

POUGHKEEPSIE CITY SCHOOL DISTRICT
FINANCIAL STATEMENT
AND SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005



Raymond G. Preusser
CPA, P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Education of the
Poughkeepsie City School District:

We have audited the accompanying financial statements of the Poughkeepsie City School District as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

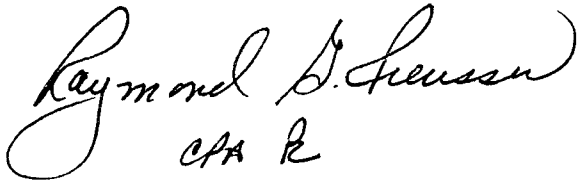
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Poughkeepsie City School District as of June 30, 2005, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2005 on our consideration of Poughkeepsie City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



Raymond D. Leussen
CPA R

Claverack, New York
August 3, 2005

POUGHKEEPSIE CITY SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2005

INTRODUCTION

The Poughkeepsie City School District offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. Please review it in conjunction with the District's financial statements and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

The total assets of the District exceeded its total liabilities at the close of the fiscal year by \$9.6 million (net assets). Of this amount, \$1.3 million has been allocated to meet the District's ongoing obligation to provide educational services in the 2005-06 fiscal year.

The District's total net assets decreased \$2,065,014 from the prior year, primarily due to capital improvement projects.

The following occurred during the fiscal year relative to voter authorized districtwide capital improvement projects:

- The District completed construction of Set 1 of the voter authorized \$27 million districtwide capital project. Set 1 included districtwide renovations that total approximately \$4 million. Renovations under Set 1 include general construction, electrical upgrades, site improvements, and mechanical work.
- Construction continued on Set 2 of the capital projects with a projected completion date of December 31, 2005. Phase 2 includes additions to the high school and two elementary schools as well as additional renovations to existing schools.
- The District paid off a \$27 million bond anticipation note in connection with the capital projects on May 5, 2005 by issuing a new \$26.94 million bond anticipation note using \$60,000 of its debt service funds.

As of the close of this fiscal year, the District's governmental funds reported combined fund balances of \$(19,055,788) was primarily due to the issuance of the \$27 million project. The deficit will be eliminated when permanent financing is obtained.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis narrative (required supplemental information) is intended to serve as an introduction to the District's basic financial state. The District's basic financial statements are comprised of three components:

1. Districtwide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

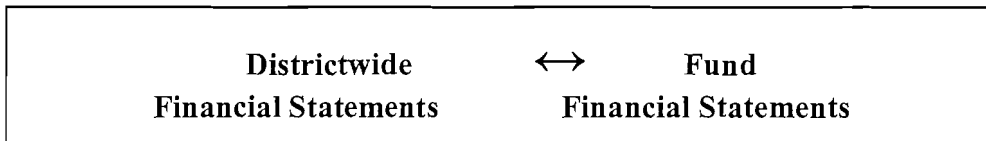
In addition to these statements, this report also includes other supplemental information such as Capital Project Funds Schedule of Project Expenditures, etc.

Our auditor has provided assurance in the independent auditor's report that the Basic Financial Statements are fairly stated. A different degree of assurance is being provided by the auditor regarding the supplemental information identified above. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each part in the financial statements.

Financial Statements

Required Supplemental Information (Part A)
Management's Discussion and Analysis (MD&A)

Basic Financial Statements



Notes to the Basic Financial Statements

Supplemental Information

- General Fund Budget & Fund Balance Information**
- Capital Project Funds Schedule of Project Expenditures**
- General Fund Budget to Actual Schedule**

Districtwide Financial Statements

The districtwide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. certain federal/state grants and earned but unused vacation/sick leave).

All of the District's services are reported in the districtwide financial statements as *governmental activities*, including general support, instruction, pupil transportation, community services, and school lunch. Property taxes, sales tax, state/federal aid, and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported here.

Districtwide Financial Analysis

**Poughkeepsie City School District
June 30, 2004 and 2005**

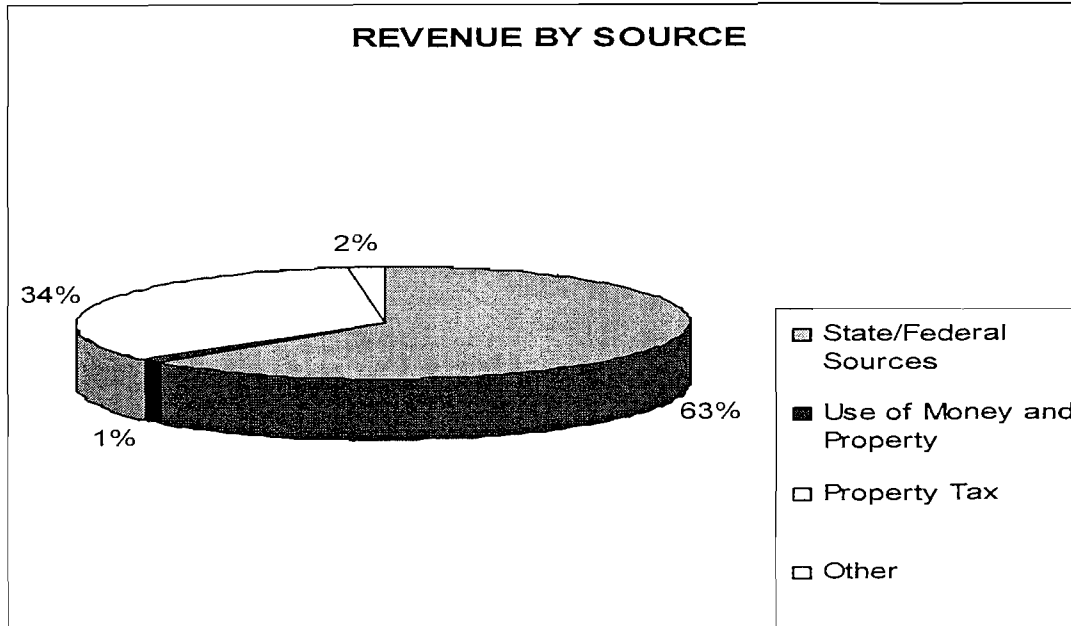
	Governmental Activities		Variance Increase (Decrease)
	2004	2005	
Current Assets	\$ 33,971,707	\$ 17,966,763	\$(16,004,944)
Capital Assets	13,049,787	29,252,155	16,202,368
Total Assets	<u>47,021,494</u>	<u>47,218,918</u>	<u>197,424</u>
Current Liabilities	33,816,711	36,091,924	2,275,213
Noncurrent Liabilities	1,504,559	1,491,784	(12,775)
Total Liabilities	<u>35,321,270</u>	<u>37,583,708</u>	<u>2,262,438</u>
Net Assets:			
Investment in capital assets, net of related debt	12,854,787	5,982,563	(6,872,224)
Restricted for encumbrances	393,356	142,725	(250,631)
Restricted for other specified purposes	755,855	806,484	50,629
Restricted for subsequent year's expenditure	2,900,000	1,300,000	(1,600,000)
Unrestricted (deficit)	(5,203,774)	1,403,438	6,607,212
Total Net Assets	<u>\$ 11,700,224</u>	<u>\$ 9,635,210</u>	<u>\$ (2,065,014)</u>

Poughkeepsie City School District's Net Assets (Continued)
June 30, 2004 and 2005

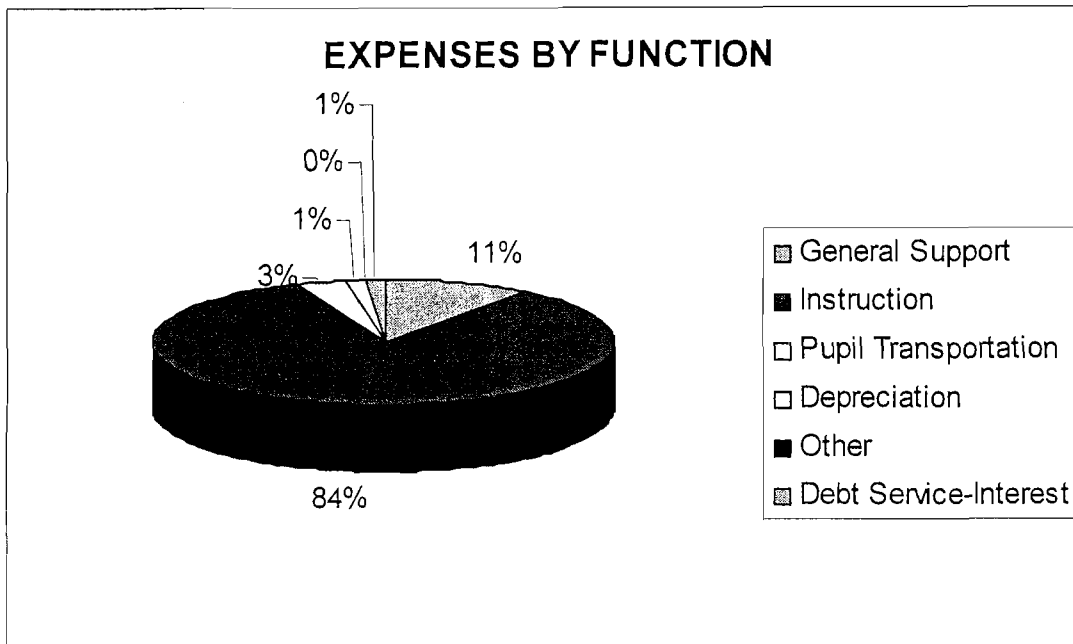
	Governmental Activities		Variance Increase (Decrease)
	2004	2005	
Revenues:			
Program Revenues:			
Charges for Services	\$ 628,345	\$ 641,746	\$ 13,401
Operating Grants and Contributions	11,177,068	12,472,782	1,295,714
Total Program Revenues	<u>\$ 11,805,413</u>	<u>\$ 13,114,528</u>	<u>\$ 1,309,115</u>
General Revenues:			
Real Property Taxes	\$ 15,208,932	\$ 16,812,418	\$ 1,603,486
Other Tax Items	3,117,470	3,286,072	168,602
Use of Money and Property	304,616	674,914	370,298
Sale of Property and Compensation for Loss	3,143	-	(3,143)
Miscellaneous	50,131	918,251	868,120
State Sources	36,141,978	36,913,510	771,532
Federal Sources	516,793	420,533	(96,260)
Premium on obligations	254,050	188,900	(65,150)
Total General Revenues	<u>55,597,113</u>	<u>59,214,598</u>	<u>3,617,485</u>
Expenses:			
Instruction	46,751,608	50,322,390	3,570,782
Support Services:			
General Support	7,180,271	6,397,709	(782,562)
Pupil Transportation	1,953,288	2,046,734	93,446
Community Service	163,857	127,046	(36,811)
Debt Service-Interest	104,981	766,105	661,124
Depreciation-Unallocated	525,543	759,893	234,350
School Lunch	(165,184)	(27,552)	137,632
Total Expenses	<u>56,514,364</u>	<u>60,392,325</u>	<u>3,877,961</u>
Change in Net Assets	<u>\$ (917,251)</u>	<u>\$ (1,177,727)</u>	<u>\$ (260,476)</u>

The following charts provide the percentage of breakdown of all revenues by source and all expenditures by function for the entire District:

**Districtwide Revenues by Source
 For the Year Ended June 30, 2005**



**Districtwide Expenses by Function
 For the Year Ended June 30, 2005**



The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds.

A fund is a grouping of related accounts, and is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District establishes other funds to control and 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). All of the funds of the District can be divided into two categories; governmental funds and fiduciary funds.

- **Governmental funds:** All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds, and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to 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 districtwide statements, additional information at the bottom of the governmental funds 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 districtwide financial statements because it cannot use these assets to finance its operations.

General Fund Budget Information

The District's budget is prepared in accordance with New York State law and is based on the modified accrual basis of accounting, utilizing cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

The \$770,856 positive budget to actual variance in general fund revenues and the positive \$1,218,236 budget to actual variance in general fund expenditures, are a result of the following:

- Miscellaneous revenue exceeded their budget by \$908,251 primarily resulting from the refund of prior years BOCES expenses in the amount of \$855,358.
- Instructional expenditures were \$804,650 under budget.
- Actual employee benefit costs came in \$326,109 under budget.

The District budget development begins in mid October each year. After updating changes in revenue and expenditure assumptions, the operating budget begins at the school level. The department budgets are reviewed periodically to ensure management becomes aware of any significant variations during the year.

Capital Assets

The District's capital assets (net of accumulated depreciation) as of June 30, 2005 are as follows:

<u>Asset Description</u>	<u>Amount</u>
Land	\$ 146,072
Buildings and Improvements	7,749,655
Construction in Progress	19,911,267
Equipment	<u>1,445,161</u>
Total	<u>\$29,252,155</u>

The total increase in the District's capital assets (net of accumulated depreciation) for the current fiscal year was \$16,202,368. The largest portion of this increase is attributable to the Construction in Progress of the districtwide \$27 million capital projects.

Debt

The District had total debt that included a bond anticipation note and other obligations in the amount of \$28,431,784 as of June 30, 2005. The debt outstanding for the year ended June 30, 2005 is summarized as follows:

<u>Debt Description</u>	<u>Outstanding Balance</u>
Bond Anticipation Note	\$26,940,000
Compensated Absences	<u>1,491,784</u>
Totals	<u>\$28,431,784</u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 5% of the total full value of real property. At June 30, 2005 the District's general obligation debt was approximately 51% of its total debt limit.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was not aware of existing circumstances that could significantly affect its financial health in the future.

Contacting the District's Financial Management

It is the intent of this report 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 funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Poughkeepsie City School District
Department of Finance
11 College Avenue
Poughkeepsie, New York 12603
Or visit our website: www.pcsd.k12.ny.us

POUGHKEEPSIE CITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS**Current Assets:**

Unrestricted cash	\$ 11,541,023
Restricted cash	773,356
Taxes receivable	878,935
State and federal aid receivable	4,215,586
Other receivables, net	164,705
Prepaid expenditures	353,029
Due from fiduciary funds	7,000
Inventories	33,129
Total Current Assets	<u>17,966,763</u>

Noncurrent Assets:

Capital assets, net depreciation	<u>29,252,155</u>
Total Noncurrent Assets	<u>29,252,155</u>

Total Assets47,218,918**LIABILITIES****Current Liabilities:**

Accounts payable	4,273,840
Accrued liabilities	947,193
Retainage payable	837,379
Bond anticipation notes payable	26,940,000
Due to other governments	97,408
Deferred revenues - other	492,028
Due to teachers' retirement system	2,254,776
Due to employees' retirement system	185,226
Overpayments	64,074
Total Current Liabilities	<u>36,091,924</u>

Noncurrent Liabilities:

Compensated absences payable	<u>1,491,784</u>
Total Noncurrent Liabilities	<u>1,491,784</u>

Total Liabilities37,583,708**NET ASSETS**

Investment in capital assets, net of related debt	5,982,563
Restricted for:	
Encumbrances	142,725
Tax certiorari	456,904
Unemployment, insurance & inventory	349,580
Subsequent year's expenditures	1,300,000
Unrestricted	1,403,438
Total Net Assets	<u>\$ 9,635,210</u>

See auditors' report. See notes to financial statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For Year Ended June 30, 2005

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	Expenses	Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants	
FUNCTIONS/PROGRAMS					
General support	\$ 5,617,359	\$ 1,066,350	\$ 286,000	\$ -	\$ (6,397,709)
Instruction	50,420,062	10,708,489	-	10,806,161	(50,322,390)
Pupil transportation	2,045,951	133,591	-	132,808	(2,046,734)
Community service	94,424	32,622	-	-	(127,046)
Employee benefits	12,112,673	(12,112,673)	-	-	-
Debt service-Interest	766,105	-	-	-	(766,105)
Depreciation	759,893	-	-	-	(759,893)
School lunch program	1,690,386	171,621	355,746	1,533,813	27,552
Total Functions and Programs	<u>\$ 73,506,853</u>	<u>\$ -</u>	<u>\$ 641,746</u>	<u>\$ 12,472,782</u>	<u>(60,392,325)</u>
GENERAL REVENUES					
Real property taxes					16,812,418
Other tax items					3,286,072
Use of money and property					674,914
Miscellaneous					918,251
State sources					36,913,510
Federal sources					420,533
Premium on obligations					188,900
Total General Revenues					<u>59,214,598</u>
Change in Net Assets					(1,177,727)
Total Net Assets - Beginning of year					<u>10,812,937</u>
Total Net Assets - End of year					<u>\$ 9,635,210</u>

See auditors' report. See notes to financial statements.

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POUGHKEEPSIE CITY SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENTS OF NET ASSETS

NET ASSETS

June 30, 2005

	Total Governmental Funds	Long-term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS				
Unrestricted cash	\$ 11,541,023	\$ -	\$ -	\$ 11,541,023
Restricted cash	773,356	-	-	773,356
Taxes receivable	878,935	-	-	878,935
State and federal aid receivable	4,215,586	-	-	4,215,586
Other receivables, net	164,705	-	-	164,705
Due from other funds	1,172,313	-	(1,172,313)	-
Due from fiduciary funds	-	-	7,000	7,000
Inventories	33,129	-	-	33,129
Prepaid expenditures	353,029	-	-	353,029
Capital assets, net	-	29,252,155	-	29,252,155
Total Assets	\$ 19,132,076	\$ 29,252,155	\$ (1,165,313)	\$ 47,218,918
LIABILITIES				
Accounts payable	\$ 4,273,840	\$ -	\$ -	\$ 4,273,840
Accrued liabilities	947,193	-	-	947,193
Retainage payable	837,379	-	-	837,379
Bond anticipation notes payable	26,940,000	-	-	26,940,000
Due to other funds	1,165,313	-	(1,165,313)	-
Due to other governments	97,408	-	-	97,408
Due to teachers' retirement system	2,254,776	-	-	2,254,776
Due to employees' retirement system	185,226	-	-	185,226
Compensated absences	-	1,491,784	-	1,491,784
Overpayments	64,074	-	-	64,074
Deferred revenues	1,422,655	-	(930,627)	492,028
Total Liabilities	38,187,864	1,491,784	(2,095,940)	37,583,708
FUND EQUITY/NET ASSETS				
Total Fund Equity/Net Assets	(19,055,788)	27,760,371	930,627	9,635,210
Total Liabilities, Equity and Other Credits	\$ 19,132,076	\$ 29,252,155	\$ (1,165,313)	\$ 47,218,918

See auditors' report. See notes to financial statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT
 RECONCILIATION OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES
 IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES

For Year Ended June 30, 2005

	Total Governmental Funds	Long-term Revenue, Expenses	Capital Related Items	Long-term Debt Transactions	Statement of Activities Totals
REVENUES					
Real property taxes	\$ 17,072,047	\$ (259,629)	\$ -	\$ -	\$ 16,812,418
Other tax items	3,286,072	-	-	-	3,286,072
Charges for services	299,648	(13,648)	-	-	286,000
Use of money and property	674,914	-	-	-	674,914
Miscellaneous	918,251	-	-	-	918,251
State sources	41,065,462	-	-	-	41,065,462
Federal sources	8,741,363	-	-	-	8,741,363
Sales - school lunch	355,746	-	-	-	355,746
Total Revenues	<u>72,413,503</u>	<u>(273,277)</u>	<u>-</u>	<u>-</u>	<u>72,140,226</u>
EXPENDITURES/EXPENSES					
General support	5,675,774	-	(58,415)	-	5,617,359
Instruction	50,667,369	(12,775)	(234,532)	-	50,420,062
Pupil transportation	2,086,863	-	(40,912)	-	2,045,951
Community service	94,424	-	-	-	94,424
Employee benefits	12,736,853	(624,180)	-	-	12,112,673
Debt service-Principal	255,000	-	-	(255,000)	-
-Interest	766,105	-	-	-	766,105
Depreciation	-	-	759,893	-	759,893
School Lunch Program	1,690,386	-	-	-	1,690,386
Capital outlay	16,684,402	-	(16,684,402)	-	-
Total Expenditures	<u>90,657,176</u>	<u>(636,955)</u>	<u>(16,258,368)</u>	<u>(255,000)</u>	<u>73,506,853</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(18,243,673)</u>	<u>363,678</u>	<u>16,258,368</u>	<u>255,000</u>	<u>(1,366,627)</u>
OTHER SOURCES AND USES					
Bond anticipation notes-redeemed	60,000	-	-	(60,000)	-
Premium on obligations	188,900	-	-	-	188,900
Operating transfers in	1,106,938	(1,106,938)	-	-	-
Operating transfers (out)	(1,106,938)	1,106,938	-	-	-
Total Other Sources (Uses)	<u>248,900</u>	<u>-</u>	<u>-</u>	<u>(60,000)</u>	<u>188,900</u>
Net Change for the Year	<u>\$ (17,994,773)</u>	<u>\$ 363,678</u>	<u>\$ 16,258,368</u>	<u>\$ 195,000</u>	<u>\$ (1,177,727)</u>

See auditors' report. See notes to financial statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT
BALANCE SHEET- GOVERNMENTAL FUNDS
June 30, 2005

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Unrestricted cash	\$ 5,152,184	\$ 3,129	\$ 408,444	\$ 871,523	\$ 5,105,743	\$ 11,541,023
Restricted cash	773,356	-	-	-	-	773,356
Taxes receivable	878,935	-	-	-	-	878,935
State and federal aid receivable	2,205,316	1,905,730	104,540	-	-	4,215,586
Other receivables, net	164,705	-	-	-	-	164,705
Due from other funds	1,172,313	-	-	-	-	1,172,313
Inventories	-	-	33,129	-	-	33,129
Prepaid expenditures	343,029	-	-	-	10,000	353,029
Total Assets	\$ 10,689,838	\$ 1,908,859	\$ 546,113	\$ 871,523	\$ 5,115,743	\$ 19,132,076
LIABILITIES						
Accounts payable	\$ 3,414,071	\$ 251,813	\$ -	\$ -	\$ 607,956	\$ 4,273,840
Accrued liabilities	945,561	-	1,632	-	-	947,193
Retainage payable	-	-	-	-	837,379	837,379
Bond anticipation notes payable	-	-	-	-	26,940,000	26,940,000
Due to other funds	-	1,165,313	-	-	-	1,165,313
Due to other governments	96,837	-	571	-	-	97,408
Due to teachers' retirement system	1,935,354	319,422	-	-	-	2,254,776
Due to employees' retirement system	119,804	40,654	24,768	-	-	185,226
Overpayments	64,074	-	-	-	-	64,074
Deferred revenues	456,046	131,657	-	-	-	587,703
Deferred tax revenues	834,952	-	-	-	-	834,952
Total Liabilities	7,866,699	1,908,859	26,971	-	28,385,335	38,187,864
FUND EQUITY						
Reserved for encumbrances	-	142,725	-	-	-	142,725
Reserve for unemployment insurance	184,999	-	-	-	-	184,999
Reserve for tax certiorari	456,904	-	-	-	-	456,904
Reserve for insurance	131,452	-	-	-	-	131,452
Reserve for inventory	-	-	33,129	-	-	33,129
Unreserved - designated	1,300,000	-	-	-	-	1,300,000
Unreserved - undesignated (deficit)	749,784	(142,725)	486,013	871,523	(23,269,592)	(21,304,997)
Total Fund Equity (deficit)	2,823,139	-	519,142	871,523	(23,269,592)	(19,055,788)
Total Liabilities and Fund Equity	\$ 10,689,838	\$ 1,908,859	\$ 546,113	\$ 871,523	\$ 5,115,743	\$ 19,132,076

See auditors' report. See notes to financial statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY- GOVERNMENTAL FUNDS

For Year Ended June 30, 2005

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 17,072,047	\$ -	\$ -	\$ -	\$ -	\$ 17,072,047
Other tax items	3,286,072	-	-	-	-	3,286,072
Charges for services	299,648	-	-	-	-	299,648
Use of money and property	419,882	-	82	254,950	-	674,914
Miscellaneous	918,251	-	-	-	-	918,251
State sources	36,913,510	4,084,685	67,267	-	-	41,065,462
Federal sources	420,533	6,854,284	1,466,546	-	-	8,741,363
Sales	-	-	355,746	-	-	355,746
Total Revenues	59,329,943	10,938,969	1,889,641	254,950	-	72,413,503
EXPENDITURES						
General support	5,639,934	35,840	-	-	-	5,675,774
Instruction	39,434,604	11,232,765	-	-	-	50,667,369
Pupil transportation	1,954,055	132,808	-	-	-	2,086,863
Community service	94,424	-	-	-	-	94,424
Employee benefits	12,565,232	-	171,621	-	-	12,736,853
Debt service						
Principal	-	-	-	255,000	-	255,000
Interest	135,158	-	-	630,947	-	766,105
Cost of sales	-	-	1,690,386	-	-	1,690,386
Capital outlay	-	-	60,684	-	16,623,718	16,684,402
Total Expenditures	59,823,407	11,401,413	1,922,691	885,947	16,623,718	90,657,176
Excess (Deficiency) of Revenues Over Expenditures	(493,464)	(462,444)	(33,050)	(630,997)	(16,623,718)	(18,243,673)
OTHER SOURCES AND USES						
Bond anticipation note-redeemed	-	-	-	-	60,000	60,000
Premium on obligations	-	-	-	188,900	-	188,900
Operating transfers in	119,747	582,191	-	405,000	-	1,106,938
Operating transfers (out)	(987,191)	(119,747)	-	-	-	(1,106,938)
Total Other Sources (Uses)	(867,444)	462,444	-	593,900	60,000	248,900
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(1,360,908)	-	(33,050)	(37,097)	(16,563,718)	(17,994,773)
Fund Equity (Deficit) - Beginning of year	5,015,334	-	552,192	908,620	(6,705,874)	(229,728)
Prior Period Adjustment	(831,287)	-	-	-	-	(831,287)
Fund Equity (Deficit) - End of year	\$ 2,823,139	\$ -	\$ 519,142	\$ 871,523	\$ (23,269,592)	\$ (19,055,788)

See auditors' report. See notes to financial statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS- FIDUCIARY FUNDS

June 30, 2005

	Private Purpose Trusts	Agency
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 143,856	\$ 43,902
Investments	251,494	-
Other receivables	<u> -</u>	<u> 23</u>
Total Assets	<u><u>\$ 395,350</u></u>	<u><u>\$ 43,925</u></u>
 LIABILITIES		
Due to governmental funds	\$ -	\$ 7,000
Extracurricular activity balances	-	32,498
Other liabilities	<u> -</u>	<u> 4,427</u>
Total Liabilities	<u> -</u>	<u><u>\$ 43,925</u></u>
 NET ASSETS		
Reserved for scholarships	<u><u>\$ 395,350</u></u>	

See auditors' report. See notes to financial statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT

PoughkeepsieSchools.info

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS- FIDUCIARY FUNDS

PoughkeepsieSchools.info

For Year Ended June 30, 2005

	Private Purpose Trusts
	<u> </u>
ADDITIONS	
Contributions	\$ 243,611
Interest	<u>8,952</u>
Total Additions	<u>252,563</u>
DEDUCTIONS	
Scholarships and awards	<u>156,201</u>
Change in Net Assets	96,362
Net Assets - Beginning of year	<u>298,988</u>
Net Assets - End of year	<u><u>\$ 395,350</u></u>

See auditors' report. See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

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

A. Adoption of New Accounting Standards

The implementation of GASB Statement No. 34 resulted in the need to restate prior year ending balances. The reconciliation of restated amounts to the June 30, 2004 year-end balance is:

Beginning net assets	\$ 11,700,224
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The following adjustments are necessary to determine the beginning net assets for the Statement of Activities:

Teachers' retirement system	(674,392)
Employees' Retirement System	(156,895)
Reclassification of capital assets	<u>(56,000)</u>

Beginning net assets reported on statement of activities for governmental activities, July 1, 2004	<u>\$ 10,812,937</u>
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B. Reporting Entity

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

The accompanying financial statements present the activities of the District. The decision to include a potential component unit in the School District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities included in the School District's reporting entity:

The Extraclassroom Activity Fund

The Extraclassroom Activity Fund of the Poughkeepsie City School District represents funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom

See auditors' report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
-----**I. Summary of Significant Accounting Policies (Continued)****B. Reporting Entity (Continued)**

Activity Fund is independent of the School District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Fund can be found at the School District's business office. The District accounts for assets held as an agent for various student organizations in an agency fund.

C. Joint Venture

The Poughkeepsie City School District is one of 14 component school district's in the Dutchess Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities.

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

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

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

During the year ended June 30, 2005, the Poughkeepsie City School District was billed \$3,856,043 for BOCES administrative and program costs.

D. Basis of Presentation**1. Districtwide Statements**

The districtwide Statement of Net Assets and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary.

See auditors' report

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
-----**I. Summary of Significant Accounting Policies (Continued)****D. Basis of Presentation (Continued)****1. Districtwide Statements (Continued)**

Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State Aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

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

2. Fund Financial Statements

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

The District reports the following funds:

a. Major Governmental Funds

- (1) **General Fund-** This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.
- (2) **Special Aid Fund-** These funds account for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specified purposes and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

See auditors' report.

I. Summary of Significant Accounting Policies (Continued)

D. Basis of Presentation (Continued)

2. Fund Financial Statements (Continued)

a. Major Governmental Funds (Continued)

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

b. Fiduciary Funds

This fund is used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the Districtwide financial statements, because their resources do not belong to the District, and are not available to be used.

E. Measurement Focus and Basis of Accounting

The Districtwide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and donations are 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 60 days after the end of the fiscal year.

See auditors' report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

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

F. Cash and Investments

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Investments are stated at fair value.

G. Property Taxes1. Calendar

Real property taxes are levied annually by the Board of Education no later than September 1, and become a lien on September 1, 2004. Taxes are collected during the period September 15 to December 15, 2004.

2. Enforcement

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

H. 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.

See auditors' report.

I. Summary of Significant Accounting Policies (Continued)

I. Inventories and Prepaid Items

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis or in the case of surplus food, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount. Prepaid items represent payments made by the District for which benefits extend beyond year-end.

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

J. Due To/From Other Funds

The amounts reported on the Governmental Funds Balance Sheet for due to and due from other funds represents amounts due between different fund types. Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

K. Capital Assets-Property, Plant and Equipment

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Donated assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets on the straight-line basis over the following useful lives:

<u>Class</u>	<u>Life in Years</u>
Buildings	15-50 Years
Machinery and Equipment	5-25 Years

L. Long-Term Obligations

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.

See auditors' report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)**M. Compensated Absences**

The liability for compensated absences is calculated at rates in effect as of the balance sheet date and is recorded in the governmental funds in as much as it will be funded from current financial resources, and the long-term portion is accrued in the districtwide Statement of Net Assets as noncurrent liabilities.

N. Deferred Revenue

The District reports deferred revenues in its financial statements. Deferred revenues arise when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the School District has legal claims to the resources, the liability for deferred revenues is removed and revenues are recognized.

O. Post-Employment Benefits

In addition to providing pension benefits, the School District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the School District's employees may become eligible for these benefits if they reach normal retirement age while working for the School District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the School District and the retired employee. The School District recognizes the cost of providing health insurance by recording its share of insurance premiums (for retirees and their dependents) as an expenditure in the General Fund in the year paid. Post-employment benefits aggregated \$2,435,597 for 296 retirees.

P. Fund Balance- Reservations and Designations

Reservations of fund balances are created to either satisfy legal restrictions or to plan for future expenditures. A designation of unreserved fund balances in governmental funds indicates the use of these resources in the subsequent year's budget. The following is a description of the reserves utilized by the School District.

See auditors' report.

I. Summary of Significant Accounting Policies (Continued)**P. Fund Balance- Reservations and Designations (Continued)**1. Tax Certiorari Reserve

This reserve is used to accumulate funds to pay judgements and claims anticipated from tax certiorari proceedings. Any excess monies must be returned to the General Fund on or before the first day of the fourth fiscal year after the deposit of the monies. This reserve is accounted for in the General Fund.

2. Reserve for Encumbrances

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

3. Unemployment Insurance Reserve

This reserve is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. This reserve is accounted for in the General Fund.

4. Insurance Reserve

This reserve is used to pay liability claims incurred. Separate funds for liability claims are required and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be used only by school districts, except city school districts with a population greater than 125,000. This reserve is accounted for in the General Fund.

5. Reserve for Inventory

The purpose of this account is to limit the maximum investment in inventory and to restrict that portion of fund balance, which is not available for appropriation.

See auditors' report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. Summary of Significant Accounting Policies (Continued)**Q. Budgetary Procedures and Budgetary Accounting**1. Budget Policies

The budget policies are as follows:

- a. The School District administration prepares a proposed budget for approval by the Board of Education for the General Fund.
- b. The proposed appropriation budget for the General Fund is approved by the voters within the School District.
- c. Appropriations are adopted at the program level.
- d. Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

2. Budget Basis of Accounting

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

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

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

See auditors' report.

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

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

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

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

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

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

a. Long-term revenue differences:

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

b. Capital related differences:

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

See auditors' report.

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

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

c. Long-term debt transaction differences:

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

The costs of building and acquiring capital assets (land, buildings, and equipment) financed from governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually of their useful lives.

Original cost of capital assets	<u>\$ 52,471,075</u>
Accumulated depreciation	<u>\$ 23,218,920</u>

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

Compensated absences payable	<u>\$ 1,491,784</u>
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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. Depreciation of \$759,893 is less than capital expenditures of \$20,945,421 in the current year.

Repayment of debt principal of \$195,000 is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets, and does not affect the Statement of Activities.

See auditors' report.

III. Cash and Investments

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

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

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

IV. Interfund Transaction

Interfund balances at June 30, 2005, are as follows:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	\$ 1,172,313	\$ -	\$ 119,747	\$ 987,191
Special Aid Fund	-	1,165,313	582,191	119,747
School Lunch Fund	-	-	-	-
Debt Service Fund	-	-	405,000	-
Total governmental activities	<u>1,172,313</u>	<u>1,165,313</u>	<u>\$ 1,106,938</u>	<u>\$ 1,106,938</u>
Fiduciary Agency Fund	<u>-</u>	<u>7,000</u>		
Totals	<u>\$ 1,172,313</u>	<u>\$ 1,172,313</u>		

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

See auditors' report.

V. Capital Assets

A summary of changes in general fixed assets follows:

	Balance 7/1/2004	Additions	Deletions	Balance 6/30/2005
<u>Capital assets that are not depreciated:</u>				
Land	\$ 146,072	\$ -	\$ -	\$ 146,072
Construction in Progress	7,270,709	16,623,718	(3,983,160)	19,911,267
<u>Total capital assets that are not depreciated:</u>	7,416,781	16,623,718	(3,983,160)	20,057,339
<u>Other capital assets:</u>				
Buildings and improvements	21,229,727	3,927,160	-	25,156,887
Machinery and equipment	6,862,306	394,543	-	7,256,849
<u>Total other capital assets</u>	28,092,033	4,321,703	-	32,413,736
<u>Less accumulated depreciation:</u>				
Buildings and improvements	16,972,992	434,240	-	17,407,232
Machinery and equipment	5,486,035	325,653	-	5,811,688
<u>Total accumulated depreciation</u>	22,459,027	759,893	-	23,218,920
<u>Other capital assets, net</u>	5,633,006	3,561,810	-	9,194,816
<u>Total</u>	<u>\$ 13,049,787</u>	<u>\$ 20,185,528</u>	<u>\$ (3,983,160)</u>	<u>\$ 29,252,155</u>

Depreciation expense has been reported as unallocated in the Statement of Activities.

See auditors' report.

VI. Liabilities**A. Pension Plans and Post- Employment Benefits****1. General Information**

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

2. Plan Descriptions**a. Teachers' Retirement System (TRS)**

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

b. Employees' Retirement System (ERS)

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

See auditors' report.

VI. Liabilities (Continued)

A. Pension Plans and Post- Employment Benefits (Continued)

3. Funding Policies

For the Teachers' Retirement System, plan members who joined the system before July 27, 1976 are not required to make contributions. Those joining after July 26, 1976 who have less than 10 years of service or membership are required to contribute 3% of their salary. Employers are required to contribute at an actuarially determined rate. Rates applicable to the fiscal years ended June 30, 2005, 2004, and 2003 were 5.63%, 2.52%, and .36%. For the New York State and Local Employees' Retirement System, Chapter 126 of the laws of 2000 provide for the cessation of the 3% employee contribution for those Tier 3 and 4 members who, as of October 1, 2001, have either 10 years of membership or credited service.

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

Year	ERS	TRS
2005	\$ 658,127	\$ 1,169,216
2004	\$ 252,848	\$ 420,889
2003	\$ 58,798	\$ 357,915

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

B. Indebtedness

1. Short-Term Debt

a. **Revenue, Tax and Bond Anticipation Notes**

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

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

b. **Short-Term Debt Interest**

Interest in long-term indebtedness amounted to \$135,158 for 2004-2005.

See auditors' report.

VI. Liabilities (Continued)

B. Indebtedness (Continued)

2. Long-Term Debt

a. **Long-Term Debt Interest**

Interest in long-term indebtedness amounted to \$5,948 for 2004-2005.

b. **Changes**

	Balance 7/1/2004	Additions	Deletions	Balance 6/30/2005	Due Within One Year
Serial Bonds	\$ 195,000	\$ -	\$ 195,000	\$ -	\$ -
Compensated Absences Due to Teachers'	1,504,559	-	12,775	1,491,784	
Retirement System	624,180	-	624,180	-	
Total	<u>\$ 2,323,739</u>	<u>\$ -</u>	<u>\$ 831,955</u>	<u>\$ 1,491,784</u>	

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

c. **Maturity**

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

<u>Purpose</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/2005</u>
Notes: Bond Anticipation Notes	2005	2006	3.50%	<u>\$ 26,940,000</u>

VII. **Deficit Fund Balance**

The Capital Fund had a deficit fund balance at June 30, 2005 in the amount of \$23,269,592. The deficit will be eliminated as permanent financing is obtained.

See auditors' report.

VIII. Commitments and Contingencies

A. Risk Financing and Related Insurance

1. General Information

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

2. Workers' Compensation Insurance

The School District participates in a risk sharing pool, consortium run by the Dutchess County Schools Cooperative Self-Insurance Plan for Workers' Compensation, to insure workers' compensation claims. This is a public entity risk pool created under Article 5, Workers' Compensation Law, to finance liability and risks related to Workers' Compensation claims.

3. Health Insurance

The School District participates in the Dutchess Educational Health Insurance Consortium, which is a trust formed under New York State Insurance Law on June 30, 1988. The Consortium's purpose is to provide health insurance coverage at a lower rate for member educational institutions due to a larger participation pool.

B. Litigation

There are currently pending tax certiorari proceedings, the results of which could require the payments of future tax refunds by the School District if existing assessment rolls are modified based on the outcome of the litigation proceedings. However, the amount of these possible refunds cannot be determined at the present time. The School District has established a tax certiorari reserve to cover a portion of the potential refund exposure and the District has legal authority to borrow funds to repay school taxes when needed.

See auditors' report.

VIII. Commitments and Contingencies (Continued)

C. Other Items

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

D. Use of Estimates

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

IX. Additional Disclosures

Reserve Funds

The following is a summary of Reserve Funds for the year ended June 30 2005:

<u>General</u>	
Unemployment Insurance Reserve	\$ 184,999
Insurance Reserve	131,452
Tax Certiorari Reserve	456,904
	<u>\$ 773,355</u>
<u>School Lunch</u>	
Reserve for Inventory	<u>\$ 33,129</u>

X. Subsequent Event

On July 14, 2005 the School, District issued a tax anti-cipation note totaling \$4,900,000. The note is to be used to cover expenditures and warrants in anticipation of the collection of property taxes levied for school purposes for the 2005-2006 school year.

See auditors' report.

POUGHKEEPSIE CITY SCHOOL DISTRICT
 SCHEDULE OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET AND USE OF
 UNRESERVED FUND BALANCE- GENERAL FUND
 For Year Ended June 30, 2005

Original Budget \$ 59,900,966

Additions:

Budget revision:		
Teachers' retirement system	\$ 976,977	
Technology	79,240	
Transportation	121,651	
Special education	840,000	
Employee benefits	110,000	2,127,868

Revised Budget \$ 62,028,834

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -
 As of the beginning of the year \$ 4,259,479

Designated fund balance used for:		
levy of taxes - Original budget	\$ 2,900,000	
Contingent expenditures	450,000	3,350,000

Undesignated Fund Balance -
 As of the beginning of the year \$ 909,479

See auditors' report.

POUGHKEEPSIE CITY SCHOOL DISTRICT
 SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
 For Year Ended June 30, 2005

PROJECT TITLE	Original Budget	Revised Budget	Expenditures		Total	Unexpended Balance
			Prior Years	Current Year		
District-Wide Renovations	<u>\$ 27,000,000</u>	<u>\$ 27,245,000</u>	<u>\$ 7,270,709</u>	<u>\$ 16,623,718</u>	<u>\$ 23,894,427</u>	<u>\$ 3,350,573</u>

See auditors' report.

POUGHKEEPSIE CITY SCHOOL DISTRICT

SCHEDULE OF REVENUES COMPARED TO BUDGET- GENERAL FUND

For Year Ended June 30, 2005

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local Sources				
Real property taxes	\$ 16,609,869	\$ 17,109,869	\$ 17,072,047	\$ (37,822)
Other tax items	3,240,024	3,240,024	3,286,072	46,048
Charges for services	251,000	251,000	299,648	48,648
Use of money and property	200,000	200,000	419,882	219,882
Miscellaneous	10,000	10,000	918,251	908,251
Total Local Sources	<u>20,310,893</u>	<u>20,810,893</u>	<u>21,995,900</u>	<u>1,185,007</u>
State Sources	36,090,073	37,267,941	36,913,510	(354,431)
Federal Sources	500,000	500,000	420,533	(79,467)
Total Revenues	<u>56,900,966</u>	<u>58,578,834</u>	<u>59,329,943</u>	<u>751,109</u>
Other Financing Sources				
Operating transfers in	<u>100,000</u>	<u>100,000</u>	<u>119,747</u>	<u>19,747</u>
Total Revenue and Other Financing Sources	<u>57,000,966</u>	<u>58,678,834</u>	<u>59,449,690</u>	<u>\$ 770,856</u>
Appropriated Fund Balance	<u>2,900,000</u>	<u>3,350,000</u>		
Total Revenues, Other Financing Sources and Appropriated Fund Balance	<u>\$ 59,900,966</u>	<u>\$ 62,028,834</u>		

See auditors' report.

POUGHKEEPSIE CITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES, OTHER USES AND ENCUMBRANCES COMPARED TO BUDGET -
 GENERAL FUND
 For Year Ended June 30, 2005

	Original Budget	Revised Budget	Actual	Encumbrances	Favorable (Unfavorable)
EXPENDITURES					
General Support					
Board of education	\$ 44,600	\$ 60,407	\$ 60,406	\$ -	\$ 1
Central administration	286,230	399,521	399,476	-	45
Finance	580,570	568,112	562,500	-	5,612
Staff	530,200	409,478	409,352	-	126
Central services	3,412,773	3,500,819	3,491,718	-	9,101
Special items	738,600	739,822	716,482	-	23,340
Total General Support	<u>5,592,973</u>	<u>5,678,159</u>	<u>5,639,934</u>	<u>-</u>	<u>38,225</u>
Instructional					
Instruction, administration and improvement	3,467,870	3,353,264	3,328,268	-	24,996
Teaching - regular school	21,068,723	20,824,637	20,390,834	-	433,803
Programs for children with handicapping conditions	9,966,050	11,044,366	10,816,658	-	227,708
Occupational education	497,200	527,040	527,040	-	-
Teaching - special school	207,400	243,968	242,821	-	1,147
Instructional media	1,199,100	1,283,748	1,223,569	-	60,179
Pupil services	2,773,680	2,962,231	2,905,414	-	56,817
Total Instructional	<u>39,180,023</u>	<u>40,239,254</u>	<u>39,434,604</u>	<u>-</u>	<u>804,650</u>
Pupil Transportation	1,809,170	1,954,686	1,954,055	-	631
Community Services	120,000	138,203	94,424	-	43,779
Employee Benefits	12,113,800	12,891,341	12,565,232	-	326,109
Debt Service					
Interest	200,000	140,000	135,158	-	4,842
Total Expenditures	<u>59,015,966</u>	<u>61,041,643</u>	<u>59,823,407</u>	<u>-</u>	<u>1,218,236</u>
OTHER FINANCING USES					
Operating transfers out	885,000	987,191	987,191	-	-
Total Expenditures and Other Financing Uses	<u>\$ 59,900,966</u>	<u>\$ 62,028,834</u>	<u>60,810,598</u>	<u>\$ -</u>	<u>\$ 1,218,236</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses			<u>\$ (1,360,908)</u>		

See auditors' report.

POUGHKEEPSIE CITY SCHOOL DISTRICT

SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES COMPARED TO ST-3 DATA

For Year Ended June 30, 2005

	Code	ST-3 Amount	Audited Amount
REVENUES			
Real Property Taxes	A -1001	\$ 17,072,047	\$ 17,072,047
Non-Property Taxes	AT-1199	\$ -	\$ -
State Aid	AT-3999	\$ 36,913,510	\$ 36,913,510
Federal Aid	AT-4999	\$ 420,533	\$ 420,533
Total Revenues	AT-5999	\$ 59,449,690	\$ 59,449,690
EXPENDITURES			
General Support	AT-1999	\$ 5,639,934	\$ 5,639,934
Pupil Transportation	AT-5599	\$ 1,954,054	\$ 1,954,055 *
Debt Service - Principal	AT-9798.6	\$ -	\$ - ^
Debt Service - Interest	AT-9798.7	\$ 135,159	\$ 135,158 *
Total Expenditures	AT-9999	\$ 60,810,598	\$ 60,810,598

^ - Serial bond and interest payment was reported in debt Service.

* - Rounding

See auditors' report.

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

To the Board of Education of
Poughkeepsie City School District:

We have audited the financial statements of Poughkeepsie City School District as of and for the year ended June 30, 2005 and have issued our report thereon dated August 3, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

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

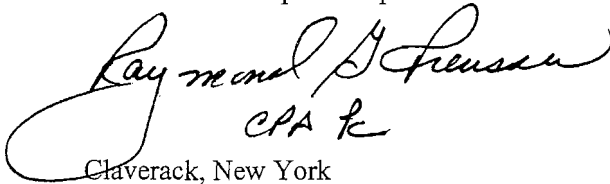
See auditors' report.

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Internal Control Over Financial Reporting

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

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



Raymond J. Fussen
CPA R

Claverack, New York
August 3, 2005

See auditors' report.

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To the Board of Education of the
Poughkeepsie City School District:

We have audited the financial statements of the Poughkeepsie City School District at June 30, 2005, and have reported thereon under date of August 3, 2005. As an inherent part of our audit, we reviewed those accounting procedures and internal controls used to affect the accurate and suitable recording and summarization of authorized financial transactions.

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

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

School District's Financial Accountability:

During July 2005, the Governor signed into law a bill which is intended to improve School District's Financial Accountability. This legislation, commonly referred to as the "Five Point Plan" addresses the following five areas:

- Audit Committees
- Internal Claims Auditor
- Internal Audit Function
- Audit Services
- Board Training

Each item noted above has a different phase in date during the fiscal year. However, in order to implement this legislation, the State Education Department will be required to issue specific regulations to interpret the requirements of this law. As these regulations are clarified by SED, we will be available to assist the District with implementation.

See auditors' report.

Documentation of Invoice Processing:

An important element of the auditor's function is to perform a proper evaluation of the existing system of internal control in order to determine the degree of reliance which may be placed on the system in performing the various auditing procedures. As part of our audit of the School District's financial statements, we reviewed, evaluated and tested the controls with respect to purchasing. During our testing, we noted that reimbursements to employees for meals within the district was lacking documentation to determine if the claim was a necessary school district expense.

We discussed the above findings with management and were informed the documentation and receipt of goods are maintained in other files in the business office.

We recommend that each payment packet contains all necessary documentation to determine that the claim is a necessary school district expense.

Policies on Spending:

As a result of recent events, the comptroller's office recommended that school districts need to strengthen its policies and oversight on spending. School districts need to adopt policies related to spending on travel (conferences), meals and refreshments, cell phones, and credit cards.

During our audit, we noted that the Board of Education had adopted written policies to address the above spending areas.

Now that these policies are adopted, management should monitor these policies and procedures for compliance.

Fixed Assets:

During our audit of the fixed assets, we noted that the District did not perform an annual physical inspection of their asset inventory to determine that all assets are present. This is necessary to strengthen the internal control over inventory and also for the proper insurance coverage.

See auditors' report.

Fiscal Stress:

The decreasing trend in your Fund Equity is a strong indication that the District will be facing financial difficulties. The following is a summary of the Fund Equity for the past two years:

Balance June 30, 2004	\$ 5,015,334
Balance June 30, 2005	<u>2,823,139</u>
Decrease	<u>\$ 2,192,195</u>

The two major areas for this significant decrease was the unanticipated cost of health insurance and the recognition of the retirement system cost as result of the GASB #34 Technical Bulletin.

One of the key indicators of a district going into fiscal stress is the rapid decline of fund equity as noted above.

Another indicator is that the District has an operating deficit. This is when the expenditures exceed revenue during the fiscal year. For the year ended June 30, 2005, the District had a \$1,360,908 operating deficit plus a prior period adjustment of \$831,287. Your district cannot sustain another operating deficit of this magnitude without going into a fund deficit.

The School District and the board need to be aware of these fiscal stress indicators and act to ensure that the District operates in a fiscally responsible manner.

Once the signs of fiscal stress are apparent, management and the board need to take necessary steps to ensure fiscal stability. The District needs to:

1. Carefully monitor the voter approved revenue and expenditure budgets in order to ensure that they remain in balance.
2. Stay within the voter approved budget; if revisions are needed, the cost of these revisions have to be reallocated from another budget line.
3. Develop a five-year fiscal plan and update annually.

Failure to establish stable Fund Equity could have a negative impact on the School District, including a lower bond rating and higher cost to borrow money.

See auditors' report.

Documentation of Payroll Processing:

As part of our audit, we reviewed, evaluated and tested the controls with respect to payroll. Our tests disclosed the following:

1. Board of Education was not approving pay rates for employees.
2. We were unable to find in the board minutes, approval for the hiring of substitute teachers or part-time workers.

We recommend that all new appointment and pay rates be approved by the Board of Education.

We would like to acknowledge the Business Office personnel for their courtesies and cooperation extended to us during the course of our audit.

Very truly yours,
RAYMOND G. PREUSSER, CPA, PC

See auditors' report.

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