2012. The 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 the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 of the School District's compliance with those requirements.

In our opinion, the 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, 2012.

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Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 the School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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 management, the Audit Committee and Board of Education, others within the School District, the New York State Department of Education, 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.

A handwritten signature in cursive script that reads "Lisa Dietershagen, Little, Mickelson & Company, LLP". The signature is written in black ink and is positioned above the date and location information.

September 18, 2012
Ithaca, New York

HOMER CENTRAL SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass - Through Grantor Program Title	Federal CFDA #	Pass - Through Grantor #	Expenditures
<u>U.S. Department of Education</u>			
Passed Through NYS Department of Education:			
Title I Cluster:			
Title I Grants to Local Educational Agencies	84.010	0021110570	\$ 21,870
Title I Grants to Local Educational Agencies	84.010	0021120570	339,888
Title I Grants to Local Educational Agencies	84.010	0011122238	784
		Subtotal	<u>362,542</u>
Special Education Cluster:			
Special Education - Grants to States	84.027	0032120154	723,154
Special Education - Preschool Grants	84.173	0033120154	15,949
		Subtotal	<u>739,103</u>
Improving Teacher Quality State Grants	84.367	0147120570	43,122
Improving Teacher Quality State Grants	84.367	0147110570	9,749
		Subtotal	<u>52,871</u>
Education Jobs Fund	84.410	5400120570	993,916
ARRA - State Fiscal Stabilization Fund			
Race-to-the-Top Incentive Grant	84.395	5500120570	32,653
			<u>2,181,085</u>
<u>U.S. Department of Agriculture</u>			
Passed Through NYS Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	006731	369,961
School Breakfast Program	10.553	006731	99,009
			<u>468,970</u>
Total U.S. Department of Agriculture			<u>468,970</u>
Total Expenditures of Federal Awards			<u>\$ 2,650,055</u>

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards

HOMER CENTRAL SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs administered by the School District, an entity as defined in Note 1 to the School District's basic financial statements. Federal awards received directly from Federal agencies, as well as Federal awards passed through from other government agencies, are included on the Schedule of Expenditures of Federal Awards.

Note 2 - Basis of Accounting

The basis of accounting varies by Federal program consistent with the underlying regulations pertaining to each program. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the financial statements.

Note 3 - Indirect Costs

Indirect costs are included in the reported expenditures to the extent they are included in the Federal financial reports used as the source for the data presented.

Note 4 - Matching Costs

Matching costs, i.e., the School District's share of certain program costs, are not included in the reported expenditures.

Note 5 - Non-Monetary Federal Program

The School District is the recipient of a Federal award program that does not result in cash receipts or disbursements termed a "non-monetary program." During the year ended June 30, 2012, the School District received \$60,697 worth of commodities under the National School Lunch Program (CFDA #10.555).

HOMER CENTRAL SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2012

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes none reported

Noncompliance material to financial statements noted? _____ yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ yes no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.410	Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 300,000

Auditee qualified as low-risk? yes _____ no

Section II - Financial Statement Findings: None

Section III - Federal Award Findings and Questioned Costs: None