

OFFICIAL STATEMENT

NEW & RENEWAL ISSUES

BOND ANTICIPATION NOTES

In the opinion of Bond Schoeneck & King, PLLC, Bond Counsel, assuming continuing compliance by the School District with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Notes is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code provided, however, that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on such corporations. Interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). See "TAX MATTERS" herein for a discussion of certain Federal taxes applicable to corporate owners of the Notes.

The School District will designate the Notes as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

\$9,291,300

VALLEY CENTRAL SCHOOL DISTRICT AT MONTGOMERY

ORANGE COUNTY, NEW YORK

GENERAL OBLIGATIONS

\$5,291,300 Bond Anticipation (Renewal) Notes, Series 2012A
(the "Series 2012A Notes")

Dated: February 23, 2012

Due: June 29, 2012

\$4,000,000 Bond Anticipation Notes, Series 2012B
(the "Series 2012B Notes")

Dated: February 23, 2012

Due: February 22, 2013

(collectively referred to herein as the "Notes")

The Notes are general obligations of the Valley Central School District at Montgomery, Orange County, New York (the "School District"), all of the taxable real property within which is subject to the levy of ad valorem taxes to pay the Notes and interest thereon without limitation as to rate or amount, subject to certain statutory limitations imposed by Chapter 97 of the Laws of 2011 (the "New Tax Cap Law"). See "TAX INFORMATION – New Tax Cap Law" herein.

The Notes will be issued as registered Notes and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as Securities Depository for the Notes. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or integral multiples thereof, except for one necessary odd denomination with respect to the Series 2012A Notes. Purchasers will not receive certificates representing their ownership interest in the Notes. Principal and interest will be paid by the School District to the Securities Depository, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Notes, as described herein. See "THE NOTES - Book-Entry-Only System" herein.

The Notes are offered when, as and if issued and received by the purchasers and subject to the receipt of an unqualified legal opinion as to the validity of the Notes of Bond, Schoeneck & King, PLLC, Bond Counsel, of Syracuse, New York. It is anticipated that the Notes will be available for delivery in New York, New York on or about February 23, 2012.

January 26, 2012

THE SCHOOL DISTRICT DEEMS THIS OFFICIAL STATEMENT TO BE FINAL FOR PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12, EXCEPT FOR CERTAIN INFORMATION THAT HAS BEEN OMITTED HEREFROM IN ACCORDANCE WITH SAID RULE AND THAT WILL BE SUPPLIED WHEN THIS OFFICIAL STATEMENT IS UPDATED FOLLOWING THE SALE OF THE OBLIGATIONS HEREIN DESCRIBED. THIS OFFICIAL STATEMENT WILL BE SO UPDATED UPON REQUEST OF A SUCCESSFUL BIDDER, AS MORE FULLY DESCRIBED IN THE NOTICE OF SALE WITH RESPECT TO THE OBLIGATIONS HEREIN DESCRIBED. THE SCHOOL DISTRICT WILL COVENANT IN AN UNDERTAKING TO PROVIDE NOTICE OF CERTAIN MATERIAL EVENTS AS DEFINED IN THE RULE. SEE "MATERIAL EVENT NOTICES" HEREIN.

VALLEY CENTRAL SCHOOL DISTRICT AT MONTGOMERY

ORANGE COUNTY, NEW YORK

SCHOOL DISTRICT OFFICIALS

BOARD OF EDUCATION

ROBERT W. SANTO

President

KEVIN REIDY

Vice President

ELIZABETH BLASHKA

JOY D. CRIST

CHRIS ANN HARPER-O'CONNOR

SONIA LEWIS

STEVEN H. MOSENSON

* * * * *

Dr. RICHARD M. HOOLEY

Superintendent of Schools

STEPHEN BANGERT

Assistant Superintendent for Business

FISCAL ADVISORS & MARKETING, INC.

School District Financial Advisors

BOND, SCHOENECK & KING, PLLC

Bond Counsel

No person has been authorized by the Valley Central School District at Montgomery to give any information or to make any representations not contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information, estimates and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Valley Central School District at Montgomery.

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OFFICIAL STATEMENT

of the

**VALLEY CENTRAL SCHOOL DISTRICT AT MONTGOMERY
ORANGE COUNTY, NEW YORK**

Relating To

**\$5,291,300 Bond Anticipation (Renewal) Notes, Series 2012A
and
\$4,000,000 Bond Anticipation Notes, Series 2012B**

This Official Statement, which includes the cover page and appendices, has been prepared by the Valley Central School District at Montgomery, Orange County, New York (the "School District", "County", and "State", respectively) in connection with the sale by the School District of \$5,291,300 principal amount of Bond Anticipation (Renewal) Notes, Series 2012A (the "Series 2012A Notes") and \$4,000,000 Bond Anticipation Notes, Series 2012B (the "Series 2012B Notes") (collectively referred to herein as the "Notes").

The factors affecting the School District's financial condition and the Notes are described throughout this Official Statement. Inasmuch as many of these factors, including economic and demographic factors, are complex and may influence the School District tax base, revenues, and expenditures, this Official Statement should be read in its entirety.

All quotations from and summaries and explanations of provisions of the Constitution and laws of the State and acts and proceedings of the School District contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Notes and the proceedings of the School District relating thereto are qualified in their entirety by reference to the definitive forms of the Notes and such proceedings.

THE NOTES

Description of the Notes

The Notes are general obligations of the School District, and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Notes as required by the Constitution and laws of the State (State Constitution, Art. VIII, Section 2; Local Finance Law, Section 100.00). All the taxable real property within the School District is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, without limitation as to rate or amount, subject to certain statutory limitations imposed by Chapter 97 of the Laws of 2011 (the "New Tax Cap Law"). See "TAX INFORMATION – New Tax Cap Law" herein.

The Notes will not be subject to redemption prior to maturity and will be issued in bearer form in the denominations of \$5,000 or multiples thereof, except for one necessary odd denomination Series 2012A Notes, as determined by the successful bidder(s). Principal and interest will be payable in Federal Funds at maturity at such bank(s) or trust company(ies) located and authorized to do business in the State, as may be determined by such successful bidder(s). Paying agent fees, if any, will be paid by the successful bidder(s).

At the option of the purchaser(s), the Note(s) will be issued as registered notes, and, if so issued, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company (DTC), New York, New York, which will act as the securities depository for the Notes. Noteholders will not receive certificates representing their ownership interest in the Notes purchased. See "Book-Entry-Only-System" herein.

Under this option, payment of the principal of and interest on the Notes to the Beneficial Owner of the Notes will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices. Payment will be the responsibility of the DTC, subject to any statutory and regulatory requirements as may be in effect from time to time. See "Book-Entry-Only System" herein.

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued in the aggregate principal amount of each such issue, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the School District, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the School District, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the School District. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

The School District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the School District believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

THE SCHOOL DISTRICT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY DIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST ON THE NOTES; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO A NOTEHOLDER; OR (4) ANY OTHER ACTION TAKEN BY DTC AS OWNER OF THE NOTES.

THE SCHOOL DISTRICT CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO DIRECT PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE NOTES (1) PAYMENTS OF THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST ON THE NOTES; (2) THE CONFIRMATION OF THEIR OWNERSHIP INTEREST IN THE NOTES; OR (3) OTHER NOTICES SENT BY DTC OR CEDE & CO., AS NOMINEE, AS REGISTERED OWNER OF THE NOTES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SO SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

Source: The Depository Trust Company.

Certificated Notes

DTC may discontinue providing its services with respect to the Notes at any time by giving notice to the School District and discharging its responsibilities with respect thereto under applicable law, or the School District may terminate its participation in the system of book-entry-only system transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply:

The Notes will be issued in registered form in denominations of \$5,000 or integral multiples thereof, except for one necessary odd denomination Series 2012A Notes. Principal of and interest on the Notes will be payable at a principal corporate trust office to be named by the School District. The Notes are not subject to redemption prior to their stated final maturity date.

Purpose of Issue – Series 2012A Notes

The Series 2012A Notes are issued pursuant to the Constitution and statutes of the State of New York, including the Education Law and the Local Finance Law, and pursuant to a bond resolution duly adopted by the Board of Education on February 11, 2008 authorizing \$7,150,000 serial bonds to pay for the renovation and reconstruction of Maybrook Elementary School, Valley Central Middle School and Valley Central High School, replacement of mechanical, electrical and plumbing systems, replacement of fire alarm systems, replacement and reconstruction of building exteriors, improvement of the sites, including parking lots and sidewalks and the acquisition of original furnishings, equipment, machinery and apparatus required for the purposes for which such buildings and improvements are to be used.

The proceeds of the Series 2012A Notes, along with \$200,000 available funds, will renew bond anticipation notes maturing on February 24, 2012 for the aforementioned purposes.

Purpose of Issue – Series 2012B Notes

The Series 2012B Notes are issued pursuant to the Constitution and statutes of the State of New York, including the Education Law and the Local Finance Law, and pursuant to a bond resolution duly adopted by the Board of Education on May 23, 2011 authorizing \$7,250,000 serial bonds to pay for the renovation, rehabilitation and reconstruction of Berea Elementary School, East Coldenham Elementary School, Maybrook Elementary School, Montgomery Elementary School, Valley Central Middle School and Valley Central High School including, but not limited to roof reconstruction and replacement, septic system reconstruction, replacement of windows and doors, rehabilitation of building exteriors, refurbishment of the swimming pool, improvement of the sites, including parking lots and sidewalks and the acquisition of original furnishings, equipment, machinery and apparatus required for the purposes for which such buildings and improvements are to be used.

The proceeds of the Series 2012B Notes will provide new monies for the aforementioned purposes.

THE SCHOOL DISTRICT

The School District is located in Orange County, New York, approximately 60 miles north of New York City. The School District includes almost all of the Town of Montgomery and portions of the Towns of Crawford, Hamptonburgh, Newburgh, New Windsor, Shawangunk and Walkill. Almost 79% of the School District's tax levy is generated in the Town of Montgomery.

Total population for the School District is estimated to be 26,930 (2010 U.S. Census estimate), the majority of which resides in the Town of Montgomery. The School District maintains seven school buildings with 4,777 students enrolled for the current school year.

Residents of the School District received their basic municipal services from the towns making up the School District. The County is responsible for providing social and certain health related programs.

The School District is primarily residential in nature. Residents are employed locally and throughout the County and surrounding areas. Unemployment rates reported for the County in recent years have been substantially less than both State and national averages (See "Unemployment Statistics" herein).

The School District is served by all major forms of transportation. Major highways serving the School District include The New York State Thruway (linking New York City and Buffalo), Interstate 84 (linking Hartford, Connecticut and Scranton, Pennsylvania), and State Route 17 (providing access to New York City metropolitan area and western portions of the State). The School District is also served by a network of County and Town roads. Rail passenger service is available from the Metro North Commuter Railroad, with a station in the City of Middletown providing service links with New Jersey trains to New York City. Metro North and Amtrak rail service is also available in nearby Beacon. Commercial air transportation is available at nearby Stewart Airport in Newburgh, New York.

CH Energy Group, Inc., Orange and Rockland Utilities, Inc., New York State Electric and Gas, Frontier Communications and Verizon provide residents of the School District with electric, natural gas and telephone service. Water and sewer services are comprised of both municipal and private systems.

Economic Developments

In December 2010, the U.S. Department of Energy gave approval for a \$100 million loan guarantee to Taylor Biomass Energy to finance a Biomass Gasification-to-Energy project. Taylor Biomass Energy is located in the Town of Montgomery, and the total taxable value increase for this enterprise alone is expected to increase the School District's tax base by \$120M, or 4.5%. When completed, the facility is expected to annually be able to process 500 tons of waste into 25 Megawatts of electricity, enough to provide power to 25,000 local households. The new process will produce limited waste and substantially reduce the amount of materials sent to local landfills.

Within the last two years the Port Authority of New York and New Jersey have assumed the management and development of Stewart International Airport as a future hub for air travel in the New York Metropolitan area. Air traffic for the metropolitan area has reached capacity for LaGuardia, Kennedy, and Newark International airports, and in the near term, it is expected that Stewart will become further developed to absorb the air traffic growth the metropolitan area will experience. A portion of Stewart International Airport is within the School District. The growth of the airport as a hub will carry with it ancillary tax base growth for the School District.

Major Private Sector Employers in the County (400+ Employees) ⁽¹⁾

<u>Name of Employer</u>	<u>Type of Business</u>	<u>Approx. Number of Employees</u>
Orange Regional Medical Center	Hospital	2,524
St. Luke's/Cornwall Hospital	Hospital	1,400
Elant, Inc.	Senior Health and Housing	1,200
C&S Wholesale Grocers, Inc.	Distribution-Food	850
AHRC	Services for Developmental Disabilities	750
Empire Blue Cross/Blue Shield	Health Insurance	650
Occupations, Inc.	Rehabilitation	618
Valley View Center For Nursing Care and Rehabilitation	Long-Term Healthcare	600
Time Warner Cable	Communications	550
IBM Business Continuity & Resiliency Services	Business Services	550
Mount Saint Mary College	Education	500
Bon Secours Community Hospital	Hospital	490
Staples	Distribution – Office Supplies	460
YRC Worldwide	Cargo & Freight/Trucking	435
Mid-Hudson Processing and Distribution USPS	Distribution	400
Verla International LTD	Manufacturing – Cosmetic	400
Kolmar Laboratories Inc.	Cosmetic Products	400

⁽¹⁾ Excludes Retail.

Source: Orange County Partnership (January 2012)

Selected Wealth and Income Indicators

Per capita income statistics are not available for the School District as such. The smallest areas for which such statistics are available, which includes the School District, are the Towns of Montgomery, Crawford, Wallkill, Hamptonburgh, Shawangunk, Newburgh, New Windsor and the County of Orange. The figures set forth below with respect to such Towns and County are included for information only. It should not be inferred from the inclusion of such data in the Official Statement that the Towns or the County is necessarily representative of the School District, or vice versa.

	<u>Per Capita Income</u>			<u>Median Family Income</u>		
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>
Towns of:						
Montgomery	\$ 14,039	\$ 20,222	\$ 27,185	\$ 40,072	\$ 56,376	\$ 80,504
Crawford	14,731	21,614	31,192	45,985	63,772	84,179
Wallkill	14,644	21,654	28,625	44,003	57,088	79,273
Hamptonburgh	17,692	27,909	35,249	56,770	82,561	109,183
Shawangunk	12,731	19,402	26,038	41,968	59,972	82,484
Newburgh	17,595	24,749	33,906	49,591	66,706	86,124
New Windsor	15,843	22,806	31,652	44,863	58,292	86,124
County of:						
Orange	15,198	21,597	28,944	44,039	60,355	82,480
State of:						
New York	16,501	23,389	30,948	39,741	51,691	67,405

Source: U.S. Census Bureau, 2006-2010 American Community Survey 5-Year Estimates.

Banking Facilities

Commercial banks operating branch offices located within the School District include:

- Bank of America
- Bank of New York Mellon
- KeyBank, N.A.
- Manufacturers & Traders Trust Company
- Orange County Trust Company

Form of School Government

The Board of Education, which is the policy-making body of the School District, consists of seven members including the President and the Vice President. Board members are elected for a term of three years. The administrative officers of the School District who are appointed by the Board to implement the policies of the District include a Superintendent of Schools, three Assistant Superintendents and District Clerk.

Budgetary Procedures

Pursuant to the Education Law, the Board of Education annually prepares or causes to be prepared a budget for the ensuing fiscal year (tentative budget). The budget must consist of three parts: program, administration and capital. During November and December the tentative budget is developed and refined in consultation with school principals and department supervisors. At the March and April meetings of the Board of Education the proposed budget is discussed and further refined. The tentative budget is adopted by the Board at its April meeting and submitted to referendum at the Annual Meeting held on the third Tuesday of May. Residents of the School District who are qualified to vote may participate in the referendum. Prior to the Annual Meeting a public hearing on the proposed budget is held.

If the voters fail to approve the preliminary budget, the Board of Education may resubmit the budget in its original or revised form. Alternatively, the Board may adopt a contingent budget. The Board must adopt a contingent budget in the event the voters do not approve the budget upon the second vote. Spending from year to year under a contingent budget may not increase by more than the lesser of 120% of the U.S. Consumer Price Index for the prior year or 4%. Certain expenditures such as tax certiorari expenses, settled claims, or capital outlays may be excluded from the spending limit calculation. Expenses directly attributed in enrollment growth may also be excluded from the limit. Such contingent budget must provide a tax for ordinary contingent expenses of the District, including debt service, in a like manner as if the same had been voted by the qualified voters. The budget for the 2011-2012 fiscal year was adopted by the qualified voters on May 17, 2011.

Pursuant to Chapter 97 of the Laws of 2011 (“Chapter 97”), beginning with the 2012 – 2013 fiscal year, if the proposed budget requires a tax levy increase that does not exceed the lesser of 2% or the rate of inflation (the “School District Tax Cap”), then a majority vote is required for approval. If the proposed budget requires a tax levy that exceeds the School District Tax Cap, the budget proposition must include special language and a 60% vote is required for approval. If the proposed budget requires a tax levy that exceeds the School District Tax Cap, the budget proposition must include special language. Any separate proposition that would cause the School District to exceed the School District Tax Cap to be exceeded also must receive at least 60% voter approval.

If the proposed budget is not approved by the required margin, the Board of Education may resubmit the original budget or a revised budget to the voters on the 3rd Tuesday in June, or adopt a contingency budget (which would provide for ordinary contingent expenses, including debt service) that levies a tax levy no greater than that of the prior fiscal year (i.e. a 0% increase in the tax levy).

If the resubmitted and/or revised budget is not approved by the required margin, the Board of Education must adopt a budget that requires a tax levy no greater than that of the prior fiscal year (i.e. a 0% increase in the tax levy). Clarification may be needed to determine whether a Board of Education must adopt a budget that requires the same tax levy amount as used in the prior fiscal year, or whether changes to the levy are permitted for such purposes as the School District Tax Cap Exclusions or Tax Base Growth Factor (as defined below under “New Tax Cap Law” herein). For a complete discussion of Chapter 97, see “New Tax Cap Law” herein.

Investment Policy

Pursuant to the statutes of the State of New York, the School District is permitted to invest only in the following investments: (1) special time deposits or certificates of deposits in a bank or trust company located and authorized to do business in the State of New York; (2) obligations of the United States of America; (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America; (4) obligations of the State of New York; (5) with the approval of the New York State Comptroller, tax anticipation notes and revenue anticipation notes issued by any New York municipality or district corporation, other than the School District; (6) obligations of a New York public corporation which are made lawful investments by the School District pursuant to another provision of law; (7) certain certificates of participation issued on behalf of political subdivisions of the State of New York; and, (8) in the case of School District moneys held in certain reserve funds established pursuant to law, obligations issued by the School District. These statutes further require that all bank deposits, in excess of the amount insured under the Federal Deposit Insurance Act, be secured by either a pledge of eligible securities, an eligible surety bond or an eligible letter of credit, as those terms are defined in the law.

Consistent with the above statutory limitations, it is the School District's current policy to invest in: (1) certificates of deposit or time deposit accounts that are fully secured as required by statute, (2) obligations of the United States of America, (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America, and (4) in repurchase agreements involving the purchase and resale of obligations of the United States of America or obligations of agencies of the federal government, if principal and interest is guaranteed by the United States of America and the securities are registered in the name of the School District and held by a custodial bank in accordance with the policies established by the New York State Comptroller.

State Aid

The School District receives financial assistance from the State. In its adopted budget for the 2011-2012 fiscal year, approximately 35% of the revenues of the School District are estimated to be received in the form of State aid. If the State should not adopt its budget in a timely manner, in any year, municipalities and school districts in the State, including the School District, may be affected by a delay in the payment of State aid.

The State is not constitutionally obligated to maintain or continue State aid to the School District. No assurance can be given that present State aid levels will be maintained in the future. In view of the State's continuing budget problems, future State aid reductions are likely. State budgetary restrictions, which eliminate or substantially reduce State aid could have a material adverse effect upon the School District requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures (see also "MARKET AND RISK FACTORS").

A portion of the School District's State aid consists of building aid which is related to outstanding indebtedness for capital project purposes. In order to receive building aid, the School District must have building plans and specifications approved by the Facilities Planning Unit of the State Education Department. A maximum construction and incidental cost allowance is computed for each building project that takes into account a pupil construction cost allowance and assigned pupil capacity. For each project financed with debt obligations, a bond percentage is computed. The bond percentage is derived from the ratio of total approved cost allowances to the total principal borrowed. Approved cost allowances are estimated until a project final cost report is completed.

Aid on debt service is generally paid in the current fiscal year provided such debt service is reported to the Commissioner of Education by November 15 of that year. Any debt service in excess of amounts reported by November 15 will not be aided until the following fiscal year. The building aid received is equal to the approved building expense, or bond percent, times the building aid ratio that is assigned to the School District. The building aid ratio is calculated based on a formula that involves the full valuation per pupil in the School District compared to a State wide average. The School District may elect to use the highest building aid ratio that has been calculated since the 1981-82 fiscal year.

In *Campaign for Fiscal Equity, Inc. et al. v. State, et al.* (Supreme Court, New York County), plaintiffs challenged the State's method of providing funding for New York City public schools. Plaintiffs sought a declaratory judgment that the State's public school financing system violates Article 11, Section 1 of the State Constitution and Title VI of the Federal Civil Rights Act of 1964 and injunctive relief that would require the State to satisfy State Constitutional Standards. State legislative reforms in the wake of the Campaign for Fiscal Equity case include increased accountability for expenditure of State funds and collapsing over 30 categories of school aid into one classroom operating formula referred to as foundation aid. Foundation aid prioritizes funding distribution based upon student need.

While the recent increases in State aid have been targeted to high needs schools, other schools have shared in the overall increase in State aid. The School District is unable to predict whether this pattern of distribution will continue beyond that which is included in the legislation dealing with foundation aid. Increased State aid for New York City schools and other high needs schools could result in reductions in the future of State aid to certain school districts including the District.

The State 2011-2012 Enacted Budget includes school aid of \$19.6 billion. This reflects a reduction of \$1.3 billion or 6.1% from the State's 2010-11 Enacted Budget, including State operating funds and \$608 million of federal Jobs Bill funding. This reduction represents a 2.5% of average school district total spending.

The State's 2011 – 2012 Enacted Budget provides a two-year appropriation and reflects permanent law changes to limit future school aid increases to growth in the State personal income rate. The State's 2011 – 2012 Enacted Budget creates new education performance and efficiency grants with \$500 million in total appropriations for districts that demonstrate significant student performance improvements or that undertake long-term structural changes to reduce costs and improve efficiency.

There can be no assurance that the State appropriation for building aid and other State aid to school districts will be continued in future years, either pursuant to existing formulas or in any form whatsoever. State aid, including building aid appropriated and apportioned to the School District, can be paid only if the State has such monies available therefor. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget or their elimination therefrom.

STAR aid payments for the 2010-11 fiscal were received in October, 2010, in November, 2010, and in December, 2010. Adjustment payments were made in March 2011. The State adopted a Federal Medical Assistance Program (FMAP) contingency plan which includes a \$29.7 million reduction in STAR and represents a 1.1% reduction in such aid to each district in the State. See "STAR - School Tax Exemption" herein for more information regarding STAR payments.

The table below illustrates the percentage of total revenues of the School District comprised of State aid for each of the past six completed fiscal years and the budgeted figures for the current fiscal year.

<u>Fiscal Year</u>	<u>Total State Aid</u>	<u>Total Revenues</u>	<u>Percentage of Total Revenues Consisting of State Aid</u>
2005-06	\$ 26,944,176	\$ 66,951,305	40.24%
2006-07	29,091,050	72,880,349	39.92%
2007-08	30,953,374	75,963,779	40.75%
2008-09	33,523,761	80,840,699	41.47%
2009-10	29,811,679	81,755,602	36.46%
2010-11	28,658,628	81,603,752	35.12%
2011-12 (Budgeted)	28,658,628	81,267,538	35.45%

School Facilities

<u>Name</u>	<u>Grades</u>	<u>Capacity</u>	<u>Year(s) Built</u>
V.C.S.D. High School	9-12	1,569	1961, '89
V.C.S.D. Middle School	6-8	1,339	1966
Montgomery Elementary School	K-5	783	1936, '68, 2000
Walden Elementary School	K-5	685	1926, '52
Berea Elementary School	K-5	569	1969, 2000
East Coldenham Elementary School	K-5	444	1960
Maybrook Elementary School	K-5	301	1923

Employees

The School District provides services through approximately 850 employees, some of whom are represented by the following units of organized labor:

<u>Employees Represented</u>	<u>Union Representation</u>	<u>Expiration Date</u>
445	Valley Central Teachers' Association	June 30, 2013
159	Valley Central Teachers' Association Paraprofessional Chapter	June 30, 2012
54	CSEA, Inc.	June 30, 2012
53	Valley Central School Unit of Nutritional Staff	June 30, 2012
25	Valley Central Teachers' Association Secretarial Staff	June 30, 2011 ⁽¹⁾
20	Valley Central Administrators' Association	June 30, 2012
11	Valley Central Confidential Secretarial Unit	June 30, 2013

⁽¹⁾ Currently in negotiation.

Enrollment Trends

<u>School Year</u>	<u>Enrollment</u>	<u>School Year</u>	<u>Projected Enrollment</u> *
2007-08	5,263	2012-13	4,686
2008-09	5,115	2013-14	4,600
2009-10	4,943	2014-15	4,550
2010-11	4,833	2015-16	N/A
2011-12	4,777	2016-17	N/A

* Based upon mid-level estimate of draft of 2009 enrollment study.

Status and Financing of Employee Pension Benefits

Substantially all employees of the School District are members of either the New York State and Local Employees' Retirement System ("ERS") (for non-teaching and non-certified administrative employees) or the New York State Teachers' Retirement System ("TRS") (for teachers and certified administrators). (Both Systems are referred to together hereinafter as the "Retirement Systems" where appropriate.) The Retirement Systems are cost-sharing multiple public employer retirement systems. The obligation of employers and employees to contribute and the benefits to employees are governed by the New York State Retirement and Social Security Law (the "Retirement System Law"). The Retirement Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. All benefits generally vest after ten years of credited service. The Retirement System Law generally provides that all participating employers in each retirement system are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in the Retirement Systems. The Retirement Systems are non-contributory with respect to members hired prior to July 27, 1976. All members working less than ten years must contribute 3% of gross annual salary towards the cost of retirement programs.

On December 12, 2009, a Tier V was signed into law which became effective for new ERS and TRS hires on January 1, 2010.

The legislation created a Tier V pension level, the most significant reform of the State's pension system in more than a quarter-century. Key components of Tier V include:

- Raising the minimum age at which most civilians can retire without penalty from 55 to 62 and imposing a penalty of up to 38% for any civilian who retires prior to age 62.
- Requiring ERS employees to continue contributing 3% of their salaries and TRS employees to continue contributing 3.5% toward pension costs so long as they accumulate additional pension credits.
- Increasing the minimum years of service required to draw a pension from 5 years to 10 years.
- Capping the amount of overtime that can be considered in the calculation of pension benefits for civilians at \$15,000 per year, and for police and firefighters at 15% of non-overtime wages.

In his 2012 State of the State address, Governor Cuomo proposed a new Tier VI pension level which would, inter alia, increase the retirement age and require greater employee contributions for new hires. It is not possible at this time to predict whether such legislation will be enacted into law.

The School District's payments to ERS and TRS since the 2005-2006 school year have been as follows:

<u>Year</u>	<u>ERS</u>	<u>TRS</u>
2005-2006	\$ 556,880	\$ 2,294,518
2006-2007	468,653	2,520,664
2007-2008	547,100	2,647,799
2008-2009	511,687	2,408,098
2009-2010	566,592	1,928,122
2010-2011	865,178	3,014,202
2011-2012 (Budgeted)	1,143,374	4,489,556

Pursuant to various laws enacted between 1991 and 2002, the State Legislature authorized local governments to make available certain early retirement incentive programs to its employees. The School District currently does not have retirement incentives outstanding.

Historically there has been a State mandate requiring full (100%) funding of the annual actuarially required local governmental contribution out of current budgetary appropriations. With the strong performance of the Retirement System in the 1990s, the locally required annual contribution declined to zero. However, with the subsequent decline in the equity markets, the pension system became underfunded. As a result, required contributions increased substantially to 15% to 20% of payroll for the employees' and the police and fire retirement systems, respectively. Wide swings in the contribution rate resulted in budgetary planning problems for many participating local governments.

The annual required pension contribution is due February 1 annually with the ability to pre-pay on December 15 at a discount.

On September 10, 2010, Comptroller Thomas P. DiNapoli announced increases over the previous year in the 2011-2012 employer contribution rates for the New York State Common Retirement Fund (the "Fund"). The average contribution rate for the ERS will increase from 11.9% of salaries to 16.3% of salaries. On August 24, 2011 the Comptroller announced the average contribution rate for the ERS will increase from 16.3% of salaries to 18.9% for fiscal year 2012-2013.

The TRS rate for the 2010-2011 fiscal year was 8.62% (up from 6.19% in 2010). The TRS rate for the 2011-2012 fiscal year is 11.11%. It is anticipated that the 2012-2013 contribution rate will be between 11.50% and 12.50% and a precise estimate is expected to be available in February 2012.

The School District is not amortizing any pension payments nor does it intend to do so in the foreseeable future.

The investment of monies and assumptions underlying the same of the Retirement Systems covering the School District's employees is not subject to the direction of the School District. Thus, it is not possible to predict, control or prepare for future unfunded accrued actuarial liabilities of the Retirement Systems ("UAALs"). The UAAL is the difference between total actuarially accrued liabilities and actuarially calculated assets available for the payment of such benefits. The UAAL is based on assumptions as to retirement age, mortality, projected salary increases attributed to inflation, across-the-board raises and merit raises, increases in retirement benefits, cost-of-living adjustments, valuation of current assets, investment return and other matters. Such UAALs could be substantial in the future, requiring significantly increased contributions from the School District which could affect other budgetary matters. Concerned investors should contact the Retirement Systems administrative staff for further information on the latest actuarial valuations of the Retirement Systems.

While the School District is aware of the potential negative impact on its budget and will take the appropriate steps to budget accordingly for the increase, there can be no assurance that its financial position will not be negatively impacted.

Other Post Employment Benefits

It should also be noted that the School District provides employment healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. There is now an accounting rule that will require governmental entities, such as the District, to account for employment healthcare benefits as it accounts for vested pension benefits. GASB Statement No. 45 ("GASB 45") of the Governmental Accounting Standards Board ("GASB"), described below, requires such accounting.

School districts and Boards of Cooperative Education Services, unlike other municipal units of government in the State, have been prohibited from reducing retiree health benefits or increasing health care contributions received or paid by retirees below the level of benefits or contributions afforded to or required from active employees since the implementation of Chapter 729 of the Laws of 1994. Legislative attempts to provide similar protection to retirees of other local units of government in the State have not succeeded as of this date. Nevertheless, many such retirees of all varieties of municipal units in the State do presently receive such benefits.

OPEB refers to "other post-employment benefits," meaning other than pension benefits, disability benefits and OPEB consist primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Until now, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on governmental financial statements.

GASB 45 requires municipalities and school districts to account for OPEB liabilities much like they already account for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. New York State school districts do not currently have the authority to fund OPEB through bonding, reserves or an irrevocable trust. Unlike GASB 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each municipality or school district. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality or school district contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and compliance in meeting its ARC.

The School District engaged the services of Aon to perform its Actuarial Valuation. As of June 30, 2011 the actuarial present value of the total projected benefits for the District's active employees and retirees was \$92,831,622. The actuarial accrued liability (AAL), the portion of the actuarial present value of the total future benefits based on the employees' service rendered to the measurement date, is \$67,479,495. The actuarial value of the Plan's assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$67,479,495. The District's annual OPEB cost was \$7,096,015 and the annual required contribution (ARC) is \$7,218,215. The District is on a pay-as-you-go funding basis and paid \$2,630,136 to the Plan for the fiscal year ending June 30, 2011 resulting in a year-end Net OPEB obligation of \$12,584,697.

Actuarial Valuation will be required every 2 years for OPEB plans with more than 200 members, every 3 years if there are less than 200 members.

Unemployment Rate Statistics

Unemployment statistics are not available for the School District as such. The smallest area for which such statistics are available (which includes the School District) is the County. The information set forth below with respect to the County is included for information purposes only. It should not be implied from the inclusion of such data in this Official Statement that the County is necessarily representative of the School District, or vice versa.

	Annual Average						
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Orange County	4.7%	4.3%	4.3%	4.3%	5.3%	7.8%	8.3%
New York State	5.8%	5.0%	4.6%	4.5%	5.3%	8.4%	8.6%

2011 Monthly Figures

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
Orange County	8.7%	8.5%	7.8%	7.4%	7.5%	7.9%	8.0%	7.5%	7.7%	7.2%	7.3%	7.4%
New York State	8.9%	8.7%	8.0%	7.6%	7.8%	8.0%	8.0%	7.7%	7.8%	7.7%	7.9%	8.0%

Source: Department of Labor, State of New York. (Note: Figures not seasonally adjusted).

Other Information

The statutory authority for the power to spend money for the objects or purposes, or to accomplish the objects or purposes, for which the Notes are to be issued is the Education Law and the Local Finance Law.

The School District will have satisfied the procedure for validation of the Notes as provided in Title 6 of Article 2 of the Local Finance Law by the date of the sale of the Notes.

No principal or interest upon any obligation of the School District is past due.

The fiscal year of the School District is July 1 to June 30.

This Official Statement does not include the financial data of any political subdivision having power to levy taxes within the School District.

Financial Statements

The financial accounts of the School District are maintained in accordance with the New York State Uniform System of Accounts for School Districts. The School District retains an outside independent auditor and is audited annually. The last audited report covers the period ending June 30, 2011 and may be found attached hereto as appendices to this Official Statement. Other certain financial information of the School District is included in the Appendices to this Official Statement.

The School District complies with the Uniform System of Accounts as prescribed by the State Comptroller for school districts in New York State. Except for the accounting for fixed assets, this system conforms to generally accepted accounting principles as prescribed by the American Institute of Certified Public Accounts' Industry Guide, "Audits of State and Local Governmental Units", and codified in Government Accounting, Auditing and Financial Reporting (GAAFR), published by GASB.

Beginning with the fiscal year ending June 30, 2003 the School District is required to issue its financial statements in accordance with GASB Statement No. 34. This statement includes reporting of all assets including infrastructure and depreciation in the Government Wide Statement of Activities, as well as the Management's Discussion and Analysis. The School District is in compliance with Statement No. 34.

TAX INFORMATION

Valuations

<u>Fiscal Years Ending June 30:</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Assessed Valuation					
Towns of:					
Montgomery	\$1,243,734,190	\$1,249,844,684	\$1,254,679,428	\$1,258,627,542	\$1,268,357,814
Crawford	49,206,885	50,455,015	50,718,160	50,754,787	50,846,898
Wallkill	20,651,432	20,416,996	20,469,497	20,425,036	20,210,628
Hamptonburgh	51,377,153	54,147,619	57,880,656	59,903,989	57,480,540
Shawangunk	2,842,481	2,851,967	2,870,780	2,862,348	2,836,787
Newburgh	68,813,782	69,368,280	70,619,410	71,767,991	72,509,233
New Windsor	<u>3,163,296</u>	<u>2,743,429</u>	<u>2,753,583</u>	<u>2,785,964</u>	<u>2,782,362</u>
Totals	\$1,439,789,219	\$1,449,827,990	\$1,459,991,514	\$1,464,127,657	\$1,475,024,262

State Equalization Rates

Towns of:					
Montgomery	50.00%	50.92%	56.00%	60.00%	64.00%
Crawford	27.00%	28.50%	31.75%	35.10%	36.26%
Wallkill	16.97%	17.00%	18.00%	19.00%	19.00%
Hamptonburgh	80.00%	84.50%	92.90%	99.40%	100.00%
Shawangunk	15.00%	17.00%	17.50%	19.00%	20.00%
Newburgh	31.50%	27.35%	28.68%	32.80%	35.60%
New Windsor	13.58%	13.79%	14.47%	17.31%	17.47%
Taxable					
Full Valuation	\$3,116,331,418	\$ 3,106,043,577	\$ 2,857,931,209	\$2,660,043,250	\$2,519,678,041

Tax Rates Per \$1,000 (Assessed)

<u>Fiscal Years Ending June 30:</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Towns of:					
Montgomery	\$ 26.45	\$ 27.48	\$ 28.04	\$ 29.62	\$ 31.17
Crawford	48.98	49.09	49.46	50.63	55.01
Wallkill	77.92	82.30	87.23	93.53	104.98
Hamptonbur	16.53	16.56	16.90	17.87	19.95
Shawangunk	88.15	82.30	89.73	93.53	99.73
Newburgh	41.98	51.16	54.75	54.18	56.03
New Windsor	97.37	101.46	108.52	102.66	114.18

Tax Levy and Collection Record

<u>Fiscal Years Ending June 30:</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Tax Levy ⁽¹⁾	\$ 41,208,003	\$ 43,457,311	\$ 44,875,652	\$ 47,218,161	\$ 50,260,000
Uncollected ⁽²⁾	None	None	None	None	None

⁽¹⁾ Gross tax levy prior to adjustments (tax roll additions, shortages, cancellations and refunds). See "Tax Collection Procedure."

⁽²⁾ The County is required to remit 100% of the taxes due to the School District.

Tax Collection Procedure

The Board of Education of the School District levies real property taxes after such taxes have been approved by the School District voters. School taxes become a lien upon the final adoption of the school tax roll by the Board of Education. Unpaid interest on school taxes is deemed part of the tax and together with such original tax remain a lien until paid.

School taxes are collected by the Town of Montgomery for six towns in the district, and by Town of Newburgh between September 1 and November 1. Such taxes may be paid during the month of September without interest. Generally, payments received on or after October 1 must include interest computed at 2% per month from September 1. On or about November 1, the various school tax collecting officers transmit a listing of unpaid taxes to the School District. A certified listing of unpaid taxes must be transmitted to the County not later than November 15.

Unpaid school taxes with 7% added thereto are re-levied by the County and thereafter collected and enforced in the same manner as real property taxes levied for County purposes. The County must remit the full amount of unpaid taxes to the District by April 1 of the succeeding calendar year. Thus the School District is guaranteed 100% of its taxes in the year of the levy.

Largest Taxpayers Tax Roll for 2011-2012

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Estimated Full Value</u>
Allegiance Healthcare	Distribution Center	\$ 51,673,100 ⁽¹⁾
Manheim Services Corp	Auto Auction	41,606,500 ⁽¹⁾
Central Hudson Gas & Electric	Utility	41,034,730
Staples The Office	Office Products	35,625,000
Do It Best	Warehouse	20,769,200 ⁽¹⁾
New York State	State	19,924,800
NYS Electric & Gas	Utility	13,380,400
Raleigh Blvd. Plaza	Shopping Center	10,500,000
Bracken 89	Warehouse	9,187,500
Yellow Freight	Trucking	8,965,900

The ten largest taxpayers listed above have a total estimated full valuation of \$252,667,130 represents 10% of the tax base of the School District.

⁽¹⁾ Three of the ten largest tax payers have tax certiorari proceedings unsettled in court to have their assessments reduced:

Allegiance Healthcare:	90% reduction for 2010 and 2011
Manheim Services Corp	50% reduction for 2011
Do It Best	49% reduction for 2011

The School District maintained reserves totaling \$2,164,024 to fund identified tax certiorari claims from 2006 through 2011.

Source: Extrapolation from 2011 School District Tax Rolls.

Additional Tax Information

Real property located in the School District is assessed by the Towns.

Total assessed valuation of the School District is estimated to be categorized as follows: Residential (77%), Commercial (8%), Industrial (13%) and Agricultural (2%).

The estimated total annual property tax bill of a \$290,000 average market value residential property located in the School District is approximately \$7,500 including State, County, Town, School District and Fire District Taxes.

STAR – School Tax Exemption

The STAR (School Tax Relief) program provides State-funded exemptions from school property taxes to homeowners for their primary residences. The district's STAR Exemption amount is contained in the total amount of the tax levy. School Districts are reimbursed by New York State for real property taxes exempted under the STAR Program.

Enacted in 1997, STAR was phased in over four years. Originally, district owner-occupied homeowners over 65 years of age with household incomes below a certain threshold were eligible for a "full value" exemption of at least \$50,000 with "Enhanced STAR" while other district owner-occupied homeowners qualifying for the "Basic STAR" exemption were eligible for a \$30,000 "full value" exemption on their primary residence. Over time, these "full value" thresholds have moved upward.

\$5,997,096 of the School District's \$50,260,000 2011-2012 school tax levy was exempted by the STAR Program. The School District received full reimbursement of such exempt taxes from the State in January, 2012. See "State Aid" herein.

New Tax Cap Law

On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor (the "Tax Cap Law"). The Tax Cap Law applies to virtually all local governments, including school districts (with the exception of New York City).

The Tax Cap Law restricts, among other things, the amount of real property taxes (including assessments of certain special improvement districts) that may be levied by or on behalf of a municipality in a particular year, beginning with fiscal years commencing on or after January 1, 2012. The Tax Cap Law expires on June 16, 2016 unless extended. Pursuant to the Tax Cap Law, the tax levy of a municipality cannot increase by more than the lesser of (i) two percent (2%) or (ii) the annual increase in the consumer price index ("CPI"), over the amount of the prior year's tax levy. Certain adjustments would be permitted for taxable real property full valuation increases or changes in physical or quantity growth in the real property base as defined in Section 1220 of the Real Property Tax Law. A municipality may exceed the tax levy limitation for the coming fiscal year only if the governing body of such municipality first enacts, by at least a sixty percent vote of the total voting strength of the board, a local law (resolution in the case of fire districts and certain special districts) to override such limitation for such coming fiscal year only. There are permissible exceptions to the tax levy limitation provided in the Tax Cap Law, including expenditures made on account of certain tort settlements and certain increases in the average actuarial contribution rates of the New York State and Local Employees' Retirement System, the Police and Fire Retirement System, and the Teachers' Retirement System. Municipalities are also permitted to carry forward a certain portion of their unused levy limitation from a prior year. Each municipality prior to adoption of its fiscal year budget must submit for review to the State Comptroller any information that is necessary in the calculation of its tax levy for such fiscal year.

The Tax Cap Law does not contain an exception for the payment of debt service on either outstanding general obligation debt of municipalities or such debt incurred after the June 24, 2011 effective date of the Tax Cap Law.

Article 8, Section 2 of the State Constitution requires every issuer of general obligation notes and bonds in the State to pledge its faith and credit for the payment of the principal thereof and the interest thereon. This has been interpreted by the Court of Appeals, the State's highest court, in Flushing National Bank v. Municipal Assistance Corporation for the City of New York, 40 N.Y.2d 731 (1976), as follows:

"A pledge of the city's faith and credit is both a commitment to pay and a commitment of the city's revenue generating powers to produce the funds to pay. Hence, an obligation containing a pledge of the City's "faith and credit" is secured by a promise both to pay and to use in good faith the city's general revenue powers to produce sufficient funds to pay the principal and interest of the obligation as it becomes due. That is why both words, "faith" and "credit", are used and they are not tautological. That is what the words say and that is what courts have held they mean."

Article 8, Section 12 of the State Constitution specifically provides as follows:

"It shall be the duty of the legislature, subject to the provisions of this constitution, to restrict the power of taxation, assessment, borrowing money, contracting indebtedness, and loaning the credit of counties, cities, towns and villages, so as to prevent abuses in taxation and assessments and in contracting of indebtedness by them. Nothing in this article shall be construed to prevent the legislature from further restricting the powers herein specified of any county, city, town, village or school district to contract indebtedness or to levy taxes on real estate. The legislature shall not, however, restrict the power to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted."

On the relationship of the Article 8, Section 2 requirement to pledge the faith and credit and the Article 8, Section 12 protection of the levy of real property taxes to pay debt service on bonds subject to the general obligation pledge, the Court of Appeals in the Flushing National Bank case stated:

“So, too, although the Legislature is given the duty to restrict municipalities in order to prevent abuses in taxation, assessment, and in contracting of indebtedness, it may not constrict the city’s power to levy taxes on real estate for the payment of interest on or principal of indebtedness previously contracted....While phrased in permissive language, these provisions, when read together with the requirement of the pledge of faith and credit, express a constitutional imperative: debt obligations must be paid, even if tax limits be exceeded”.

In addition, the Court of Appeals in the Flushing National Bank case has held that the payment of debt service on outstanding general obligation bonds and notes takes precedence over fiscal emergencies and the police power of municipalities.

Therefore, while the Tax Cap Law may constrict an issuer’s power to levy real property taxes for the payment of debt service on debt contracted after the effective date of the Tax Cap Law, it is clear that no statute is able (1) to limit an issuer’s pledge of its faith and credit to the payment of any of its general obligation indebtedness or (2) to limit an issuer’s levy of real property taxes to pay debt service on general obligation debt contracted prior to the effective date of the Tax Cap Law. Whether the State Constitution grants a municipality authority to treat debt service payments as a constitutional exception to such statutory tax levy limitation is not clear.

It is possible that the Tax Cap Law will be subject to judicial review to resolve the constitutional issues raised by its adoption.

STATUS OF INDEBTEDNESS

Constitutional Requirements

The New York State Constitution limits the power of the School District (and other municipalities and certain school districts of the State) to issue obligations and to contract indebtedness. Such constitutional limitations in summary form and as generally applicable to the School District include the following:

Purpose and Pledge. The School District shall not give or loan any money or property to or in aid of any individual or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The School District may contract indebtedness only for a School District purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose as determined by statute. Unless substantially level or declining annual debt service is authorized and utilized, no installment may be more than fifty percent in excess of the smallest prior installment. The School District is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds and such required annual installments on its notes.

Statutory Procedure

In general, the State Legislature has, by the enactment of the Local Finance Law, authorized the powers and procedure for the School District to borrow and incur indebtedness subject, of course, to the constitutional provisions set forth above. The power to spend money, however, generally derives from other law, including the Education Law.

The School District is generally required by such laws to submit propositions for the expenditure of money for capital purposes to the qualified electors of the School District. Upon approval thereby, the Board of Education may adopt a bond resolution authorizing the issuance of bonds, and notes in anticipation of the bonds. No down payment is required in connection with the issuance of School District obligations.

Debt Limit. The School District has the power to contract indebtedness for any School District purpose authorized by the State Legislature of the State of New York provided the aggregate principal amount thereof shall not exceed ten per centum of the full valuation of the taxable real estate of the School District and subject to certain enumerated deductions such as State aid for building purposes. The statutory method for determining full valuation is by taking assessed valuation of taxable real estate for the last completed assessment roll and applying thereto the ratio (equalization rate) which such assessed valuation bears to the full valuation; such ratio is determined by the State Office of Real Property Services. The State Legislature prescribes the manner by which such ratio shall be determined.

The Local Finance Law also provides that where a bond resolution is published with a statutory form of notice, the validity of the bonds authorized thereby, including bond anticipation notes issued in anticipation of the sale thereof, may be contested only if:

- (1) Such obligations are authorized for a purpose for which the School District is not authorized to expend money, or
- (2) There has not been substantial compliance with the provisions of law which should have been complied within the authorization of such obligations and an action contesting such validity, is commenced within twenty days after the date of such publication or,
- (3) Such obligations are authorized in violation of the provisions of the Constitution.

The School District has complied with this estoppel procedure in connection with the Bond Anticipation Notes.

The Board of Education, as the finance board of the School District, has the power to enact bond resolutions. In addition, such finance board has the power to authorize the sale and issuance of obligations. However, such finance board may delegate the power to sell the obligations to the President of the Board of Education, as the chief fiscal officer of the School District, pursuant to the Local Finance Law.

The School District is further subject to constitutional limitation by the general constitutionally imposed duty on the State Legislature to restrict the power of taxation and contracting indebtedness; however, the State Legislature is prohibited by a specific constitutional provision from restricting the power of the School District to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted.

Debt Outstanding End of Fiscal Year

<u>Fiscal Years Ending June 30:</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Bonds	\$ 20,640,000	\$ 18,420,000	\$ 16,130,000	\$ 14,540,000	\$ 12,460,000
Bond Anticipation Notes	0	0	0	7,150,000	5,491,300
Revenue Anticipation Note	0	0	0	0	0
Energy Performance Contract	<u>31,044</u>	<u>15,915</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Debt Outstanding	\$ 18,835,424	\$ 20,671,044	\$ 18,435,915	\$ 16,130,000	\$ 17,951,300

Details of Outstanding Indebtedness

The following table sets forth the indebtedness of the School District evidenced by serial bonds and bond anticipation notes as of January 30, 2012.

<u>Bonds</u>	<u>Maturity</u>	<u>Amount</u>
	2012-2021	\$ 12,460,000
<u>Bond Anticipation Notes</u>	February 24, 2012	<u>5,491,300</u> ⁽¹⁾
	Total Indebtedness	<u>\$ 17,951,300</u>

⁽¹⁾ To be retired with the proceeds of the Series 2012A Notes and \$200,000 available funds of the School District.

Debt Statement Summary

Summary of Indebtedness, Debt Limit and Net Debt-Contracting Margin evidenced by serial bonds and bond anticipation notes as of January 30, 2012:

Full Valuation of Taxable Real Property	\$	2,519,678,041
Debt Limit 10% thereof		251,967,804
<u>Inclusions:</u>		
Bonds	\$	12,460,000
Principal of the Series 2012A Notes.....		5,291,300
Principal of the Series 2012B Notes.....		<u>4,000,000</u>
Total Inclusions.....	\$	<u>21,751,300</u>
<u>Exclusions:</u>		
State Building Aid ⁽¹⁾	\$	<u>0</u>
Total Exclusions.....	\$	<u>0</u>
Total Net Indebtedness ⁽²⁾	\$	<u>21,751,300</u>
Net Debt-Contracting Margin	\$	<u>230,216,504</u>
The percent of debt contracting power exhausted is		8.63%

The issuance of the Notes will increase the net indebtedness of the School District by \$4,000,000.

- (1) The School District receives New York State building aid in an amount approximating 76.8% of the debt service on its indebtedness incurred for building projects. The School District has no reason to believe that it will not ultimately receive all of the building aid it anticipates, however, no assurance can be given as to when and how much building aid the School District will receive in relation to the outstanding bonds.
- (2) The State Constitution does not provide for the inclusion of tax anticipation or revenue anticipation notes in the computation of the net indebtedness of the School District.

Cash Flow Borrowings

The School District has issued tax anticipation notes in the past. The last borrowing was during the 1999-2000 fiscal year.

The School District has not found it necessary to issue revenue anticipation notes in the past and does not anticipate issuing either tax anticipation notes or revenue anticipation notes in the foreseeable future.

Bonded Debt Service

A schedule of Bonded Debt Service may be found in APPENDIX - B to this Official Statement.

Capital Project Plans

There are no other projects authorized or contemplated at this time.

Estimated Overlapping Indebtedness

In addition to the School District, the following political subdivisions have the power to issue obligations and to levy taxes or cause taxes to be levied on taxable real property in the School District. Estimated bonds and bond anticipation notes are listed as of the close of the last fiscal year of the respective municipalities.

<u>Unit</u>	<u>Outstanding Indebtedness</u> ⁽¹⁾	<u>Exclusions</u> ⁽²⁾	<u>Net Indebtedness</u>	<u>% Within School District</u>	<u>Applicable Net Indebtedness</u>
County of: Orange	\$ 264,328,721	\$ 18,900,000	\$ 245,428,721	7.15%	\$ 17,548,154
Towns of:					
Montgomery	2,497,200	2,497,200	0	97.72%	0
Crawford	7,764,375	3,074,805	4,689,570	15.82%	741,890
Wallkill	26,638,026	17,662,551	8,975,475	3.70%	332,093
Hamptonburgh	172,287	30,650	141,637	8.25%	11,685
Shawangunk	4,185,065	1,014,840	3,170,225	1.55%	49,138
Newburgh	11,490,066	3,463,066	8,027,000	5.76%	462,355
New Windsor	14,708,596	3,528,591	11,180,005	0.72%	<u>80,496</u>
				Total	\$ 19,225,811

⁽¹⁾ Bonds and bond anticipation notes, as of close of last respective fiscal year adjusted to include subsequent bond sales, if any.

⁽²⁾ Sewer and Water indebtedness.

Debt Ratios

The following table sets forth certain ratios relating to the School District's indebtedness as of January 30, 2012.

	<u>Amount</u>	<u>Per Capita</u> (a)	<u>Percentage of Full Value</u> (b)
Net Indebtedness (see "Computation of Debt Limit")	\$ 21,751,300	\$ 807.70	0.86%
Net Indebtedness Plus Net Overlapping Indebtedness (c)	40,977,111	1,521.62	1.63%

(a) The current estimated population of the School District is 26,930.

(b) The School District's full value of taxable real estate for 2011-2012 is \$2,519,678,041.

(c) Estimated net overlapping indebtedness is \$19,225,811. See "Estimated Overlapping Indebtedness."

SPECIAL PROVISIONS AFFECTING REMEDIES UPON DEFAULT

In the event of a default in the payment of the principal of and/or interest on the Notes, the State Comptroller is required to withhold, under certain conditions prescribed by Section 99-b of the State Finance Law, state aid and assistance to the School District and to apply the amount thereof so withheld to the payment of such defaulted principal and/or interest, which requirement constitutes a covenant by the State with the holders from time to time of the Notes.

Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the School District upon any judgment or accrued claim against it shall not exceed nine per centum per annum. This provision might be construed to have application to the holders of the Notes in the event of a default in the payment of the principal of or interest on the Notes.

In accordance with the general rule with respect to municipalities, judgments against the School District may not be enforced by levy and execution against property owned by the School District.

The Federal Bankruptcy Code allows public bodies recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness. While these provisions do not apply to School Districts, there can be no assurance that they will not be made so applicable in the future.

At the Extraordinary Session of the State Legislature held in November, 1975, legislation was enacted which purported to suspend the right to commence or continue an action in any court to collect or enforce certain short-term obligations of The City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such City of its faith and credit for the payment of such obligations.

As a result of the Court of Appeals decision, the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law enacted at the 1975 Extraordinary Session of the State legislature authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the School District.

There is in the Constitution of the State, Article VIII, Section 2, the following provision relating to the annual appropriation of monies for the payment of due principal of and interest on indebtedness of every county, city, town, village and school district in the State: "If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any holder of obligations issued for any such indebtedness."

The Constitutional provision providing for first revenue set asides does not apply to tax anticipation notes, revenue anticipation notes or bond anticipation notes.

MATERIAL EVENT NOTICES

In accordance with the provisions of Rule 15c2-12, as the same may be amended or officially interpreted from time to time (the "Rule"), promulgated by the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended, the School District has agreed to provide or cause to be provided, in a timely manner not in excess of ten (10) business days after the occurrence of the event, during the period in which the Notes are outstanding, to the Electronic Municipal Market Access ("EMMA") system of the Municipal Securities Rulemaking Board ("MSRB") or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule, notice of the occurrence of any of the following events with respect to the Notes:

- (a) principal and interest payment delinquencies
- (b) non-payment related defaults, if material
- (c) unscheduled draws on debt service reserves reflecting financial difficulties
- (d) in the case of credit enhancement, if any, provided in connection with the issuance of the Note, unscheduled draws on credit enhancements reflecting financial difficulties
- (e) substitution of credit or liquidity providers, or their failure to perform
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes
- (g) modifications to rights of holders of the Notes, if material
- (h) note calls, if material and tender offers
- (i) defeasances
- (j) release, substitution, or sale of property securing repayment of the Notes
- (k) rating changes
- (l) bankruptcy, insolvency, receivership or similar event of the School District
- (m) the consummation of a merger, consolidation, or acquisition involving the School District or the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material

Event (c) is included pursuant to a letter from the Commissioner staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (c) is not applicable, since no "debt service reserves" will be established for the Notes.

With respect to event (d) the School District does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Notes.

The School District may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if the School District determines that any such other event is material with respect to the Notes; but the School District does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The School District reserves the right to terminate its obligation to provide the aforescribed notices of material events, as set forth above, if and when the School District no longer remains an obligated person with respect to the Notes within the meaning of the Rule. The School District acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Notes (including holders of beneficial interests in the Notes). The right of holders of the Notes to enforce the provisions of the undertaking will be limited to a right to obtain specific enforcement of the School District's obligations under its material event notices undertaking and any failure by the School District to comply with the provisions of the undertaking will neither be a default with respect to the Note nor entitle any holder of the Notes to recover monetary damages.

The School District reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the School District; provided that the School District agrees that any such modification will be done in a manner consistent with the Rule.

An "Undertaking to Provide Notice of Material Events" to this effect shall be provided to the purchaser(s) at closing.

The School District is in compliance with all prior undertakings pursuant to the Rule.

MARKET AND RISK FACTORS

The financial condition of the School District as well as the market for the Notes could be affected by a variety of factors, some of which are beyond the School District's control. There can be no assurance that adverse events in the State and in other jurisdictions in the country, including, for example, the seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Notes. If a significant default or other financial crisis should occur in the affairs of the State or another jurisdiction in the country or any of its agencies or political subdivisions thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the School District to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the Notes, could be adversely affected.

The School District is dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes and revenues in order to pay State aid to municipalities and school districts in the State, including the School District, in any year, the School District may be affected by a delay, until sufficient taxes have been received by the State to make State aid payments to the School District. In several recent years, the School District has received delayed payments of State aid which resulted from the State's delay in adopting its budget and appropriating State aid to municipalities and school districts, and consequent delay in State borrowing to finance such appropriations. (See also "State Aid").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Notes in order that interest on the Notes be and remain excludable from gross income for federal income tax purposes. These requirements include provisions which prescribe yield and other limits relative to the investment and expenditures of the proceeds of the Notes and other amounts and require that certain earnings be rebated to the federal government. The School District will agree to comply with certain provisions and procedures, pursuant to which such requirements can be satisfied. Non-compliance with such requirements may cause interest on the Notes to become includable in gross income for federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which non-compliance is ascertained.

The School District has designated the Notes as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

The Code imposes a 30% branch profits tax on the earnings and profits of a United States branch of certain foreign corporations attributable to its income effectively connected (or treated as effectively connected) with a United States trade or business. Included in the earnings and profits of the United States branch of a foreign corporation is income that would be effectively connected with the United States trade or business if such income were taxable, such as the interest on the Notes. Existing United States income tax treaties may modify, reduce, or eliminate the branch profits tax, except in cases of treaty shopping.

The Code further provides that interest on the Notes is includable in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement benefits is to be included in taxable income of individuals. In addition, certain S Corporations may have a tax imposed on passive income, including tax-exempt interest, such as interest on the Notes.

Prospective purchasers should consult their tax advisors with respect to the calculations of the foreign branch profits tax liability, and the tax on passive income of S Corporations or the inclusion of Social Security or other retirement payments in taxable income.

In the opinion of Bond Counsel, assuming compliance with certain requirements of the Code, under existing laws, interest on the Notes is not includable in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations provided, however, that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on such corporations. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Notes.

The opinion of Bond Counsel described herein with respect to the Federal income tax treatment of interest paid on the Notes is based upon the current provisions of the Code. There can be no assurance that the Code will not be amended in the future so as to reduce or eliminate such favorable Federal income tax treatment on the Notes. Any such future legislation would have an adverse effect on the market value of the Notes.

In addition, in the opinion of Bond Counsel, under existing laws, interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including The City of New York.

LEGAL MATTERS

The legality of the authorization and issuance of the Notes will be covered by the unqualified legal opinion of Bond, Schoeneck & King, PLLC, Bond Counsel, Syracuse, New York. Such legal opinion will state that in the opinion of Bond Counsel (i) the Notes have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the School District, all the taxable property within which is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, without limitation as to rate or amount, (ii) interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City of New York; and (iii) interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on such corporations. The opinions of Bond Counsel set forth in (iii) above are subject to the condition that the School District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The School District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Notes in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Notes. It is to be understood that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may be also subject to exercise of judicial discretion in appropriate cases.

Bond Counsel has not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement (except to the extent, if any, stated in the Official Statement) or any other offering material relating to the Notes, and Bond Counsel expresses no opinion relating thereto (excepting only matters set forth as Bond Counsel's opinion in the Official Statement).

LITIGATION

The School District is subject to a number of lawsuits in the ordinary conduct of its affairs. The School District does not believe, however, that such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the School District.

RATING

The Notes themselves are not rated; however Standard & Poor's Credit Market Services has assigned its bond rating "AA" with respect to the School District's outstanding serial bonds. A rating reflects only the view of the rating agency assigning such rating and an explanation of the significance of such rating may be obtained from such rating agency. Generally, rating agencies base their ratings on the information and materials furnished to it and on investigations, studies and assumptions by the respective rating agency. There is no assurance that a rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion or estimates whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of the Notes.

Information pertaining to the Official Statement may be obtained upon request from the Office of the Valley Central School District at Montgomery's contact information is as follows: Mr. Stephen Bangert, Assistant Superintendent for Business, 944 Route 17K, Montgomery, New York 12549, Phone: (845) 457-2400 x 18122, Telefax: (845) 457-4254, Email: sbangert@vcsd.oubooces.org

This Official Statement has been duly executed and delivered by the President of the Board of Education of Valley Central School District at Montgomery.

Fiscal Advisors & Marketing, Inc. may place a copy of this Official Statement on its website at www.fiscaladvisors.com. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Fiscal Advisors & Marketing, Inc. has prepared its website information for your convenience, but you should not make any decision in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and Fiscal Advisors & Marketing, Inc. assumes no liability or responsibility for errors or omissions on its website. Further, Fiscal Advisors & Marketing, Inc. disclaims any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on its website. Fiscal Advisors & Marketing, Inc. also assumes no liability or responsibility for any errors or omissions or for any updates to dated website information.

VALLEY CENTRAL SCHOOL DISTRICT AT MONTGOMERY

Dated: January 26, 2012

**ROBERT W. SANTO
PRESIDENT OF THE BOARD OF EDUCATION AND
CHIEF FISCAL OFFICER**

GENERAL FUND

Balance Sheets

Fiscal Years Ending June 30:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>ASSETS</u>				
Cash and Cash Investments	\$ 13,340,320	\$ 14,924,561	\$ 12,974,944	\$ 14,275,006
Accounts Receivable	-	-	-	-
Due from Other Funds	1,707,262	1,517,529	1,605,064	3,207,015
State and Federal Aid Receivable	1,649,775	1,658,809	4,798,903	2,635,511
Due from Other Governments	563,272	316,668	524,443	534,312
Due from Fiduciary Funds	43,248	103	-	12,232
Other	-	-	2,017	28,687
Prepaid Expenditures	571,817	543,310	587,379	-
	<u>571,817</u>	<u>543,310</u>	<u>587,379</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 17,875,694</u>	<u>\$ 18,960,980</u>	<u>\$ 20,492,750</u>	<u>\$ 20,692,763</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
Accounts Payable	\$ 750,401	\$ 276,985	\$ 434,395	\$ 860,703
Accrued Liabilities	412,282	392,683	338,377	433,428
Notes Payable	-	-	-	-
Due to Other Funds	-	-	-	-
Due to Other Governments	213,724	-	38,711	68,276
Due to Teachers' Retirement System	3,127,655	3,016,902	2,571,810	3,493,754
Due to Employees' Retirement System	130,049	124,030	222,001	263,953
Other Post-Employment Benefits Payable	-	-	-	-
Deferred Revenue	525,499	271,854	353,644	400,679
	<u>525,499</u>	<u>271,854</u>	<u>353,644</u>	<u>400,679</u>
TOTAL LIABILITIES	<u>5,159,610</u>	<u>4,082,454</u>	<u>3,958,938</u>	<u>5,520,793</u>
 <u>FUND EQUITY</u>				
Reserved	\$ 7,328,548	\$ 6,909,676	\$ 7,250,354	\$ 5,922,930
Unreserved:				
Appropriated	3,000,000	4,713,724	6,646,686	6,867,761
Unappropriated	2,387,536	3,255,126	2,636,772	2,381,279
	<u>2,387,536</u>	<u>3,255,126</u>	<u>2,636,772</u>	<u>2,381,279</u>
TOTAL FUND EQUITY	<u>12,716,084</u>	<u>14,878,526</u>	<u>16,533,812</u>	<u>15,171,970</u>
 TOTAL LIABILITIES and FUND EQUITY	 <u>\$ 17,875,694</u>	 <u>\$ 18,960,980</u>	 <u>\$ 20,492,750</u>	 <u>\$ 20,692,763</u>

Source: Audited financial reports of the School District. Summary itself not audited.

GENERAL FUND

Revenues, Expenditures and Changes in Fund Balance

Fiscal Years Ending June 30:	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>REVENUES</u>					
Real Property Taxes	\$ 31,544,169	\$ 33,986,565	\$ 35,822,446	\$ 38,367,288	\$ 39,830,132
Other Tax Items	6,742,297	7,141,745	7,103,495	7,102,664	7,107,524
Charges for Services	347,571	856,666	346,881	570,240	392,559
Use of Money & Property	660,609	1,157,717	998,030	348,629	155,305
Sale of Property and Compensation for Loss	2,739	7,053	2,862	13,212	9,844
Miscellaneous	463,295	382,053	438,586	710,461	796,411
Revenues from State Sources	26,944,176	29,091,050	30,953,374	33,523,761	29,811,679
Revenues from Federal Sources	246,449	182,756	206,119	105,252	3,566,969
Total Revenues	<u>\$ 66,951,305</u>	<u>\$ 72,805,605</u>	<u>\$ 75,871,793</u>	<u>\$ 80,741,507</u>	<u>\$ 81,670,423</u>
Other Sources:					
Interfund Transfers	<u>-</u>	<u>74,744</u>	<u>91,986</u>	<u>99,192</u>	<u>85,179</u>
 Total Revenues and Other Sources	<u>66,951,305</u>	<u>72,880,349</u>	<u>75,963,779</u>	<u>80,840,699</u>	<u>81,755,602</u>
<u>EXPENDITURES</u>					
General Support	\$ 6,143,653	\$ 7,015,339	\$ 7,441,434	\$ 7,335,324	\$ 7,587,129
Instruction	37,039,586	39,698,461	44,219,260	47,823,292	49,566,224
Pupil Transportation	4,790,541	4,925,181	5,121,854	5,194,044	5,234,913
Community Services	-	-	-	-	-
Employee Benefits	13,259,102	13,423,497	14,228,776	14,861,450	15,145,278
Debt Service	2,896,295	3,136,283	3,175,870	3,132,658	2,316,645
Total Expenditures	<u>\$ 64,129,177</u>	<u>\$ 68,198,761</u>	<u>\$ 74,187,194</u>	<u>\$ 78,346,768</u>	<u>\$ 79,850,189</u>
Other Uses:					
Interfund Transfers	<u>988,613</u>	<u>166,742</u>	<u>2,731,743</u>	<u>331,489</u>	<u>250,127</u>
 Total Expenditures and Other Uses	<u>65,117,790</u>	<u>68,365,503</u>	<u>76,918,937</u>	<u>78,678,257</u>	<u>80,100,316</u>
Excess (Deficit) Revenues Over Expenditures	<u>1,833,515</u>	<u>4,514,846</u>	<u>(955,158)</u>	<u>2,162,442</u>	<u>1,655,286</u>
<u>FUND BALANCE</u>					
Fund Balance - Beginning of Year	7,322,881	9,156,396	13,671,242	12,716,084	14,878,526
Prior Period Adjustments (net)	-	-	-	-	-
Fund Balance - End of Year	<u>\$ 9,156,396</u>	<u>\$ 13,671,242</u>	<u>\$ 12,716,084</u>	<u>\$ 14,878,526</u>	<u>\$ 16,533,812</u>

Source: Audited financial reports of the School District. Summary itself not audited.

GENERAL FUND

Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Fiscal Years Ending June 30:	2011			2012
	Adopted Budget	Modified Budget	Actual	Adopted Budget
<u>REVENUES</u>				
Real Property Taxes	\$ 41,367,717	\$ 41,367,717	\$ 41,281,333	\$ 51,764,441
Other Tax Items	7,350,444	7,350,444	8,039,838	-
Charges for Services	158,000	158,000	441,949	205,000
Use of Money & Property	100,000	100,000	136,381	110,000
Sale of Property and Compensation for Loss	3,000	66,272	67,988	3,330
Miscellaneous	90,000	94,993	1,254,805	134,000
Revenues from State Sources	28,591,012	28,591,012	28,658,628	28,810,767
Revenues from Federal Sources	1,670,988	1,670,988	1,632,544	50,000
Total Revenues	\$ 79,331,161	\$ 79,399,426	\$ 81,513,466	\$ 81,077,538
 Other Sources:				
Interfund Transfers	200,000	200,000	90,286	190,000
Total Revenues and Other Sources	79,531,161	79,599,426	81,603,752	81,267,538
 <u>EXPENDITURES</u>				
General Support	\$ 7,936,137	8,622,494	\$ 7,701,787	\$ 7,834,105
Instruction	51,158,908	52,307,423	50,006,564	51,247,427
Pupil Transportation	5,714,100	5,729,085	5,629,422	5,794,061
Community Services	-	-	-	-
Employee Benefits	19,002,525	17,667,034	16,267,008	20,236,188
Debt Service	2,513,145	2,352,275	2,311,322	2,487,257
Total Expenditures	\$ 86,324,815	\$ 86,678,311	\$ 81,916,103	\$ 87,599,038
 Other Uses:				
Interfund Transfers	735,000	1,204,354	1,049,491	290,000
Total Expenditures and Other Uses	87,059,815	87,882,665	82,965,594	87,889,038
Excess (Deficit) Revenues Over Expenditures	(7,528,654)	(8,283,239)	(1,361,842)	(6,621,500)
 <u>FUND BALANCE</u>				
Fund Balance - Beginning of Year	7,528,654	8,283,239	16,533,812	6,621,500
Prior Period Adjustments (net)	-	-	-	-
Fund Balance - End of Year	\$ -	\$ -	\$ 15,171,970	\$ -

Source: Audited financial report and budgets of the School District. Summary itself not audited.

BONDED DEBT SERVICE

Fiscal Year Ending June 30th	Principal	Interest	Total
2012	\$ 1,740,000	\$ 453,750.00	\$ 2,193,750.00
2013	1,770,000	413,750.00	2,183,750.00
2014	1,825,000	358,000.00	2,183,000.00
2015	1,900,000	285,000.00	2,185,000.00
2016	1,975,000	209,000.00	2,184,000.00
2017	2,050,000	130,000.00	2,180,000.00
2018	300,000	48,000.00	348,000.00
2019	300,000	36,000.00	336,000.00
2020	300,000	24,000.00	324,000.00
2021	300,000	12,000.00	312,000.00
TOTALS	\$ 12,460,000	\$ 1,969,500.00	\$ 14,429,500.00

VALLEY CENTRAL SCHOOL DISTRICT AT MONTGOMERY

**GENERAL PURPOSE FINANCIAL
STATEMENTS**

JUNE 30, 2011

Such Financial Report and opinions were prepared as of date thereof and have not been reviewed and/or updated in connection with the preparation and dissemination of this Official Statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
JUNE 30, 2011
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INDEPENDENT AUDITOR'S REPORT

To the President and Members
of the Board of Education of
Valley Central School District
Montgomery, New York

We have audited the accompanying financial statements of the governmental activities, each major fund, and the fiduciary funds of the Valley Central School District, as of and for the year ended June 30, 2011, which collectively comprise the Valley Central School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Valley Central 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 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 fiduciary funds of the Valley Central School District, as of June 30, 2011, 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.

As discussed in Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions, which clarifies the existing fund type definitions and provides clearer fund balance categories and classifications.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2011 on our consideration of the Valley Central 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 50 through 52 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 Valley Central School District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The supplemental schedules on pages 53 through 56 were required by the New York State Education Department. All of the supplemental schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,



September 22, 2011

VALLEY CENTRAL SCHOOL DISTRICT

Management Discussion and Analysis

Introductory Section

The following is a discussion and analysis of Valley Central School District's financial performance for the fiscal year ended June 30, 2011. This section is a summary of the Valley Central School District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2011 are as follows:

- During the 2010-2011 school year, the General Fund expenditures (including transfers) totaled \$82,965,594 (96.3% of budget) while revenues totaled \$81,603,752 (102.5% of budget), resulting in an excess of expenditures over revenues of \$1,361,842. In formulating the 2010-2011 budget and program, the Board of Education and the District Administration recognized the significant reduction (\$3.1M) in state aid and ARRA funds for the 2010-2011 school year and planned for a reduction in fund balance in order, in part, to sustain district programs. The reduction in school district state aid in 2010-2011 was a state-wide phenomenon. Actual expenditures increased 3.6% in 2010-2011 as staff reductions and other economy measures eased the growth in the budget that would have otherwise occurred. Revenues were relatively flat when compared to 2009-2010 with a decline by \$151,850 on a volume in the \$81M range. The \$3.1M decline in state aid was made up for with the 1) increase in the tax levy and 2) a large refund from OU BOCES.
- In August 2010, a few months after the 2010-2011 budget was adopted by the Board and approved by the voters, the U.S. government approved an Education Jobs Fund for \$23 billion dollars which would provide funding to sustain or create teaching jobs in schools throughout the country. The Jobs Fund can be expended between September 2010 and August of 2012. Valley Central's share for the bill is \$1.37M. The district has chosen to spend all of the of funds in the 2011-2012 school year since planning and budgeting for the 2010-2011 school year had already been completed by the time the jobs funds became available. These funds have been put into the planning for the 2011-2012 school year. Thus no Education Jobs Funds have been spent in the 2010-2011 school year.
- The District continued its spending from the voter-approved \$7,150,000 EXCEL-aided Capital Project by completing extensive renovations to the Middle School and to a lesser extent, the High School. The work continued into the summer of 2011, and some final site work will be completed in the fall of 2011.
- The District became aware of an emergency condition with the High School Pool roof in September 2010. The Board of Education reacted to this emergency by declaring an emergency as an ordinary contingent expenditure and amended the 2010-2011 budget by \$174,156 as a transfer to the Capital fund to address the emergency. The repair was completed as an expenditure in the Capital fund for \$138,609.
- The District became aware of another emergency condition at Walden Elementary School in the spring of 2011. Again, the Board of Education reacted to this emergency by declaring an emergency as a contingent expenditure and amended the 2010-2011 budget with a transfer to Capital Fund for the budgeted amount of \$295,198 to address the emergency. A contract was awarded in June, and the project will be completed in 2011.
- The District had identified a priority list of facility issues that would need to be addressed in the near term and the long term in the District's Five Year Plan. The Board of Education authorized a proposition for the voters to vote upon in May 2011 to address "Minimal and Essential" reconstruction throughout the school district. In May 2011, the voters approved projects and bonding not to exceed \$7,250,000 to address additional roofing, septic replacement, pool mechanical replacement and several smaller facility matters throughout the District. In June 2011, the Board of Education awarded a construction contract for \$805,890 for the pool roof replacement.

VALLEY CENTRAL SCHOOL DISTRICT

**Management Discussion and Analysis
(Continued)**

Overview of the Financial Statements

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

- The first two statements are *district-wide* financial statements that provide both *short-term* and *long-term* information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

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

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

Major Features of the District-Wide and Fund Financial Statements			
	District-Wide	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus

VALLEY CENTRAL SCHOOL DISTRICT

**Management Discussion and Analysis
(Continued)**

Overview of the Financial Statements (Continued)

Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

District-Wide Financial Statements

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

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

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District’s overall health, you need to consider additional nonfinancial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

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

Fund Financial Statements

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

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

VALLEY CENTRAL SCHOOL DISTRICT

**Management Discussion and Analysis
(Continued)**

Fund Financial Statements (Continued)

The District has two kinds of funds:

- **Governmental Funds:** Most of the 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information provided in the notes to the financial statements explains the relationship (or differences) between them.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

The District's net assets at June 30, 2011 are \$25,737,187. This is a \$4,350,403 decrease from last year's net assets of \$30,087,590. The following table provides a summary of the District's net assets:

Summary of Net Assets

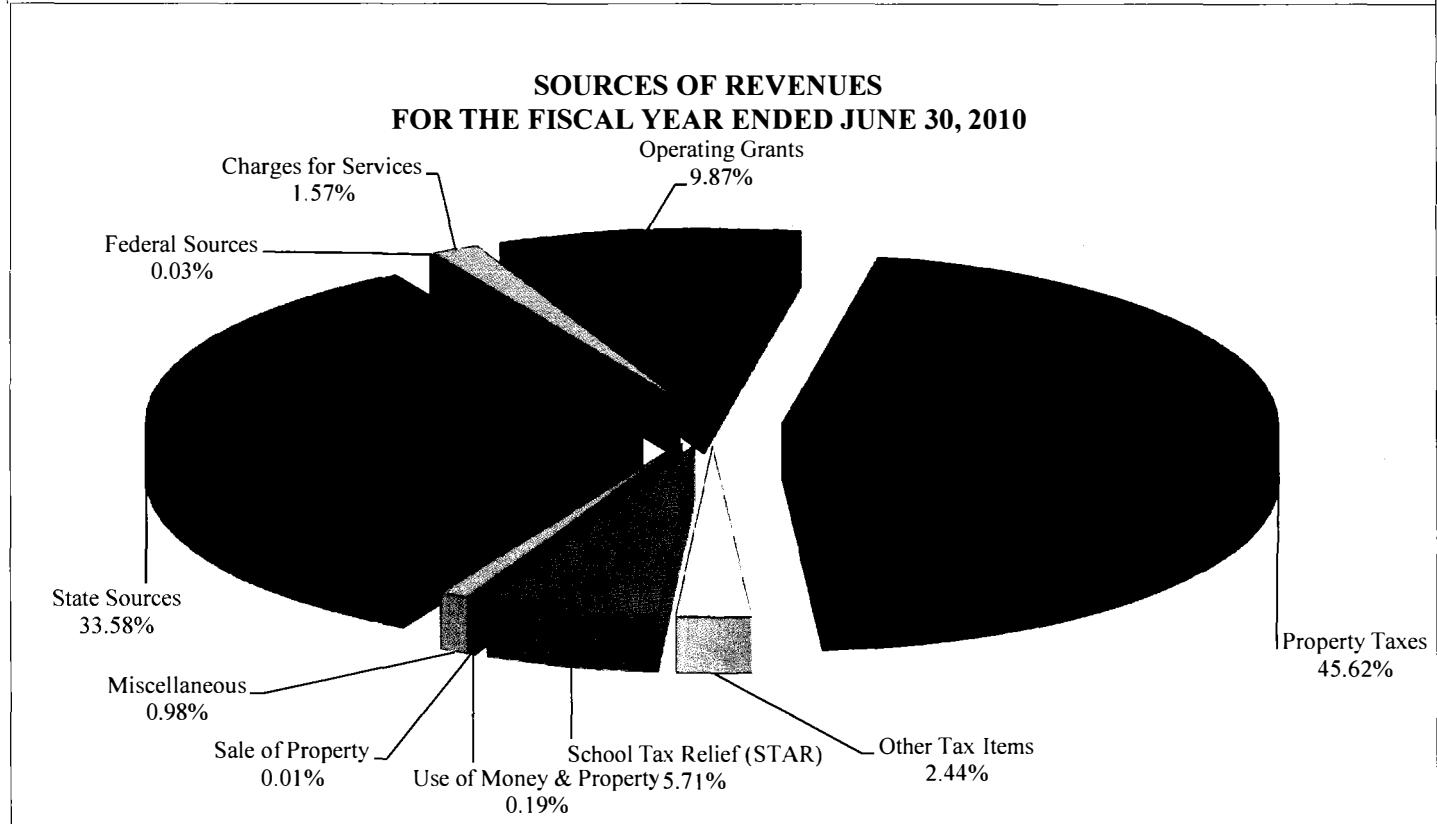
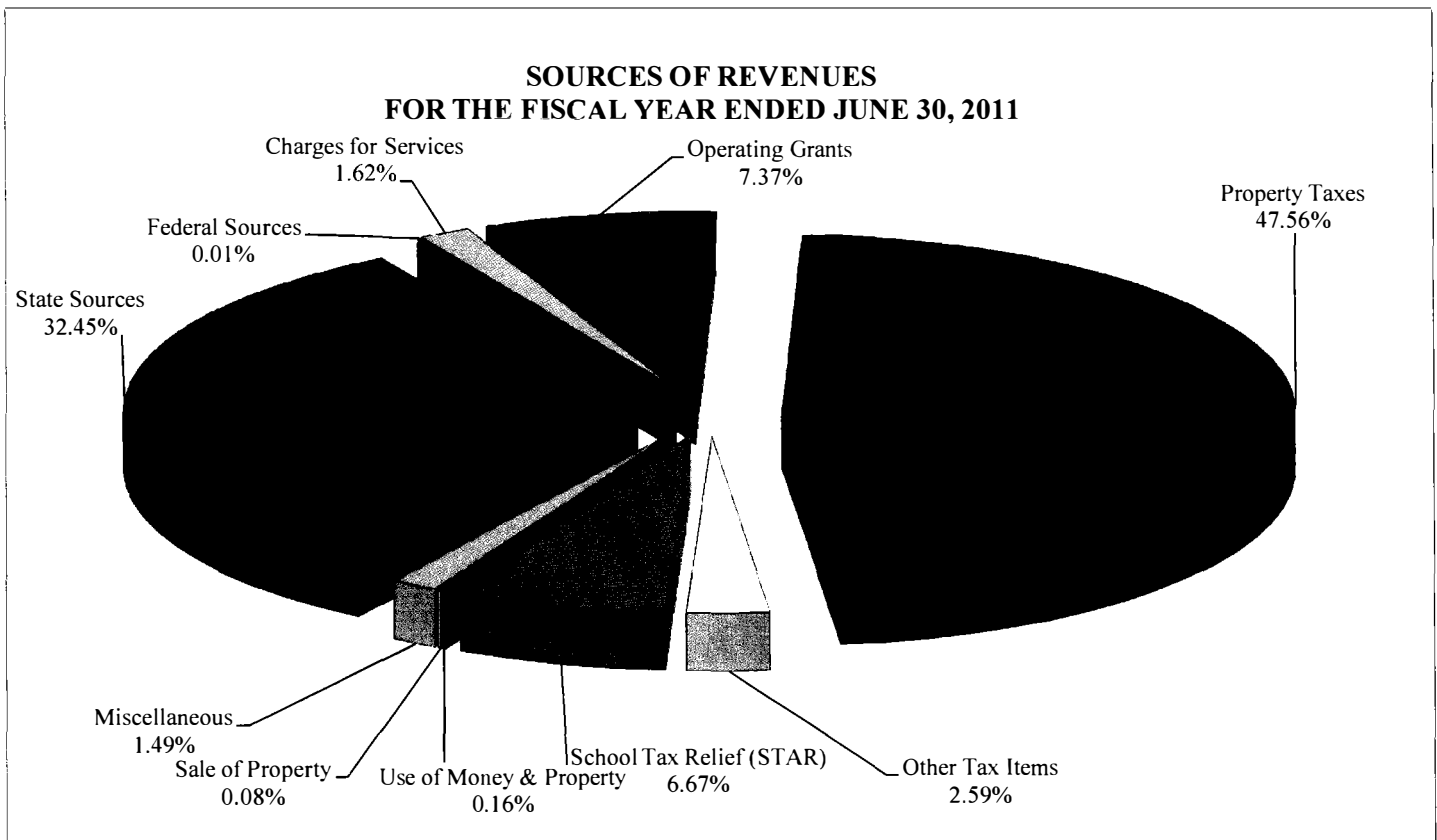
	<u>School District Activities</u>	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current Assets	\$ 20,642,526	\$ 25,826,506
Capital Assets, Net	44,471,971	41,033,429
Total Assets	<u>65,114,497</u>	<u>66,859,935</u>
Current Liabilities	12,685,857	12,763,990
Long-Term Debt Outstanding	26,691,453	24,008,355
Total Liabilities	<u>39,377,310</u>	<u>36,772,345</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	26,337,049	19,343,429
Restricted	1,288,985	960,777
Unrestricted	(1,888,847)	9,783,384
Total Net Assets	<u>\$ 25,737,187</u>	<u>\$ 30,087,590</u>

The following table and supporting graphs provides a summary of revenues, expenses and changes in net assets for the year ended June 30, 2011:

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
STATEMENT OF ACTIVITIES
SUMMARY OF CHANGES IN NET ASSETS

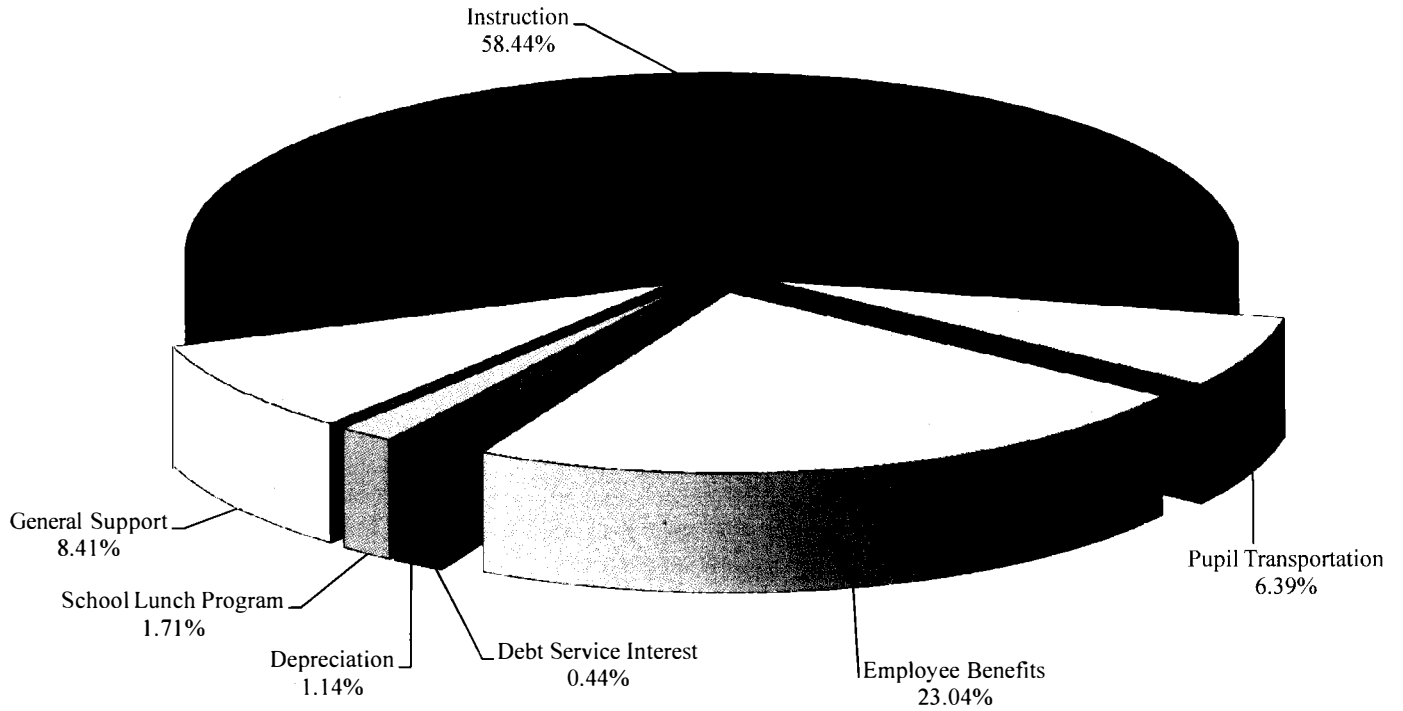
	<u>JUNE 30, 2011</u>	<u>%</u>	<u>JUNE 30, 2010</u>	<u>%</u>
<u>REVENUES</u>				
PROGRAM REVENUES:				
Charges for Services	\$ 1,403,283	1.62%	\$ 1,373,424	1.57%
Operating Grants	6,393,218	7.37%	8,618,841	9.87%
GENERAL REVENUES:				
Property Taxes	41,281,333	47.56%	39,830,132	45.62%
Other Tax Items	2,251,959	2.59%	2,126,709	2.44%
School Tax Relief (STAR)	5,787,879	6.67%	4,980,815	5.71%
Use of Money & Property	142,050	0.16%	166,404	0.19%
Sale of Property	67,988	0.08%	9,844	0.01%
Miscellaneous	1,294,075	1.49%	853,309	0.98%
State Sources	28,166,395	32.45%	29,310,412	33.58%
Federal Sources	11,556	0.01%	27,829	0.03%
TOTAL REVENUES	<u>86,799,736</u>	100.00%	<u>87,297,719</u>	100.00%
<u>EXPENSES</u>				
General Support	7,669,104	8.41%	7,586,795	8.53%
Instruction	53,652,800	58.87%	52,996,512	59.63%
Pupil Transportation	5,826,539	6.39%	5,405,920	6.08%
Employee Benefits	21,002,510	23.04%	19,587,550	22.03%
Debt Service Interest	404,441	0.44%	748,236	0.84%
Depreciation	1,039,652	1.14%	1,083,501	1.22%
School Lunch Program	1,555,093	1.71%	1,487,257	1.67%
TOTAL EXPENSES	<u>91,150,139</u>	100.00%	<u>88,895,771</u>	100.00%
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (4,350,403)</u>		<u>\$ (1,598,052)</u>	

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK

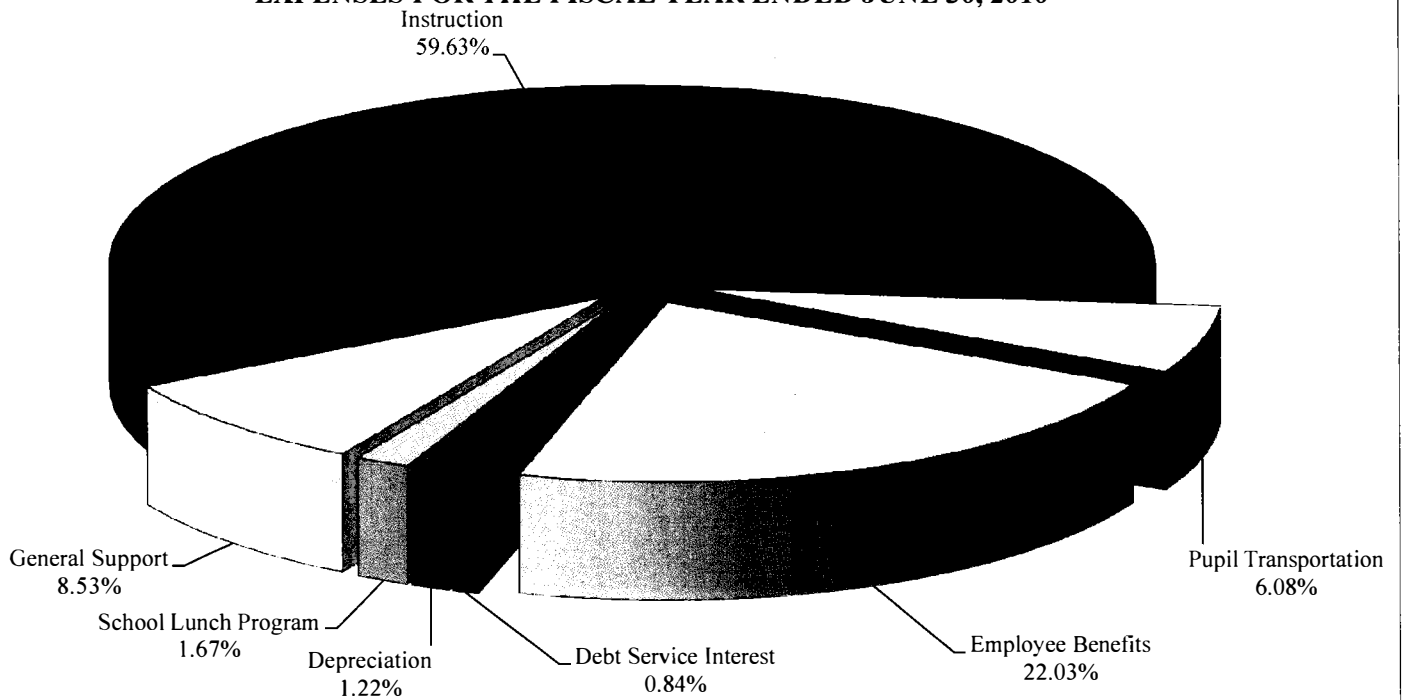


VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK

EXPENSES FOR THE FISCAL YEAR ENDED JUNE 30, 2011



EXPENSES FOR THE FISCAL YEAR ENDED JUNE 30, 2010

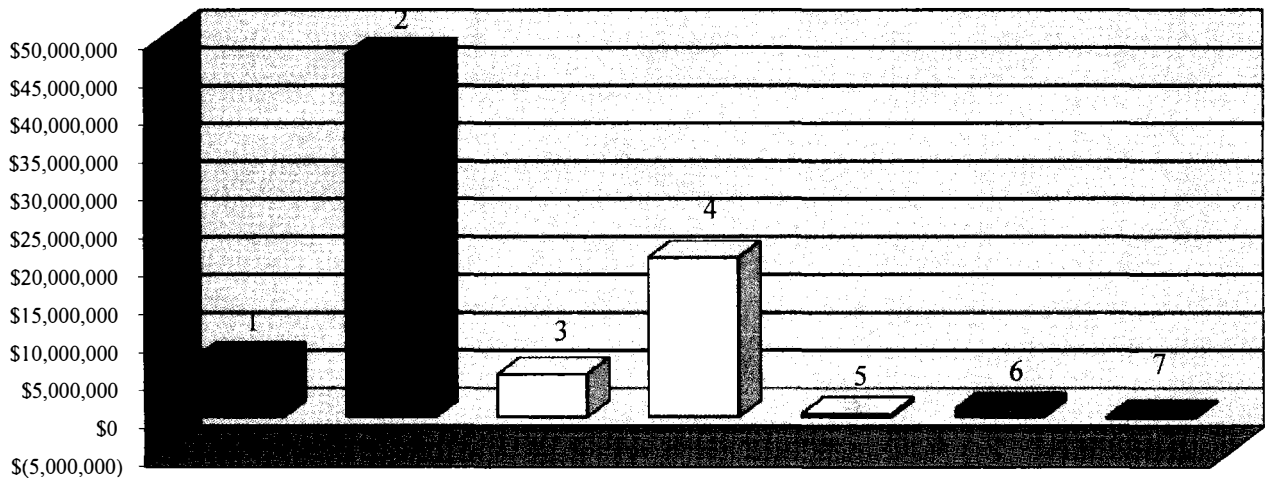


VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
STATEMENT OF ACTIVITIES
NET COSTS

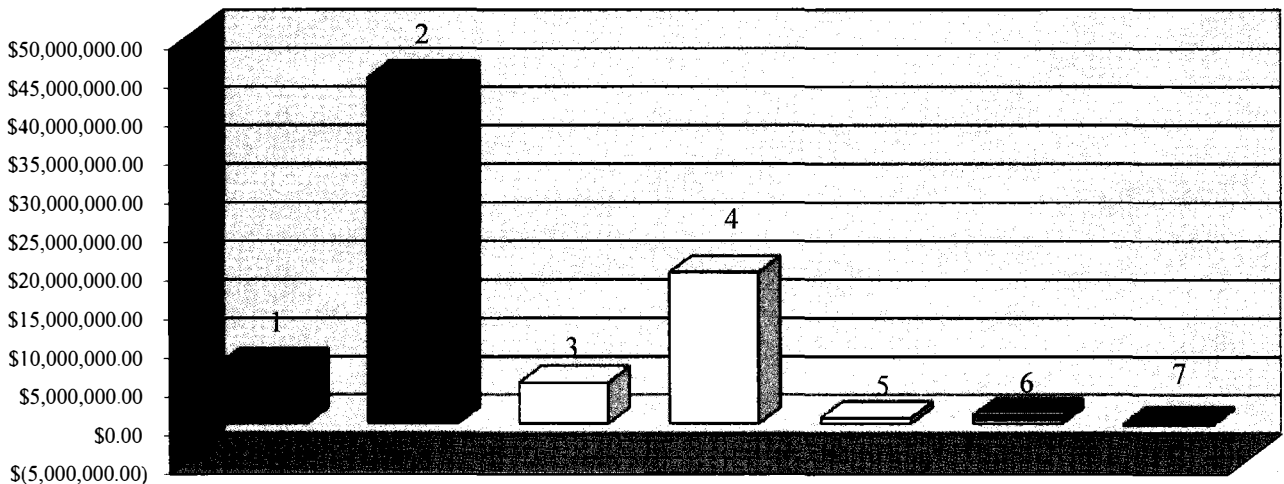
The following information is provided to disclose the net cost of governmental activities:

	TOTAL COST OF SERVICES 2010-2011	NET COST OF SERVICES 2010-2011	TOTAL COST OF SERVICES 2009-2010	NET COST OF SERVICES 2009-2010
General Support	\$ 7,669,104	\$ 7,634,888	\$ 7,586,795	\$ 7,544,195
Instruction	53,652,800	47,740,913	52,996,512	44,843,822
Pupil Transportation	3 5,826,539	5,668,845	5,405,920	5,269,114
Employee Benefits	4 21,002,510	21,002,510	19,587,550	19,587,550
Debt Service - Interest	5 404,441	404,441	748,236	748,236
Depreciation	1,039,652	1,039,652	1,083,501	1,083,501
School Lunch Program	1,555,093	(137,611)	1,487,257	(172,912)
	<u>\$ 91,150,139</u>	<u>\$ 83,353,638</u>	<u>\$ 88,895,771</u>	<u>\$ 78,903,506</u>

NET COSTS 2010-2011



NET COSTS 2009-2010



VALLEY CENTRAL SCHOOL DISTRICT

**Management Discussion and Analysis
(Continued)**

Financial Analysis of the District's Funds

As discussed, the District's governmental funds are reported in the fund statements with a modified accrual basis that uses a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. The major governmental funds of the District consist of the General Fund, Special Aid Fund, School Lunch Fund, Debt Service Fund and Capital Projects Fund. The total fund balances allocated between nonspendable, restricted, assigned, and unassigned fund balance for each of these funds is as follows:

	June 30, 2011			
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>	<u>Unassigned</u>
General	\$ 0	\$ 5,922,930	\$6,867,761	\$ 2,381,279
Special Aid	0	0	0	0
School Lunch	73,635	0	0	(73,635)
Capital Projects	0	0	0	(6,356,863)
Debt Service	0	557,422	0	0

	June 30, 2010			
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>	<u>Unassigned</u>
General	\$ 587,379	\$ 6,368,386	\$7,528,654	\$ 2,049,393
Special Aid	0	0	0	0
School Lunch	67,326	0	0	(67,326)
Capital Projects	0	0	0	(2,707,085)
Debt Service	0	597,918	0	0

General Fund Budgetary Highlights

The original budget for the General Fund was revised by \$822,850 during the year. The supplemental appropriations principally consisted of emergency capital projects and payments of compensated absences and tax certiorari payments through the use of fund balance reserves.

In the General Fund for the fiscal year ended June 30, 2011, actual revenues were greater than revised budgeted revenues by \$2,004,326 (2.52%). Significant factors contributing to the revenue exceeding the budget were a higher level of payments in lieu of taxes, and a significantly higher level of refund from BOCES for prior years' expenditures, than was budgeted. Actual expenditures and encumbrances were less than the revised budgeted expenditures by \$4,670,810 (5.31%). The District actively limited spending between January and May 2011. The benefits area of the budget contributed substantially to the year end results coming in under budget, and energy costs were lower than budgeted. In addition, encumbrances were significantly lower as year-end spending was limited and a final phase of a technology project through OU BOCES that commenced late in 2009-2010 did not repeat in 2010-2011.

For fiscal year 2011-2012, the District has appropriated \$6,621,500 of fund balance to reduce the tax levy, a decrease of \$25,186 from 2010-2011's \$6,646,686 appropriation.

VALLEY CENTRAL SCHOOL DISTRICT

**Management Discussion and Analysis
(Continued)**

Financial Analysis of the District's Funds (Continued)

General Fund Budgetary Highlights (Continued)

Factors that continue to affect the budget process are as follows:

- Uncertainty of state budget process and state aid amounts for years beyond 2012-2013.
- Future costs of benefits including retirement and health insurance costs.
- New York State Tax Cap legislation which has the potential to reduce the District's ability to raise new funds through its taxing authority.
- Future bus fuel costs

Management believes that the budget adopted for 2011-2012 is reasonably adaptable to any adverse changes that may arise based on the factors noted above. A significant mid-year state aid cut would negatively affect the financial performance of the District for 2011-2012. Further, it may be noted that for 2010-2011 school year, a significant amount of the District's revenues were flowing from the American Recovery and Reinvestment Act (ARRA) instead of from New York State Aid. In 2010-2011, these funds were being used to pay the salaries and benefits of instructional and support staff to maintain educational programs which otherwise would have seen reductions due to significant reduction in state aid. In 2011-2012, these federal funds will not be available to supplant the state aid to school districts, but the funds will be partially replaced with \$1.37M Federal Education Jobs funds. While federal legislation has been proposed by the president, as of September 2011, there is no known resource available to help the District avoid the "fund cliff" which the District will face in 2012-2013 when the Federal Education Jobs funds are used up.

During the 2010-2011 school year, the New York State Legislature enacted legislation, Chapter 97 of the Laws of 2011 that establishes a "property tax cap" on the amount that a school district's property tax levy can increase each year. This new legislation specifies that property taxes levied by a school district generally cannot increase by more than two percent, or the rate of inflation, whichever is less. The law does allow school districts to levy an additional amount for certain excludable expenditures. School districts can adopt a tax levy that exceeds the statutory limit, if the budget that is presented to the public is approved by sixty percent of the votes cast. The legislation will take effect beginning with the 2012-2013 school year.

Other Fund Highlights

The Special Aid Fund ended the year with no fund balance. For 2010-2011, \$390,000 had been budgeted to be transferred from the General Fund to the Special Aid Fund to pay for the district's share of the summer handicapped program for 2010-11 and an accumulated shortfall, but the district actually transferred \$185,242, a portion of which was used to remedy an accumulated shortfall. In 2011-2012, \$210,000 is budgeted.

The School Lunch Fund ended the year with no fund balance. Expenditures from operations exceeded revenues by \$130,442 before transfers from the General Fund. The District increased interfund transfers from the General Fund to the School Lunch Fund from \$45,000, the amount originally budgeted, to \$130,442. The Board of Education chose to keep student lunch prices unchanged in 10-11 from 09-10 in order to assist families with school age children in an economic downturn. However, the Board has voted to increase lunch prices in 2011-2012, and the budgeted interfund transfer has been increased from \$45,000 in 2010-2011 to \$80,000 for 2011-2012.

VALLEY CENTRAL SCHOOL DISTRICT

**Management Discussion and Analysis
(Continued)**

Financial Analysis of the District's Funds (Continued)

Other Fund Highlights (Continued)

The Capital Projects Fund ended the year with a negative fund balance of \$6,356,863, a decrease of \$3,649,778 from the negative fund balance at June 30, 2010 of \$2,707,085. The reason for the negative fund balance is that, while the District has financed the extensive renovations under the EXCEL approval by issuing Bond Anticipation Notes (BANs), only permanent financing is considered a source of revenue in the governmental fund financial statements, and BANs are interim financing vehicles. Spending for projects occurred primarily on renovation work at the Middle and High School and at Maybrook Elementary School under the EXCEL Project.

The Debt Service Fund ended the year with a fund balance of \$557,422. This fund balance will be appropriated in future years to offset principal and interest payments.

Capital Asset and Debt Administration

Capital Assets

The District's investment in capital assets, net of accumulated depreciation as of June 30, 2010 was \$41,033,429. The total increase in this net investment was 8.38% for the District as a whole (see schedule below). The District's investment in capital assets, net of accumulated depreciation as of June 30, 2011, was \$44,471,971. The District expended \$4,478,194 to acquire and construct capital assets during the fiscal year ended June 30, 2011, and depreciation expense for the fiscal year was \$1,039,652.

CAPITAL ASSETS
Net of Accumulated Depreciation

	<u>School District Activities</u>		<u>% Change</u>
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	
<u>Non-Depreciable Assets:</u>			
Land	\$ 537,850	\$ 537,850	0.00%
Construction in Progress	13,233,607	9,386,374	40.99%
 <u>Depreciable Assets:</u>			
Land Improvements	35,649	39,919	-10.70%
Building and Improvements	30,347,364	30,714,910	-1.20%
Furniture and Equipment	317,501	354,376	-10.41%
TOTALS	<u>\$ 44,471,971</u>	<u>\$ 41,033,429</u>	8.38%

Long-Term Debt

At the end of the fiscal year, the District had total bonded debt outstanding of \$12,460,000. This amount is backed by the full faith and credit of the Valley Central School District with debt service fully funded by voter approved property taxes. Activity in bonded debt outstanding during the fiscal year was as follows:

VALLEY CENTRAL SCHOOL DISTRICT

**Management Discussion and Analysis
(Continued)**

Financial Analysis of the District's Funds (Continued)

Long-Term Debt (Continued)

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Paid</u>	<u>Ending Balance</u>
Serial Bond	\$ 11,440,000	\$ 0	\$ 11,440,000	\$ 0
Serial Bond	3,100,000	0	250,000	2,850,000
Serial Bond	0	11,240,000	1,630,000	9,610,000
Total Bonded Debt Outstanding	<u>\$ 14,540,000</u>	<u>\$ 11,240,000</u>	<u>\$ 13,320,000</u>	<u>\$ 12,460,000</u>

In October 2010, the District refunded (refinanced) an \$11,440,000 bond balance from a bond originally issued in June 2001. The refunding was authorized to save the District interest expenditures in the ensuing seven years. The refinancing saved the district \$86,536 in 2010-2011, and will save at least \$136,000 in each subsequent year through June 2017. By maturity, total interest savings will be \$916,392.

Bond Ratings

Moody's Investors Service ("Moody's") has assigned a rating of "A2" to outstanding uninsured bonds of the District. This rating reflects only the view of such rating agency and an explanation of the significance of such rating should be obtained from Moody's Investors Service. There can be no assurance that such rating will not be revised or withdrawn, if in the judgment of Moody's circumstances so warrant. Any change or withdrawal of such rating may have an adverse effect on the market price of the Notes or the availability of a secondary market for the Notes.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve Bangert, Assistant Superintendent for Business at the District's business offices at 944 Route 17K, Montgomery, New York 12549.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

ASSETS

Unrestricted Cash	\$ 14,574,988
Restricted Cash	1,566,548
State & Federal Aid Receivable	3,851,578
Due from Other Governments	534,312
Due from Fiduciary Funds	12,232
Other Receivables, Net	29,232
Inventories	73,636
Capital Assets, Net	<u>44,471,971</u>
 TOTAL ASSETS	 <u>65,114,497</u>

LIABILITIES

Accounts Payable	899,837
Accrued Liabilities	504,401
Due to Other Governments	68,393
Due to Teachers' Retirement System	3,493,754
Due to Employees' Retirement System	263,953
Retained Percentages	180,442
Bond Anticipation Notes	5,491,300
Deferred Revenues	12,960
Long-term Liabilities:	
Due and Payable Within One Year:	
Bonds Payable	1,770,817
Due and Payable In More Than One Year:	
Bonds Payable	10,872,805
Compensated Absences	3,233,951
Other Postemployment Benefits	<u>12,584,697</u>
 TOTAL LIABILITIES	 <u>39,377,310</u>

NET ASSETS

Investment in Capital Assets, Net of Related Debt	26,337,049
Restricted for:	
Debt Service	557,422
Capital Projects	731,563
Unrestricted	<u>(1,888,847)</u>
 TOTAL NET ASSETS	 <u>\$ 25,737,187</u>

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE & CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS	
<u>FUNCTIONS & PROGRAMS</u>				
General Support	\$ (10,143,446)	\$ 0	\$ 34,216	\$ (10,109,230)
Instruction	(71,144,090)	488,576	5,423,311	(65,232,203)
Pupil Transportation	(7,631,899)	0	157,694	(7,474,205)
Debt Service - Interest	(404,441)	0	0	(404,441)
School Lunch Program	(1,826,263)	914,707	777,997	(133,559)
TOTAL FUNCTIONS & PROGRAMS	<u>\$ (91,150,139)</u>	<u>\$ 1,403,283</u>	<u>\$ 6,393,218</u>	<u>(83,353,638)</u>
<u>GENERAL REVENUES</u>				
Real Property Taxes				41,281,333
Other Tax Items				8,039,838
Use of Money & Property				142,050
Sale of Property & Compensation for Loss				67,988
Miscellaneous				1,294,075
State Sources				28,166,395
Federal Sources				11,556
TOTAL GENERAL REVENUES				<u>79,003,235</u>
CHANGE IN NET ASSETS				(4,350,403)
NET ASSETS, BEGINNING OF YEAR				<u>30,087,590</u>
NET ASSETS, END OF YEAR				<u>\$ 25,737,187</u>

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	GENERAL	SPECIAL AID	SCHOOL LUNCH	CAPITAL PROJECTS	DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>						
Unrestricted Cash	\$ 14,275,006	\$ 230,266	\$ 69,716	\$ 0	\$ 0	\$ 14,574,988
Restricted Cash	0	0	0	1,009,346	557,202	1,566,548
State & Federal Aid Receivable	2,635,511	1,163,384	52,683	0	0	3,851,578
Due from Other Governments	534,312	0	0	0	0	534,312
Due from Other Funds	3,207,015	0	0	0	220	3,207,235
Due from Fiduciary Funds	12,232	0	0	0	0	12,232
Other Receivables, Net	28,687	0	545	0	0	29,232
Inventories	0	0	73,636	0	0	73,636
TOTAL ASSETS	\$ 20,692,763	\$ 1,393,650	\$ 196,580	\$ 1,009,346	\$ 557,422	\$ 23,849,761
<u>LIABILITIES & FUND BALANCES</u>						
<u>LIABILITIES</u>						
Accounts Payable	\$ 860,703	\$ 39,134	\$ 0	\$ 0	\$ 0	\$ 899,837
Accrued Liabilities	433,428	5,251	20,000	0	0	458,679
Due to Other Governments	68,276	0	117	0	0	68,393
Due to Other Funds	0	1,344,464	168,304	1,694,467	0	3,207,235
Due to Teachers' Retirement System	3,493,754	0	0	0	0	3,493,754
Due to Employees' Retirement System	263,953	0	0	0	0	263,953
Retained Percentages	0	0	0	180,442	0	180,442
Bond Anticipation Notes	0	0	0	5,491,300	0	5,491,300
Deferred Revenues	400,679	4,801	8,159	0	0	413,639
TOTAL LIABILITIES	\$ 5,520,793	\$ 1,393,650	\$ 196,580	\$ 7,366,209	\$ 0	\$ 14,477,232
<u>FUND BALANCES</u>						
Nonspendable	0	0	73,635	0	0	73,635
Restricted	5,922,930	0	0	0	557,422	6,480,352
Assigned	6,867,761	0	0	0	0	6,867,761
Unassigned	2,381,279	0	(73,635)	(6,356,863)	0	(4,049,219)
TOTAL FUND BALANCES	\$ 15,171,970	\$ 0	\$ 0	\$ (6,356,863)	\$ 557,422	\$ 9,372,529
TOTAL LIABILITIES & FUND BALANCES	\$ 20,692,763	\$ 1,393,650	\$ 196,580	\$ 1,009,346	\$ 557,422	\$ 23,849,761

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

<u>ASSETS</u>	TOTAL GOVERNMENTAL FUNDS	LONG-TERM ASSETS & LIABILITIES	RECLASSIFICATIONS & ELIMINATIONS	STATEMENT OF NET ASSETS
Unrestricted Cash	\$ 14,574,988			\$ 14,574,988
Restricted Cash	1,566,548			1,566,548
State & Federal Aid Receivable	3,851,578			3,851,578
Due from Other Governments	534,312			534,312
Due from Other Funds	3,207,235		(3,207,235)	0
Due from Fiduciary Funds	12,232			12,232
Other Receivables, Net	29,232			29,232
Inventories	73,636			73,636
Capital Assets, Net	0	44,471,971		44,471,971
TOTAL ASSETS	<u>\$ 23,849,761</u>	<u>\$ 44,471,971</u>	<u>\$ (3,207,235)</u>	<u>\$ 65,114,497</u>

LIABILITIES & FUND BALANCES / NET ASSETS

<u>LIABILITIES</u>				
Accounts Payable	\$ 899,837			\$ 899,837
Accrued Liabilities	458,679	45,722		504,401
Due to Other Governments	68,393			68,393
Due to Other Funds	3,207,235		(3,207,235)	0
Due to Teachers' Retirement System	3,493,754			3,493,754
Due to Employees' Retirement System	263,953			263,953
Retained Percentages	180,442			180,442
Bond Anticipation Notes	5,491,300			5,491,300
Deferred Revenues	413,639	(400,679)		12,960
Bonds Payable	0	12,643,622		12,643,622
Compensated Absences	0	3,233,951		3,233,951
Other Postemployment Benefits	0	12,584,697		12,584,697
TOTAL LIABILITIES	<u>14,477,232</u>	<u>28,107,313</u>	<u>(3,207,235)</u>	<u>39,377,310</u>
FUND BALANCES / NET ASSETS	<u>9,372,529</u>	<u>16,364,658</u>	<u>0</u>	<u>25,737,187</u>
TOTAL LIABILITIES & FUND BALANCES / NET ASSETS	<u>\$ 23,849,761</u>	<u>\$ 44,471,971</u>	<u>\$ (3,207,235)</u>	<u>\$ 65,114,497</u>

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL	SPECIAL AID	SCHOOL LUNCH	CAPITAL PROJECTS	DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Real Property Taxes	\$ 41,281,333	0	0	0	0	\$ 41,281,333
Other Tax Items	8,039,838	0	0	0	0	8,039,838
Charges for Services	441,949	0	0	0	0	441,949
Use of Money & Property	136,381	0	193	0	5,476	142,050
Sale of Property & Compensation for Loss	67,988	0	0	0	0	67,988
Miscellaneous	1,254,805	0	5,495	0	38,862	1,299,162
State Sources	28,658,628	921,177	40,940	0	0	29,620,745
Federal Sources	1,632,544	2,580,823	737,057	0	0	4,950,424
Sales	0	0	909,212	0	0	909,212
TOTAL REVENUES	81,513,466	3,502,000	1,692,897	0	44,338	86,752,701
EXPENDITURES						
General Support	7,701,787	0	898,689	0	0	8,600,476
Instruction	50,006,564	3,490,125	0	0	0	53,496,689
Pupil Transportation	5,629,422	197,117	0	0	0	5,826,539
Employee Benefits	16,267,008	0	269,623	0	0	16,536,631
Debt Service:						
Principal	1,880,000	0	0	0	0	1,880,000
Interest	431,322	0	0	0	0	431,322
Cost of Sales	0	0	655,027	0	0	655,027
Capital Outlay	0	0	0	4,383,585	0	4,383,585
TOTAL EXPENDITURES	81,916,103	3,687,242	1,823,339	4,383,585	0	91,810,269
EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES	(402,637)	(185,242)	(130,442)	(4,383,585)	44,338	(5,057,568)
OTHER SOURCES & USES						
Proceeds from Advance Refunding	0	0	0	0	12,149,135	12,149,135
Operating Transfers In	90,286	185,242	130,442	733,807	0	1,139,777
Payment to Escrow Agent - Bond Refunding	0	0	0	0	(12,143,683)	(12,143,683)
Operating Transfers (Out)	(1,049,491)	0	0	0	(90,286)	(1,139,777)
TOTAL OTHER SOURCES & USES	(959,205)	185,242	130,442	733,807	(84,834)	5,452
EXCESS (DEFICIENCY) REVENUES & OTHER SOURCES OVER EXPENDITURES & OTHER USES	(1,361,842)	0	0	(3,649,778)	(40,496)	(5,052,116)
FUND BALANCES, BEGINNING OF YEAR	16,533,812	0	0	(2,707,085)	597,918	14,424,645
FUND BALANCES, END OF YEAR	\$ 15,171,970	\$ 0	\$ 0	\$ (6,356,863)	\$ 557,422	\$ 9,372,529

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	TOTAL GOVERNMENTAL FUNDS	LONG-TERM REVENUE & EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANSACTIONS	RECLASSIFICATIONS & ELIMINATIONS	STATEMENT OF ACTIVITIES
REVENUES						
Real Property Taxes	\$ 41,281,333	\$ 0	\$ 0	\$ 0	\$ 0	\$ 41,281,333
Other Tax Items	8,039,838	0	0	0	0	8,039,838
Charges for Services	441,949	46,627	0	0	0	488,576
Use of Money & Property	142,050	0	0	0	0	142,050
Sale of Property & Compensation for Loss	67,988	0	0	0	0	67,988
Miscellaneous	1,299,162	408	0	0	0	1,299,570
State Sources	29,620,745	0	0	0	0	29,620,745
Federal Sources	4,950,424	0	0	0	0	4,950,424
Sales	909,212	0	0	0	0	909,212
TOTAL REVENUES	86,752,701	47,035	0	0	0	86,799,736
EXPENDITURES						
General Support	8,600,476	19,430	39,831	0	1,483,709	10,143,446
Instruction	53,496,689	198,607	900,632	0	16,548,162	71,144,090
Pupil Transportation	5,826,539	0	3,033	0	1,802,327	7,631,899
Employee Benefits	16,536,631	4,465,879	0	0	(21,002,510)	0
Debt Service:						
Principal	1,880,000	0	0	(1,880,000)	0	0
Interest	431,322	(5,051)	0	(21,830)	0	404,441
Cost of Sales	655,027	1,377	1,547	0	1,168,312	1,826,263
Capital Outlay	4,383,585	0	(4,383,585)	0	0	0
TOTAL EXPENDITURES	91,810,269	4,680,242	(3,438,542)	(1,901,830)	0	91,150,139
EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES	(5,057,568)	(4,633,207)	3,438,542	1,901,830	0	(4,350,403)
OTHER SOURCES & USES						
Proceeds from Advance Refunding	12,149,135	0	0	(12,149,135)	0	0
Operating Transfers In	1,139,777	0	0	0	(1,139,777)	0
Payment to Escrow Agent - Bond Refunding	(12,143,683)	0	0	12,143,683	0	0
Operating Transfers (Out)	(1,139,777)	0	0	0	1,139,777	0
TOTAL OTHER SOURCES & USES	5,452	0	0	(5,452)	0	0
NET CHANGE FOR THE YEAR	\$ (5,052,116)	\$ (4,633,207)	\$ 3,438,542	\$ 1,896,378	\$ 0	\$ (4,350,403)

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

<u>ASSETS</u>	<u>PRIVATE PURPOSE TRUSTS</u>	<u>AGENCY</u>
Cash	\$ 140,853	\$ 180,953
Investments	27,311	0
 TOTAL ASSETS	 <u>\$ 168,164</u>	 <u>\$ 180,953</u>
 <u>LIABILITIES & NET ASSETS</u>		
 <u>LIABILITIES</u>		
Due to Other Funds	\$ 0	\$ 12,232
Extraclassroom Activity Balances	0	142,560
Other Liabilities	0	26,161
 TOTAL LIABILITIES	 <u>0</u>	 <u>\$ 180,953</u>
 <u>NET ASSETS</u>		
Reserved for Endowment, Scholarship and Gift Funds	<u>168,164</u>	
 TOTAL LIABILITIES & NET ASSETS	 <u>\$ 168,164</u>	

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>PRIVATE PURPOSE TRUSTS</u>
<u>ADDITIONS</u>	
Gifts and Contributions	\$ 1,835
Investment Earnings	<u>2,894</u>
TOTAL ADDITIONS	4,729
<u>DEDUCTIONS</u>	
Scholarships & Awards	<u>13,067</u>
CHANGE IN NET ASSETS	(8,338)
NET ASSETS, BEGINNING OF YEAR	<u>176,502</u>
NET ASSETS, END OF YEAR	<u><u>\$ 168,164</u></u>

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES.

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

A. Reporting Entity

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

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, The Financial Reporting Entity, as amended by GASB Statement 39, Component Units. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District’s reporting entity is based on several criteria including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District’s reporting entity.

1. Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds have been included in this report. The District accounts for assets held as an agent for various student organizations in an agency fund.

B. Joint Venture

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

B. Joint Venture (Continued)

BOCES are organized under §1950 of the New York State Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (§1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n (a) of the New York State General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

During the year ended June 30, 2011, the Valley Central School District was billed \$6,734,523 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,334,553. Financial statements for BOCES are available from the BOCES administrative office at Gibson Road, Goshen, New York 10924.

C. Basis of Presentation

1. District-Wide Statements

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants.

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

C. Basis of Presentation (Continued)

2. Funds Statements

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The District reports the following major governmental funds:

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

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

School Lunch Fund: This fund is used to account for the school lunch operations. The school lunch operation is supported by federal and state grants and charges participants for its services.

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

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

The District reports the following fiduciary funds:

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

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

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

D. Measurement Focus and Basis of Accounting

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

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after the end of the fiscal year.

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

E. Property Taxes

Real property taxes are levied annually by the Board of Education no later than September 1st and became a lien on August 16, 2010. Taxes were collected by the Town of Montgomery and the Town of Newburgh during the period September 1, 2010 through October 31, 2010.

Uncollected real property taxes are subsequently enforced by Orange County. The County pays an amount representing uncollected real property taxes transmitted to Orange County for enforcement to the District no later than the following April 1.

F. Restricted Resources

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

G. Interfund Transactions

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

G. Interfund Transactions (Continued)

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

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note 10 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

H. Estimates

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

I. Cash and Investments

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of United States and its agencies and obligations of the State and its municipalities and Districts.

Investments are stated at fair value.

J. Accounts Receivable

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

K. Inventories and Prepaid Items

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount. A reserve for these non-liquid assets has been recognized in the School Lunch Fund to signify that a portion of fund balance is not available for other subsequent expenditures.

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

L. Other Assets/Restricted Assets

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

M. Capital Assets

Capital assets are reported at cost for acquisitions. For assets acquired prior to June 30, 2002, estimated historical costs based on appraisals conducted by independent third-party professionals were used. Donated assets are reported at estimated fair market value at the time received.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	\$ 10,000	Straight Line	50 years
Land Improvements	5,000	Straight Line	15 - 25 years
Furniture and Equipment	5,000	Straight Line	5 - 20 years
Vehicles	5,000	Straight Line	5 - 20 years

N. Deferred Revenue

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

N. Deferred Revenue (Continued)

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

Deferred revenues recorded in governmental funds are typically adjusted prior to inclusion in the District-wide statements.

O. Vested Employee Benefits

1. Compensated Absences

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

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

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

Consistent with GASB Statement 16, Accounting for Compensated Absences, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

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

2. Other Benefits

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

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

P. Short-Term Debt

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

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

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

Q. Accrued Liabilities and Long-Term Obligations

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

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

R. Equity Classifications

1. District-wide Statements

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

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

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

R. Equity Classifications (Continued)

1. District-wide Statements (Continued)

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

2. Funds Statements

During the 2010-2011 school year, the District implemented GASB Statement No. 54. The purpose of this new accounting standard is to provide fund balance categories and classifications that will be more easily understood by users of financial statements and consistently applied by school districts. This new standard sets forth hierarchical fund balance classifications that are based primarily upon the extent to which a District is bound to observe constraints imposed upon the use of resources reported in governmental funds. The following is a brief description on the five new fund balance classifications that the District can utilize:

Nonspendable: Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance includes inventory in the School Lunch Fund of \$73,635.

Restricted: Constraints have been imposed on the use of these amounts either (a) externally by creditors, grantors, contributors or laws or regulations of other governments; or (b) by law through constitutional provisions or enabling legislation. The District has established the following reserves that have been included in restricted fund balance:

Reserve for Debt Service

Mandatory Reserve for Debt Service (GML §6-l) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvement. The reserve is accounted for in the Debt Service Fund.

Insurance Reserve

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

R. Equity Classifications (Continued)

2. Funds Statements (Continued)

Tax Certiorari Reserve

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

Employee Benefit Accrued Liability Reserve

Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the General Fund.

Retirement Contribution Reserve

Retirement Contribution Reserve (GML §6-r) is used for the purpose of financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the Board.

Restricted fund balance at June 30, 2011 consisted of:

General Fund:

Insurance Reserve	\$ 459,687
Tax Certiorari Reserve	2,164,024
Employee Benefit Accrued Liability Reserve	2,560,075
Retirement Contribution Reserve	739,144

Debt Service Fund:

Reserve for Debt Service	<u>557,422</u>
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Total Restricted Fund Balance	<u><u>\$ 6,480,352</u></u>
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VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

R. Equity Classifications (Continued)

2. Funds Statements (Continued)

Committed: Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education. The District did not classify any of its fund balances as committed as of June 30, 2011.

Assigned: Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balance includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the General Fund that are intended to be used for a specific purpose. By reporting particular amounts that are not restricted or committed in the governmental funds other than the General Fund, the District has assigned those amounts to the purposes of the respective funds. Assigned fund balance in the General Fund includes \$246,261 assigned for specific purposes through the issuance of purchase orders that encumbered the budget for the year ended June 30, 2011. This assignment is made when purchase orders are approved by the Purchasing Agent who is designated each year by the Board of Education at its annual reorganizational meeting pursuant to the District's purchasing policy. Assigned fund balance in the General Fund also includes \$6,621,500 assigned to be used to reduce the tax levy for the year ending June 30, 2012. This assignment is made when the tax levy is set by the Board of Education pursuant to the District's annual budget policy.

Unassigned: Includes fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, negative unassigned fund balance is reported.

S. New Accounting Standards

The District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2011, the District implemented the following new standards issued by GASB:

- GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement 59, *Financial Instruments Omnibus*

GASB Statement 54 which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The District has reported fund balances in accordance with GASB Statement 54 in these financial statements.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES. (Continued)

S. New Accounting Standards (Continued)

GASB Statement 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The District did not own any financial instruments or external investment pools to which Statement 59 applies as of June 30, 2011.

T. Future Changes in Accounting Standards

GASB has issued Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The District is currently studying the statement and plans on adoption if and when required, which will be for the June 30, 2013 financial statements.

GASB has issued Statement 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements 14 and 34*, which improves financial reporting for a governmental financial reporting entity. The requirements of Statement 14 and the related financial reporting requirements of Statement 34 were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The District is currently studying the statement and plans on adoption if and when required, which will be for the June 30, 2013 financial statements.

GASB has issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. These pronouncements collectively will be referred to as the "FASB and AICPA pronouncements." The District is currently studying the statement and plans on adoption if and when required, which will be for the June 30, 2013 financial statements.

GASB has issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District is currently studying the statement and plans on adoption if and when required, which will be for the June 30, 2013 financial statements.

GASB has issued Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, which clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The District is currently studying the statement and plans on adoption if and when required, which will be for the June 30, 2013 financial statements.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

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

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

1. The costs of building and acquiring capital assets (land, buildings and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Assets includes those capital assets among the assets of the District as a whole, with their original costs capitalized and depreciation expensed annually over their useful lives. The balances at June 30, 2011 were as follows:

Original Cost of Capital Assets	\$ 69,036,187
Accumulated Depreciation	<u>(24,564,216)</u>
	<u>\$ 44,471,971</u>

2. Interest is accrued in the Statement of Net Assets, regardless of when it is due. This liability does not appear on the Balance Sheet because interest is expensed when it is due, and thus requires the use of current financial resources. This liability at June 30, 2011 was as follows:

Accrued Interest	\$ 45,722
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3. Long-term liabilities are reported in the Statement of Net Assets, but not in the Balance Sheet, because they are not due and payable in the current period. The balances at June 30, 2011 were as follows:

Bonds Payable	\$ 12,643,622
Compensated Absences	3,233,951
Other Postemployment Benefits	<u>12,584,697</u>
	<u>\$ 28,462,270</u>

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

A. Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities (Continued):

4. Revenues may be deferred on the Balance Sheet if they are not expected to be received in the current period. However on the Statement of Net Assets, these revenues are earned and not deferred accordingly. Adjustments to deferred revenues as of June 30, 2011 are as follows:

Deferred Day School Tuition & Health Services Revenue	\$ 365,524
MTA Payroll Tax Reimbursement Revenue	35,155
	<u>\$ 400,679</u>

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

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

1. Long-Term Revenue Differences

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

2. Capital Related Differences

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

3. Long-Term Debt Transaction Differences

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

Explanation of Differences between Governmental Funds Operating Statement
and the Statement of Activities and Changes in Net Assets

Total Revenues and Other Funding Sources

Total revenues and other funding sources reported in governmental funds (Schedule 5)	\$ 98,901,836
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Because some revenue will not be collected for several months after the District's fiscal year-end, they are not considered as "available" revenues in the governmental funds. However, they are considered to be earned in the Statement of Activities. This is the amount by which the revenues recognized in the statement of activities this year were greater than in the previous year.	47,035
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Proceeds from the issuance of bond and installment debt is a revenue in the governmental funds, but increases liabilities in the Statement of Net Assets, and does not affect the Statement of Activities and Changes in Net Assets.	<u>(12,149,135)</u>
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Total revenues in the Statement of Activities and Changes in Net Assets (Schedule 2)	<u>\$ 86,799,736</u>
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Total Expenditures & Other Uses/Expenses

Total expenditures and other uses reported in governmental funds (Schedule 5)	\$ 103,953,952
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When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures of \$4,478,194 were greater than depreciation of \$1,039,652 in the current year.	(3,438,542)
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VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities and Changes in Net Assets (Continued)

In the Statement of Activities, certain operating expenses (compensated absences and special termination benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This is the amount by which compensated absences earned exceeded the amount used during the year	219,414
Interest payable is recognized as an accrued liability in the entity wide statements under full accrual accounting whereas it is not under the governmental fund statements. This is the amount by which interest payable last year exceeds the interest payable this year.	(5,051)
In the Statement of Activities, the expense for other postemployment benefits are measured based on the actuarilly determined annual required contribution (ARC) of the District. In the governmental funds, however, these expenditures are measured by the amount of financial resources used (essentially the amounts actually paid). This is the amount by which the ARC exceeded the amount of financial resources used during the year.	4,465,879
Premiums and discounts on long-term debt issuances, bond issuance costs and deferred amounts from debt refundings are recognized in the fiscal year in which the transactions occur in the governmental fund statements. These amounts are amortized in the Statement of Activities and Changes in Net Assets. This is the amount that was amortized during the fiscal year.	(21,830)
Repayment of bond and installment debt principal is an expenditure in the governmental funds, but reduces liabilities in the Statement of Net Assets, and does not affect the Statement of Activities and Changes in Net Assets.	<u>(14,023,683)</u>
Total expenses in the Statement of Activities and Changes in Net Assets (Schedule 2)	<u><u>\$ 91,150,139</u></u>

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3. STEWARDSHIP AND COMPLIANCE.

A. Budgets

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

- The voters of the District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. Supplemental appropriations that occurred during the fiscal year are shown on Supplemental Schedule #3.

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

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

B. Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as assignments of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

C. Other Stewardship and Compliance Matters

The District was in compliance with all legal and contractual provisions for the fiscal year.

The Capital Project Fund had a deficit fund balance of \$6,356,863. This will be funded when the District obtains permanent financing for its current construction project.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4. CASH - CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE, FOREIGN CURRENCY RISKS AND INVESTMENT POOL.

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

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

Uncollateralized	\$	0.
Collateralized with securities held by the pledging financial institution, or or its trust department or agent, but not in the District's name	\$	12,908,472.

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes \$1,566,548 within the governmental funds.

The District does not typically purchase investments for a long enough duration to cause it to believe that it is exposed to any material interest rate risk. The District also does not typically purchase investments denominated in a foreign currency, and is not exposed to foreign currency risk.

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

Total investments of the cooperative as of year-end are \$530,923,641, which consisted of \$224,363,926 in repurchase agreements, \$206,559,715 in U. S. Treasury Securities, and \$100,000,000 in collateralized bank deposits, with various interest rate and due dates.

The following amounts are included as unrestricted and restricted cash:

<u>Fund</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
General Fund	\$ 2,291,992	\$ 2,291,992
Special Aid Fund	175,365	175,365
School Lunch Fund	9,861	9,861
Capital Projects Fund	470,749	470,749
Debt Service Fund	557,202	557,202
Fiduciary Funds	19,993	19,993

The above amounts represent the cost of the investment pool shares, and are considered to approximate market value. The investment pool is categorically exempt from the New York State collateral requirements. Additional information concerning the cooperative is presented in the annual report of Cooperative Liquid Assets Securities System – New York (CLASS).

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5. INVESTMENTS.

The District has an investment held for a donated scholarship fund and chooses to disclose the investment by specifically identifying it. The District's investment policy for investments is also governed by New York State statutes. Investments are stated at fair value, and are categorized as either:

- (A) Insured or registered, or investments held by the District or by the District's agent in the District's name, or
- (B) Uninsured and unregistered, with the investments held by the financial institutes trust department in the District's name, or
- (C) Uninsured and unregistered, with investments held by the financial institution or its trust department, but not in the District's name.

Investment	Vanguard Inter-term Bond Index Fund
Fund	Fiduciary (Private Purpose Trust)
Carrying Amount	\$27,311
Type of investment	Mututal Fund
Category	A

The District does not typically purchase investments for long enough duration to cause it to believe that it is exposed to any material interest rate risk.

The District does not typically purchase investments denominated in a foreign currency, and is not exposed to foreign currency risk.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6. CAPITAL ASSETS.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 537,850	\$ 0	\$ 0	\$ 537,850
Construction in Progress	9,386,374	4,244,976	(397,743)	13,233,607
Total Nondepreciable Assets	<u>9,924,224</u>	<u>4,244,976</u>	<u>(397,743)</u>	<u>13,771,457</u>
Capital assets that are depreciated:				
Land Improvements	989,281	0	0	989,281
Buildings and Improvements	49,917,968	138,609	397,743	50,454,320
Furniture & Equipment	3,726,520	94,609	0	3,821,129
Total Depreciable Assets	<u>54,633,769</u>	<u>233,218</u>	<u>397,743</u>	<u>55,264,730</u>
Less: Accumulated Depreciation	<u>(23,524,564)</u>	<u>(1,039,652)</u>	<u>0</u>	<u>(24,564,216)</u>
Capital Assets, Net	<u>\$41,033,429</u>	<u>\$ 3,438,542</u>	<u>\$ 0</u>	<u>\$44,471,971</u>

Depreciation expense was charged to governmental functions as follows:

General Support	\$ 91,944
Instruction	943,128
Transportation	3,033
Cost of Sales	1,547
Total Depreciation	<u>\$ 1,039,652</u>

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7. SHORT-TERM DEBT.

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

	Beginning Balance	Issued	Paid/ Redeemed	Ending Balance
BAN maturing 02/25/11 at 1%	\$7,150,000	\$ 0	\$7,150,000	\$ 0
BAN maturing 02/25/12 at 1.5%	0	5,491,300	0	5,491,300
Total Short-Term Debt	<u>\$7,150,000</u>	<u>\$5,491,300</u>	<u>\$7,150,000</u>	<u>\$5,491,300</u>

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

Interest Paid	\$ 24,486
Less Interest Accrued in the Prior Year	(24,486)
Plus Interest Accrued in the Current Year	<u>28,209</u>
Interest Expense	<u>\$ 28,209</u>

NOTE 8. LONG-TERM DEBT.

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

	Beginning Balance	Issued	Paid/ Redeemed	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and Notes					
Payable:					
Bonds Payable*	\$ 14,540,000	\$ 11,240,000	\$ 13,136,378	\$ 12,643,622	\$ 1,770,817
Other Liabilities:					
Compensated Absences	3,014,537	219,414	0	3,233,951	0
Other Postemployment Benefits	8,118,818	7,096,015	2,630,136	12,584,697	0
Total Other Liabilities	<u>11,133,355</u>	<u>7,315,429</u>	<u>2,630,136</u>	<u>15,818,648</u>	<u>0</u>
Total Long-Term Liabilities	<u>\$25,673,355</u>	<u>\$18,555,429</u>	<u>\$15,766,514</u>	<u>\$28,462,270</u>	<u>\$1,770,817</u>

* At June 30, 2011, Bonds Payable includes unamortized premiums of \$812,539 and are shown net of unamortized bond issue costs of \$70,444 and unamortized deferred amounts on refunding of \$558,473. These amounts are being amortized over the life of the debt issuance to which they relate.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8. LONG-TERM DEBT. (Continued)

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences.

Existing serial bond and installment purchase obligations are as follows:

<u>Description of Issue</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance</u>
Serial Bond	10/27/10	06/15/17	2% - 4%	\$ 9,610,000
Serial Bond	12/15/06	06/15/21	3.48% - 3.9%	2,850,000
				<u>\$ 12,460,000</u>

The following is a summary of maturing debt service requirements:

<u>For the Year Ended June 30,</u>	<u>Bonds and Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,740,000	\$ 453,750
2013	1,770,000	413,750
2014	1,825,000	358,000
2015	1,900,000	285,000
2016	1,975,000	209,000
2017 - 2021	3,250,000	250,000
TOTAL	<u>\$ 12,460,000</u>	<u>\$ 1,969,500</u>

On October 27, 2010, the District issued \$11,240,000 in general obligation bonds with an average interest rate of 3.29% to advance refund \$11,440,000 of outstanding bonds with an average interest rate of 4.5074%. The net proceeds of \$12,149,135 (after payment of \$78,818 in underwriting fees, insurance and other issuance costs) were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements. The district advance refunded the bonds to reduce future debt service requirements. The economic gain (loss) on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$875,937.

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

Interest paid	\$ 431,322
Less: Interest accrued in the prior year	(26,287)
Plus: Interest accrued in the current year	<u>17,513</u>
Total interest expense	<u>\$ 422,548</u>

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9. PENSION PLANS.

General Information

The District participates in the New York State Employees' Retirement System (NYSERS) and the New York State Teachers' Retirement System (NYSTRS). These are cost-sharing multiple employer public employee retirement systems. The Systems offer a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

Provisions and Administration

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

NYSERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the NYSRSSL. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSERS. The Comptroller may adopt and may amend rules and regulations for the administration and transaction of the business of the NYSERS and for the custody and control of its funds. The NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the NYSERS, Office of the State Comptroller, 110 State Street, Albany, New York 12244.

Funding Policies

The Systems are noncontributory, except for employees who joined the Systems after July 27, 1976 and prior to January 1, 2010, who contribute 3% of their salary for the first ten years of membership. For employees who joined after January 1, 2010, employees in NYSERS contribute 3% of their salary throughout their active membership and those in NYSTRS contribute 3.5% of their salary throughout their active membership. For NYSERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYSERS fiscal year ending March 31. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board established rates annually for NYSTRS. The District's contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows:

<u>Year</u>	<u>NYSTRS</u>	<u>NYSERS</u>
2010 - 2011	\$ 3,014,202	\$ 927,568
2009 - 2010	1,928,122	604,051
2008 - 2009	2,408,098	549,832

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10. INTERFUND BALANCES AND ACTIVITY.

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

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenues</u>	<u>Expenditures</u>
General Fund	\$ 3,219,247	\$ 0	\$ 90,286	\$ 1,049,491
Special Aid Fund	0	1,344,464	185,242	0
School Lunch Fund	0	168,304	130,442	0
Capital Fund	0	1,694,467	733,807	0
Debt Service Fund	220	0	0	90,286
Total Governmental Activities	3,219,467	3,207,235	1,139,777	1,139,777
Fiduciary Agency Fund	0	12,232	0	0
Totals	<u>\$ 3,219,467</u>	<u>\$ 3,219,467</u>	<u>\$ 1,139,777</u>	<u>\$ 1,139,777</u>

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Assets. The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

The District typically transfers from the General Fund to the Special Aid Fund to fund the portion of the Summer Handicapped Program not funded by aid from New York State.

NOTE 11. POST-EMPLOYMENT BENEFITS.

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

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

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the funds financial statements as payments are made. For the year ended June 30, 2011 the District recognized \$2,630,136 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of July 1, 2010. The total liability indicated in this report for other post employment benefits as of June 30, 2011 made by the District is \$12,584,697, which is reflected in the Statement of Net Assets.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11. POST-EMPLOYMENT BENEFITS. (Continued)

Annual OPEB Cost and Net OPEB Obligation

The 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual Required Contribution	\$ 7,218,215
Interest on Net OPEB Obligation	405,941
Adjustment to Annual Required Contribution	<u>(528,141)</u>
Annual OPEB Cost (Expense)	7,096,015
Contributions Made	<u>(2,630,136)</u>
Increase in Net OPEB Obligation	4,465,879
Net OPEB Obligation, June 30, 2010	<u>8,118,818</u>
Net OPEB Obligation, June 30, 2011	<u><u>\$ 12,584,697</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 7,096,015	37.1%	\$ 12,584,697
June 30, 2010	6,069,394	30.7%	8,118,818
June 30, 2009	5,760,333	32.1%	3,910,979

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was not funded. The unfunded actuarial accrued liability (UAAL) was \$67,479,495. The covered payroll (annual payroll of active employees covered by the plan) was \$27,673,287, and the ratio of the UAAL to the covered payroll was 243.8%. 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 the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11. POST-EMPLOYMENT BENEFITS. (Continued)

Actuarial Methods and Assumptions

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

In the July 1, 2010, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included annual healthcare cost trend rates of 8% on pre-65 retirees and 6.5% on post-65 retirees initially, reduced by decrements to an ultimate rate of 5% after 4 years. Both rates included a 5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 27 years.

NOTE 12. RISK MANAGEMENT.

General Information

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

Pool, Non-Risk Retained

The District participates in Orange/Ulster School District Health Insurance Plan, a non-risk-retained public entity risk pool for its employee health and accident insurance coverage. The pool is operated for the benefit of 19 individual governmental units located within the pool's geographic area, and is considered a self-sustaining risk pool. The District has essentially transferred all related risk to the pool.

The District participates in Orange/Ulster School District Workers Compensation Plan, a non-risk-retained public entity risk pool for its employee health and accident insurance coverage. The pool is operated for the benefit of 19 individual governmental units located within the pool's geographic area, and is considered a self-sustaining risk pool that will provide coverage for its members up to \$400,000 per insured event. The pool obtains independent coverage for insured events in excess of the \$400,000 limit, and the District has essentially transferred all related risk to the pool.

Other Contingencies

The District has several claims that are currently being litigated with the support of legal counsel. The results of this litigation are unknown at this time.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13. COMMITMENTS AND CONTINGENCIES.

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

Encumbrances represent contracts, purchase orders, payroll commitments, tax payables, or legal penalties that are chargeable to an account. They cease to be encumbrances when paid or when the actual liability amount is determined and recorded as an expenditure. Encumbrances of appropriations of budgets for the year ended June 30, 2011 have been included in the assigned fund balances of the following funds as of June 30, 2011:

General Fund	\$ 246,261
Special Aid Fund	19,645
School Lunch Fund	122,975
Capital Projects Fund	<u>198,651</u>
Total Encumbrances	<u><u>\$ 587,532</u></u>

NOTE 14. DONOR-RESTRICTED ENDOWMENTS.

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

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2008	\$ 0	\$ 53,651,161	\$ 53,651,161	0.00%	\$ 24,547,794	218.56%
7/1/2010	0	67,479,495	67,479,495	0.00%	27,673,287	243.84%

See paragraph on supplementary schedules included in auditor's report.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
FOR THE YEAR ENDED JUNE 30, 2011

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

	ORIGINAL BUDGET	REVISED BUDGET	CURRENT YEAR'S REVENUES	OVER (UNDER) REVISED BUDGET
<u>REVENUES</u>				
LOCAL SOURCES:				
Real Property Taxes	\$ 41,367,717	\$ 41,367,717	\$ 41,281,333	\$ (86,384)
Other Tax Items	7,350,444	7,350,444	8,039,838	689,394
Charges for Services	158,000	158,000	441,949	283,949
Use of Money & Property	100,000	100,000	136,381	36,381
Sale of Property & Compensation for Loss	3,000	66,272	67,988	1,716
Miscellaneous	90,000	94,993	1,254,805	1,159,812
STATE SOURCES	28,591,012	28,591,012	28,658,628	67,616
FEDERAL SOURCES	1,670,988	1,670,988	1,632,544	(38,444)
OTHER SOURCES:				
Operating Transfers In	200,000	200,000	90,286	(109,714)
TOTAL REVENUES	79,531,161	79,599,426	81,603,752	2,004,326
APPROPRIATED FUND BALANCE	7,528,654	8,283,239		
TOTAL REVENUES & APPROPRIATED FUND BALANCE	\$ 87,059,815	\$ 87,882,665		

See paragraph on supplementary schedules included in auditor's report.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

EXPENDITURES	ORIGINAL BUDGET	REVISED BUDGET	CURRENT YEAR'S EXPENDITURES	ENCUMBRANCES	UNENCUMBERED BALANCE
GENERAL SUPPORT:					
Board of Education	\$ 28,600	\$ 29,600	\$ 21,213	\$ 0	\$ 8,387
Central Administration	297,200	305,257	304,631	238	388
Finance	589,214	710,999	580,504	311	130,184
Staff	496,300	521,670	441,909	498	79,263
Central Services	5,499,923	5,756,428	5,096,501	126,505	533,422
Special Items	1,024,900	1,298,540	1,257,029	0	41,511
INSTRUCTIONAL:					
Instruction, Administration & Improvement	3,676,573	3,730,770	3,373,027	53,560	304,183
Teaching - Regular School	28,421,745	28,832,348	28,225,034	4,952	602,362
Programs for Children with Handicapping Conditions	10,361,649	10,505,110	10,160,249	1,277	343,584
Occupational Education	833,000	964,260	835,020	0	129,240
Teaching - Special Schools	301,566	364,676	234,399	0	130,277
Instructional Media	2,435,249	2,452,207	2,035,581	43,479	373,147
Pupil Services	5,129,126	5,458,052	5,143,254	12,441	302,357
PUPIL TRANSPORTATION EMPLOYEE BENEFITS					
	5,714,100	5,729,085	5,629,422	3,000	96,663
	19,002,525	17,667,034	16,267,008	0	1,400,026
DEBT SERVICE:					
Debt Service - Principal	1,715,000	1,880,000	1,880,000	0	0
Debt Service - Interest	798,145	472,275	431,322	0	40,953
TOTAL EXPENDITURES	86,324,815	86,678,311	81,916,103	246,261	4,515,947
OTHER USES:					
Operating Transfers Out	735,000	1,204,354	1,049,491	0	154,863
TOTAL EXPENDITURES & OTHER USES	\$ 87,059,815	\$ 87,882,665	\$ 82,965,594	\$ 246,261	\$ 4,670,810
EXCESS OF REVENUES & OTHER SOURCES OVER EXPENDITURES & OTHER USES			\$ (1,361,842)		

See paragraph on supplementary schedules included in auditor's report.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET &
USE OF UNASSIGNED FUND BALANCE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

CHANGE FROM ADOPTED TO REVISED BUDGET

ADOPTED BUDGET	\$ 86,177,847
ADDITIONS:	
Encumbrances from Prior Year	881,968
ORIGINAL BUDGET	87,059,815
BUDGET REVISIONS:	
Budget Amendments for Donations:	
Instruction	4,993
Budget Amendment for Insurance Recovery:	
Other Uses (Operating Transfers Out)	63,272
Budget Amendments for Emergency Capital Projects:	
Other Uses (Operating Transfers Out)	295,198
Budget Amendment for Funding Payments of Compensated Absences from Reserve Funds:	
Instruction	184,147
Budget Amendment for Funding Tax Certiorari Settlements from Reserve Funds:	
General Support	275,240
REVISED BUDGET	\$ 87,882,665

USE OF UNASSIGNED FUND BALANCE

Unassigned Fund Balance Before Assignments as of the Beginning of the Year	\$ 9,283,458
LESS: Unassigned Fund Balance Used for the Levy of Taxes - Adopted Budget	(6,646,686)
Unassigned Fund Balance Used for Emergency Capital Projects - Budget Amendments	(295,198)
Unassigned Fund Balance Remaining from the Beginning of the Year	\$ 2,341,574

See paragraph on supplementary schedules included in auditor's report.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
SCHEDULE OF CAPITAL PROJECTS FUND - PROJECT EXPENDITURES AND FINANCING RESOURCES
FOR THE YEAR ENDED JUNE 30, 2011

	ORIGINAL APPROPRIATION	REVISED APPROPRIATION	EXPENDITURES TO DATE			UNEXPENDED BALANCE	METHODS OF FINANCING			FUND BALANCE JUNE 30, 2011
			PRIOR YEARS	CURRENT YEAR	TOTAL		PROCEEDS FROM DEBT	LOCAL SOURCES	TOTAL	
District-wide Renovations & Recon.	\$ 6,000,000	\$ 6,215,449	\$ 5,918,686	\$ 159,680	\$ 6,078,366	\$ 137,083	\$ 4,000,000	\$ 2,215,449	\$ 6,215,449	\$ 137,083
Central Office Roof	500,000	461,756	174,456	0	174,456	287,300	0	461,756	461,756	287,300
District-wide - 2008 EXCEL	7,150,000	7,216,814	3,069,944	4,083,451	7,153,395	63,419	0	66,814	66,814	(7,086,581)
Berea Elevator	79,069	79,069	68,313	0	68,313	10,756	0	79,069	79,069	10,756
East Coldenham Heating and Parking Pool Emergency	156,200	156,200	154,974	0	154,974	1,226	0	156,200	156,200	1,226
Roof Repair	174,156	174,156	0	138,609	138,609	35,547	0	138,609	138,609	0
Walden Elementary Asbestos Abatement	295,198	295,198	0	0	0	295,198	0	295,198	295,198	295,198
District-wide Minimal & Essential	7,250,000	7,250,000	0	1,845	1,845	7,248,155	0	0	0	(1,845)
	\$ 21,604,623	\$ 21,848,642	\$ 9,386,373	\$ 4,383,585	\$ 13,769,958	\$ 8,078,684	\$ 4,000,000	\$ 3,413,095	\$ 7,413,095	\$ (6,356,863)

See paragraph on supplementary schedules included in auditor's report.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
GENERAL FUND

SCHEDULE OF CERTAIN REVENUES & EXPENDITURES COMPARED TO ST-3 DATA
FOR THE YEAR ENDED JUNE 30, 2011

<u>REVENUES</u>	<u>ACCOUNT CODE</u>	<u>ST-3 AMOUNT</u>	<u>AUDITED AMOUNT</u>
Property Taxes	A -1001	\$ 41,281,333	\$ 41,281,333
Non Property Taxes	AT-1199	0	0
State Aid	AT-3999	28,658,628	28,658,628
Federal Aid	AT-4999	1,632,544	1,632,544
Total Revenues	AT-5999	81,603,752	81,603,752
 <u>EXPENDITURES</u>			
General Support	AT-1999	7,701,787	7,701,787
Pupil Transportation	AT-5599	5,629,422	5,629,422
Debt Service - Principal	AT-9798.6	1,880,000	1,880,000
Debt Service - Interest	AT-9798.7	431,322	431,322
Total Expenditures	AT-9999	82,965,594	82,965,594

See paragraph on supplementary schedules included in auditor's report.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2011

CAPITAL ASSETS, NET		\$ 44,471,971
DEDUCT:		
Bond Anticipation Notes	\$ 5,491,300	
Short-term Portion of Bonds Payable	1,770,817	
Long-term Portion of Bonds Payable	<u>10,872,805</u>	
Related Debt		<u>(18,134,922)</u>
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT		<u><u>\$ 26,337,049</u></u>

See paragraph on supplementary schedules included in auditor's report.



Nugent & Haeussler, P.C.

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

To the President and Members
of the Board of Education of the
Valley Central School District
Montgomery, New York

Peter J. Bullis, CPA, FACFEI, DABFA
Norman M. Sassi, CPA
Christopher E. Melley, CPA
Gary C. Theodore, CPA
Julia R. Fraino, CPA
William T. Trainor, CPA
Mark M. Levy, CPA, CFP
Thomas R. Busse, Jr., CPA

Patrick M. Bullis, CPA
Jennifer L. Capicchioni, CPA
Richard P. Capicchioni, CPA
Walter J. Jung, CPA
Brent T. Napoleon, CPA
Justin B. Wood, CPA

— CONSULTANT —
Randy E. Bullis, CPA

We have audited the financial statements of the governmental activities, each major fund, and the fiduciary funds of Valley Central School District, as of and for the year ended June 30, 2011, which collectively comprise the Valley Central School District's basic financial statements and have issued our report thereon dated September 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Valley Central School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Valley Central School District's financial statements that is more than inconsequential will not be prevented or detected by the Valley Central School District's internal control. We consider the deficiency numbered 2011-01 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

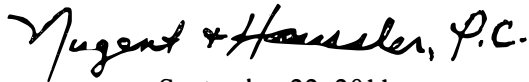
Compliance and Other Matters

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

We noted certain matters that we reported to management of Valley Central School District, in a separate letter dated September 22, 2011.

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

Respectfully submitted,



September 22, 2011



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

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Norman M. Sassi, CPA
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— CONSULTANT —
Randy E. Bullis, CPA

To the President and Members
of the Board of Education of the
Valley Central School District
Montgomery, New York

Compliance

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

We conducted our audit of the 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 Valley Central School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Valley Central School District's compliance with those requirements.

In our opinion, Valley Central School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Respectfully submitted,



September 22, 2011

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed-through NYS Education Department:			
Special Education Cluster:			
IDEA - Part B, Section 611	84.027	0032-11-0690	\$ 1,167,193
IDEA - Part B, Section 611	84.027	0032-10-0690	9,316
IDEA - Part B, Section 611, Recovery Act	84.391	5032-11-0690	626,016
IDEA - Part B, Section 619	84.173	0033-11-0690	41,960
IDEA - Part B, Section 619, Recovery Act	84.392	5033-11-0690	<u>29,056</u>
Total Special Education Cluster			1,873,541
Title I Parts A&D, Basic Program	84.010	0021-11-2270	432,115
Title I Parts A&D, Basic Program	84.010	0021-10-2270	63,880
Education of Homeless Children & Youth	84.196	0212-11-3914	32,257
Education of Homeless Children & Youth	84.196	0212-10-3914	1,000
Title IV Part A, Safe and Drug Free Schools	84.186	0180-10-2270	924
Title II Part D, Enhancing Education Through Technology	84.318	0292-10-2270	1,946
Title II Part A, Teacher & Principal Training & Recruiting	84.367	0147-10-2270	175,160
State Fiscal Stabilization Fund, Recovery Act	84.394	5000-11-2270	<u>1,620,988</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>4,201,811</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed-through NYS Education Department:			
Child Nutrition Cluster:			
Cash Assistance			
National School Lunch Program	10.555	N/A	561,419
National School Breakfast Program	10.553	N/A	<u>93,023</u>
Cash Assistance Subtotal			654,442
Non-Cash Assistance (food distribution)			
Commodity Supplemental Food Program	10.555	N/A	<u>82,615</u>
TOTAL U.S. DEPT. OF AGRICULTURE, CHILD NUTRITION CLUSTER			<u>737,057</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ 4,938,868</u>

The accompanying notes are an integral part of the schedule.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1. BASIS OF PRESENTATION.

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

Certain of the District's federal award programs have been charged with indirect costs, based upon an established rate applied to overall expenditures. There is no other indirect cost allocation plan in effect.

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

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

NOTE 2. NON-CASH ASSISTANCE.

The District is the recipient of a federal award program that does not result in cash receipts or disbursements. The District was granted \$82,615 of commodities under the Commodity Supplemental Food Program (CFDA 10.565).

NOTE 3. OTHER DISCLOSURES.

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

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

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of Auditor's Opinion Issued: Unqualified

Internal Control over Financial Reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses 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 deficiencies identified that are not considered to be material weaknesses Yes None Reported

Type of Auditor's Opinion 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:

<u>CFDA NUMBERS</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
10.553, 10.555, 10.565	Child Nutrition Cluster
84.027, 84.173, 84.391, 84.392	Special Education Cluster
84.394	State Fiscal Stabilization Fund, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000.00

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES:

2011-01. Segregation of Duties

Condition

The auditor found instances where segregation of duties was limited. Limitations in control activities may be addressed through additional management oversight. Through interviews with management and staff we were able to satisfy ourselves that direct involvement and knowledge of these activities reduced the potential for errors or irregularities.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2011-01. Segregation of Duties (Continued)

Criteria

Segregation of duties relates to how various duties are assigned to different people within the organization. Generally, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people so that no single person is in a position to both commit and conceal errors, irregularities or fraud.

Cause

Limited resources and personnel available contribute directly to the level of segregation achieved. Another factor is the organizational structure and the assignment of responsibilities within that structure.

Effect

The financial statements could have been significantly misstated due to errors or irregularities and fraud or misappropriation could occur and not be detected without adequate segregation of duties and responsibilities.

Recommendation

We recommend that the management review the responsibilities of business staff, as well as the duties actually being performed currently. This review should focus on segregating the functions for authorizing transactions, recording transactions, and maintaining custody of assets. As part of this review, management should consider whether the current staffing level is sufficient to achieve the desired internal control. It may be necessary to hire additional staff.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

A. Significant Deficiencies in Internal Control

There were no findings relating to the major federal awards as required to be reported in accordance with Section 510(a) of Circular A-133.

B. Compliance Findings

There were no findings relating to the major federal awards as required to be reported in accordance with Section 510(a) of Circular A-133.



Nugent & Haeussler, P.C.

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— CONSULTANT —
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INDEPENDENT AUDITOR'S REPORT

To the President and Members
of the Board of Education of the
Valley Central School District
Montgomery, New York

We have audited the statement of assets, liabilities, and fund balance-cash basis of the extraclassroom activity funds of the Valley Central School District as of June 30, 2011, and the related statement of receipts and disbursements-cash basis for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note #1, these financial statements were prepared on the cash basis of accounting and are not intended to be presented in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balance – cash basis of the extraclassroom activity funds of Valley Central School District as of June 30, 2011, and its cash receipts and cash disbursements for the year then ended, on the basis of accounting described in Note #1.

Respectfully submitted,

Nugent & Haeussler, P.C.

September 22, 2011

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
EXTRACLASROOM ACTIVITY FUND
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE - CASH BASIS
JUNE 30, 2011

ASSETS

Cash	\$ 142,560
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FUND BALANCE

Fund Balance, Beginning of Year	\$ 201,913
Excess of Disbursements over Receipts	<u>(59,353)</u>
Fund Balance, End of Year	<u>\$ 142,560</u>

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
EXTRACLASROOM ACTIVITY FUND
SUMMARY OF RECEIPTS & DISBURSEMENTS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2011

	CASH BALANCE JUNE 30, 2010	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2011
Class of 2006	\$ 587	\$ 0	\$ 587	\$ 0
Class of 2007	1,300	0	0	1,300
Class of 2011	7,760	46,206	53,966	0
Class of 2012	5,239	14,415	10,148	9,506
Class of 2013	6,120	18,715	18,183	6,652
Class of 2014	0	26,492	23,112	3,380
Senior Scholarship Account	7,025	1,391	3,287	5,129
AV Coordinator	245	3,038	2,865	418
Band	1,571	217	357	1,431
Beta Tau	151	0	151	0
Cheerleaders	4,791	7,165	11,883	73
Computer & Tech Club	524	496	379	641
Dance	2,148	23,889	26,037	0
Environmental	744	342	197	889
For the Animals	8	455	458	5
French	467	0	304	163
Gradus Honoris	12,962	40,046	47,313	5,695
Interact Club	0	250	250	0
Math Honor Society	876	606	1,062	420
Multi- Culture	584	0	123	461
Music Product	1,792	38,945	35,988	4,749
National Art Society	854	8,170	7,982	1,042
Peer Helpers	245	0	0	245
Photography	144	527	249	422
Publications	3,116	41,463	39,844	4,735
Science	2,597	7,285	8,567	1,315
Science Honor Society	1,816	3,577	3,474	1,919
Science Olympiad	535	0	0	535
SGA	11,874	51,356	55,611	7,619
Ski	2,900	5,056	6,207	1,749
Spanish	340	601	837	104
Swim	1,722	0	1,722	0
Varsity	10,092	53,837	53,213	10,716
VASA	2,343	1,197	1,347	2,193
Volunteer Club	1,595	0	85	1,510
Youth in Government	7,252	44	7,252	44
Total High School Activity Funds	102,319	395,781	423,040	75,060
Berea Elementary	22,012	32,317	43,130	11,199
East Coldenham Elementary	20,570	31,070	46,966	4,674
Maybrook Elementary	1,961	3,459	3,798	1,622
Montgomery Elementary	11,026	42,267	42,976	10,317
Walden Elementary	4,382	19,841	20,052	4,171
Middle School	39,643	129,329	133,455	35,517
Total Elementary & Middle School Activity Funds	99,594	258,283	290,377	67,500
Total Extracurricular Activity Funds	\$ 201,913	\$ 654,064	\$ 713,417	\$ 142,560

See notes to financial statement.

VALLEY CENTRAL SCHOOL DISTRICT
MONTGOMERY, NEW YORK
EXTRACLASSROOM ACTIVITY FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

- (a) The transactions of the Extraclassroom Activity Funds are considered part of the reporting entity of the Valley Central School District. We have included the Extraclassroom Activity Fund balances within the fiduciary funds of the financial statements. The separate audit report of the Extraclassroom Activity Funds is required due to the fact that the transactions of this fund are controlled by student management.
- (b) The books and records of the Valley Central School District's Extraclassroom Activity Funds are maintained on the cash basis of accounting. Under this basis of accounting, revenues are recognized when cash is received and expenditures recognized when cash is disbursed.
- (c) The Extraclassroom Activity Funds are used to record the activity of all student-related activities within the District. These funds are under the control of an appointed central treasurer who maintains cash receipts and cash disbursement books. All receipts are collected by the student activity treasurer and disbursements must be approved by the student management.