

## FINAL OFFICIAL STATEMENT DATED JULY 19, 2011

### SERIAL BONDS AND BOND ANTICIPATION NOTES

**BOND RATING:  
MOODY'S: "A2"**

**INSURED: "Aa3" (negative outlook)**

*In the opinion of Hodgson Russ LLP, of Buffalo, New York, Bond Counsel, subject to continuing compliance by the City School District of the City of Dunkirk, Chautauqua County, New York (the "District") with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds and the Notes is (A) excluded from gross income of the owners thereof for federal income tax purposes under existing law, and (B) exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). Moreover, interest on the Bonds and the Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes. (See the caption "TAX EXEMPTION" herein for a discussion of certain federal taxes applicable to corporate owners of the Notes.)*

*Neither the Bonds nor the Notes will be designated (or deemed designated) as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.*

### CITY SCHOOL DISTRICT OF THE CITY OF DUNKIRK CHAUTAUQUA COUNTY, NEW YORK (the "District")

**\$13,000,000**

### SCHOOL DISTRICT SERIAL BONDS, 2011

(the "Bonds")

(Book-Entry Only)

**Dated: July 15, 2011**

**Principal Due: June 15, 2012/2026, inclusive  
Interest Due June 15, 2012, December 15, 2012, and  
semi-annually thereafter on June 15 and December 15**

#### BOND MATURITY SCHEDULE

| <u>Year</u> | <u>Amount</u> | <u>Rate</u> | <u>Yield</u> | <u>CUSIP</u> | <u>Year</u> | <u>Amount</u> | <u>Rate</u> | <u>Yield</u> | <u>CUSIP</u> |
|-------------|---------------|-------------|--------------|--------------|-------------|---------------|-------------|--------------|--------------|
| 2012        | \$705,000     | 2.000%      | 0.650%       | 265561GC8    | 2019        | \$850,000     | 3.000%      | 2.850%       | 265561GK0    |
| 2013        | 720,000       | 2.500%      | 0.900%       | 265561GD6    | 2020        | 875,000       | 3.000%      | 3.100%       | 265561GL8    |
| 2014        | 740,000       | 3.000%      | 1.150%       | 265561GE4    | 2021        | 905,000       | 3.250%      | 3.280%       | 265561GM6    |
| 2015        | 770,000       | 3.000%      | 1.400%       | 265561GF1    | 2022        | 935,000       | 3.500%      | 3.500%       | 265561GN4    |
| 2016        | 785,000       | 3.000%      | 1.700%       | 265561GG9    | 2023        | 960,000       | 3.625%      | 3.650%       | 265561GP9    |
| 2017        | 810,000       | 3.000%      | 2.100%       | 265561GH7    | 2024        | 1,000,000     | 3.750%      | 3.780%       | 265561GQ7    |
| 2018        | 830,000       | 3.000%      | 2.500%       | 265561GJ3    | 2025        | 1,035,000     | 4.000%      | 3.920%       | 265561GR5    |
|             |               |             |              |              | 2026        | 1,080,000     | 4.000%      | 4.000%       | 265561GS3    |

### UBS FINANCIAL SERVICES

*Prior Redemption:* The Bonds maturing on or before June 15, 2019 will not be subject to redemption, in whole or in part, prior to maturity. The Bonds maturing on or after June 15, 2020 will be subject to redemption prior to maturity, at the option of the District, on June 15, 2019 or on any date thereafter, in whole or in part, and if in part, in any order of their maturity and in any amount within a maturity (selected by lot within a maturity), at par (100%) plus accrued interest to the date of redemption, as described herein under the heading "Optional Redemption."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



*Form and Denomination:* The Bonds will be issued as registered bonds, and, when 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 securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof, such that one bond certificate will be issued for each maturity of Bonds. Bondholders will not receive certificates representing their ownership interest in the Bonds purchased. See "Book-Entry-Only System" herein.

*Payment:* Payment of the principal of and interest on the Bonds to the Beneficial Owners of the Bonds will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name". Payment will be the responsibility of the DTC Participant or Indirect Participant and not of DTC or the District, subject to any statutory and regulatory requirements as may be in effect from time to time. See "Book-Entry-Only System", herein.

The Bonds bear interest from July 15, 2011, with interest thereon payable on June 15, 2012, December 15, 2012 and semi-annually thereafter of June 15 and December 15 in each year until maturity (or prior redemption). The Bonds mature on June 15 in each year commencing June 15, 2012.

The record date for the Bonds is the last business day of the calendar month preceding an interest payment date.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Appendix D - Bond Insurance" and "Appendix E - Specimen Municipal Bond Insurance Policy".

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**\$9,350,000**

**BOND ANTICIPATION NOTES, 2011**  
(the "Notes")

**Interest Rate: 0.87%**

**CUSIP #: N/A**

**Not Reoffered**

**JPMORGAN CHASE BANK, N.A.**

**Dated: July 28, 2011**

**Maturity Date: July 12, 2012**

*Prior Redemption:* The Notes will NOT be subject to redemption, in whole or in part, prior to maturity.

*Form and Denomination:* The Notes will be registered in the name of the purchaser, principal of and interest on the Notes will be payable in federal funds at such bank or trust company located and authorized to do business in the State of New York as will be selected by the successful bidder. In such case, the Notes will be issued in registered form in denominations of \$5,000, or integral multiples thereof, as may be determined by such purchaser.

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Interest on the Bonds and the Notes will be calculated on a 30 day month and 360 day year basis, payable at maturity.

The Bonds and the Notes are general obligations of the District and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Bonds and the Notes. All the taxable real property within the District is subject to the levy of *ad valorem* taxes to pay the Bonds and the Notes and interest thereon, subject to certain statutory limitations imposed by Chapter 97 of the 2011 Laws of New York.

*The Bonds and the Notes are offered when, as and if issued and received by the respective purchasers thereof and subject to the receipt of unqualified legal opinions as to the validity of the Bonds and the Notes of Hodgson Russ LLP, Bond Counsel, of Buffalo, New York. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about July 28, 2011. It is anticipated that the Notes will be available for delivery in Buffalo, New York (or at such other place as may be agreed upon with purchaser), on or about July 28, 2011.*

THIS REVISED COVER SUPPLEMENTS THE OFFICIAL STATEMENT OF THE DISTRICT DATED JULY 11, 2011 RELATING TO THE OBLIGATIONS THEREOF DESCRIBED THEREIN AND HEREIN BY INCLUDING CERTAIN INFORMATION OMITTED FROM SUCH OFFICIAL STATEMENT IN ACCORDANCE WITH SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12. OTHER THAN AS SET FORTH ON THE REVISED COVER PAGE, THE ADDITION OF THE "RATING" AS APPENDIX C, THE "BOND INSURANCE" AS APPENDIX D AND "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" AS APPENDIX E, THERE HAVE BEEN NO REVISIONS TO SAID OFFICIAL STATEMENT.

**OFFICIAL STATEMENT DATED JULY 11, 2011**

**SERIAL BONDS AND  
BOND ANTICIPATION NOTES**

**MOODY'S: APPLIED FOR**

*In the opinion of Hodgson Russ LLP, of Buffalo, New York, Bond Counsel, subject to continuing compliance by the City School District of the City of Dunkirk, Chautauqua County, New York (the "District") with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds and the Notes is (A) excluded from gross income of the owners thereof for federal income tax purposes under existing law, and (B) exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). Moreover, interest on the Bonds and the Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes. (See the caption "TAX EXEMPTION" herein for a discussion of certain federal taxes applicable to corporate owners of the Notes.)*

*Neither the Bonds nor the Notes will be designated (or deemed designated).*

**CITY SCHOOL DISTRICT OF THE CITY OF DUNKIRK  
CHAUTAUQUA COUNTY, NEW YORK  
(the "District")**

**\$13,000,000**

**SCHOOL DISTRICT SERIAL BONDS, 2011  
(the "Bonds") (Book-Entry Only)**

**Dated: July 15, 2011**

**Principal Due: June 15, 2012/2026, inclusive  
Interest Due June 15, 2012, December 15, 2012, and  
semi-annually thereafter on June 15 and December 15**

**BOND MATURITY SCHEDULE**

| <u>Year</u> | <u>Amount*</u> | <u>Rate</u> | <u>Yield</u> | <u>CUSIP</u> | <u>Year</u> | <u>Amount*</u> | <u>Rate</u> | <u>Yield</u> | <u>CUSIP</u> |
|-------------|----------------|-------------|--------------|--------------|-------------|----------------|-------------|--------------|--------------|
| 2012        | \$705,000      |             |              |              | 2019        | \$850,000      |             |              |              |
| 2013        | 710,000        |             |              |              | 2020        | 875,000        |             |              |              |
| 2014        | 750,000        |             |              |              | 2021        | 905,000        |             |              |              |
| 2015        | 770,000        |             |              |              | 2022        | 935,000        |             |              |              |
| 2016        | 785,000        |             |              |              | 2023        | 960,000        |             |              |              |
| 2017        | 810,000        |             |              |              | 2024        | 1,000,000      |             |              |              |
| 2018        | 830,000        |             |              |              | 2025        | 1,035,000      |             |              |              |
|             |                |             |              |              | 2026        | 1,080,000      |             |              |              |

\* Subject to adjustment by the District in accordance with the Notice of Bond Sale, to accomplish substantially level or declining annual debt service, as provided by the Local Finance Law.

SEALED AND ELECTRONIC PROPOSALS WILL BE RECEIVED VIA PARITY UNTIL 11:30 A.M. ON JULY 19, 2011. ELECTRONIC SUBMISSIONS WILL BE RECEIVED VIA PARITY. FOR MORE INFORMATION, VIEW THE NOTICE OF SALE POSTED AT [WWW.I-DEALPROSPECTUS.COM](http://WWW.I-DEALPROSPECTUS.COM)

*Prior Redemption:* The Bonds maturing on or before June 15, 2019 will not be subject to redemption, in whole or in part, prior to maturity. The Bonds maturing on or after June 15, 2020 will be subject to redemption prior to maturity, at the option of the District, on June 15, 2019 or on any date thereafter, in whole or in part, and if in part, in any order of their maturity and in any amount within a maturity (selected by lot within a maturity), at par (100%) plus accrued interest to the date of redemption, as described herein under the heading "Optional Redemption."

*Form and Denomination:* The Bonds will be issued as registered bonds, and, when 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 securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof, such that one bond certificate will be issued for each maturity of Bonds. Bondholders will not receive certificates representing their ownership interest in the Bonds purchased. See "Book-Entry-Only System" herein.

*Payment:* Payment of the principal of and interest on the Bonds to the Beneficial Owners of the Bonds will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name". Payment will be the responsibility of the DTC Participant or Indirect Participant and not of DTC or the District, subject to any statutory and regulatory requirements as may be in effect from time to time. See "Book-Entry-Only System", herein.

The Bonds bear interest from July 15, 2011, with interest thereon payable on June 15, 2012, December 15, 2012 and semi-annually thereafter of June 15 and December 15 in each year until maturity (or prior redemption). The Bonds mature on June 15 in each year commencing June 15, 2012.

Proposals shall be for not less than \$13,000,000 and accrued interest, if any, on the total principal amount of the Bonds. Proposals shall be accompanied by a good faith deposit in the form of a wire transfer or a certified or cashier's check, payable to the order of the City School District of the City of Dunkirk, in the amount of \$260,000.

The record date for the Bonds is the last business day of the calendar month preceding an interest payment date.

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**\$9,350,000**

**BOND ANTICIPATION NOTES, 2011**  
(the "Notes")

**Dated: July 28, 2011**

**Maturity Date: July 12, 2012**

ELECTRONIC PROPOSALS WILL BE RECEIVED VIA PARITY UNTIL 11:00 A.M. ON JULY 19, 2011. ELECTRONIC SUBMISSIONS WILL BE RECEIVED VIA PARITY. FOR MORE INFORMATION, VIEW THE NOTICE OF SALE POSTED AT [WWW.I-DEALPROSPECTUS.COM](http://WWW.I-DEALPROSPECTUS.COM)

*Prior Redemption:* The Notes will NOT be subject to redemption, in whole or in part, prior to maturity.

*Form and Denomination:* The Notes will be issued as registered Notes, and at the option of the initial purchaser(s), may be registered to the Depository Trust Company ("DTC" or the "Securities Depository") or may be registered in the name of the initial purchaser(s).

If the Notes will be issued through DTC, the Notes will be registered in the name of Cede & Co. as nominee of DTC, which will act as securities depository for the Notes. Individual purchases of the Notes will be made in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof, as may be determined by such purchaser(s). Purchasers of the Notes will not receive certificates representing their ownership interest in the Notes. Payments of principal of and interest on the Notes will be made by the District to DTC, 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 "Book-Entry-Only System" herein.

If the Notes are registered in the name of the purchaser(s), principal of and interest on the Notes will be payable in federal funds at such bank or trust company located and authorized to do business in the State of New York as may be selected by the successful bidder. In such case, the Notes will be issued in registered form in denominations of \$5,000, or integral multiples thereof, as may be determined by such successful bidder(s).

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Interest on the Bonds and the Notes will be calculated on a 30 day month and 360 day year basis, payable at maturity.

The Bonds and the Notes are general obligations of the District and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Bonds and the Notes. All the taxable real property within the District is subject to the levy of *ad valorem* taxes to pay the Bonds and the Notes and interest thereon, subject to certain statutory limitations imposed by Chapter 97 of the 2011 Laws of New York.

*The Bonds and the Notes are offered when, as and if issued and received by the respective purchasers thereof and subject to the receipt of unqualified legal opinions as to the validity of the Bonds and the Notes of Hodgson Russ LLP, Bond Counsel, of Buffalo, New York. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about July 28, 2011. It is anticipated that the Notes will be available for delivery through the facilities of DTC (or such other place as may be agreed upon with the purchaser(s)) on or about July 28, 2011.*

THE DISTRICT DEEMS THIS OFFICIAL STATEMENT TO BE FINAL FOR PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"), EXCEPT FOR CERTAIN INFORMATION THAT HAS BEEN OMITTED HEREFROM IN ACCORDANCE WITH THE RULE AND THAT WILL BE SUPPLIED WHEN THIS OFFICIAL STATEMENT IS UPDATED FOLLOWING THE SALE OF THE BONDS AND THE NOTES. THIS OFFICIAL STATEMENT WILL BE SO UPDATED UPON REQUEST OF THE SUCCESSFUL BIDDER(S), AS MORE FULLY DESCRIBED IN THE NOTICE OF BOND SALE WITH RESPECT TO THE BONDS AND THE NOTICE OF SALE WITH RESPECT TO THE NOTES. THE DISTRICT WILL CONVENANT, IN SEPARATE UNDERTAKINGS WITH THE HOLDERS OF THE BONDS AND THE NOTES, TO PROVIDE CERTAIN INFORAMTION AND NOTICE OF CERTAIN MATERIAL EVENTS (AS DEFINED IN THE RULE) AS REQUIRED BY THE RULE (SEE "DISCLOSURE UNDERTAKINGS," HEREIN).

**CITY SCHOOL DISTRICT OF THE CITY OF DUNKIRK,  
CHAUTAUQUA COUNTY, NEW YORK**

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**BOARD OF EDUCATION**

Roosevelt Haynes, President  
Gary Pignataro, Vice President

David Damico  
Dr. Matthew Fountain

Linda Guy  
Kenneth Kozlowski  
Bridget Majka

\* \* \*

Gary Cerne, Superintendent of Schools  
William Thiel, Business Official/Treasurer  
Julie Greene, Deputy Treasurer  
Tracy Ossman, District Clerk  
Hodgson Russ LLP, School District Attorneys

\* \* \*

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\* \* \*

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No person has been authorized by the District to give any information or to make any representations not contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any of the Bonds and 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 District since the date hereof.

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## **OFFICIAL STATEMENT**

### **CITY SCHOOL DISTRICT OF THE CITY OF DUNKIRK CHAUTAUQUA COUNTY, NEW YORK**

#### **\$13,000,000 SCHOOL DISTRICT SERIAL BONDS, 2011 (the "Bonds") (Book-Entry Only)**

#### **\$9,350,000 BOND ANTICIPATION NOTES, 2011 (the "Notes")**

This Official Statement which includes the cover page and the appendices hereto, presents certain information relating to the City School District of the City of Dunkirk, Chautauqua County, in the State of New York (the "District", "County" and "State," respectively) in connection with the sale of the District's \$13,000,000 School District Serial Bonds, 2011 (the "Bonds") and \$9,350,000 Bond Anticipation Notes, 2011 (the "Notes").

All quotations from and summaries and explanations of provisions of the Constitution and laws of the State and acts and proceedings of the 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 Bonds and the Notes and the proceedings of the District relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and the Notes and such proceedings.

### **THE BONDS AND THE NOTES**

The Bonds and the Notes are general obligations of the District and will contain a pledge of the faith and credit of the District for payment of the principal of and interest on the Bonds and the Notes, respectively, as required by the Constitution and laws of the State of New York (State Constitution, Article VIII, Section 2; Local Finance Law, Section 100.00). Unless paid for from other sources, all the taxable real property within the District is subject to the levy of *ad valorem* taxes to pay the Bonds and the Notes and interest thereon, sufficient to pay such principal and interest as the same become due, subject to certain statutory limitations imposed by Chapter 97 of the 2011 Laws of New York.

The financial condition of the District, as well as the market for the Bonds and the Notes, could be affected by a variety of factors, some of which are beyond the control of the District. See "Bondholder and Noteholder Risks," herein.

#### **Description of the Bonds**

The Bonds comprise an issue in the aggregate principal amount of \$13,000,000, will be dated July 15, 2011, and will mature in annual installments beginning on June 15, 2012, as set forth in the cover page hereof. Interest on the Bonds will be payable on June 15, 2012, December 15, 2012 and semi-annually thereafter on June 15 and December 15 until maturity (or earlier redemption).

The Bonds maturing on or before June 15, 2019 will not be subject to redemption, in whole or in part, prior to maturity. The Bonds maturing on or after June 15, 2020 will be subject to redemption prior to maturity, at the option of the District, on June 15, 2019 or on any date thereafter, in whole or in part, and if in part, in any order of their maturity and in any amount within a maturity (selected by lot within a maturity), at par (100%) plus accrued interest to the date of redemption, as described herein under the heading "Optional Redemption."

The Bonds will be issued in registered form and, when 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 securities depository for the Bonds. Purchase of the Bonds will be made in book-entry-only form in denominations of \$5,000 each or any integral multiple thereof. Bondholders will not receive certificates representing their ownership interest in the Bonds purchased. Principal and interest on the Bonds will be payable when due as described in "Book-Entry-Only System" herein.

The record date of the Bonds will be the last business day of the calendar month preceding each interest payment date.

### **Optional Redemption - Bonds**

The Bonds maturing on or before June 15, 2019 will not be subject to redemption, in whole or in part, prior to maturity. The Bonds maturing on or after June 15, 2020 will be subject to redemption prior to maturity as a whole or in part, and if in part, in any order of their maturity and in any amount within a maturity, at the option of the District on June 15, 2019 or on any date thereafter at par (100%), plus accrued interest to the date of redemption. Notice of the call for such redemption shall be given by mailing such notice to the registered owners thereof not more than sixty (60) days nor less than thirty (30) days prior to the designated redemption date. Notice of redemption having been given as aforesaid, the Bonds so called for redemption shall, on the date for redemption set forth in such notice of redemption, become due and payable, together with interest to such redemption date. Interest shall cease to be paid thereon after such redemption date. If less than all of the Bonds of any maturity are to be redeemed, the particular Bonds of such maturity to be redeemed shall be selected by lot in any customary manner of selection as determined by the President of the Board of Education of the District.

### **Description of the Notes**

The Notes will be dated July 28, 2011 and will mature, without the right of redemption prior to maturity, on July 12, 2012, with interest payable at maturity at the annual rate(s) specified by the purchaser(s).

The Notes will be issued either (i) in registered form in the name of the purchaser(s), in which case principal of and interest on the Notes will be payable in federal funds at such bank or trust company located and authorized to do business in the State of New York as may be selected by the successful bidder or (ii) in registered form in the name of the Cede & Co. as nominee for DTC, in which case DTC will act as securities depository for the Notes. See "Book-Entry Only System" herein. In either case, the Notes will be issued in denominations of \$5,000, or integral multiples thereof, as may be determined by the successful bidder. In the latter case, one fully-registered note certificate will be issued for all Notes bearing the same rate of interest and CUSIP number, each in the aggregate principal amount of such issue. Purchasers will not receive certificates representing their interest in the Notes, and principal and interest will be paid in lawful money of the United States of America (federal funds) by the District directly to DTC for its nominee, Cede & Co.

### **Optional Redemption - Notes**

The Notes will NOT be subject to redemption, in whole or in part, prior to maturity.

### **Authorization and Purpose of Issue – Bonds and Notes**

The Bonds and the Notes are being issued in accordance with the Constitution and statutes of the State of New York, including the Education Law and the Local Finance Law, pursuant to a proposition approved by the qualified voters of the District on March 31, 2009 following the adoption of a bond resolution by the Board of Education of the District on February 12, 2009. The bond resolution that was approved by the voters authorized the District (I) to undertake and finance a "Phase II" District-wide capital improvements project consisting of the reconstruction and renovation, in part, and construction of improvements and additions to the District's Elementary Schools 3, 4, 5 and 7, Middle School and High School (and the sites thereof) at a maximum estimated aggregate cost of \$33,100,000 and (II) to expend toward such project a total of \$5,000,000 from two capital reserve funds of the District and from other available funds of the District and (III) to finance the balance of such project by the issuance of serial bonds of the District in an amount not to exceed \$28,100,000.

The proceeds of the Bonds will be used to redeem and retire a portion (\$13,000,000) of an outstanding \$15,000,000 bond anticipation note of the District.

The proceeds of the Notes will be used to renew the remaining \$2,000,000 of such bond anticipation note and to provide original financing for the project in the amount of \$7,350,000.

For further information regarding bond authorizations of the District for capital purposes and other matters relating thereto see "Indebtedness of the District".

## **Book-Entry-Only System**

The following is relevant to the Bonds (and to the Notes if the Notes are to be issued in book-entry form). The following discussion assumes that the Notes will be so issued. The Depository Trust Company (“DTC”), New York, NY will act as securities depository for the Bonds and the Notes. The Bonds and the Notes will be issued as fully-registered Bonds and the Notes 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 bond or note certificate will be issued for each maturity of the Bonds and the Notes, bearing the same rate of interest and CUSIP number, 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 3.5 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”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds or the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds or the Notes on DTC’s records. The ownership interest of each actual purchaser of each Bond (“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 Bonds or 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 Bonds or the Notes, except in the event that use of the book-entry system for the Bonds or the Notes is discontinued.

To facilitate subsequent transfers, all Bonds and the 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 Bonds and the 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 Bonds and the Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds and the 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 the Bonds and the Notes may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds and the Notes, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Bonds and the Notes may wish to ascertain that the nominee holding the Bonds and the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners or, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption proceeds, distributions, and dividend payments on the Bonds and 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 District or Agent on payable date in accordance with their respective holdings shown on DTC's records.

Payments on the Bonds and 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 District, on the 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 bonds and notes 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 or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of the District, 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 securities at any time by giving reasonable notice to District. Under such circumstances, in the event that a successor depository is not obtained, bond and note certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond and 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 District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Source: The Depository Trust Company, New York

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

THE DISTRICT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR REDEMPTION PREMIUM ON THE BONDS OR THE NOTES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED HOLDER OF THE BONDS OR THE NOTES.

THE INFORMATION CONTAINED HEREIN CONCERNING DTC AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC AND THE DISTRICT MAKES NO REPRESENTATION AS TO THE COMPLETENESS OR THE ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

### **Certificated Bonds and Notes**

DTC may discontinue providing its services with respect to the Bonds and the Notes at any time by giving notice to the District and discharging its responsibilities with respect thereto under applicable law, or the District may terminate its participation in the system of book-entry-only transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply: the Bonds and the Notes will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof for any single maturity. Principal of the Bonds and the Notes when due will be payable upon presentation at the principal corporate trust office of a bank(s) or trust company(ies) located and authorized to do business and act as a fiscal agent in the State of New York to be named by the District. Interest on the Bonds will be payable June 15, 2012, December 15, 2012 and semi-annually thereafter on June 15 and December 15

in each year to maturity (or earlier redemption). Such interest will be payable by check drawn on the fiscal agent and mailed to the registered owner on each interest payment date at the address as shown on the registration books of the fiscal agent as of the last business day of the calendar month preceding each such interest payment date. The Bonds and the Notes may be transferred or exchanged at no cost to the registered owner at any time prior to maturity at the office of the fiscal agent for Bonds and Notes of the same or any other authorized denomination or denominations in the same aggregate principal amount upon the terms set forth in the Certificates of Determination executed by the President of the Board of Education of the District authorizing the sale of the Bonds and Notes and fixing the details thereof and in accordance with the Local Finance Law. The fiscal agent shall not be obligated to make any such transfer or exchange of particular Bonds and Notes between the applicable record date for such Bonds and Notes and such interest payment date.

### **Security and Source of Payment**

Each Bond and Note, when duly issued and paid for, will constitute a contract between the District and the holder thereof.

The Bonds and the Notes are general obligations of the District and will contain a pledge of the faith and credit of the District for the payment of the principal of and interest thereon. For the payment of such principal and interest, the District has the power and statutory authorization to levy *ad valorem* taxes on all real property in the District subject to taxation, subject to certain statutory limitations imposed by Chapter 97 of the 2011 Laws of New York.

Under the Constitution of the State, the District is required to pledge its faith and credit for the payment of the principal of and interest on the Bonds and the Notes, and the State is specifically precluded from restricting the power of the District to levy taxes on real estate therefor. See the discussion under "TAX INFORMATION – New Tax Levy Limitation Law," herein.

### **Remedies of Bondholders and Noteholders on Default**

Section 99-b of the State Finance Law ("SFL") provides for a covenant between the State of New York (the "State") and the purchasers and the holders and owners from time to time of the bonds and the notes issued by the districts in the State for school purposes that it will not repeal, revoke or rescind the provisions of Section 99-b of SFL, or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby.

Such section provides that in the event a holder or owner of any bond or note issued by a district for school purposes shall file with the State Comptroller a verified statement describing such bond or note and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and to serve a copy thereof by registered mail upon the chief fiscal officer of the district which issued the bond or note. Such investigation by the State Comptroller shall cover the current status with respect to the payment of principal of and interest on all outstanding bonds of such district issued for school purposes and the statement prepared and filed by the State Comptroller shall set forth a description of all such bonds and notes of the district found to be in default and the amount of principal and interest thereon past due.

Upon the filing of such a certificate in the office of the State Comptroller, he shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of such State aid or assistance due to such district such amount thereof as may be required to pay (a) the district's contribution to the State teachers retirement system, and (b) the principal of and interest on such bonds of such district then in default. In the event such State aid or assistance initially so withheld shall be insufficient to pay such amounts in full, the State Comptroller shall similarly deduct and withhold from each succeeding allotment, apportionment or payment of such State aid or assistance due such district such amount or amounts thereof as may be required to cure such default. Allotments, apportionments and payments of such State aid so deducted or withheld by the State Comptroller for the payment of principal and interest on bonds shall be forwarded promptly to the paying agent or agents for the bonds in default of such district for the sole purpose of the payment of defaulted principal of and interest on such bonds. If any of such successive allotments, apportionments or payments of such State aid so deducted or withheld shall be less than the amount of all principal and interest on the bonds in default with respect to which the same was so deducted or withheld, then the State Comptroller shall promptly forward to each paying agent an amount in the proportion that the amount of such bonds in default payable to such paying agent bears to the total amount of the principal and interest then in default on such bonds of such district. The

State Comptroller shall promptly notify the chief fiscal officer of such district of any payment or payments made to any paying agent or agents of defaulted bonds pursuant to such Section of SFL.

Under current law, provision is made for contract creditors (including the holders of the Bonds and the Notes) of the District to enforce payments upon such contracts, if necessary, through court action, although the present statute limits interest on the amount adjudged due to creditors to nine per centum per annum from the date due to the date of payment. As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment, although judicial mandates have been issued to officials to appropriate and pay judgments out of current funds or the proceeds of a tax levy.

In recent times, certain events and legislation affecting remedies on default have resulted in litigation. While courts of final jurisdiction have upheld and sustained the rights of bondholders, such courts might hold that future events including financial crises as they may occur in the State and in municipalities of the State require the exercise by the State of its emergency police powers to assure the continuation of essential public services.

### **Special Provisions Affecting Remedies Upon Default**

Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the 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 Bonds and the Notes in the event of a default in the payment of the principal of or interest on the Bonds and the Notes.

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

The Federal Bankruptcy Code (the "Bankruptcy Code") allows public bodies such as the District 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.

Under the Bankruptcy Code, a petition may be filed in Federal bankruptcy court by a municipality which is insolvent or unable to meet its debts as they mature. Generally, the filing of such a petition operates as a stay of any proceeding to enforce a claim against the municipality. The Bankruptcy Code also requires the municipality to file a plan for the adjustment of its debts, which may modify or alter the rights of creditors and would authorize the Federal bankruptcy court to permit the municipality to issue certificates of indebtedness, which could have priority over existing creditors and which could be secured. Any plan of adjustment confirmed by the court must be approved by the requisite majority of creditors. If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it. The District has the legal capacity to file a petition under the Bankruptcy Code.

It might be asserted that under the Bankruptcy Code interest and principal payments made by the District in respect of its indebtedness within ninety days of the filing of a bankruptcy petition with respect to the District were voidable preferences. If these assertions were made and sustained by the bankruptcy court, the recipients of those preferential payments could be required to refund them, and their claims would then be treated as if the preferential payments had not been made.

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 the Local Finance Law enacted at the 1975 Extraordinary Session of the State Legislature, authorizing any county, 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 ever been declared with respect to the District.

No principal or interest payment on District indebtedness is past due. The District has never defaulted in the payment of the principal of and interest on any indebtedness.

## **THE DISTRICT**

### **Description**

The District, which has a population of 14,101, and comprises an area of approximately 15 square miles, is located in the northwestern portion of Chautauqua County, on Lake Erie, about 45 miles from the City of Buffalo. It encompasses the entire City of Dunkirk, as well as almost the entire Town of Dunkirk, and a minor portion of the Town of Sheridan. The District is fiscally and administratively independent of the City of Dunkirk. The District has a diversified economy, centered primarily in the commercial and industrial operations in the City of Dunkirk. Residential development consists primarily of single-family homes, with some apartment complexes. Residents find employment in the District, or commute to such other locales as the Cities of Buffalo and Jamestown or the State University at Fredonia. Rail transportation is provided by Conrail; major highways include the New York State Thruway and New York State Routes 5 and 20.

There is a significant electrical generating plant in the District that is owned by Dunkirk Power LLC. Dunkirk Power LLC and the Chautauqua County Industrial Development Agency executed a PILOT agreement on April 25, 2008 removing the property from the taxable rolls for a period of 20 years and obligating the company to a corresponding series of payments in lieu of taxes. See "TAX INFORMATION – Ten Largest Taxpayers," herein.

Source: District Officials

### **District Organization**

Subject to the provisions of the State Constitution, the District operates pursuant to the Education Law, the Local Finance Law, other laws generally applicable to the District, and any special laws applicable to the District. Under such laws, there is no authority for the District to have a charter or adopt local laws.

The legislative power of the District is vested in the Board of Education. In May of each year, an election is held within the District boundaries to elect members to the Board of Education. They are elected for a term of five years. There are seven members of the Board of Education.

During the first seven days of July of each year, the Board of Education meets for the purpose of reorganization. At that time an election is held within the Board to elect a President and Vice President, and to appoint a District Clerk and District Treasurer.

The Board of Education appoints the Superintendent of Schools, who serves under a written contract which, by statute must be of no less than three and no more than five years in duration. The Superintendent is the chief executive officer of the school district and the educational system. In addition, the Superintendent is typically given the right, by contract, to speak on all matters before the Board but not to vote. It is the responsibility of the Superintendent to enforce all provisions of law and all rules and regulations relating to the management of the school and other educational, social and recreational activities under the direction of the Board of Education. Certain other administrative and financial duties are performed by the Treasurer/School Business Official, who is appointed by the Board of Education.

### **Enrollment**

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| <u>School Year</u> | <u>K – 12 Enrollment</u> |
|--------------------|--------------------------|
| 2006-07            | 2,163                    |
| 2007-08            | 2,156                    |
| 2008-09            | 2,082                    |
| 2009-10            | 2,059                    |
| 2010-11            | 2,043                    |

**Enrollment Projections**

| <u>School Year</u> | <u>Projected Enrollment</u> |
|--------------------|-----------------------------|
| 2011-12            | 2,071                       |
| 2012-13            | 2,051                       |
| 2013-14            | 2,063                       |
| 2014-15            | 2,051                       |
| 2015-16            | 2,035                       |

**District Facilities**

| <u>Name of School</u> | <u>Grades Served</u> | <u>Date of Construction And Additions</u> | <u>Insurable Value</u> |
|-----------------------|----------------------|---|------------------------|
| School Three          | K – 5                | 1950                                      | \$ 5,631,951           |
| School Four           | K – 5                | 1952                                      | 4,902,409              |
| School Five           | K – 5                | 1952                                      | 5,097,306              |
| School Six            | K – 5                | 1916                                      | 3,522,619              |
| School Seven          | K – 5                | 1922                                      | 5,746,786              |
| Middle School         | 6 – 8                | 1925 / 2009 / 2010                        | 23,362,147             |
| Senior High School    | 9 – 12               | 1965 / 1966 / 2009 / 2010                 | 34,131,724             |
| Adult Learning Center | NA                   | 1995                                      | 566,447                |

Source: District Officials

**Employees**

The District provides services through approximately 374 full-time and part-time employees, some of whom are represented by the following units of organized labor:

| <u>Unions</u>                      | <u>No. of Members</u> | <u>Contract Expiration Date</u> |
|------------------------------------|-----------------------|---------------------------------|
| Dunkirk Administrators Association | 14                    | June 30, 2012                   |
| Dunkirk Teachers Association       | 250                   | June 30, 2012                   |
| CSEA                               | 110                   | June 30, 2013                   |

Source: District Officials

**DEMOGRAPHIC AND STATISTICAL INFORMATION**

The following tables present certain comparative demographic and statistical information regarding the District, the County, the State and the United States.

**Population**

| <u>Year</u> | <u>School District</u> | <u>Chautauqua County</u> | <u>New York State</u> | <u>United States</u> |
|-------------|------------------------|--------------------------|-----------------------|----------------------|
| 1990        | 15,690                 | 141,895                  | 17,990,455            | 249,632,692          |
| 2000        | 14,720                 | 139,750                  | 18,976,457            | 281,421,906          |
| 2010        | 14,101                 | 139,747                  | 19,541,453            | 307,006,550          |

Source: US Census Bureau

### Median Household Income

| <u>Year</u> | <u>School District</u> | <u>Chautauqua County</u> | <u>New York State</u> | <u>United States</u> |
|-------------|------------------------|--------------------------|-----------------------|----------------------|
| 1990        | \$21,342               | \$24,183                 | \$32,965              | \$30,056             |
| 2000        | 28,730                 | 33,458                   | 43,393                | 41,994               |

Source: US Census Bureau

### Per Capita Income

| <u>Year</u> | <u>School District</u> | <u>Chautauqua County</u> | <u>New York State</u> | <u>United States</u> |
|-------------|------------------------|--------------------------|-----------------------|----------------------|
| 1990        | \$10,467               | \$11,287                 | \$16,501              | \$14,420             |
| 2000        | 15,845                 | 16,840                   | 23,389                | 21,587               |

Source: US Census Bureau

### Unemployment Rate Statistics

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

| <u>Annual Averages:</u> | <u>Chautauqua County</u> | <u>New York State</u> | <u>United States</u> |
|-------------------------|--------------------------|-----------------------|----------------------|
| 2006                    | 4.6%                     | 4.6%                  | 4.6%                 |
| 2007                    | 4.5                      | 4.5                   | 4.6                  |
| 2008                    | 5.5                      | 5.3                   | 5.8                  |
| 2009                    | 8.5                      | 8.4                   | 9.3                  |
| 2010                    | 8.8                      | 8.6                   | 9.6                  |

#### Monthly Rates 2011:

|          |      |      |      |
|----------|------|------|------|
| January  | 9.4% | 8.9% | 9.8% |
| February | 9.0  | 8.7  | 9.5  |
| March    | 8.2  | 8.0  | 9.2  |
| April    | 7.8  | 7.6  | 8.7  |
| May      | 7.4  | 7.8  | 8.7  |

Source: Department of Labor, State of New York, Bureau of Labor Statistics. Information not seasonally adjusted

### Selected Listing of Larger Employers

| <u>Name</u>                    | <u>Type</u>          | <u>Estimated No. of Employees</u> |
|--------------------------------|----------------------|-----------------------------------|
| Cliffstar Corp.                | Manufacturing        | 644                               |
| Chautauqua Opportunities, Inc. | Social Services      | 450                               |
| Brooks Memorial Hospital       | Health Care Facility | 446                               |
| Dunkirk City School District   | Education            | 400                               |
| Nestle Purina                  | Food Processing      | 270                               |

Source: District Officials

## **INDEBTEDNESS OF THE DISTRICT**

### **Constitutional Requirements**

The New York State Constitution limits the power of the District to issue obligations and to otherwise contract indebtedness. Such constitutional limitations, in summary form and as generally applicable to the District and the Bonds and the Notes, include the following:

**Purpose and Pledge:** Subject to certain enumerated exceptions, the District shall not give or loan any money or property to or in aid of any individual or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The District may contract indebtedness only for a 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; no installment may be more than fifty per centum in excess of the smallest prior installment, unless the District has elected to issue indebtedness with substantially level or declining debt service. The 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 of its serial bonds and such required annual installments on its bonds.

### **Statutory Procedure**

In general, the State Legislature has authorized the power and procedure for the District to borrow and incur indebtedness by the enactment of the Local Finance Law 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.

Small city school districts such as the District are generally required by such laws to submit propositions for the expenditure of money for capital purposes to the qualified electors of the District after the Board of Education adopts a bond resolution authorizing the issuance of bonds, and notes in anticipation of the bonds, for such capital purposes.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

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. (a) Such obligations were authorized or an object or purpose for which the District is not authorized to expend money, or
- (b) If the provisions of the law which should be complied with as of the date of publication of the notice were not substantially complied with,

and an action, suit or proceeding contesting such validity is commenced within 20 days after the date of such publication of the notice; or

2. Such obligations are authorized in violation of the provisions of the Constitution of New York.

Except on rare occasions, the District complies with this estoppel procedure, and has done so with respect to the bond resolution under which the Bonds and the Notes are being issued. It is a procedure that is recommended by Bond Counsel, but it is not an absolute legal requirement.

Statutory law in New York permits bond anticipation notes to be renewed each year provided annual principal installments are made in reduction of the total amount of such notes outstanding, commencing no later than two years from the date of the first issuance of such notes and provided that such renewals do not exceed five years beyond the original date of borrowing. (See "Payment and Maturity" under "Constitutional Requirements" herein and "Details of Short-Term Indebtedness Outstanding" herein.)

In general, the Local Finance Law contains provisions providing the District with power to issue certain other short-term general obligation indebtedness including revenue and tax anticipation notes and budget and capital notes. (See "Details of Short-Term Indebtedness" herein).

The following pages present certain details with respect to the indebtedness of the District as of the date of this Official Statement.

**Debt Limit**

Pursuant to the Local Finance Law, the District has the power to contract indebtedness for any school district purpose authorized by the 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 District and subject to certain enumerated deductions such as cash or appropriations for current debt service and State aid for building purposes. The Constitutional and statutory method for determining full valuation consists of dividing the total assessed valuation of taxable real estate for a specified assessment roll by the final equalization ratio established for such assessment roll by the State Office of Real Property Services (the "State Office"). The State Legislature is required to prescribe the manner by which such ratio shall be determined.

The District is further subject to constitutional limitation by the general constitutionally imposed duty of the State Legislature to restrict the power of taxation, assessment, borrowing money, contracting indebtedness and loaning the credit of the District so as to prevent abuses in taxation and assessments and in contracting indebtedness; however, the State Legislature is prohibited by a specific constitutional provision from restructuring the power of the District to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted.

The following pages present certain detail with respect to the indebtedness of the District as of the date of the Official Statement.

**Details of Short-Term Indebtedness Outstanding**

As of the date of this Official Statement, the District has the following outstanding short-term debt:

| <u>Type</u>            | <u>Maturity</u> | <u>Purpose</u>          | <u>Amount</u>             |
|------------------------|-----------------|-------------------------|---------------------------|
| Bond Anticipation Note | 7/28/2011       | Building Reconstruction | \$15,000,000 <sup>1</sup> |

Source: District Note Records

Note: <sup>1</sup> To be redeemed and retired (in part) with \$13,000,000 proceeds of the Bonds and renewed (in part) with \$2,000,000 proceeds of the Notes.

## Revenue and Tax Anticipation Notes

In the past the District found it necessary to borrow in anticipation of taxes and revenues, such borrowing was necessitated by the timing of the District's receipt of real property tax and State aid revenue payments. The District did not find it necessary in the past four fiscal years to borrow in anticipation of taxes and revenues, nor does it anticipate borrowing in the near future.

The following table represents a five-year history of cash flow borrowings for the District:

| <u>Fiscal Year</u> | <u>Amount</u> | <u>Type</u> | <u>Issue Date</u> | <u>Interest Rate</u> | <u>Due Date</u> |
|--------------------|---------------|-------------|-------------------|----------------------|-----------------|
| 2006-07            | \$3,500,000   | RAN         | 10/27/2005        | 3.58%                | 10/26/2006      |
| 2007-08            | 0             | RAN         | ---               | ---                  | ---             |
| 2008-09            | 0             | RAN         | ---               | ---                  | ---             |
| 2009-10            | 0             | RAN         | ---               | ---                  | ---             |
| 2010-11            | 0             | RAN         | ---               | ---                  | ---             |

Source: Financial Reports of the District

### Status of Outstanding Bond Issues

| Year of Issue:               | 2003A              |                 | 2003B              |                 | 2010               |                    |
|------------------------------|--------------------|-----------------|--------------------|-----------------|--------------------|--------------------|
| Amount Issued                | \$4,190,040        |                 | \$4,045,000        |                 | \$7,369,600        |                    |
| Last Maturity:               | 9/1/2013           |                 | 3/1/2014           |                 | 6/15/2025          |                    |
| Interest Rate/Instrument:    | Various - Ref. SB  |                 | Various - Ref SB   |                 | Various - SB       |                    |
| Purpose:                     | Refunding          |                 | Refunding          |                 | Building           |                    |
| Balance Principal 6/30/2011: | \$1,275,000        |                 | \$1,230,000        |                 | \$7,070,000        |                    |
| <u>Fiscal Year</u>           | <u>Principal</u>   | <u>Interest</u> | <u>Principal</u>   | <u>Interest</u> | <u>Principal</u>   | <u>Interest</u>    |
| <u>Ending June 30:</u>       |                    |                 |                    |                 |                    |                    |
| 2012                         | \$410,000          | \$39,650        | \$395,000          | \$47,225        | \$420,000          | \$219,963          |
| 2013                         | 425,000            | 25,038          | 410,000            | 33,400          | 425,000            | 209,988            |
| 2014                         | 440,000            | 8,800           | 425,000            | 17,000          | 435,000            | 199,363            |
| 2015                         |                    |                 |                    |                 | 445,000            | 188,488            |
| 2016                         |                    |                 |                    |                 | 460,000            | 177,363            |
| 2017                         |                    |                 |                    |                 | 470,000            | 165,863            |
| 2018                         |                    |                 |                    |                 | 485,000            | 152,938            |
| 2019                         |                    |                 |                    |                 | 510,000            | 138,388            |
| 2020                         |                    |                 |                    |                 | 520,000            | 122,450            |
| 2021                         |                    |                 |                    |                 | 540,000            | 105,550            |
| 2022                         |                    |                 |                    |                 | 560,000            | 88,000             |
| 2023                         |                    |                 |                    |                 | 580,000            | 69,100             |
| 2024                         |                    |                 |                    |                 | 600,000            | 48,800             |
| 2025                         |                    |                 |                    |                 | 620,000            | 24,800             |
| Totals:                      | <u>\$1,275,000</u> | <u>\$73,488</u> | <u>\$1,230,000</u> | <u>\$97,625</u> | <u>\$7,070,000</u> | <u>\$1,911,050</u> |

**Total Annual Bond Principal and Interest Due**

| Fiscal Year<br><u>Ending June 30:</u> | <u>Principal</u>   | <u>Interest</u>    | Total<br><u>Debt Service</u> | <u>% Paid</u> |
|---------------------------------------|--------------------|--------------------|------------------------------|---------------|
| 2012                                  | \$1,225,000        | \$306,838          | \$1,531,838                  | 12.79%        |
| 2013                                  | 1,260,000          | 268,426            | 1,528,426                    | 25.95%        |
| 2014                                  | 1,300,000          | 225,163            | 1,525,163                    | 39.53%        |
| 2015                                  | 445,000            | 188,488            | 633,488                      | 44.18%        |
| 2016                                  | 460,000            | 177,363            | 637,363                      | 48.98%        |
| 2017                                  | 470,000            | 165,863            | 635,863                      | 53.89%        |
| 2018                                  | 485,000            | 152,938            | 637,938                      | 58.96%        |
| 2019                                  | 510,000            | 138,388            | 648,388                      | 64.28%        |
| 2020                                  | 520,000            | 122,450            | 642,450                      | 69.71%        |
| 2021                                  | 540,000            | 105,550            | 645,550                      | 75.35%        |
| 2022                                  | 560,000            | 88,000             | 648,000                      | 81.20%        |
| 2023                                  | 580,000            | 69,100             | 649,100                      | 87.26%        |
| 2024                                  | 600,000            | 48,800             | 648,800                      | 93.52%        |
| 2025                                  | 620,000            | 24,800             | 644,800                      | 100.00%       |
| Totals:                               | <u>\$9,575,000</u> | <u>\$2,082,163</u> | <u>\$11,657,163</u>          |               |

**Schedule of Principal Payments - Outstanding and Proposed Bonds**

| Fiscal Year<br><u>Ending June 30:</u> | <u>Prior Issues</u> | <u>This Issue</u>   | Total<br><u>Maturing<br/>Principal</u> | Year-End<br><u>Outstanding<br/>Principal</u> |
|---------------------------------------|---------------------|---------------------|--|--|
| 2012                                  | \$1,225,000         | \$705,000           | \$1,930,000                            | \$20,645,000                                 |
| 2013                                  | 1,260,000           | 710,000             | 1,970,000                              | 18,675,000                                   |
| 2014                                  | 1,300,000           | 750,000             | 2,050,000                              | 16,625,000                                   |
| 2015                                  | 445,000             | 770,000             | 1,215,000                              | 15,410,000                                   |
| 2016                                  | 460,000             | 785,000             | 1,245,000                              | 14,165,000                                   |
| 2017                                  | 470,000             | 810,000             | 1,280,000                              | 12,885,000                                   |
| 2018                                  | 485,000             | 830,000             | 1,315,000                              | 11,570,000                                   |
| 2019                                  | 510,000             | 850,000             | 1,360,000                              | 10,210,000                                   |
| 2020                                  | 520,000             | 875,000             | 1,395,000                              | 8,815,000                                    |
| 2021                                  | 540,000             | 905,000             | 1,445,000                              | 7,370,000                                    |
| 2022                                  | 560,000             | 935,000             | 1,495,000                              | 5,875,000                                    |
| 2023                                  | 580,000             | 960,000             | 1,540,000                              | 4,335,000                                    |
| 2024                                  | 600,000             | 1,000,000           | 1,600,000                              | 2,735,000                                    |
| 2025                                  | 620,000             | 1,035,000           | 1,655,000                              | 1,080,000                                    |
| 2026                                  |                     | 1,080,000           | 1,080,000                              | 0  |
| Totals:                               | <u>\$9,575,000</u>  | <u>\$13,000,000</u> | <u>\$22,575,000</u>                    |  |

**Other Obligations**

During the fiscal year ended June 30, 2005, the District entered into a capital lease in the amount of \$1,228,175. The lease is related to an energy performance contract whereby the District entered into agreements with contractors who installed equipment necessary for the District to achieve energy efficiencies. The outstanding amount of the contract totals \$703,807 at fiscal year end June 30, 2010 with a final maturity on July 15, 2015.

### Trend of Outstanding Debt

|                               | Fiscal Year Ending June 30: |                           |                           |                            |                            |
|-------------------------------|-----------------------------|---------------------------|---------------------------|----------------------------|----------------------------|
|                               | <u>2007</u>                 | <u>2008</u>               | <u>2009</u>               | <u>2010</u>                | <u>2011</u>                |
| Bonds                         | \$5,475,000                 | \$4,760,000               | \$4,030,000               | \$3,280,000                | \$9,575,000                |
| Revenue Anticipation Notes    | 3,500,000                   | 3,700,000                 | 0                         | 0                          | 0                          |
| Bond Anticipation Notes       | 0                           | 0                         | 0                         | 7,520,000                  | 15,000,000                 |
| <b>Total Debt Outstanding</b> | <u><u>\$8,975,000</u></u>   | <u><u>\$8,460,000</u></u> | <u><u>\$4,030,000</u></u> | <u><u>\$10,800,000</u></u> | <u><u>\$24,575,000</u></u> |

Source: Financial Reports and Bond and Note Records of the District

### Computation of Debt Limit and Calculation of Net Indebtedness

(As of June 28, 2011)

| <u>Fiscal Year Ending June 30:</u>  | <u>Full Valuation</u> <sup>1</sup> |
|---|------------------------------------|
| 2007  | \$452,165,303                      |
| 2008  | 472,129,321                        |
| 2009  | 472,054,458                        |
| 2010  | 480,842,761                        |
| 2011  | 492,472,673                        |
| <b>Total</b>  | <u><u>\$2,369,664,516</u></u>      |
| Five Year Average Full Valuation  | \$473,932,903                      |
| Debt Limit: 5% of Average Full Valuation  | \$23,696,645                       |
| Inclusions:   |                                    |
| Bonds   | \$9,575,000                        |
| Bond Anticipation Notes   | 15,000,000                         |
| <b>Total Inclusions</b>   | <u><u>\$24,575,000</u></u>         |
| Exclusions:   |                                    |
| Appropriations <sup>2</sup>   | \$0                                |
| <b>Total Exclusions:</b>  | <u><u>\$0</u></u>                  |
| <b>Total Net Indebtedness Before Giving Effect to the Bonds and the Notes</b>     | <u><u>\$24,575,000</u></u>         |
| <b>New Monies Included in the Notes</b>   | <u><u>7,350,000</u></u>            |
| <b>Total Net Indebtedness After Giving Effect to the Notes</b> <sup>3&amp;4</sup> | <u><u>\$31,925,000</u></u>         |

Notes: <sup>1</sup> The School District's Constitutional debt limit has been computed using special equalization ratios established by the State Office of Real Property Services pursuant to Article 12-B of the Real Property Tax Law. Conventional State equalization rates are also established by the Office of Real Property Services, and are used for all other purposes. See "Assessed and Full Valuations".

<sup>2</sup> Budgeted appropriations are automatically excluded pursuant to provisions of Article VIII, Section B of the New York State Constitution and Section 136.00 of the Local Finance Law.

<sup>3</sup> On May 17, 2010, the Board of Regents of the State University of New York consented to the issuance of bonds and/or bond anticipation notes by the Board of Education of the District in an amount not to exceed \$28,100,000 for capital improvements consisting of reconstruction and renovation, in part, and additions to school buildings, grounds and facilities throughout the District and the issuance of such bonds and/or bond anticipation notes in excess of the constitutional debt limit of the District. A copy of such consent was filed in the Department of Audit and Control on May 24, 2010.

<sup>4</sup> Represents 134.72% of the District's Debt Limit.

### Building Aid Estimate

While a small city school district such as the District may not deduct State building aid in determining its net indebtedness, the District does receive such aid. The District estimates that it will receive building aid in the approximate amounts shown below:

|   | Assumed<br>Principal<br>Outstanding<br>06/30/11: | Aid Ratio | Estimated Aid       |
|---|--|-----------|---------------------|
| 1997 \$1,187,000 Serial Bonds (Refunded)    | \$144,076  | 85.60%    | \$123,329           |
| 1997 \$7,800,000 Serial Bonds (Refunded)    | 2,080,664  | 85.60%    | 1,781,048           |
| 1998 \$7,514,000 Serial Bonds (Refunded)    | 1,935,000  | 85.60%    | 1,656,360           |
| 2010 Serial Bonds                           | 7,369,600  | 98.00%    | 7,222,208           |
| Additional Costs Attributed to Refinancings | 58,165   | 100.00%   | 58,165              |
| 2010 Bond Anticipation Note                 | <u>15,000,000</u>                                | 98.00%    | <u>14,700,000</u>   |
| Total                                       | <u>\$26,587,505</u>                              |           | <u>\$25,541,110</u> |

As part of the State’s 2001-02 budget process, a fundamental reform of building aid was enacted as Chapter 383 of the Laws of 2001. The new provisions legislated, among other things, a new “assumed amortization” payout schedule for State building aid payments based on an annual “average interest rate” and mandatory periods of probable usefulness with respect to the allocation of building aid. 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 School District’s outstanding bonds.

There can be no assurance that the State appropriation for building aid and other State aid to 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 District, can be paid only if the State has such monies available therefor. The State faces the prospect of multi-billion dollar deficits for the next several years, and cuts in State aid to school districts and municipalities have been included in the New York State budget for the fiscal year ending March 31, 2012, which was adopted on March 31, 2011.

### Authorized and Unissued Indebtedness

As of the date of this statement, the District has authorized and unissued debt in the amount of \$10,750,000 as authorized by a bond resolution adopted by the District Board of Education on February 12, 2009, and subsequently approved by a vote of the qualified voters of the District on March 31, 2009 for the second capital project referred to below. The District anticipates issuing \$5,000,000 of Qualified School Construction Bonds during this calendar year. The District does not presently plan on borrowing the remaining \$5,750,000 of authorized monies, but will be using \$5,350,000 in reserve funds to finance the project.

### Capital Project Plans and Anticipated Future Borrowings

The District is recently completed a \$7,520,000 capital project to replace the High School roof, create a parent drop off area at the Middle School and make pool repairs at the High School natatorium. The District began construction during the summer of 2009 and the project was substantially completed in October 2010. The District is currently undergoing renovations at the Middle School.

A second capital project totaling \$33,100,000 has been voter approved and is being phased into construction in the summers of 2010 through 2013. This larger project addresses, in substantial part, the capacity and curricular issues of the District, as well as upgrades highlighted in the Five Year Facility Plan filed with the New York State Education Department. This is the project for which the Bonds and Notes are being issued.

## Direct and Overlapping Indebtedness

In addition to the District, the following political subdivisions have the power to issue bonds and to levy taxes or cause taxes to be levied on taxable real property in the District.

The real property taxpayers of the District are responsible for a proportionate share of outstanding debt obligations of the political subdivisions located within the District's boundaries. Such taxpayer's share of this overlapping debt is based upon the amount of the District's equalized property values taken as a percentage of each separate units total values. The table below sets forth both the total outstanding principal amount of debt issued by the District and the appropriate magnitude of the burden on taxable property of the District of the debt issued and outstanding by such overlapping entities, as of the dates shown.

### Calculation of Estimated Overlapping and Underlying Indebtedness

| Overlapping Units                  | Date of Report | Applicable Total Indebtedness | Exclusions <sup>1</sup> | Applicable Net Indebtedness | Full Value of District in Municipality | Total Full Value of Municipality | % In District | Estimated Applicable Overlapping Debt |
|------------------------------------|----------------|-------------------------------|-------------------------|-----------------------------|--|----------------------------------|---------------|---------------------------------------|
| County:                            |                |                               |                         |                             |  |                                  |               |                                       |
| Chautauqua                         | 2010           | \$50,227,565                  | \$96,000                | \$50,131,565                | \$466,933,905                          | \$6,668,314,809                  | 7.00%         | \$3,510,351                           |
| Towns:                             |                |                               |                         |                             |  |                                  |               |                                       |
| Dunkirk                            | 2010           | 23,400                        | 23,400                  | 0                           | 124,236,913                            | 124,236,913                      | 100.00%       | 0                                     |
| Sheridan                           | 2010           | 0                             | 0                       | 0                           | 26,191,056                             | 172,923,294                      | 15.15%        | 0                                     |
| City:                              |                |                               |                         |                             |  |                                  |               |                                       |
| Dunkirk                            | 2010           | 7,785,000                     | 6,685,000               | 1,100,000                   | 316,505,936                            | 316,505,936                      | 100.00%       | 1,100,000                             |
| Total Net Overlapping Debt:        |                |                               |                         |                             |  |                                  |               | \$4,610,351                           |
| Total Net Direct Debt:             |                |                               |                         |                             |  |                                  |               | 31,925,000                            |
| Total Overlapping and Direct Debt: |                |                               |                         |                             |  |                                  |               | <u>\$36,535,351</u>                   |

Sources: Annual Reports of the respective units for the most recently completed fiscal year on file with the Office of the State Comptroller or more recently published official statements.

Note: <sup>1</sup> Exclusions consist of indebtedness deductible from gross indebtedness for debt limit purposes pursuant to constitutional and statutory provisions (including water and sewer debt and revenue anticipation notes).

### Debt Ratios

The following table presents certain debt ratios relating to the District's net direct and overlapping indebtedness as of July 11, 2011:

|  | <u>Amount</u> | <u>Debt Per Capita</u> <sup>1</sup> | <u>Debt Full Value</u> <sup>2</sup> |
|--|---------------|-------------------------------------|-------------------------------------|
| Net Direct Debt                                  | \$31,925,000  | \$2,264.02                          | 6.84%                               |
| Total Direct & Applicable Total Overlapping Debt | 36,535,351    | 2,590.98                            | 7.82%                               |

Notes: <sup>1</sup> The population of the District is 14,101 according to the 2010 US Census Bureau.

<sup>2</sup> The full valuation of real property located in the District for the 2011 fiscal year is \$466,933,905.

## FINANCES OF THE DISTRICT

### Independent Audit

The financial statements of the District are audited each year by an independent public accountant. The last such audit covers the fiscal year ended June 30, 2010. The financial affairs of the District are subject to periodic compliance review by the Office of the State Comptroller to ascertain whether the District has complied with the requirements of various state and federal statutes.

The School District complies with the Uniform System of Accounts as prescribed for School Districts in New York State by the New York State Education Department and the Department of Audit and Control. This system differs from generally accepted accounting principles as prescribed by the American Institute of Certified Public Accountants' Industry Audit Guide, "Audits of State and Local Governmental Units" and codified in Government Accounting, Auditing and Financial Reporting (GAAFR), published by the Governmental Accounting Standards Board ("GASB").

In June, 1999, the Governmental Accounting Standards Board ("GASB") issued Statement 34, "Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments". This Statement established new financial reporting requirements for state and local governments throughout the United States. When implemented, it required new information and restructured much of the information that governments have presented in the past. Comparability with reports issued in all prior years has been affected. The District is in compliance with the requirements of GASB Statement 34.

### **Investment Policy**

The primary objectives of the District's investment policy are, in priority order, as follows:

- To conform to all applicable federal, state and other legal requirements.
- To adequately safeguard principal.
- To provide sufficient liquidity to meet all operating requirements.
- To obtain a reasonable rate of return on invested funds.

Pursuant to State law, including Sections 10 and 11 of the General Municipal Law (the "GML"), the District is generally permitted to deposit moneys which are not required for immediate expenditure in banks or trust companies located and authorized to do business in the State. All such deposits, including special time deposit accounts and certificates of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, are required to be secured by either a pledge of eligible securities, an eligible surety bond or an eligible letter of credit in accordance with the provisions of and subject to the limitations of Section 10 of the GML.

The District may also temporarily invest moneys in: (1) obligations of the United States of America; (2) obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America; (3) obligations of the State of New York; (4) with the approval of the New York State Comptroller, in tax anticipation notes or revenue anticipation notes issued by any municipality, school district, or district corporation, other than those notes issued by the District, itself; (5) certificates of participation issued in connection with installment purchase agreements entered into by political subdivisions of the State pursuant to Section 109-b(10) of the GML; (6) obligations of a New York public benefit corporation which are made lawful investments for municipalities pursuant to the enabling statute of such public benefit corporation; or (7) in the case of moneys held in certain reserve funds established by the District pursuant to law, in obligations of the District.

All of the foregoing investments are required to be payable or redeemable at the option of the owner within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. Unless registered or inscribed in the name of the District, such instruments and investments must be purchased through, delivered to and held in custody of a bank or trust company in the State pursuant to a written custodial agreement as provided by Section 10 of the GML. The District is not presently investing in repurchase agreements.

Collateral is required for demand deposit, money market accounts and certificates of deposit not covered by Federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State and its municipalities and school districts.

The Board of Education of the District has adopted an investment policy and such policy conforms with applicable laws of the State governing the deposit and investment of public moneys. All deposits and investments of the District are made in accordance with such policy.

## **Fund Structure and Accounts**

The General Fund is the general operating fund for the District and is used to account for substantially all revenues and expenditures of the District. The District also maintains Special Revenue Funds which are used to account for special aid and school lunch programs. A capital projects fund is used to record capital transactions while a trust and agency fund accounts for moneys received by the District in a fiduciary capacity.

### **Basis of Accounting**

The District's governmental funds are accounted for on a modified accrual basis whereby revenues, other than those susceptible ("measurable" and "available" to finance current operations) to accrual, are recorded when received in cash. Revenues susceptible to accrual include real property taxes and State aid. The District generally records expenditures on the accrual basis when fund liabilities are incurred, except as follows: Interest on general obligation debt which is recorded when it becomes due. Pension costs billed to the District by the State are recorded as expenditures in full in the fiscal year billed. The estimated unbilled portion of these pension costs for governmental funds are shown as a liability on the balance sheet of the general long-term debt accounts group. Accumulated vacation and sick leave are also accounted for in the general long-term debt account group. Inventories are generally not recorded but expensed at the time of purchase; food and supplies in the school lunch fund are inventoried and carried at values which approximate market. Fixed assets are recorded at replacement costs as determined by appraisal; all capital assets, except land, are depreciated on a straight line basis over their estimated useful lives.

### **Budget Process**

Annually, pursuant to the Education Law, the District's Board of Education prepares or causes to be prepared a budget for the ensuing fiscal year. During November and December the tentative budget is developed and refined in consultation with school principals and department supervisors. At subsequent meetings of the Board of Education the proposed budget is discussed and further refined. The tentative budget is adopted by the Board and submitted to referendum at the Annual Meeting held on the third Tuesday of May. Prior to the Annual Meeting a public hearing is held with respect to the proposed budget. The District's proposed budget for the 2011-12 fiscal year was approved by the voters of the District on May 17, 2011.

Residents of the District who are qualified to vote may participate in the referendum. If, by majority vote, the budget is approved, the Board of Education, by resolution, adopts the budget for the ensuing fiscal year. If the budget is not so approved, the Board may make changes to the budget and re-submit it as revised to the voters for adoption. Alternatively, the Board may, by resolution, adopt a "contingent" budget for the ensuing fiscal year. Such contingent budget must provide for 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. Expenses beyond ordinary contingent expenses may later be added to the budget upon voter approval.

Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the end of the fiscal year unless extended 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 by 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 occur subject to legal restriction, if the Board approves them because of a need, which exists, which was not determined at the time the budget was adopted.

### **Revenues**

The District receives most of its revenue from a real property tax on all non-exempt real property situated within the District, Payment in Lieu of Taxes agreements and State aid. A summary of such revenues for the five most recently completed fiscal years may be found in Appendix A.

#### *Real Property Taxes*

See "Real Property Tax Information", herein.

## State Aid

In addition to the amount of State aid budgeted by the District, since its 1998-1999 fiscal year, the State has made STAR payments representing tax savings provided by school districts to their taxpayers under the STAR program (see “STAR - School Tax Exemption”). The District has received timely STAR aid from the State for its current fiscal year.

The District is dependent in significant part on financial assistance from the State in the form of State aid for both operating and capital purposes. In its budgets for the 2010-11 and 2011-12 fiscal years, approximately 57.47% and 54.53% respectively, of the revenues of the District are estimated to be received in the form of State aid. In some recent years, including the 2009-2010 fiscal year, the District’s receipt of State aid was delayed because the State had been delayed in adopting its budget and appropriating State aid to municipalities and school districts.

In January 2001, the State Supreme Court issued a decision in Campaign for Fiscal Equity (“CFE”) v. New York mandating that the system of apportionment of State aid to school districts within the State be restructured by the Governor and the State Legislature. On June 25, 2002, the Appellate Division of the State Supreme Court reversed that decision. On June 26, 2003, the State Court of Appeals, the highest court in the State, reversed the Appellate Division, holding that the State must, by July 30, 2004, ascertain the actual cost of providing a sound basic education, enact reforms to the system of school funding and ensure a system of accountability for such reforms. The Court of Appeals further modified the decision of the Appellate Division by deciding against a Statewide remedy and instead limited its ruling solely to the New York City school system.

After further litigation in 2006, the Court of Appeals held that \$1.93 billion of additional funds for the New York City schools - as initially proposed by the Governor and presented to the Legislature as an amount sufficient to provide a sound basic education - was reasonably determined. State legislature reforms in the wake of *The Campaign for Fiscal Equity* decision 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.

State aid to school districts in the State has declined in recent years. The total reduction in State aid for the State’s fiscal year ending March 31, 2011 was approximately \$2.1 billion; however, this amount was partially offset by \$726,000 in Federal aid for education, including funding from American Reinvestment and Recovery Act of 2009 and other federal initiatives. As a result, the net State aid reduction for the State’s 2010-2011 totaled approximately \$1.4 billion.

During the District’s fiscal year ended June 30, 2010, the District’s receipt of State aid was delayed as a result of several initiatives adopted by the Governor in response to the State’s ongoing and worsening fiscal crisis. Despite such delays, the District did receive all of the State aid due to it for the fiscal year ended June 30, 2010.

The State’s adopted budget for fiscal year ending March 31, 2012 includes a decrease of \$1.3 billion in State aid to education. The total State aid for the District’s 2011-12 fiscal year excluding building aid, is estimated to total \$19,031,308, which is a 4.97% reduction in the amount of State aid received in the District’s 2010-11 operating fiscal year.

The District cannot predict at this time whether there will be any further reductions and/or delays in State aid in future fiscal years. The District believes that it will mitigate the impact of any delays or proposed reductions in State aid by reducing expenditures, increasing revenues, appropriating other available funds on hand, reducing in staffing levels, and/or by any combination of the foregoing. (See also “Market and Risk Factors” herein).

The State is not constitutionally obligated to maintain or continue State aid to the District. There can be no assurance that the State appropriation for State aid to school districts will be continued in future years, either pursuant to existing formulas or in any form whatsoever. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget. In any event, State aid appropriated and apportioned to the District can be paid only if the State has such monies available therefor.

## Expenditures

The major categories of expenditure for the District are General Support, Instruction, Employee Benefits, Pupil Transportation and Debt Service. A summary of the expenditures for the five most recently completed fiscal years may be found in Appendix A.

### Employee Pension Benefits

Professional employees (teachers and administrators) are members of the New York State Teachers' Retirement System ("TRS"). Payments to the TRS are generally deducted from State aid payments. All nonprofessional employees of the District eligible for pension or retirement benefits are members of the New York State and Local Employees' Retirement System ("ERS"). Both the TRS and ERS are non-contributory with respect to the members hired prior to July 1, 1976. All members of the respective systems hired on or after July 1, 1976, contribute 3% of their gross annual salary toward the cost of retirement programs. Chapter 86 of the Laws of 2000 eliminated the 3% contribution for Tier 3 and Tier 4 members with 10 years of service credit.

Due to unfavorable capital market returns over recent years, the employer contribution rate for the retirement systems has increased significantly.

For the five years ending June 30, 2006 through 2010 and budgeted for fiscal years 2010-11 and 2011-12, the District's actual and estimated contributions to the ERS and TRS are as follows:

| <u>Fiscal Year Ending June 30:</u> | <u>ERS</u> | <u>TRS</u>  |
|------------------------------------|------------|-------------|
| Budgeted 2012                      | \$655,000  | \$2,147,637 |
| Budgeted 2011                      | 447,453    | 1,685,000   |
| 2010                               | 276,558    | 1,299,788   |
| 2009                               | 266,593    | 1,428,906   |
| 2008                               | 329,849    | 1,556,473   |
| 2007                               | 288,976    | 1,640,082   |
| 2006                               | 332,562    | 1,242,020   |

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

Chapter 49 of the Laws of 2003 changed the cycle of billing to better match budget cycles of the District and other governmental employers. Under the previous method, the District was unsure of how much it would be required to pay to the system until after its budget was implemented. The contribution for a given fiscal year is now based on the value of the pension fund on the prior April 1 instead of the following April 1, so the District is now able to more accurately build the cost of the contribution into its budget. The District is required to a minimum contribution of 4.50% of payroll every year, including years in which the investment performance of the fund would make a lower contribution possible.

Due to significant capital market declines in the recent past, the State's Retirement System portfolio has experienced negative investment performance and severe downward trends in market earnings, until quite recently. As a result of the foregoing, New York State Comptroller Thomas DiNapoli has announced that the employer contribution rate for the State's Retirement System in 2011 year and subsequent years will be higher than the minimum contribution rate established by Chapter 49. For the year 2011 ERS contributions will be 16.3% and PFRS will be 21.6% of payroll. The Fund posted a 25.9% return for the fiscal year ended March 31, 2010.

The New York State Teacher's Retirement System (NYSTRS), Administrative Bulletin, Issue No. 2011-1, February 2011, reports that, based on preliminary estimates, the Retirement Board anticipates the Employer Contribution Rate (ECR) for the following year to be 11.11% of member payroll, an increase from the 2010-11 rate of 8.62% . This rate will apply to fiscal year 2011-12 NYSTRS member salaries and will be collected in the fall of 2012. The one-year rate of return on System assets for the fiscal year ending June 30, 2010 was 12.1%.

On December 10, 2009, former Governor Paterson signed into law pension reform legislation that will provide (according to a Division of the Budget analysis) more than \$35 billion in long-term savings to State taxpayers over the

next thirty years. The legislation creates a new 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 percent for any civilian who retires prior to age 62.
- Requiring employees to continue contributing three percent of their salaries toward pension costs so long as they accumulate additional pension credits.
- Increasing the minimum years of service required to draw a pension from five 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 percent of non-overtime wages.

Members of the NYS Teachers Retirement System will have a separate Tier V benefit structure that will achieve equivalent savings as other civilian public employees. It includes:

- Raising the minimum age an individual can retire without penalty from 55 to 57 years.
- Contributing 3.5 percent of their annual wages to pension costs rather than 3.0 percent and continuing this increased contribution so long as they accumulate additional pension credits.
- Increasing the two percent multiplier threshold for final pension calculations from 20 to 25 years.

In accordance with constitutional requirements, these new pension reforms will apply only to public employees hired after January 1, 2010.

The investment of monies and assumptions underlying same, of the Retirement Systems covering the District's employees is not subject to the direction of the 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 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.

### **Other Post-Employment Benefits**

It should be noted that the District provides other post-retirement benefits ("OPEB") to various categories of former employees. These costs may be expected to rise substantially in the future. The Government Accounting Standards Board Statement 45 (GASB 45), released in July of 2005, establishes standards for accrual-basis measurement and recognition of other post-retirement benefits, including health-care benefits.

GASB 45 requires municipalities and school districts to account for OPEB liabilities in the same manner as they already account for pension liabilities. It requires them to adopt 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. 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. Additional information about GASB 45 and other accounting rules applicable to municipalities and school districts may be obtained from GASB.

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 its compliance in meeting its ARC.

The District’s annual required contribution, the percentage of costs contributed and the net OPEB obligation for the past two fiscal years are as follows:

| <u>Fiscal Year</u><br><u>Ending June 30:</u> | <u>Annual</u><br><u>Required Obligation</u> | <u>Contributions Made</u> | <u>Percentage of Annual</u><br><u>OPEB Costs Contributed</u> | <u>Net OPEB Obligation</u> |
|--|---|---------------------------|--|----------------------------|
| 2010   | \$550,690                                   | \$360,389                 | 65.4%  | \$353,434                  |
| 2009   | 550,690                                     | 387,557                   | 70.4%  | 163,133                    |

As of July 1, 2008, the District’s actuarial accrued liability for future benefits was \$5,468,571, all of which is unfunded.

Actuarial valuation will be required every two years for OPEB plans with more than 200 members, every three years if there are less than 200 members.

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. This protection from unilateral reduction of benefits has been extended permanently pursuant to Part B (Section 14) of Chapter 504 of the laws of 2009. 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

## **TAX INFORMATION**

### **Real Property Taxes**

The District derives its power to levy an *ad valorem* real property tax from the State Constitution; methods and procedures to levy, collect and enforce this tax are governed by the Real Property Tax Law. Real property assessment rolls used by the District are prepared by the Towns of Dunkirk and Sheridan and the City of Dunkirk. Assessment valuations are determined by the Town and City assessors and the State Board of Real Property Services which is responsible for certain utility and railroad property. In addition, the State Board of Real Property Services annually establishes State Equalization Rates for all localities in the State, which are determined by statistical sampling of market sales/assessment studies. The equalization rates are used in the calculation and distribution of certain State aids and are used by many localities in the calculation or debt contracting and real property taxing limitations. The District is not subject to constitutional real property taxing limitations.

### **New Tax Levy Limitation Law**

On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor (the “Tax Levy Limitation Law”). The Tax Levy Limitation Law applies to all local governments, including school districts (with the exception of New York City, the counties comprising New York City and the Big 5 City School Districts (Buffalo, Rochester, Syracuse, Yonkers and New York)).

The Tax Levy Limitation Law restricts, among other things, the amount of real property taxes that may be levied by or on behalf of a school district in a particular year, beginning with the 2012-2013 fiscal year. It expires on June 16, 2016 unless extended. Pursuant to the Tax Levy Limitation Law, the tax levy of a school district 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 Tax Law. A school district could exceed the tax levy limitation for the coming fiscal year only if the voters of such school district first approve a budget by at least 60% affirmative vote of those voting to override such limitation for such coming fiscal year only. There are permissible exceptions for school districts to the tax levy limitation provided in the Tax Levy

Limitation 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, and the Teachers' Retirement System. School districts are also permitted to carry forward a certain portion of their unused levy limitation from a prior year. A school district's calculation of each fiscal year's tax levy limit is subject to review by the Commissioner of Education and the Commissioner of Taxation and Finance prior to adoption of its each fiscal year budget.

There is also a permissible exception for school districts to the tax levy limitation provided in the Tax Levy Limitation Law for "Capital Local Expenditures" subject to voter approval where required by law. This term is defined in a manner that does not include certain items for which a school district may issue debt including the payment of judgments or settled claims including tax certiorari payments, and cashflow borrowings including tax anticipation notes, revenue anticipation notes, budget notes and deficiency notes. "Capital Local Expenditures", are defined as "the taxes associated with budgeted expenditures resulting from the financing, refinancing, acquisition, design, construction, reconstruction, rehabilitation, improvement, furnishing and equipping of or otherwise providing for school district capital facilities or school district capital equipment, including debt service and lease expenditures, and transportation capital debt service, subject to the approval of the qualified voters where referred by law". The portion of the tax levy necessary to support "Capital Local Expenditures" is defined as the "Capital Tax Levy", and this is an exclusion from the tax levy limitation.

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 school districts 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 municipal corporations.

Therefore, while the New Tax Levy Limitation Law may constrict a school district's power to levy real property taxes for the payment of debt service on debt contracted after the effective date of said New Tax Levy Limitation Law, it is clear that no statute is able (1) to limit a school district's pledge of its faith and credit to the payment of any of its general obligation indebtedness or (2) to limit a school district's levy of real property taxes to pay debt service on general obligation debt contracted prior to the effective date of the Tax Levy Limitation Law. Whether the Constitution grants a school district authority to treat debt service payments as a constitutional exception to any such statutory tax levy limitation outside of any statutorily determined tax levy amount is not clear.

It is likely that the New Tax Levy Limitation Law will be subject to judicial review to resolve the constitutional issues raised by its adoption.

### Tax Collection Record

|   | Fiscal Year Ended June 30: |                |             |              |              |
|---|----------------------------|----------------|-------------|--------------|--------------|
|   | <u>2007</u>                | <u>2008</u>    | <u>2009</u> | <u>2010</u>  | <u>2011</u>  |
| Total Tax Levy                            | \$10,817,383               | \$10,125,040   | \$9,609,712 | \$9,614,516  | \$9,614,516  |
| Less STAR Reimbursement                   | 3,096,341                  | 2,865,917      | 2,680,019   | 2,688,955    | 2,587,229    |
| Adjustments                               | <u>0</u>                   | <u>(3,453)</u> | <u>0</u>    | <u>(398)</u> | <u>(722)</u> |
| Total Taxes to be Collected               | \$7,721,042                | \$7,255,670    | \$6,929,693 | \$6,925,163  | \$7,026,565  |
| Taxes Collected Prior to Return to County | 6,840,252                  | 6,504,557      | 6,197,119   | 6,286,844    | 6,306,396    |
| Returned to County                        | 880,790                    | 751,113        | 732,574     | 638,320      | 720,169      |
| % Collected Prior to Return               | 88.59%                     | 89.65%         | 89.43%      | 90.78%       | 89.75%       |

Source: School District Officials

### Tax Collection Procedure

Taxes are collected by the City School District Tax Collector. Delinquent taxes are collected by the City of Dunkirk as to property within the City or by the County Tax Enforcement Officer as to property outside the City.

School tax payments are due September 14, payable to October 16 without penalty. A 2% penalty is added for taxes paid between October 17 and October 23. After October 23, unpaid taxes are turned over to the enforcement officer for collection and additional penalties of 1% per month or fraction thereof are imposed.

Section 1332 of the Real Property Tax Law states that the city and county tax officers shall proceed to enforce such unpaid taxes in the same manner as though they were City and County taxes, with 5% of the principal and interest added thereto. The tax enforcement officer will pay to the District all monies realized from the collection of unpaid taxes including interest, less the amount of 5% added thereto. If the City or County bids in on any property, the District shall receive the amount of unpaid taxes from the State by the first business day of January in each year.

### STAR - School Tax Exemption

The STAR (School Tax Relief) program provides State-funded exemptions from school property taxes to homeowners for their primary residences. School districts are reimbursed by the State for real property taxes exempted pursuant to the STAR Program. Homeowners over 65 years of age with household incomes of \$79,050 or less are eligible for a "full value" exemption for the first \$60,100 of the homeowner's primary residence from school property taxes in the 2011-12 school year. Other homeowners where the owners total income is less than \$500,000 are eligible for at least a \$30,000 "full value" exemption on their primary residence. Beginning with school taxes for the 2011-12 school year, new legislation caps STAR savings increases at 2% of the prior year's savings. The Districts typically receive full reimbursement of such exempt taxes from the State by the first business day of January in each year. The details of the STAR exemption formulas are available at: [www.orps.state.ny.us/star](http://www.orps.state.ny.us/star).

**Assessed and Full Valuations**

*Valuations Based on Regular Equalization Ratios*

|                             | Fiscal Year Ending June 30: |                      |                      |                      |                      |
|-----------------------------|-----------------------------|----------------------|----------------------|----------------------|----------------------|
|                             | <u>2007</u>                 | <u>2008</u>          | <u>2009</u>          | <u>2010</u>          | <u>2011</u>          |
| <b>Assessed Valuations:</b> |                             |                      |                      |                      |                      |
| City of Dunkirk             | \$288,641,797               | \$287,888,584        | \$287,463,148        | \$284,931,065        | \$283,272,813        |
| Town of Dunkirk             | 97,958,300                  | 99,558,756           | 99,309,427           | 99,806,590           | 101,253,084          |
| Town of Sheridan            | 17,255,470                  | 17,252,954           | 17,381,401           | 18,027,778           | 18,333,739           |
| <b>Total</b>                | <u>\$403,855,567</u>        | <u>\$404,700,294</u> | <u>\$404,153,976</u> | <u>\$402,765,433</u> | <u>\$402,859,636</u> |
| <b>Equalization Rates:</b>  |                             |                      |                      |                      |                      |
| City of Dunkirk             | 95.00%                      | 95.00%               | 94.00%               | 89.50%               | 89.50%               |
| Town of Dunkirk             | 85.00%                      | 85.00%               | 84.00%               | 82.25%               | 81.50%               |
| Town of Sheridan            | 75.00%                      | 74.00%               | 69.50%               | 67.50%               | 70.00%               |
| <b>Full Valuations:</b>     |                             |                      |                      |                      |                      |
| City of Dunkirk             | \$303,833,471               | \$303,040,615        | \$305,811,860        | \$318,358,732        | \$316,505,936        |
| Town of Dunkirk             | 115,245,059                 | 117,127,948          | 118,225,508          | 121,345,398          | 124,236,913          |
| Town of Sheridan            | 23,007,293                  | 23,314,803           | 25,009,210           | 26,707,819           | 26,191,056           |
| <b>Total</b>                | <u>\$442,085,823</u>        | <u>\$443,483,366</u> | <u>\$449,046,578</u> | <u>\$466,411,949</u> | <u>\$466,933,905</u> |

*Valuations Based on Special Equalization Ratios*

|                             | Fiscal Year Ending June 30: |                      |                      |                      |                      |
|-----------------------------|-----------------------------|----------------------|----------------------|----------------------|----------------------|
|                             | <u>2007</u>                 | <u>2008</u>          | <u>2009</u>          | <u>2010</u>          | <u>2011</u>          |
| <b>Assessed Valuations:</b> |                             |                      |                      |                      |                      |
| City of Dunkirk             | \$288,641,797               | \$287,888,584        | \$287,463,148        | \$284,931,065        | \$283,272,813        |
| Town of Dunkirk             | 97,958,300                  | 99,558,756           | 99,309,427           | 99,806,590           | 101,253,084          |
| Town of Sheridan            | 17,255,470                  | 17,252,954           | 17,381,401           | 18,027,778           | 18,333,739           |
| <b>Total</b>                | <u>\$403,855,567</u>        | <u>\$404,700,294</u> | <u>\$404,153,976</u> | <u>\$402,765,433</u> | <u>\$402,859,636</u> |
| <b>Equalization Rates:</b>  |                             |                      |                      |                      |                      |
| City of Dunkirk             | 93.05%                      | 88.62%               | 88.84%               | 86.81%               | 84.66%               |
| Town of Dunkirk             | 83.63%                      | 81.68%               | 80.45%               | 79.26%               | 77.94%               |
| Town of Sheridan            | 69.49%                      | 67.97%               | 69.42%               | 67.53%               | 65.57%               |
| <b>Full Valuations:</b>     |                             |                      |                      |                      |                      |
| City of Dunkirk             | \$310,200,749               | \$324,857,350        | \$323,574,007        | \$328,223,782        | \$334,600,535        |
| Town of Dunkirk             | 117,132,967                 | 121,888,781          | 123,442,420          | 125,923,025          | 129,911,578          |
| Town of Sheridan            | 24,831,587                  | 25,383,190           | 25,038,031           | 26,695,954           | 27,960,560           |
| <b>Total</b>                | <u>\$452,165,303</u>        | <u>\$472,129,321</u> | <u>\$472,054,458</u> | <u>\$480,842,761</u> | <u>\$492,472,673</u> |

Source: District Officials

**Tax Rate / \$1,000 Assessed Value**

|                  | Fiscal Year Ending June 30: |             |             |             |             |
|------------------|-----------------------------|-------------|-------------|-------------|-------------|
|                  | <u>2007</u>                 | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| City of Dunkirk  | \$25.59                     | \$24.04     | \$22.78     | \$23.03     | \$23.01     |
| Town of Dunkirk  | 29.20                       | 26.87       | 25.49       | 25.06       | 25.27       |
| Town of Sheridan | 33.09                       | 30.86       | 30.81       | 30.54       | 29.42       |

**Ten Largest Taxpayers**  
2010-11 Assessment Roll

| <u>Name</u>                    | <u>Type</u> | <u>Estimated Full Valuation</u>   |
|--------------------------------|-------------|-----------------------------------|
| Dunkirk Power LLC <sup>1</sup> | Utility     | \$226,335,830                     |
| National Grid                  | Utility     | 17,183,755                        |
| Purina Products                | Industrial  | 17,124,815                        |
| Home Depot                     | Retail      | 7,782,492                         |
| Cliffstar Corporation          | Industrial  | 5,707,200                         |
| National Fuel Gas              | Utility     | 5,052,200                         |
| Dunkirk Limited Partnership    | Commercial  | 5,045,593                         |
| D&F Station                    | Commercial  | 3,941,700                         |
| Fieldbrook Realty              | Industrial  | 3,781,100                         |
| Dunkirk Acquisitions LLC       | Industrial  | 3,354,678                         |
|                                |             | <b>\$295,309,363 <sup>2</sup></b> |

Notes: <sup>1</sup> The Company and the Chautauqua County Industrial Development Agency executed a PILOT agreement on April 25, 2008 removing the property from the taxable rolls for a period of 20 years and obligating the company to a corresponding series of payments in lieu of taxes.

<sup>2</sup> Represents 63.24% of the 2010-11 Full Valuation of the District. Without the inclusion of Dunkirk Power LLC, the total estimated full valuation is \$68,973,533 or 14.77% of the 2010-11 Full Valuation of the District.

### LITIGATION

In common with other school districts, the District from time to time receives notices of claim and is party to litigation. In the opinion of the District, after consultation with its attorney, unless otherwise set forth herein and apart from matters provided for by applicable insurance coverage, there are no significant claims or actions pending in which the District has not asserted a substantial and adequate defense, nor which, if determined against the District, would have an adverse material effect on the financial condition of the District.

There is no action, suit, proceedings or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the District, threatened against or affecting the District to restrain or enjoin the issuance, sale or delivery of the Bonds and the Notes or the levy and collection of taxes or assessments to pay same, or in any way contesting or affecting the validity of the Bonds and the Notes or any proceedings or authority of the District taken with respect to the authorization, issuance or sale of the Bonds and the Notes or contesting the corporate existence or boundaries of the District.

Source: District Officials

### BONDHOLDER AND NOTEHOLDER RISKS

There are various forms of risk associated with investing in the Bonds and the Notes. One such risk is that the District will be unable to promptly pay interest and principal on the Bonds and the Notes as they become due (see "Remedies Upon Default", herein). If a Bondholder or Noteholder elects to sell his or her investment prior to its scheduled maturity date, market access or price risk may be incurred. The following is a discussion of certain events that could affect the risk of investing in the Bonds and the Notes. In addition, there may be other risk factors which a potential investor must consider. In order to make an informed investment decision, an investor should be thoroughly familiar with the entire Official Statement, including its appendices, as well as all areas of potential risk.

There are a number of factors which could have a detrimental effect on the ability of the District to continue to generate revenues, particularly its property taxes. For instance, the termination of a major commercial enterprise or an

unexpected increase in certiorari proceedings could result in a large reduction in the assessed valuation of taxable real property in the District.

The subprime mortgage crisis and various economic events growing out of it created massive disruptions in the U.S. and global credit and securities markets, and the health of those markets was impaired to the point where significant governmental intervention was deemed necessary. These developments have had a significant adverse effect on the finances of New York State, on which the District depends for State aid. The exact continuing impact on the District cannot be predicted, but it has been negative, and could persist for a significant period of time.

The financial condition of the District as well as the market for the Bonds and the Notes could be affected by a variety of factors, some of which are beyond the District's control. There can be no assurance that adverse events in the State, including, for example, the seeking by a municipality of remedies pursuant to the Federal Bankruptcy Act or otherwise, will not occur which might affect the market price of and market for the Bonds and the Notes. If a significant default or other financial crisis should occur in the affairs of the State 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 District to arrange for additional borrowings and the market for and market value of outstanding debt obligations, including the Bonds and the Notes, could be adversely affected.

If and when a holder of any of the Bonds and the Notes should elect to sell a Bond or Note prior to its maturity, there can be no assurance that a market shall have been established, maintained and be in existence for the purchase and sale of any of the Bonds and the Notes. In addition, the price and principal value of the Bonds and the Notes is dependent on the prevailing level of interest rates; if interest rates rise, the price of a bond or note will decline, causing the bondholder or noteholder to incur a capital loss upon the sale of such bond or note (unless such Bond or Note is held to maturity).

Amendments to U.S. Internal Revenue Code could reduce or eliminate the favorable tax treatment granted to municipal debt, including the Bonds and the Notes and other debt issued by the District. Any such future legislation could have an adverse effect on the market value of the Bonds and the Notes (See "Tax Exemption" herein).

## **TAX EXEMPTION**

In the opinion of Hodgson Russ LLP, of Buffalo, New York, Bond Counsel, under existing law, the interest on the Bonds and the Notes is excluded from gross income of the owners thereof for federal income tax purposes, and is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. However, it should be noted that (1) the District, by failing to comply with certain restrictions contained in the Code, may cause interest on the Bonds and the Notes to become subject to federal income taxation from the date of issuance of the Bonds and the Notes; (2) Section 56 of the Code provides that for purposes of computing the alternative minimum tax on corporations (as defined for federal income tax purposes) interest on the Bonds and the Notes is taken into account in determining adjusted current earnings; and (3) interest on the Bonds and the Notes earned by foreign corporations doing business in the United States could be subject to the branch profits tax imposed by Section 884 of the Code. Interest on the Bonds and the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The District of New York).

In rendering the foregoing opinions, Hodgson Russ LLP notes that the exclusion of the interest on the Bonds and the Notes from gross income for federal income tax purposes is subject to, among other things, continuing compliance by the District with the applicable requirements of Sections 141, 148 and 149 of the Code and the regulations promulgated thereunder (collectively, the "Tax Requirements"). In the opinion of Hodgson Russ LLP, the tax and arbitrage certificate that will be executed and delivered by the District in connection with the issuance of the Bonds and the Notes (the "Tax Certificate") establishes requirements and procedures, compliance with which will satisfy the Tax Requirements applicable to the Bonds and the Notes.

The Tax Requirements referred to above, which must be complied with in order that interest on the Bonds and the Notes remains excluded from gross income for federal income tax purposes, include, but are not limited to:

- (1) The requirement that the proceeds of the Bonds and the Notes be used in a manner so that the Bonds and the

Notes are not obligations which meet the definition of a "private activity bond" within the meaning of Section 141 of the Code.

- (2) The requirements contained in Section 148 of the Code relating to arbitrage bonds.
- (3) The requirements that payment of principal or interest on the Bonds and the Notes not be directly or indirectly guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof) as provided in Section 149(b) of the Code.

In the Tax Certificates that will be delivered in connection with the issuance of the Bonds and the Notes, the District has covenanted to comply with the Tax Requirements, and to refrain from taking any action which would cause the interest on the Bonds and the Notes to be includable in gross income for federal income tax purposes. Any violation of the Tax Requirements may cause the interest on the Bonds and the Notes to be included in gross income for federal income tax purposes from the date of issuance of the Bonds and the Notes. Hodgson Russ LLP, Bond Counsel, expresses no opinion regarding other federal tax consequences arising with respect to the Bonds and the Notes.

The interest on the Bonds and the Notes is subject to, among others, the following provisions contained in the Code:

- (1) Interest on the Bonds and the Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. However, interest on the Bonds and the Notes is includable in the "adjusted current earning" of any corporate owner of the Bonds and the Notes and 75% of the interest on the Bonds and the Notes is thus includable in the tax base for computing a corporation's liability with respect to the 20% alternative minimum tax imposed on corporations by the Code.
- (2) If the Bonds and the Notes are held by certain foreign corporations doing business in the United States, the interest on the Bonds and the Notes will be included in "effectively connected earnings and profits" for purposes of computing a branch profits tax of up to 30%.
- (3) A property casualty insurance company's deduction for the losses incurred will be reduced by 15% of the income received from tax-exempt obligations.
- (4) The United States Treasury Department has promulgated regulations which might have the effect of imposing a tax at ordinary income rates with respect to interest on the Bonds and the Notes owned by "S Corporations" in certain cases.

Under the Code, the benefits of the exclusion of the interest on the Bonds and the Notes from gross income for federal income tax purposes may be diminished by operation of certain provisions of the Code which affect recipients of Social Security and railroad retirement benefits.

Amendments to Code could reduce or eliminate the favorable tax treatment granted to municipal debt, including the Bonds and the Notes and other debt issued by the District. Any such future legislation could have an adverse effect on the market value of the Bonds and the Notes.

Each purchaser of the Bonds or the Notes should consult his or her tax advisor regarding the impact of the foregoing and other provisions of the Code on his or her individual tax position.

## **DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS AND THE NOTES**

### **Absence of Litigation**

Upon delivery of the Bonds and the Notes, the District will furnish certificates, dated the date of delivery of the Bonds and the Notes, respectively, to the effect that there is no controversy or litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution, or delivery of the Bonds and the Notes, or in any way contesting or affecting the validity of the Bonds and the Notes or any of the proceedings taken with respect to the issuance and sale thereof or the application of moneys to the payment of the Bonds and the Notes. Additional certificates will state that there is no controversy or litigation of any nature now pending or threatened by or against the District

wherein an adverse judgment or ruling could have a material adverse impact on the financial condition of the District or adversely affect the power of the District to levy, collect, and enforce the collection of taxes or other revenues for the payment of the Bonds and the Notes, which has not been disclosed in this Official Statement.

### **Legal Matters**

The legality of the authorization and issuance of the Bonds and the Notes will be covered by the legal opinions of Hodgson Russ LLP, of Buffalo, New York, Bond Counsel. Such legal opinions will state that in the opinion of Bond Counsel (i) the Bonds or the Notes, as the case may be, 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 District, are payable as to principal and interest from *ad valorem* taxes levied upon all the taxable real property within the District (subject to certain statutory limitations imposed by Chapter 97 of the 2011 Laws of New York) provided, however, that the enforceability (but not the validity) of the Bonds or the Notes may be limited or otherwise affected by (a) any applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar statute, rule, regulation or other law affecting the enforcement of creditors' rights and remedies heretofore or hereafter enacted or (b) by the unavailability of equitable remedies or the application thereto of equitable principles, (ii) assuming that the District complies with certain requirements of the Code, interest on the Bonds and the Notes (a) is excluded from gross income for federal alternative minimum tax on purposes and (b) is not an item of preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (iii) assuming that the District complies with certain requirements of the Code, interest on the Bonds and 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. Bond Counsel will express no opinion regarding other federal income tax consequences arising with respect to the Bonds and the Notes.

Such legal opinions also will state that (i) in rendering the opinions expressed therein, Bond Counsel has assumed, without inquiry or other investigation, (a) the legal capacity of each natural person, (b) the full power and authority of each person other than the District to execute and deliver certain documents and to perform certain acts, (c) no modification of any provision of any document, no waiver of any right or remedy and no exercise of any right or remedy other than in a commercially reasonable and conscionable manner and in good faith, (d) the genuineness of each signature, the completeness of each document submitted to Bond Counsel, the authenticity of each document submitted to Bond Counsel as an original, the conformity to the original of each document submitted to Bond Counsel as a copy and the authenticity of the original of each document submitted to Bond Counsel as a copy, (e) the accuracy on the date of this letter of certain reviewed documents, (f) the truthfulness of each statement as to any factual matter contained in such reviewed documents, and (g) the due and timely filing of certain filed documents; (ii) the scope of Bond Counsel's engagement in relation to the issuance of the Bonds and the Notes has extended solely to rendering the opinions expressed therein, (iii) the opinions expressed therein are not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the District, together with other legally available sources of revenue, if any, will be sufficient to enable the District to pay the principal of and interest on the Bonds and the Notes as the same respectively become due and payable, and (iv) no opinion is expressed by Bond Counsel as to whether the District, in connection with the sale of the Bonds and the Notes, has made any untrue statement of a material fact, or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

### **DISCLOSURE UNDERTAKING FOR THE BONDS**

Because at the time of the delivery of the Bonds, the District will be an "obligated person" (as such is defined in Rule 15c2-12 (the "Rule"), the District has agreed for the benefit of the beneficial owners of the Bonds to provide to the Municipal Securities Rulemaking Board (the "MSRB") Electronic Municipal Market Access ("EMMA") system, or its successor, in an electronic format as prescribed by the MSRB, certain annual financial information and operating data relating to the District (the "annual information") for the preceding fiscal year on or prior to the later of either the end of the sixth month of each succeeding fiscal year, if audited financial statements are prepared, 60 days following receipt by the District of audited financial statements for the preceding fiscal year, but in no event, later than the last business day of each such succeeding fiscal year.

The District's undertaking with respect to material events includes timely notice not in excess of ten (10) business days after the occurrence of any of the following events with respect to the Bonds, to the EMMA system or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) 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 Bonds, or other material events affecting the tax status of the Bonds;
- (g) modifications to rights of Bondholders, if material;
- (h) bond calls, if material and tender offers;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar events of the District;
- (m) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the 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; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

All documents provided by the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

The District has agreed to the foregoing undertakings in order to assist participating underwriters of the Bonds and brokers, dealers and municipal securities dealers in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The District will provide the foregoing information for so long as the Rule is applicable to the Bonds and the District remains an “obligated person” under the Rule with respect to the Bonds.

The 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 District determines that any such other event is material with respect to the Bonds; but the District does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The District reserves the right to terminate its obligation to provide the aforescribed notices of material events, as set forth above, if and when the District no longer remains an obligated person with respect to the Bonds; within the meaning of the Rule. The 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 Bonds (including holders of beneficial interests in the Bonds). The right of holders of the Bonds to enforce the provisions of the undertaking will be limited to a right to obtain specific enforcement of the District obligations under its material event notices undertaking and any failure by the District to comply with the provisions of the undertaking will neither be a default with respect to the Bonds nor entitle any holder of the Bonds to recover monetary damages.

The 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 District; provided that the District agrees that any such modification will be done in a manner consistent with the Rule.

The District may amend the continuing disclosure undertaking upon a change in circumstances provided that (a) the undertaking, as amended, would have complied with the requirements of the Rule at the time of this offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances and (b) in the opinion of nationally recognized bond counsel selected by the District, the amendment does not materially impair the interests of the beneficial owners of the Bonds.

Annual information and notices of material events can be obtained from the City School District of the City of Dunkirk, 620 Marauder Drive, Dunkirk, New York 14048, telephone 716-366-9300

A Continuing Disclosure Undertaking to this effect shall be provided to the purchaser at closing.

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

### **DISCLOSURE UNDERTAKING FOR THE NOTES**

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, the 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 Notes, 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 Noteholders, 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 District;
- (m) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the 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 SEC 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 District does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Notes.

The 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 District determines that any such other event is material with respect to the Notes; but the District does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The District reserves the right to terminate its obligation to provide the aforescribed notices of material events, as set forth above, if and when the District no longer remains an obligated person with respect to the Notes within the meaning of the Rule.

The 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 District's obligations under its material event notices undertaking and any failure by the District to comply with the provisions of the undertaking will neither be a default with respect to the Notes nor entitle any holder of the Notes to recover monetary damages.

The 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 District; provided that the District agrees that any such modification will be done in a manner consistent with the Rule.

Annual information and notices of material events can be obtained from the City School District of the City of Dunkirk, 620 Marauder Drive, Dunkirk, New York 14048, telephone 716-366-9300

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

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

## **RATINGS**

An application has been made to Moody's Investors Service for a rating assignment on the Bonds. Such rating will be indicated on the revised cover page of the Official Statement. Such rating will reflect only the view of such rating agency and any desired explanation of the significance of such rating should be obtained from such rating agency. Generally, rating agencies base their ratings on rating investigation, studies and assumptions they have made in addition to the information and materials provided by the issuer. There is no assurance that a particular rating will apply for any given period of time or that it will be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any downward revision or withdrawal of such rating could have an adverse effect on the market price of the Bonds. Such rating should not be taken as a recommendation to buy or hold the Bonds.

The District has not applied for a rating on the Notes.

## FINANCIAL ADVISOR

Municipal Solutions, Inc. has assisted the District as financial advisor in certain matters with respect to the sale and issuance of the Bonds and the Notes.

## ADDITIONAL INFORMATION

Additional information may be obtained from the business office of the District: City School District of the City of Dunkirk, 620 Marauder Drive, Dunkirk, New York 14048, telephone 716-366-9300, or from Municipal Solutions, Inc., 2528 Route 21, Canandaigua, NY 14424, telephone: 585-394-4090, fax: 585-394-4092 or on our website at: [www.municipalsolution.com](http://www.municipalsolution.com).

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the District and the original purchasers or holders of any of the Bonds or the Notes.

This Official Statement is submitted only in connection with the sale of the Bonds and the Notes by the District and may not be reproduced or used, in whole, or in part, for any other purpose.

So far as any statements made in this Official Statement, and the documents included by specific reference, that are not historical facts are forward-looking statements, which are based on the District's management's beliefs as well as assumptions made by, and information available to, the District management and staff. Because the statements are based on expectations about future events and economic performance and are not statements of fact, actual results may differ materially from those projected. Important factors that could cause future results to differ include legislative and regulatory changes, changes in the economy, and other factors discussed in this and other documents that the District files with the repositories. When used in District documents or oral presentations, the words "anticipate", "estimate", "expect", "objective", "projection", "forecast", "goal", or similar words are intended to identify forward-looking statements.

Municipal Solutions, Inc. will place a copy of this Official Statement on its website: <http://www.municipalsolution.com>. Unless the Official Statement specifically indicated otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Municipal Solutions, Inc. has prepared such website information for convenience, but no decisions should be made in reliance upon that information.

Typographical or other errors may have occurred in converting original source documents to digital format, and neither the District nor Municipal Solutions, Inc. assumes any liability or responsibility for errors or omissions on such website. Further, Municipal Solutions, Inc., and the District disclaim 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 the website.

Municipal Solutions, Inc. and the District also assume no liability or responsibility for any errors or omissions or for any updates to dated website information.

Hodgson Russ LLP, of Buffalo, New York, Bond Counsel to the District, expresses no opinion as to the accuracy or completeness of information in any documents prepared by or on behalf of the District for use in connection with the offer and sale of the Bonds and the Notes, including but not limited to, the financial or statistical information in this Official Statement.

CITY SCHOOL DISTRICT OF THE CITY OF DUNKIRK

July 11, 2011  
Dunkirk, New York

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By: s/s Roosevelt Haynes  
President of the Board of Education and  
Chief Fiscal Officer

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Additional copies of the Official Statement may be obtained upon request  
from the Office of Municipal Solutions, Inc., 2528 State Route 21,  
Canandaigua, New York 14424, telephone (585) 394-4090.  
Website: [www.municipalsolution.com](http://www.municipalsolution.com)

**APPENDIX A**

**FINANCIAL INFORMATION**

**Statement of Revenues, Expenditures and Fund Balances**  
**General Fund - Dunkirk City School District**

|  | Fiscal Year Ending June 30: |                     |                     |                     |                     |
|--|-----------------------------|---------------------|---------------------|---------------------|---------------------|
|  | <u>2006</u>                 | <u>2007</u>         | <u>2008</u>         | <u>2009</u>         | <u>2010</u>         |
| <b>Revenues:</b>                           |                             |                     |                     |                     |                     |
| Real Property Taxes                        | \$7,690,697                 | \$7,719,508         | \$7,255,670         | \$6,929,693         | \$6,925,164         |
| Other Tax Items                            | 6,602,399                   | 6,485,071           | 8,132,529           | 7,331,175           | 7,455,292           |
| Charges for Services                       | 67,637                      | 95,432              | 84,212              | 117,223             | 104,412             |
| Use of Money and Property                  | 173,720                     | 227,537             | 212,455             | 105,940             | 49,611              |
| Sale of Property/Comp. for Loss            | 17,533                      | 23,732              | 14,232              | 69,261              | 100                 |
| Miscellaneous                              | 225,803                     | 231,403             | 198,719             | 361,163             | 339,993             |
| State Sources                              | 16,121,082                  | 17,594,240          | 19,103,762          | 21,725,283          | 20,796,633          |
| Federal Aid                                | 0                           | 298,084             | 196,434             | 55,750              | 1,415,098           |
| Medicaid Reimbursement                     | 313,267                     | 0                   | 0                   | 0                   | 0                   |
| Interfund Transfers                        | 105,823                     | 76,505              | 69,697              | 55,820              | 42,930              |
| <b>Total Revenues</b>                      | <u>\$31,317,961</u>         | <u>\$32,751,512</u> | <u>\$35,267,710</u> | <u>\$36,751,308</u> | <u>\$37,129,233</u> |
| <b>Expenditures:</b>                       |                             |                     |                     |                     |                     |
| General Support                            | \$3,895,957                 | \$3,919,778         | \$3,845,101         | \$3,690,272         | \$3,703,061         |
| Instruction                                | 19,610,734                  | 19,273,092          | 20,059,379          | 20,553,810          | 20,499,493          |
| Pupil Transportation                       | 848,228                     | 871,106             | 998,718             | 1,008,119           | 1,007,607           |
| Community Service                          | 11,732                      | 9,633               | 11,210              | 11,976              | 1,139               |
| Employee Benefits                          | 5,867,345                   | 5,889,987           | 6,211,608           | 6,744,753           | 6,748,541           |
| Debt Service                               | 1,214,321                   | 1,110,921           | 1,129,158           | 1,036,453           | 1,035,328           |
| Interfund Transfers                        | 31,000                      | 0                   | 0                   | 5,000,000           | 0                   |
| <b>Total Expenditures &amp; Other Uses</b> | <u>\$31,479,317</u>         | <u>\$31,074,517</u> | <u>\$32,255,174</u> | <u>\$38,045,383</u> | <u>\$32,995,169</u> |
| <br>                                       |                             |                     |                     |                     |                     |
| Excess (Deficit) Revenues Over Expend.     | (\$161,356)                 | \$1,676,995         | \$3,012,536         | (\$1,294,075)       | \$4,134,064         |
| Net Adjustments to Fund Balances           | 0                           | 0                   | 0                   | 0                   | 0                   |
| Fund Balances Beg. Of Fiscal Year          | <u>4,681,746</u> *          | <u>4,520,390</u>    | <u>6,197,385</u>    | <u>9,209,921</u>    | <u>7,915,846</u>    |
| Fund Balances End of Fiscal Year           | <u>\$4,520,390</u>          | <u>\$6,197,385</u>  | <u>\$9,209,921</u>  | <u>\$7,915,846</u>  | <u>\$12,049,910</u> |

Source: Audited Annual Financial Reports of the District.

Note: This table NOT audited

\* Restatement due to the transfer of handicapped expenditures from the general fund into the federal fund.

**Balance Sheet**  
**General Fund – Dunkirk City School District**

Fiscal Year Ended June 30, 2010

|                                   |              |
|-----------------------------------|--------------|
| Assets:                           |              |
| Unrestricted Cash                 | \$5,975,292  |
| Restricted Cash                   | 3,430,919    |
| Taxes Receivable                  | 860,136      |
| Other Receivables                 | 154,418      |
| Due from Other Funds              | 1,112,923    |
| Due from Other Governments        | 2,389,648    |
| Total Assets                      | \$13,923,336 |
|                                   |              |
| Liabilities:                      |              |
| Accounts Payable                  | \$207,730    |
| Accrued Liabilities               | 42,102       |
| Deferred Revenue                  | 0            |
| Due to Other Funds                | 164,587      |
| Due to Retirement Systems         | 1,287,151    |
| Other Liabilities                 | 171,856      |
| Total Liabilities                 | \$1,873,426  |
|                                   |              |
| Fund Balances:                    |              |
| Reserved:                         |              |
| Encumbrances                      | \$134,811    |
| Certiorari Proceedings            | 2,740,670    |
| Unemployment Insurance            | 1,452,098    |
| Employee Benefits                 | 1,745,097    |
| Retirement                        | 3,441,738    |
| Capital Reserves                  | 575,637      |
| Unreserved:                       |              |
| Appropriated                      | 610,379      |
| Unappropriated                    | 1,349,480    |
| Total Fund Balances               | \$12,049,910 |
| Total Liabilities and Fund Equity | \$13,923,336 |

Source: Audited Annual Financial Reports of the District

Note: This table NOT audited

**Budget Summaries**  
**General Fund - Dunkirk City School District**

|  | Fiscal Year Ending June 30: |                     |
|--|-----------------------------|---------------------|
|  | <u>2011</u>                 | <u>2012</u>         |
| Revenues:                                |                             |                     |
| Real Property Taxes                      | \$9,614,516                 | \$9,614,516         |
| Real Property Tax Items                  | 4,732,000                   | 4,732,000           |
| Other Tax Items                          | 18,000                      | 18,000              |
| Charges for Services                     | 68,000                      | 68,000              |
| Use of Money & Property                  | 36,000                      | 36,000              |
| Sale of Property & Compensation for Loss | 650                         | 650                 |
| Miscellaneous Items                      | 146,900                     | 146,900             |
| Interfund Revenues                       | 180,000                     | 580,000             |
| State Aid                                | 20,889,530                  | 20,769,052          |
| Federal Aid                              | 50,000                      | 50,000              |
| Appropriation of Fund Balance            | 610,379                     | 2,070,481           |
| Total Revenues                           | <u>\$36,345,975</u>         | <u>\$38,085,599</u> |
| Expenditures:                            |                             |                     |
| General Support                          | \$4,163,882                 | \$4,055,420         |
| Instruction                              | 20,648,597                  | 20,920,785          |
| Pupil Transportation                     | 1,083,927                   | 1,065,226           |
| Community Services                       | 32,877                      | 32,877              |
| Employee Benefits                        | 8,597,736                   | 9,320,963           |
| Debt Service                             | 1,793,956                   | 1,914,538           |
| Interfund Transfers                      | 25,000                      | 775,790             |
| Total Expenditures                       | <u>\$36,345,975</u>         | <u>\$38,085,599</u> |

Source: Adopted Budgets of the District

Note: This table NOT audited

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CITY SCHOOL DISTRICT OF THE CITY OF DUNKIRK  
CHAUTAUQUA COUNTY, NEW YORK**

NOTE: SUCH FINANCIAL REPORT AND OPINIONS WERE PREPARED AS OF THE DATE THEREOF AND HAVE NOT BEEN REVIEWED AND/OR UPDATED BY THE DISTRICT'S AUDITORS IN CONNECTION WITH THE PREPARATION AND DISSEMINATION OF THIS OFFICIAL STATEMENT. CONSENT OF THE AUDITORS FOR INCLUSION OF THE AUDITED FINANCIAL REPORTS IN THIS OFFICIAL STATEMENT HAS NEITHER BEEN REQUESTED NOR OBTAINED.

**DUNKIRK CITY**  
**SCHOOL DISTRICT, NEW YORK**  
*Basic Financial Statements, Required Supplementary  
Information, Supplemental and Federal  
Financial Assistance Schedules for the Year Ended  
June 30, 2010 and Independent Auditors' Reports*



**DUNKIRK CITY SCHOOL DISTRICT**  
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**Year Ended June 30, 2010**

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**DUNKIRK CITY SCHOOL DISTRICT**  
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## FINANCIAL SECTION



## **INDEPENDENT AUDITORS' REPORT**

Board of Education  
Dunkirk City School District, New York:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Dunkirk City School District, New York (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2010, on our consideration of the 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 as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This required supplementary information is the responsibility of the District management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the respective financial statements that collectively comprise the District's basic financial statements. The schedules listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. The accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. These schedules are also the responsibility of District management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

 Drescher & Malhotra LLP

October 13, 2010

**DUNKIRK CITY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2010**

---

As management of the Dunkirk City School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2010. This document should be read in conjunction with additional information that we have furnished in the District's financial statements, which follow this narrative.

**Financial Highlights**

- ◆ The District's net assets increased \$5,111,158 as a result of this year's activity.
- ◆ The assets of the primary government of the District exceeded its liabilities at the close of the fiscal year by \$26,937,393 (net assets). Of this amount, \$14,438,635 (unrestricted net assets) may be used to meet the cost of the District's ongoing operations.
- ◆ At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$11,311,231 a decrease of \$2,450,984 in comparison with the prior year. At June 30, 2010 the District reported an unreserved, undesignated deficit of \$3,170,468.
- ◆ The General Fund reported a net increase in fund balance this year of \$4,134,064. At June 30, 2010, unreserved, undesignated fund balance for the General Fund was \$1,349,480, or 3.7 percent of next year's budgeted appropriations for the General Fund.
- ◆ The District's long-term indebtedness (bonds payable and installment purchase debt payable) had principal payments of \$869,077 during the current year.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The basic financial statements include two kinds of statements that present different views of the District.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide the reader with a broad overview of the District's finances, similar in format to a financial statement of 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 or 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 the statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and depreciation expense on capital assets).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes, State aid and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the District include general support, instruction, pupil transportation, community service, debt service, capital outlay and school food service.

The government-wide financial statements can be found on pages 14-15 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that 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 has two kinds of funds:

***Governmental funds.*** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all funds, General, Special Aid, School Lunch, Capital Projects and Debt Service, each of which is considered a major fund.

The District adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-20 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The District maintains one fiduciary fund, the Agency Fund.

The fiduciary fund financial statement can be found on page 21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-41 of this report.

**Other information.** As stated earlier, in addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

The supplemental financial statements can be found following the notes to the financial statements on pages 42-46 of this report. The Federal Awards information can be found at pages 47-59 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as useful indicator of a government's financial position. In the case of the District, assets of the primary government exceeded liabilities by \$26,937,393 at the close of the year ended June 30, 2010, as compared to \$21,826,235 at the close of the year ended June 30, 2009.

**Table 1—Condensed Statement of Net Assets**

|  | June 30,             |                      |
|--|----------------------|----------------------|
|  | 2010                 | 2009                 |
| Current assets                                     | \$ 21,197,200        | \$ 16,146,552        |
| Capital assets                                     | 20,043,630           | 13,688,014           |
| Total assets                                       | <u>41,240,830</u>    | <u>29,834,566</u>    |
| Current liabilities                                | 9,931,384            | 2,439,240            |
| Long-term liabilities                              | 4,372,053            | 5,569,091            |
| Total liabilities                                  | <u>14,303,437</u>    | <u>8,008,331</u>     |
| Invested in capital assets,<br>net of related debt | 11,719,889           | 10,067,973           |
| Restricted   | 778,869              | 276,040              |
| Unrestricted                                       | 14,438,635           | 11,482,222           |
| Total net assets                                   | <u>\$ 26,937,393</u> | <u>\$ 21,826,235</u> |

At June 30, 2010, total assets of the District are \$41,240,830. The largest portion of total assets is its capital assets net of accumulated depreciation in the amount of \$20,043,630.

The District's liabilities totaled \$14,303,437 at June 30, 2010. The largest portion of the liabilities is bond anticipation notes in the amount of \$7,520,000.

The District had a current ratio of 2.13 at June 30, 2010, compared to 6.62 at June 30, 2009; such a ratio implies that the District has sufficient assets on hand to cover its liabilities that will come due in the coming year. Table 2, below, presents the current ratio for the District at June 30, 2010 and June 30, 2009.

**Table 2—Current assets and current liabilities**

|                     | June 30,      |               |
|---------------------|---------------|---------------|
|                     | 2010          | 2009          |
| Current assets      | \$ 21,197,200 | \$ 16,146,552 |
| Current liabilities | 9,931,384     | 2,439,240     |
|                     | 2.13          | 6.62          |

The largest portion of the District’s primary government net assets (53.6 percent) represents unrestricted resources which may be used to meet the District’s ongoing obligations. The next largest portion of the District’s net assets, (43.5 percent) represents the District’s investment in capital assets (such as land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The final portion, (2.9 percent) represents restricted net assets, which are resources that are subject to external restrictions on how they may be used.

Presented below, in Figure 1, is a chart detailing the components of the District’s total net assets at June 30, 2010 and June 30, 2009:

**Figure 1—Comparison of Net Assets**

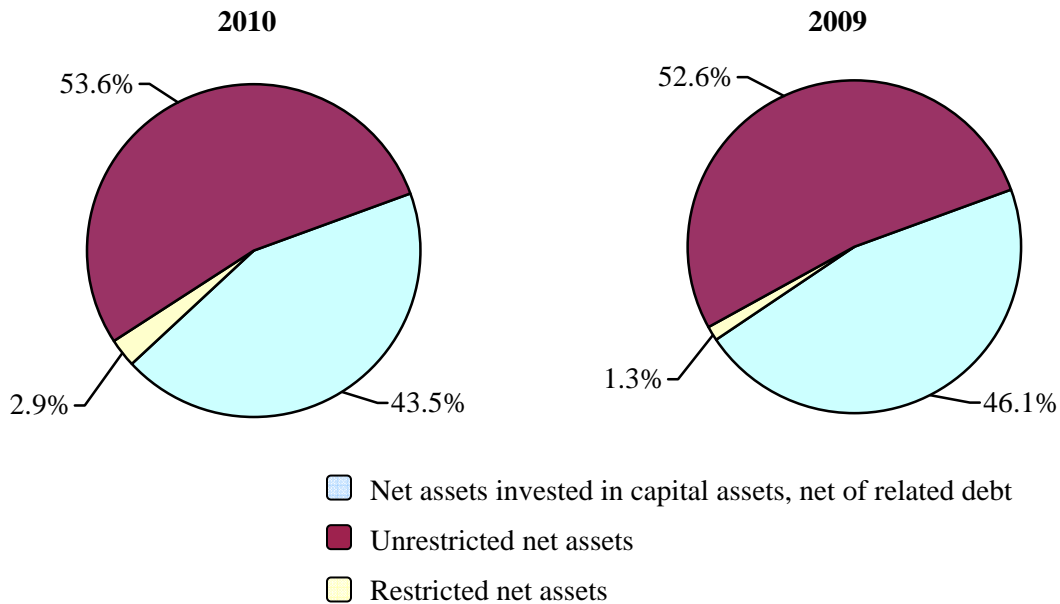


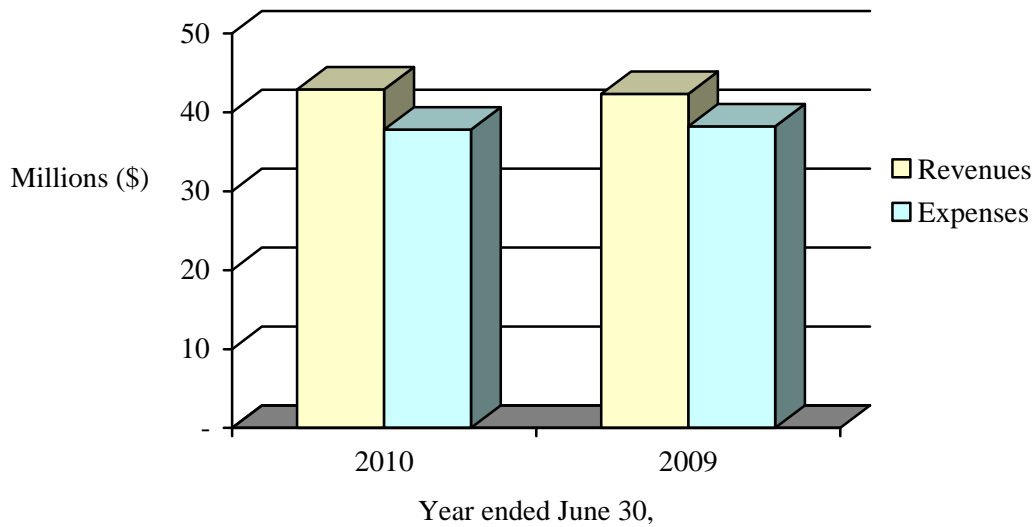
Table 3, as presented below, shows the changes in net assets for the years ending June 30, 2010 and June 30, 2009:

**Table 3—Condensed Statement of Revenues, Expenses and Changes in Net Assets**

|                                    | Year Ended June 30,  |                      |
|------------------------------------|----------------------|----------------------|
|                                    | 2010                 | 2009                 |
| Program revenues:                  |                      |                      |
| Charges for services               | \$ 235,338           | \$ 230,279           |
| Operating grants and contributions | 8,103,295            | 6,600,951            |
| Capital grants and contributions   | 150,400              | -                    |
| General revenues                   | <u>34,414,697</u>    | <u>35,485,564</u>    |
| Total revenues                     | 42,903,730           | 42,316,794           |
| Program expenses                   | <u>37,792,572</u>    | <u>38,204,035</u>    |
| Change in net assets               | 5,111,158            | 4,112,759            |
| Net assets—beginning               | <u>21,826,235</u>    | <u>17,713,476</u>    |
| Net assets—ending                  | <u>\$ 26,937,393</u> | <u>\$ 21,826,235</u> |

Figure 2, below, presents a comparison of revenues and expenses for the years ended June 30, 2010 and June 30, 2009:

**Figure 2—Comparison of Revenues and Expenses**



Overall revenues increased by 1.4 percent due primarily due to unexpected Federal aid of \$1,911,182 from the American Recovery and Reinvestment Act offset by decreases in State aid. Total program expenses decreased 1.1 percent from the year ended June 30, 2009, primarily due to a decrease in personnel costs associated with the decrease in the number of staff employed by the District.

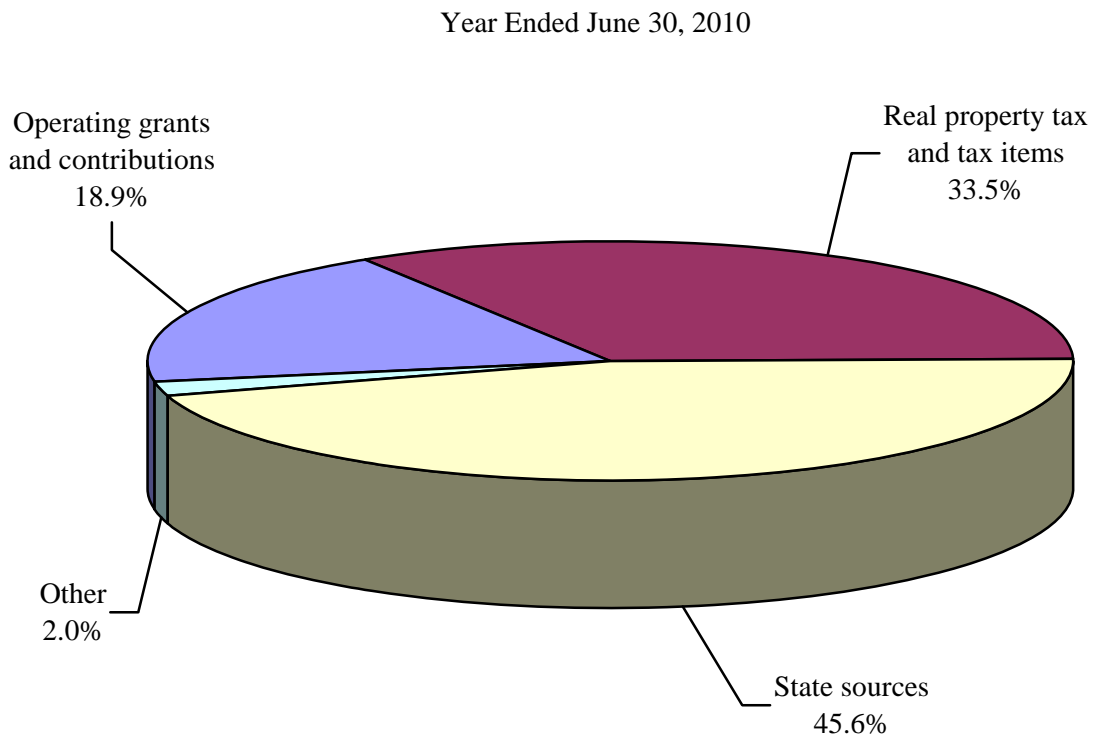
A summary of sources of revenues for the years ended June 30, 2010 and June 30, 2009 is presented below in Table 4:

**Table 4—Summary of Sources of Revenues**

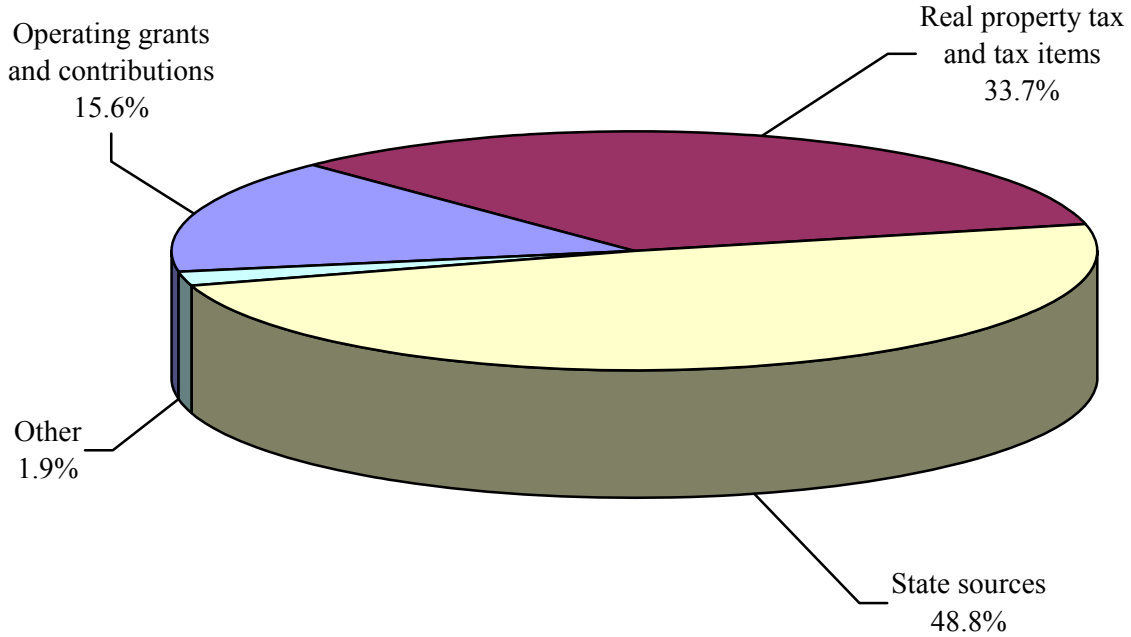
|                                    | Year Ended June 30,  |                      | Increase/(decrease) |         |
|------------------------------------|----------------------|----------------------|---------------------|---------|
|                                    | 2010                 | 2009                 | Dollars             | Percent |
| Charges for services               | \$ 235,338           | \$ 230,279           | \$ 5,059            | 2.2     |
| Operating grants and contributions | 8,103,295            | 6,600,951            | 1,502,344           | 22.8    |
| Capital grants and contributions   | 150,400              | -                    | 150,400             | n/a     |
| Real property tax and tax items    | 14,380,456           | 14,260,868           | 119,588             | 0.8     |
| Interest and other revenues        | 477,893              | 599,630              | (121,737)           | (20.3)  |
| State sources                      | <u>19,556,348</u>    | <u>20,625,066</u>    | <u>(1,068,718)</u>  | (5.2)   |
| Total revenues                     | <u>\$ 42,903,730</u> | <u>\$ 42,316,794</u> | <u>\$ 586,936</u>   | 1.4     |

As presented in Figure 3, below, the most significant sources for the year ended June 30, 2010 were State sources of \$19,556,348, or 45.6 percent of total revenues, and real property tax and tax items of \$14,380,456, or 33.5 percent of total revenues. Similarly, for the year ended June 30, 2009 the largest revenues were State sources of \$20,625,066, or 48.8 percent of total revenues, and real property tax and tax items of \$14,260,868, or 33.7 percent of total revenues.

**Figure 3—Components of Revenues**



Year Ended June 30, 2009



A summary of program expenses for the years ended June 30, 2010 and June 30, 2009 is presented below in Table 5:

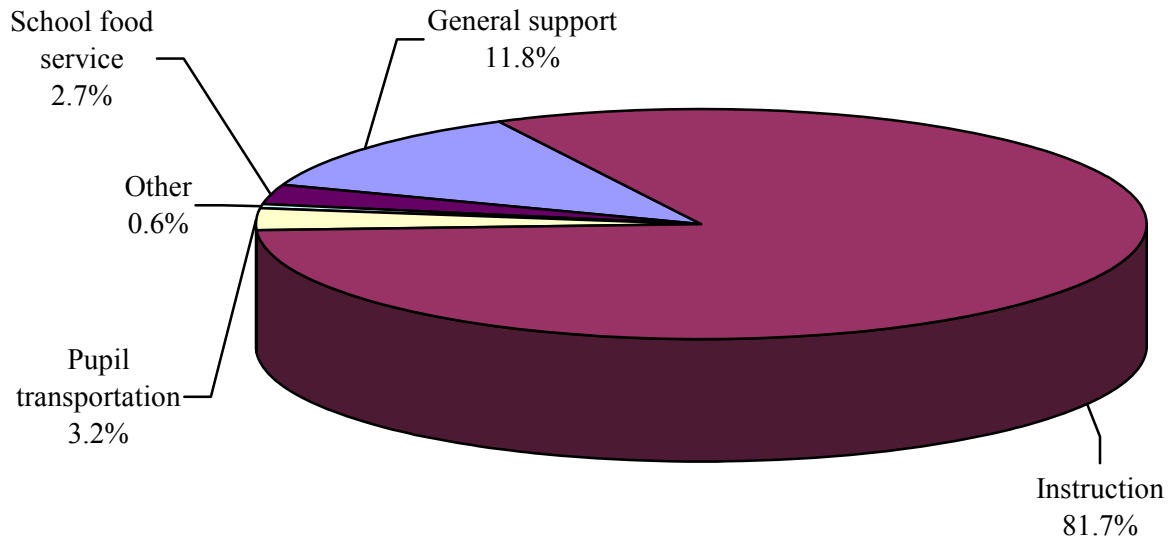
**Table 5—Summary of Program Expenses**

|                                   | Year Ended June 30,  |                      | Increase/(decrease) |         |
|-----------------------------------|----------------------|----------------------|---------------------|---------|
|                                   | 2010                 | 2009                 | Dollars             | Percent |
| General support                   | \$ 4,469,652         | \$ 4,541,099         | \$ (71,447)         | (1.6)   |
| Instruction                       | 30,879,280           | 31,183,864           | (304,584)           | (1.0)   |
| Pupil transportation              | 1,221,862            | 1,243,309            | (21,447)            | (1.7)   |
| Community services                | 1,139                | 11,976               | (10,837)            | (90.5)  |
| Interest and other fiscal charges | 215,263              | 250,939              | (35,676)            | (14.2)  |
| School lunch program              | 1,005,376            | 972,848              | 32,528              | 3.3     |
| Total program expenses            | <u>\$ 37,792,572</u> | <u>\$ 38,204,035</u> | <u>\$ (411,463)</u> | (1.1)   |

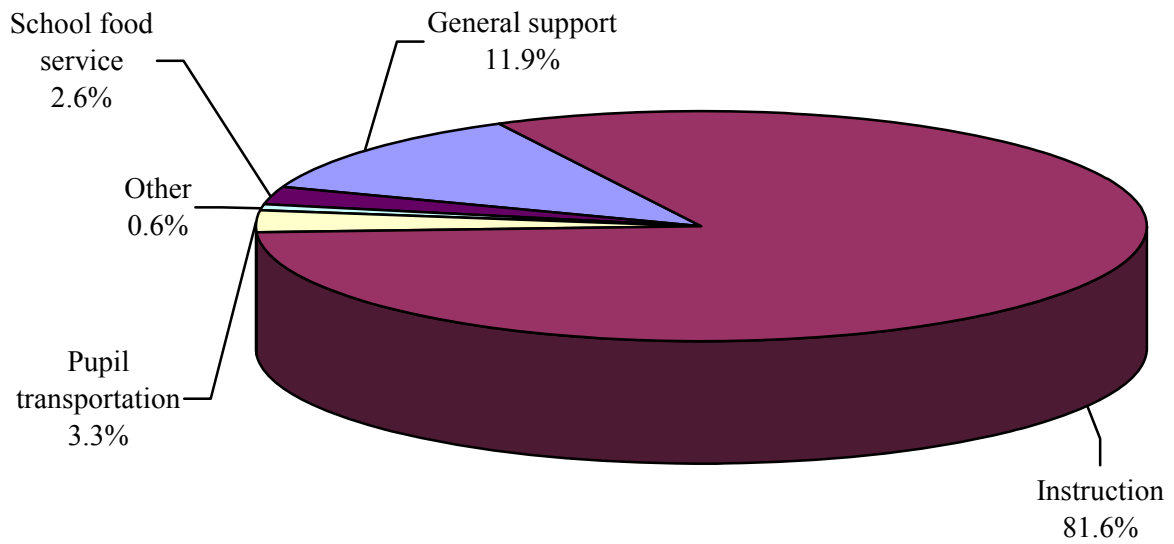
As presented in Figure 4, on the following page, the District's significant expense items for the year ended June 30, 2010 were instruction of \$30,879,280 or 81.7 percent of total expenses and general support of \$4,469,652, or 11.8 percent of total expenses. Similarly, for the year ended June 30, 2009 significant expense items were instruction of \$31,183,864 or 81.6 percent of total expenses and general support of \$4,541,099, or 11.9 percent of total expenses.

**Figure 4—Components of Program Expenses**

Year ended June 30, 2010



Year ended June 30, 2009



## **Financial Analysis of the District's Funds**

**Governmental funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spend able resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$11,311,231, a decrease of \$2,450,984 in comparison with the prior year. At June 30, 2010, the District reported an unreserved, undesignated deficit of \$3,170,468. A portion of fund balance, \$14,481,699, is reserved or designated to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders (fulfill encumbrances), inventory, purchase capital, pay debt, pay judgments and claims and other potential liabilities, pay unemployment insurance and pay retirement liabilities.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$1,349,480, while total fund balance increased to \$12,049,910. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved, undesignated fund balance represents 4.1 percent of total General Fund expenditures, while total fund balance represents 36.5 percent of that same amount.

The fund balance of the District's General Fund increased by \$4,134,064 in the current fiscal year. The increase is largely due to greater than anticipated Federal aid in addition to efforts to decrease personnel costs.

The Special Aid Fund reports a zero fund balance. This fund is used to account for matching Federal and State revenues to corresponding expenditures; accordingly there is no change in fund balance for the year ended June 30, 2010.

The School Lunch Fund has a total fund balance of \$104,582, of which \$1,395 is composed of inventory and is unavailable for spending, \$4,231 is reserved for encumbrances and \$33,750 is designated for subsequent year's expenditures, the remainder, \$65,206, is considered unreserved, undesignated fund balance. During the year ended June 30, 2010, fund balance decreased \$75,579 due to operations of the fund.

The Capital Projects Fund has a total deficit fund balance of \$2,051,840, of which \$2,533,314 is reserved for encumbrances, creating an unreserved, undesignated fund deficit of \$4,585,154. During the year ended June 30, 2010, fund balance decreased \$6,511,490, which was due to capital outlay expenditures in the amount of \$6,710,356.

The Debt Service Fund has a total fund balance of \$1,208,579, which is entirely reserved for debt. During the year ended June 30, 2010, fund balance increased \$2,021 from interest earnings.

## Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets for its governmental activities as of June 30, 2010, amounted to \$20,043,630 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, site improvements, buildings, and furniture and equipment.

All depreciable capital assets were depreciated from the year of acquisition to the end of the current year as outlined in the District's capital asset policy.

Capital assets net of depreciation for the governmental activities at the years ended June 30, 2010 and 2009 are presented below:

**Table 6 – Summary of Capital Assets (Net of Depreciation)**

|                          | June 30,             |                      |
|--------------------------|----------------------|----------------------|
|                          | 2010                 | 2009                 |
| Land                     | \$ 81,502            | \$ 81,502            |
| Construction in progress | 7,267,989            | 557,633              |
| Site improvements        | 363,950              | 430,558              |
| Buildings                | 11,757,452           | 12,227,847           |
| Furniture and equipment  | 572,737              | 390,474              |
| Total                    | <u>\$ 20,043,630</u> | <u>\$ 13,688,014</u> |

The District's assets are recorded at historical cost or estimated historical cost in the government-wide financial statements. The District has elected to depreciate their assets. Additional information on the District's capital assets can be found in Note 5 of this report.

**Debt.** At June 30, 2010, the District had total bonded debt and installment purchase debt outstanding of \$3,983,807, as compared to \$4,852,884 in the prior year, due to the payments of \$869,077. Additional information on the District's long-term debt can be found in Note 6 of this report.

## Financial Positions, Economic Factors, Next Year's Budgets and Rates

The unemployment rate, not seasonally adjusted, for the Chautauqua County region at June 30, 2010 was 7.9 percent, which is a decrease from a rate of 8.6 percent a year ago. This compares favorably to New York State's average unemployment rate of 8.1 percent and favorably to the national average rate of 9.5 percent. These factors are considered in preparing the District's budget. Despite the economic hardships, considering the stable condition of its major funds, the District's overall financial position is relatively stable. The District's overall financial position continued to improve during the year ending June 30, 2010.

The District's 2010-2011 budget includes the appropriation of \$610,379 of fund balance in the General Fund. The 2010-2011 budget appropriations total \$36,345,975, as compared to \$36,333,819 in 2009-2010.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Will Thiel, Business Manager, 200 Marauder Drive, Dunkirk, NY 14048.

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# BASIC FINANCIAL STATEMENTS



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# DUNKIRK CITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

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|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b>ASSETS</b>                                     |                                    |
| Cash and cash equivalents                         | \$ 13,101,534                      |
| Restricted cash and cash equivalents              | 3,430,919                          |
| Taxes receivable                                  | 860,136                            |
| Due from other governments                        | 3,648,798                          |
| Other receivables                                 | 154,418                            |
| Inventory   | 1,395                              |
| Capital assets not being depreciated              | 7,349,491                          |
| Capital assets net of accumulated depreciation    | 12,694,139                         |
| Total assets                                      | <u>41,240,830</u>                  |
| <b>LIABILITIES</b>                                |                                    |
| Accounts payable                                  | 786,604                            |
| Accrued liabilities                               | 93,947                             |
| Due to other governments                          | 24,899                             |
| Due to retirement systems                         | 1,287,151                          |
| Other liabilities                                 | 171,856                            |
| Unearned revenue                                  | 46,927                             |
| Bond anticipation notes payable                   | 7,520,000                          |
| Non-current liabilities:                          |                                    |
| Due within one year                               | 1,043,118                          |
| Due in more than one year                         | 3,328,935                          |
| Total liabilities                                 | <u>14,303,437</u>                  |
| <b>NET ASSETS</b>                                 |                                    |
| Investment in capital assets, net of related debt | 11,719,889                         |
| Restricted  | 778,869                            |
| Unrestricted                                      | 14,438,635                         |
| Total net assets                                  | <u>\$ 26,937,393</u>               |

The notes to the financial statements are an integral part of this statement.

# DUNKIRK CITY SCHOOL DISTRICT

## Statement of Activities Year Ended June 30, 2010

| Functions/Programs                | Expenses             | Program Revenues        |  |  | Net (Expense) Revenue<br>and Changes in<br>Net Assets |
|-----------------------------------|----------------------|-------------------------|--|--|---|
|                                   |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                            |
| <b>Primary government:</b>        |                      |                         |  |  |   |
| General support                   | \$ 4,469,652         | \$ 100,347              | \$ -                                     | \$ 150,400                             | \$ (4,218,905)  |
| Instruction                       | 30,879,280           | 9,565                   | 6,460,469                                | -                                      | (24,409,246)  |
| Pupil transportation              | 1,221,862            | -                       | 904,580                                  | -                                      | (317,282)   |
| Community service                 | 1,139                | -                       | -  | -                                      | (1,139)   |
| Interest and other fiscal charges | 215,263              | -                       | -  | -                                      | (215,263)   |
| School lunch program              | 1,005,376            | 125,426                 | 738,246                                  | -                                      | (141,704)   |
| Total primary government          | <u>\$ 37,792,572</u> | <u>\$ 235,338</u>       | <u>\$ 8,103,295</u>                      | <u>\$ 150,400</u>                      | <u>(29,303,539)</u>                                   |
| General revenues:                 |                      |                         |  |  |   |
|                                   |                      |                         |  |  | 6,925,164   |
|                                   |                      |                         |  |  | 7,455,292   |
|                                   |                      |                         |  |  | 94,870  |
|                                   |                      |                         |  |  | 100   |
|                                   |                      |                         |  |  | 382,923   |
|                                   |                      |                         |  |  | <u>19,556,348</u>                                     |
|                                   |                      |                         |  |  | <u>34,414,697</u>                                     |
|                                   |                      |                         |  |  | 5,111,158   |
|                                   |                      |                         |  |  | <u>21,826,235</u>                                     |
|                                   |                      |                         |  |  | <u>\$ 26,937,393</u>                                  |

The notes to the financial statements are an integral part of this statement.

**DUNKIRK CITY SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
**June 30, 2010**

| <b>ASSETS</b>                                   | <b>General</b>       | <b>Special<br/>Aid</b> | <b>School<br/>Lunch</b> | <b>Capital<br/>Projects</b> | <b>Debt<br/>Service</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---|----------------------|------------------------|-------------------------|-----------------------------|-------------------------|---|
| Cash and cash equivalents                       | \$ 5,975,292         | \$ -                   | \$ 187,069              | \$ 5,860,594                | \$ 1,078,579            | \$ 13,101,534                           |
| Restricted cash and cash equivalents            | 3,430,919            | -                      | -                       | -                           | -                       | 3,430,919                               |
| Due from other funds                            | 1,112,923            | 34,932                 | 3                       | -                           | 130,000                 | 1,277,858                               |
| Taxes receivable                                | 860,136              | -                      | -                       | -                           | -                       | 860,136                                 |
| Due from other governments                      | 2,389,648            | 1,200,379              | 58,771                  | -                           | -                       | 3,648,798                               |
| Other receivables                               | 154,418              | -                      | -                       | -                           | -                       | 154,418                                 |
| Inventory                                       | -                    | -                      | 1,395                   | -                           | -                       | 1,395                                   |
| <b>Total assets</b>                             | <b>\$ 13,923,336</b> | <b>\$ 1,235,311</b>    | <b>\$ 247,238</b>       | <b>\$ 5,860,594</b>         | <b>\$ 1,208,579</b>     | <b>\$ 22,475,058</b>                    |
| <b>LIABILITIES AND FUND BALANCES (DEFICITS)</b> |                      |                        |                         |                             |                         |   |
| Liabilities:                                    |                      |                        |                         |                             |                         |   |
| Accounts payable                                | \$ 207,730           | \$ 133,991             | \$ 52,449               | \$ 392,434                  | \$ -                    | \$ 786,604                              |
| Accrued liabilities                             | 42,102               | 4,312                  | 2,118                   | -                           | -                       | 48,532                                  |
| Due to other funds                              | 164,587              | 1,025,182              | 88,089                  | -                           | -                       | 1,277,858                               |
| Due to other governments                        | -                    | 24,899                 | -                       | -                           | -                       | 24,899                                  |
| Due to retirement systems                       | 1,287,151            | -                      | -                       | -                           | -                       | 1,287,151                               |
| Other liabilities                               | 171,856              | -                      | -                       | -                           | -                       | 171,856                                 |
| Deferred revenue                                | -                    | 46,927                 | -                       | -                           | -                       | 46,927                                  |
| Bond anticipation notes payable                 | -                    | -                      | -                       | 7,520,000                   | -                       | 7,520,000                               |
| <b>Total liabilities</b>                        | <b>1,873,426</b>     | <b>1,235,311</b>       | <b>142,656</b>          | <b>7,912,434</b>            | <b>-</b>                | <b>11,163,827</b>                       |
| Fund balances (deficits):                       |                      |                        |                         |                             |                         |   |
| Reserved for:                                   |                      |                        |                         |                             |                         |   |
| Encumbrances                                    | 134,811              | -                      | 4,231                   | 2,533,314                   | -                       | 2,672,356                               |
| Capital   | 575,637              | -                      | -                       | -                           | -                       | 575,637                                 |
| Tax certiorari                                  | 2,740,670            | -                      | -                       | -                           | -                       | 2,740,670                               |
| Unemployment insurance                          | 1,452,098            | -                      | -                       | -                           | -                       | 1,452,098                               |
| Employee benefits                               | 1,745,097            | -                      | -                       | -                           | -                       | 1,745,097                               |
| Retirement                                      | 3,441,738            | -                      | -                       | -                           | -                       | 3,441,738                               |
| Inventory                                       | -                    | -                      | 1,395                   | -                           | -                       | 1,395                                   |
| Debt service                                    | -                    | -                      | -                       | -                           | 1,208,579               | 1,208,579                               |
| Unreserved:                                     |                      |                        |                         |                             |                         |   |
| Designated for subsequent year's expenditures   | 610,379              | -                      | 33,750                  | -                           | -                       | 644,129                                 |
| Undesignated                                    | 1,349,480            | -                      | 65,206                  | (4,585,154)                 | -                       | (3,170,468)                             |
| <b>Total fund balances (deficits)</b>           | <b>12,049,910</b>    | <b>-</b>               | <b>104,582</b>          | <b>(2,051,840)</b>          | <b>1,208,579</b>        | <b>11,311,231</b>                       |
| <b>Total liabilities and fund balances</b>      | <b>\$ 13,923,336</b> | <b>\$ 1,235,311</b>    | <b>\$ 247,238</b>       | <b>\$ 5,860,594</b>         | <b>\$ 1,208,579</b>     | <b>\$ 22,475,058</b>                    |

The notes to the financial statements are an integral part of this statement.

**DUNKIRK CITY SCHOOL DISTRICT**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2010**

---

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

|  |                      |
|--|----------------------|
| Total fund balances - governmental funds   | \$ 11,311,231        |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$34,887,991 and the accumulated depreciation is \$14,844,361.                                 | 20,043,630           |
| Long-term liabilities, including bonds payable, installment purchase debt, and other post-employment obligations are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:          |                      |
| Bonds payable  | \$ 3,280,000         |
| Installment purchase debt  | 703,807              |
| Retirement incentive payable   | 203,000              |
| Other post-employment obligations  | <u>353,434</u>       |
|  | (4,540,241)          |
| To recognize interest accrual on long term debt, which is not recognized in the fund financial statements.   | (45,415)             |
| Costs associated with the issuance of bonds are capitalized in the statement of net assets and are expensed in the governmental funds in the year the bonds are issued. The costs amounted to \$585,000 and accumulated amortization is \$416,812. | <u>168,188</u>       |
| Total net assets - governmental activities   | <u>\$ 26,937,393</u> |

The notes to the financial statements are an integral part of this statement.

**DUNKIRK CITY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Governmental Funds**  
**Year Ended June 30, 2010**

| <b>REVENUES</b>  | <u>General</u>       | <u>Special<br/>Aid</u> | <u>School<br/>Lunch</u> | <u>Capital<br/>Projects</u> | <u>Debt<br/>Service</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|----------------------|------------------------|-------------------------|-----------------------------|-------------------------|---|
| Real property taxes  | \$ 6,925,164         | \$ -                   | \$ -                    | \$ -                        | \$ -                    | \$ 6,925,164                            |
| Real property tax items                                      | 7,455,292            | -                      | -                       | -                           | -                       | 7,455,292                               |
| Charges for services   | 104,412              | -                      | -                       | -                           | -                       | 104,412                                 |
| Use of money and property                                    | 49,611               | -                      | 272                     | 48,466                      | 2,021                   | 100,370                                 |
| Sale of property and compensation for loss                   | 100                  | -                      | -                       | -                           | -                       | 100                                     |
| School lunch sales   | -                    | -                      | 125,426                 | -                           | -                       | 125,426                                 |
| Miscellaneous  | 339,993              | -                      | -                       | -                           | -                       | 339,993                                 |
| Interfund revenue  | 42,930               | -                      | -                       | -                           | -                       | 42,930                                  |
| State sources  | 20,796,633           | 742,645                | 28,204                  | 150,400                     | -                       | 21,717,882                              |
| Federal sources  | 1,415,098            | 3,967,021              | 710,042                 | -                           | -                       | 6,092,161                               |
| Total revenues   | <u>37,129,233</u>    | <u>4,709,666</u>       | <u>863,944</u>          | <u>198,866</u>              | <u>2,021</u>            | <u>42,903,730</u>                       |
| <b>EXPENDITURES</b>  |                      |                        |                         |                             |                         |   |
| Current:   |                      |                        |                         |                             |                         |   |
| General support  | 3,703,061            | -                      | -                       | -                           | -                       | 3,703,061                               |
| Instruction  | 20,499,493           | 4,709,666              | -                       | -                           | -                       | 25,209,159                              |
| Pupil transportation   | 1,007,607            | -                      | -                       | -                           | -                       | 1,007,607                               |
| Community service  | 1,139                | -                      | -                       | -                           | -                       | 1,139                                   |
| Employee benefits  | 6,748,541            | -                      | -                       | -                           | -                       | 6,748,541                               |
| Cost of sales (school lunch)                                 | -                    | -                      | 939,523                 | -                           | -                       | 939,523                                 |
| Capital outlay   | -                    | -                      | -                       | 6,710,356                   | -                       | 6,710,356                               |
| Debt Service:  |                      |                        |                         |                             |                         |   |
| Principal  | 869,077              | -                      | -                       | -                           | -                       | 869,077                                 |
| Interest   | 166,251              | -                      | -                       | -                           | -                       | 166,251                                 |
| Total expenditures   | <u>32,995,169</u>    | <u>4,709,666</u>       | <u>939,523</u>          | <u>6,710,356</u>            | <u>-</u>                | <u>45,354,714</u>                       |
| Excess (deficiency) of revenues<br>over (under) expenditures | 4,134,064            | -                      | (75,579)                | (6,511,490)                 | 2,021                   | (2,450,984)                             |
| Fund balances - beginning                                    | 7,915,846            | -                      | 180,161                 | 4,459,650                   | 1,206,558               | 13,762,215                              |
| Fund balances (deficit) - ending                             | <u>\$ 12,049,910</u> | <u>\$ -</u>            | <u>\$ 104,582</u>       | <u>\$ (2,051,840)</u>       | <u>\$ 1,208,579</u>     | <u>\$ 11,311,231</u>                    |

The notes to the financial statements are an integral part of this statement.

**DUNKIRK CITY SCHOOL DISTRICT**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2010**

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

Net change in fund balances - total governmental funds \$ (2,450,984)

Governmental funds report capital outlays as expenditures. 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 outlays exceeded depreciation in the current period.

|                      |                  |           |
|----------------------|------------------|-----------|
| Capital outlay       | \$ 7,018,925     |           |
| Depreciation expense | <u>(663,309)</u> | 6,355,616 |

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

|  |              |           |
|--|--------------|-----------|
| Principal repayment of bonds                     | 750,000      |           |
| Principal repayment of installment purchase debt | 119,077      |           |
| Payments of retirement incentives                | 196,500      |           |
| Change in interest expense accrued               | <u>9,488</u> | 1,075,065 |

In the statement of activities, certain operating expenses - long-term employee benefits (vacation & sick leave) and other post-employment obligations - 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). The net effect of these differences is as follows:

189,961

Bond issuance costs are netted against the proceeds as an other financing source in the governmental funds in the year the bonds are issued. In the statement of net assets, these costs are capitalized:

(58,500)

Change in net assets of governmental activities \$ 5,111,158

The notes to the financial statements are an integral part of this statement.

**DUNKIRK CITY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2010**

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>        | <u>Variance with<br/>Final Budget</u> |
|--|----------------------------|-------------------------|----------------------|---------------------------------------|
| <b>REVENUES</b>  |                            |                         |                      |                                       |
| Real property taxes  | \$ 9,614,516               | \$ 6,925,562            | \$ 6,925,164         | \$ (398)                              |
| Real property tax items                                      | 4,600,000                  | 7,288,954               | 7,455,292            | 166,338                               |
| Charges for services   | 68,000                     | 68,000                  | 104,412              | 36,412                                |
| Use of money and property                                    | 36,000                     | 36,000                  | 49,611               | 13,611                                |
| Sale of property and<br>compensation for loss                | 1,550                      | 1,550                   | 100                  | (1,450)                               |
| Miscellaneous  | 138,000                    | 138,000                 | 339,993              | 201,993                               |
| Interfund revenue  | 30,000                     | 30,000                  | 42,930               | 12,930                                |
| State sources  | 21,041,791                 | 20,233,544              | 20,796,633           | 563,089                               |
| Federal sources  | 50,000                     | 858,247                 | 1,415,098            | 556,851                               |
| Total revenues   | <u>35,579,857</u>          | <u>35,579,857</u>       | <u>37,129,233</u>    | <u>1,549,376</u>                      |
| <b>EXPENDITURES</b>  |                            |                         |                      |                                       |
| Current:   |                            |                         |                      |                                       |
| General support  | 4,185,794                  | 4,192,411               | 3,703,061            | 489,350                               |
| Instruction  | 21,991,826                 | 21,992,209              | 20,499,493           | 1,492,716                             |
| Pupil transportation   | 1,084,581                  | 1,084,581               | 1,007,607            | 76,974                                |
| Community services   | 31,776                     | 24,776                  | 1,139                | 23,637                                |
| Employee benefits  | 8,282,805                  | 8,282,805               | 6,748,541            | 1,534,264                             |
| Debt service   | 1,035,328                  | 1,035,328               | 1,035,328            | -                                     |
| Total expenditures   | <u>36,612,110</u>          | <u>36,612,110</u>       | <u>32,995,169</u>    | <u>3,616,941</u>                      |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(1,032,253)</u>         | <u>(1,032,253)</u>      | <u>4,134,064</u>     | <u>5,166,317</u>                      |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                            |                         |                      |                                       |
| Transfers in   | 150,000                    | 150,000                 | -                    | (150,000)                             |
| Transfers out  | (25,000)                   | (25,000)                | -                    | 25,000                                |
| Total other financing sources                                | <u>125,000</u>             | <u>125,000</u>          | <u>-</u>             | <u>(125,000)</u>                      |
| Net change in fund balances                                  | (907,253)                  | (907,253)               | 4,134,064            | 5,041,317                             |
| Fund balances - beginning                                    | 7,915,846                  | 7,915,846               | 7,915,846            | -                                     |
| Fund balances - ending                                       | <u>\$ 7,008,593</u>        | <u>\$ 7,008,593</u>     | <u>\$ 12,049,910</u> | <u>\$ 5,041,317</u>                   |

The notes to the financial statements are an integral part of this statement.

**DUNKIRK CITY SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets - Agency Fund**  
**June 30, 2010**

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|                                    | <u>Agency<br/>Fund</u> |
|------------------------------------|------------------------|
| <b>ASSETS</b>                      |                        |
| Cash and cash equivalents          | \$ 73,491              |
| Total assets                       | <u>\$ 73,491</u>       |
| <b>LIABILITIES</b>                 |                        |
| Agency liabilities                 | \$ 3,119               |
| Extraclassroom activities balances | <u>70,372</u>          |
| Total liabilities                  | <u>\$ 73,491</u>       |

The notes to the financial statements are an integral part of this statement.

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**DUNKIRK CITY SCHOOL DISTRICT**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Dunkirk City School District, New York (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government entities. Those principles are prescribed by Governmental Accounting Standards Board ("GASB"), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

***Financial Reporting Entity***

The District is governed by the Education Law and other laws of the State of New York. The governing body is the Board of Education. The scope of activities included within the accompanying financial statements are those transactions which comprise District operations, and are governed by, or significantly influenced by, the Board of Education.

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

The financial reporting entity includes all funds, functions and organizations over which the District officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

***Extraclassroom Activity Funds***

The Extraclassroom Activity Funds of the District represent funds raised by 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 their financial transactions and designation of student management. Separate audited financial statements (cash basis) of the extraclassroom activity funds can be found at the District's business office. The District accounts for assets held as an agent for various student organizations in the agency fund.

***Joint Venture***

The District is one of 27 participating school districts in the Erie No. 2, Chautauqua Cattaraugus Board of Cooperative Education Services ("BOCES"). Formed under Section 1950 of Education Law, a BOCES is a voluntary cooperative association of school districts in a geographic area that shares planning, services, and programs, and also provides educational and support activities. There is no authority or process by which the District can terminate its status as a component of BOCES.

The component school district boards elect the members of the BOCES governing body. There are no equity interests and no single participant controls the financial or operating policies. BOCES may also contract with other municipalities on a cooperative basis under State General Municipal Law.

The BOCES budget is comprised of separate spending plans for administrative, program, and capital costs. Each component school district shares in administrative and capital costs determined by its enrollment. Participating districts are charged a service fee for programs in which students participate, and for other shared contracted administrative services. Participating districts may also issue debt on behalf of BOCES. As of June 30, 2010, there was no debt issued by the District on behalf of BOCES.

During the fiscal year ended June 30, 2010, the District was billed \$3,291,308 for BOCES administrative and program costs and recognized \$220,335 in revenue as a refund from prior years' expenditures paid to BOCES. Audited financial statements are available from the Erie 2-Chautauqua-Cattaraugus BOCES administrative offices.

***Government-Wide and Fund Financial Statements.*** The government-wide financial statements (statement of net assets and the statement of governmental activities) report information on all the non fiduciary activities of the District. Interfund activity has been removed from these statements.

The statement of governmental activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses have been included as part of the program expenses reported for the various functional activities. Program revenues include 1) charges to those who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds even though the fiduciary funds are excluded from the government-wide financial statements. The District considers all governmental funds as major funds, and therefore, these funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting and Financial Statement Presentation.*** The government-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 when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year except for real property taxes which are considered available in the year that they are levied. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

## **Governmental Funds**

The District reports the following major governmental funds:

- The *General Fund* is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.
- The *Special Aid Fund* accounts for special operating projects or programs supported in whole, or in part, with federal funds and state grants.
- The *School Lunch Fund* accounts for transactions of the District's breakfast and lunch programs.
- The *Capital Projects Fund* is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities, or equipment.
- The *Debt Service Fund* accounts for amounts reserved for future debt payments.

## **Fiduciary Fund**

A Fiduciary Fund is used by the District to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations and/or other governmental units. The district has one class of fiduciary funds:

- The *Agency Fund* accounts for assets held by the District as an agent for individuals, private organizations, various student groups and clubs, and/or other governmental units. Funds include employee payroll withholdings. Also included is the Extraclassroom Activity Fund of the District, which represents funds of the students of the District. The Board of Education exercises general oversight of these funds.

## ***Other Accounting Policies***

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are payments and charges between the District's General Fund and various other funds of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise general revenues include all taxes.

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

## ***Budgeting Policies—Governmental Fund Types***

*General Fund* – A formal annual budget is maintained for the General Fund.

- The District administration creates a proposed budget for approval by the Board of Education.
- The proposed appropriation budget was approved by the voters within the District.
- Appropriations established by adoption of the budget constitute a limitation on expenditures and encumbrances which may be incurred.

*School Lunch and Special Aid Funds* – No formal annual budget is adopted for the School Lunch Fund and Special Aid Fund. School Lunch Fund spending is dependent upon the number of meals served. Special Aid Fund appropriation limits are maintained based on individual grants accepted by the Board of Education. The periods of such grants may vary from the District's fiscal year.

*Capital Projects Fund* – Appropriations for capital projects are not included in the District's annual adopted budget. Appropriations are approved through a resolution of the Board of Education and by the voters within the District. Project length budgets do not coincide with, and may overlap, the District's fiscal years.

*Debt Service Fund* – Appropriations for debt services payments are not included in the District's annual adopted budget.

***Cash, Cash Equivalents, and Investments.*** Includes cash and cash equivalents, including amounts on hand, demand deposits, and short-term, highly liquid investments which are readily convertible to known amounts of cash and have a maturity date within 90 days of their acquisition date. The District has no investments at June 30, 2010; however, it is the District's policy to state at fair value, when applicable.

Restricted cash represents amounts reserved for capital and tax certiorari claims in addition to cash collected in advance for retiree health insurance premiums.

***Property Taxes.*** Real property taxes are levied annually by the Board of Education. Taxes are collected during the period September through October.

Uncollected real property taxes are subsequently enforced by Chautauqua County, 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.

***Due To/From Other Funds.*** Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided at Note 4.

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

**Inventory.** Inventory of food and/or supplies 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 inventorable items in other funds are recorded as expenditures at the time of purchase, and year-end balances are not maintained.

**Capital Assets.** Capital assets are reported at actual cost for acquisitions subsequent to June 30, 2003. For assets acquired prior to July 1, 2003, 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as construction in progress until the projects are completed.

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 as follows:

|                         | Capitalization<br>Threshold | Estimated<br>Useful Life |
|-------------------------|-----------------------------|--------------------------|
| Buildings               | \$ 5,000                    | 20-40 years              |
| Site improvements       | 5,000                       | 15-20 years              |
| Furniture and equipment | 5,000                       | 5-20 years               |

**Unearned/Deferred Revenue.** Unearned/deferred revenues are reported when revenues do not meet the appropriate measurable and available criteria for recognition in the current period.

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

The 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 (“BANs”), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long term financing within five years after the original issue date. The District had \$7,520,000 of BANs outstanding at June 30, 2010.

***Accrued Liabilities and Long-term Obligations.*** Payable, 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 for 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.

***Post Retirement Benefits.*** The District provides retirement benefits for substantially all of its regular full-time employees through contributions to the New York State Teachers' Retirement System and the New York State Employees' Retirement System. These systems provide various plans and options, some of which require employee contributions.

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 provision 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. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

***Compensated Absences.*** The District labor agreements provide for sick leave, vacations, and other miscellaneous paid absences. Upon retirement, certain eligible employees qualify for paid health insurance premiums based upon accumulated sick leave. The liability for compensated absences is included within the other post employment benefits ("OPEB") obligation reported as long-term employee benefits payable.

***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 that reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of compensated absences, potential contingent liabilities and useful lives of long-lived assets.

***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 reservations 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.

***Restrictions, Reserves and Designations.*** The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

*Invested in Capital Assets, Net of Related Debt*—This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt (net of amounts reserved to pay debt) that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

*Restricted Net Assets*—This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets*—This category represents net assets of the District not restricted for any project or other purpose.

In the fund financial statements, reserves represent that portion of fund balance that has been legally segregated for a specific use or is not able to be appropriated for expenditure by the District at June 30, 2010, and include:

*Reserved for Encumbrances*—Representing commitments related to unperformed (executory) contracts for goods and services.

*Reserved for Capital*— Capital reserve established under Education Law §3651 is used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the General Fund.

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

*Reserved for Unemployment Insurance*—Unemployment Insurance reserve established under General Municipal Law (“GML”) §6-m is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the

appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the General Fund.

*Reserved for Employee Benefits*—Represents funds reserved for Employee Benefit Accrued Liability established under 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.

*Reserved for Retirement*— Reserve for Retirement established under GML §6-r is used to reserve funds for future payments to the New York State Employees' Retirement System. The reserve is accounted for in the General Fund.

*Reserved for Inventory*—Representing the portion of fund balance composed of inventory. This balance is reserved as the inventory does not represent an available resource.

*Reserved for Debt Service*—The debt service reserve is used to establish a reserve for the purpose of retiring the outstanding obligations of the District. The funding for the reserve is from the proceeds of the issuance of debt in excess of expenditures, interest earned on unspent cash balances of issued debt, and premiums on issued debt.

In the fund financial statements, designations are not legally required segregations but are segregated for a specific purpose by the District at June 30, 2010 and include:

*Designated for Subsequent Year's Expenditures*—Represents available fund balance being appropriated to meet expenditure requirements in the 2010-2011 fiscal year.

***Future Impacts of Accounting Pronouncements.*** During the year ended June 30, 2010, the District implemented GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. GASB Statements Nos. 51, 53, and 58 did not have a material impact on the District's financial position or results of operation.

The District has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*, effective for the year ending June 30, 2011, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective for the year ending June 30, 2012. The District is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 54, 57 and 59 will have on its financial position and results of operations.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The District's investment policies are governed by State statutes. District monies must be deposited in FDIC-Insured commercial banks or trust companies located within New York State. The District's Business Manager 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 deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of New York.

The detail of cash at June 30, 2010 is as follows:

|  | Governmental<br>Funds | Fiduciary<br>Funds | Total                |
|--|-----------------------|--------------------|----------------------|
| Petty cash (uninsured, uncollateralized) | \$ 300                | \$ -               | \$ 300               |
| Deposits—governmental funds              | <u>16,532,153</u>     | <u>73,491</u>      | <u>16,605,644</u>    |
| Total                                    | <u>\$ 16,532,453</u>  | <u>\$ 73,491</u>   | <u>\$ 16,605,944</u> |

|                                      |                      |
|--------------------------------------|----------------------|
| Cash and cash equivalents            | \$ 13,101,534        |
| Restricted cash and cash equivalents | 3,430,919            |
| Cash held in Agency Fund             | <u>73,491</u>        |
| Total                                | <u>\$ 16,605,944</u> |

**Deposits** - All deposits are carried at fair value.

|   | Carrying<br>Amount   | Bank<br>Balance      |
|---|----------------------|----------------------|
| Insured (FDIC)  | \$ 750,000           | \$ 750,000           |
| Uninsured:  |                      |                      |
| Collateral held by pledging bank's agent in the District's name | <u>15,855,644</u>    | <u>16,892,999</u>    |
| Total   | <u>\$ 16,605,644</u> | <u>\$ 17,642,999</u> |

**Investments** - The District had no investments at June 30, 2010.

**Custodial Credit Risk—Deposits**—Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of June 30, 2010, the District's deposits were FDIC insured or collateralized.

### 3. RECEIVABLES

Major revenues accrued by the District at June 30, 2010 consisted of the following:

**Governmental Funds:**

**General Fund:**

|                  |  |                   |
|------------------|--|-------------------|
| Taxes receivable |  | <u>\$ 860,136</u> |
|------------------|--|-------------------|

Due from other governments:

|             |               |                     |
|-------------|---------------|---------------------|
| BOCES       | \$ 1,440,602  |                     |
| Federal aid | 250,723       |                     |
| State aid   | 621,033       |                     |
| Other       | <u>77,290</u> | <u>\$ 2,389,648</u> |

|                   |  |                   |
|-------------------|--|-------------------|
| Other receivables |  | <u>\$ 154,418</u> |
|-------------------|--|-------------------|

**Special Aid Fund:**

|             |                |                     |
|-------------|----------------|---------------------|
| State aid   | \$ 354,083     |                     |
| Federal aid | <u>846,296</u> | <u>\$ 1,200,379</u> |

**School Lunch Fund:**

Due from other governments:

|             |              |                  |
|-------------|--------------|------------------|
| Federal aid | \$ 50,920    |                  |
| State aid   | <u>7,851</u> | <u>\$ 58,771</u> |

### 4. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short term in nature and exist because of temporary advances or payments made on behalf of others. All of these balances are expected to be collected/paid within the subsequent year. Interfund balances and activity of the District at June 30, 2010 consisted of the following:

|                          | Interfund           |                     |
|--------------------------|---------------------|---------------------|
|                          | Receivables         | Payables            |
| General Fund             | \$ 1,112,923        | \$ 164,587          |
| Special Aid              | 34,932              | 1,025,182           |
| School Lunch             | 3                   | 88,089              |
| Debt Service             | <u>130,000</u>      | <u>-</u>            |
| Total Governmental Funds | <u>\$ 1,277,858</u> | <u>\$ 1,277,858</u> |

## 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

|   | Beginning<br>Balance | Additions           | Deletions      | Ending<br>Balance    |
|---|----------------------|---------------------|----------------|----------------------|
| Capital assets, not being depreciated:          |                      |                     |                |                      |
| Land  | \$ 81,502            | \$ -                | \$ -           | \$ 81,502            |
| Construction in progress                        | <u>557,633</u>       | <u>6,710,356</u>    | <u>-</u>       | <u>7,267,989</u>     |
| Total capital assets, not being<br>depreciated  | <u>639,135</u>       | <u>6,710,356</u>    | <u>-</u>       | <u>7,349,491</u>     |
| Capital assets, being depreciated:              |                      |                     |                |                      |
| Site improvements                               | 1,853,267            | -                   | -              | 1,853,267            |
| Buildings                                       | 23,148,352           | -                   | -              | 23,148,352           |
| Furniture and equipment                         | <u>2,235,196</u>     | <u>308,569</u>      | <u>(6,884)</u> | <u>2,536,881</u>     |
| Total capital assets, being<br>depreciated      | <u>27,236,815</u>    | <u>308,569</u>      | <u>(6,884)</u> | <u>27,538,500</u>    |
| Less accumulated depreciation for:              |                      |                     |                |                      |
| Site improvements                               | (1,422,709)          | (66,608)            | -              | (1,489,317)          |
| Buildings                                       | (10,920,505)         | (470,395)           | -              | (11,390,900)         |
| Furniture and equipment                         | <u>(1,844,722)</u>   | <u>(126,306)</u>    | <u>6,884</u>   | <u>(1,964,144)</u>   |
| Total accumulated depreciation                  | <u>(14,187,936)</u>  | <u>(663,309)</u>    | <u>6,884</u>   | <u>(14,844,361)</u>  |
| Total capital assets, being<br>depreciated, net | <u>13,048,879</u>    | <u>(354,740)</u>    | <u>-</u>       | <u>12,694,139</u>    |
| Governmental activities capital<br>assets, net  | <u>\$ 13,688,014</u> | <u>\$ 6,355,616</u> | <u>\$ -</u>    | <u>\$ 20,043,630</u> |

The current year depreciation expense was allocated in the Statement of Activities to functions and programs of the District as follows:

|                          |                   |
|--------------------------|-------------------|
| Governmental activities: |                   |
| General support          | \$ 13,281         |
| Instruction              | 584,175           |
| School food service      | <u>65,853</u>     |
| Total                    | <u>\$ 663,309</u> |

## 6. INDEBTEDNESS

### a. Short-Term

Liabilities for bond anticipation notes (“BANs”) are accounted for in the capital projects funds. Principal payments on BANs must be made annually.

Transactions in short-term debt for the year ended June 30, 2010 are summarized below:

| Description            | Interest Rate | Maturity Date | Balance 7/1/2009 | Additions          | Payments    | Balance 6/30/2010  |
|------------------------|---------------|---------------|------------------|--------------------|-------------|--------------------|
| Capital Projects Fund: |               |               |                  |                    |             |                    |
| Various Projects       | 1.58%         | 7/29/2010     | \$ -             | \$3,000,000        | \$ -        | \$3,000,000        |
| Various Projects       | 1.91%         | 7/29/2010     | -                | 4,520,000          | -           | 4,520,000          |
|                        |               |               | <u>\$ -</u>      | <u>\$7,520,000</u> | <u>\$ -</u> | <u>\$7,520,000</u> |

### b. Long-Term

**Changes in Long-term Debt**—A summary of changes in the District’s long-term debt follows:

|                                     | Outstanding 7/1/2009 | Additions         | Deletions             | Outstanding 6/30/2010 | Current Portion     |
|-------------------------------------|----------------------|-------------------|-----------------------|-----------------------|---------------------|
| Government activities:              |                      |                   |                       |                       |                     |
| Serial bonds:                       |                      |                   |                       |                       |                     |
| 5/14/2003 Series A                  | \$ 2,050,000         | \$ -              | \$ (380,000)          | \$ 1,670,000          | \$ 395,000          |
| 5/14/2003 Series B                  | 1,980,000            | -                 | (370,000)             | 1,610,000             | 380,000             |
| Less: Bond issuance costs           | (226,688)            | -                 | 58,500                | (168,188)             | (58,500)            |
| Total bonds, net of issuance costs  | <u>3,803,312</u>     | <u>-</u>          | <u>(691,500)</u>      | <u>3,111,812</u>      | <u>716,500</u>      |
| Other long-term liabilities:        |                      |                   |                       |                       |                     |
| Installment purchase debt           | 822,884              | -                 | (119,077)             | 703,807               | 123,618             |
| Retirement incentive payable        | 399,500              | -                 | (196,500)             | 203,000               | 203,000             |
| Long-term employee benefits payable | 543,395              | 550,690           | (720,778)             | 353,434               | -                   |
| Total government-wide               | <u>\$ 5,569,091</u>  | <u>\$ 550,690</u> | <u>\$ (1,727,855)</u> | <u>\$ 4,372,053</u>   | <u>\$ 1,043,118</u> |

**Bond Transactions**—The District has bond debt outstanding for construction, renovations and improvements to various buildings.

The following is a summary of existing bond obligations for the year ended June 30, 2010:

| Description<br>of Issue | Issue<br>Date | Final<br>Maturity | Interest<br>Rate | Principal<br>Outstanding<br>6/30/2009 |
|-------------------------|---------------|-------------------|------------------|---------------------------------------|
| Serial bonds:           |               |                   |                  |                                       |
| Series A                | 5/14/2003     | 9/1/2014          | 1.5-4.0%         | \$ 1,670,000                          |
| Series B                | 5/14/2003     | 9/1/2014          | 1.5-4.0%         | <u>1,610,000</u>                      |
| Total                   |               |                   |                  | <u><u>\$3,280,000</u></u>             |

The following is a summary of maturing debt service requirements:

| Fiscal Year Ending<br>June 30, | Principal                  | Interest                 | Total                      |
|--------------------------------|----------------------------|--------------------------|----------------------------|
| 2011                           | \$ 775,000                 | \$ 113,294               | \$ 888,294                 |
| 2012                           | 805,000                    | 86,875                   | 891,875                    |
| 2013                           | 835,000                    | 58,438                   | 893,438                    |
| 2014                           | <u>865,000</u>             | <u>25,800</u>            | <u>890,800</u>             |
| Total                          | <u><u>\$ 3,280,000</u></u> | <u><u>\$ 284,407</u></u> | <u><u>\$ 3,564,407</u></u> |

Bond issuance costs of \$585,000 corresponding to the 2003 Series A/B are amortized over the life of the bonds. Amortization expense for the fiscal year ended June 30, 2010 was \$58,500 and accumulated amortization of the bond issuance costs totaled \$416,812 as of June 30, 2010.

**Installment Purchase Debt**—The District entered into a Performance Contract for modifications to various facilities on June 17, 2005. The installment purchase debt has a maturity date of July 15, 2015 and an interest rate of 3.76 percent. As of June 30, 2010, the principal outstanding is \$703,807.

The following summarizes requirements of the Installment Purchase Debt:

| Year ended June 30,                              | Governmental<br>Activities |
|--|----------------------------|
| 2010   | \$ 148,351                 |
| 2011   | 148,353                    |
| 2012   | 148,353                    |
| 2013   | 148,353                    |
| 2014   | 148,353                    |
| 2015-2016  | <u>37,087</u>              |
| Total minimum lease payments                     | \$ 778,850                 |
| Less: Amount representing imputed interest costs | <u>(75,043)</u>            |
| Present value of minimum lease payment           | <u><u>\$ 703,807</u></u>   |

**Retirement Incentive** – The District offered retirement incentives during 2008. The incentives are being paid out over a three year period. The value recorded in the government-wide financial statements at June 30, 2010, for governmental activities is \$203,000.

**Long-term Employee Benefits Payable** – As explained in Note 9, the District provides health insurance coverage for retirees. The District’s annual postemployment benefit (“OPEB”) cost is calculated based in the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Additionally, upon retirement, certain eligible employees qualify for paid health insurance premiums based upon accumulated sick leave (compensated absences). The estimated total long-term employee benefits payable is \$353,434 at June 30, 2010.

## 7. RETIREMENT PLANS

The District participates in the New York State Teacher’s Retirement System (“NYSTRS”) and the New York State and Local Employees’ Retirement System (“NYSERS”). These cost-sharing multiple-employer public employee retirement systems compute contribution requirements based on the New York State Retirement and Social Security Law (“NYSRSSL”).

### A. New York State Teachers’ Retirement System

**Plan Description**—The District makes contributions to the NYSTRS, a cost sharing, multiple employer defined benefit pension plan administered by the New York State Teachers’ Retirement Board. The NYSTRS 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 NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the NYSTRS. The report may be obtained by writing to the New York State Teachers’ Retirement System, 10 Corporate Woods Drive, Albany, New York 12211-2395.

**Funding Policy**—Plan members who joined the NYSTRS before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 are required to contribute three percent (3.0%) of their annual salary for the first ten years. Those joining after January 1, 2010 are required to contribute three and one-half percent (3.5%) of their annual salary for all their years of public service. Employers are required to contribute at an actuarially determined rate, currently 6.19% of the annual covered payroll for the fiscal year ended June 30, 2010. Rates applicable to the fiscal years ended June 30, 2009 and 2008 were 7.63% and 8.73%, respectively.

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

|      |              |
|------|--------------|
| 2010 | \$ 1,174,206 |
| 2009 | 1,428,906    |
| 2008 | 1,556,473    |

The District's contributions made to the NYSTRS were equal to 100 percent of the contributions required for the current year.

**B. New York State Employee's Retirement System**

**Plan Description**—The District participates in the NYSERS and the Public Employees' Group Life Insurance Plan ("Systems"). This is a cost-sharing multiple-employer retirement system. The 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 shall adopt and may amend rules and regulations for the administration and transaction of the business of the NYSERS and for custody and control of their funds. The NYSERS 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 Systems, 110 State Street, Albany, NY 12244.

**Funding Policy**—The NYSERS is noncontributory except for employees who joined the NYSERS after July 27, 1976 and have less than 10 years of service, who contribute three percent (3.0%) of their salary for the first ten years. Those joining after January 1, 2010 are required to contribute three percent (3.0%) of their annual salary for all their years of public service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employees to the pension accumulation fund.

The District is required to contribute at an actuarially determined rate. The required contribution for the current year and two preceding years were:

|      |    |         |
|------|----|---------|
| 2010 | \$ | 322,776 |
| 2009 |    | 266,593 |
| 2008 |    | 329,849 |

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Requires minimum contributions by employers of 4.5 percent of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1<sup>st</sup> (e.g., billings due February 2009 would be based on the pension value as of March 31, 2008).

Chapter 260 of the Laws of 2004 of the State of New York was enacted that allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For State fiscal year (“SFY”) 2004-05, the amount in excess of 7 percent of employees’ covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5 percent of employees’ covered pensionable salaries.
- For SFY 2007-08, the amount in excess of 10.5 percent of employees’ covered pensionable salaries.

Legislation requires participating employers to make payments on a current basis. The District’s contributions made to the Systems were equal to 100 percent of the contributions required for each year, and has not bonded or amortized any of the excess amounts

## **8. LABOR RELATIONS**

District employees are represented by three bargaining units, with the balance governed by Board of Education rules and regulations. Negotiated contracts are in place through June 30, 2012 for the Dunkirk Administrators’ Association and the Dunkirk Teachers’ Association and through June 30, 2013 for the Civil Service Employees Association.

## **9. POST RETIREMENT HEALTH CARE BENEFITS**

***Plan Description***—Based upon eligibility, unused sick leave days at time of retirement can be used to purchase medical coverage for two to three years for each retiree and spouse. The District contributes 90-96% of premiums for those years. Once the sick leave conversion days are exhausted, the retiree and spouse may remain in the plan, but will pay 100% of the premiums. The District also has employees who retired or were hired prior to October 15, 1976 in which the District pays 50-100% of medical premium costs.

***Funding Policy***—Authorization for the District to pay a portion of retiree health insurance premiums was enacted through various contracts, which were ratified by the District’s Board of Education. Active and retired employees are assumed to continue coverage currently elected. Among retirees paying 100% of the cost of coverage, 50% are assumed to continue in the experience rated plan at age 65 and 50% are assumed to elect coverage under Medicare Advantage. Among retirees receiving a District contribution for coverage, 100% are assumed to continue in the experience rated plan at age 65.

The District recognizes the cost of providing these benefits by expensing the annual insurance premiums when invoiced by the health insurance provider. District governmental activities contributed \$360,389 for the fiscal year ended June 30, 2010.

The District's annual other postemployment benefit ("OPEB") cost is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 over a period not to exceed thirty years.

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

|  | 2010              | 2009              |
|--|-------------------|-------------------|
| Annual required contribution               | \$ 550,690        | \$ 550,690        |
| Interest on net OPEB obligation            | -                 | -                 |
| Adjustment to annual required contribution | -                 | -                 |
| Annual OPEB costs (expense)                | 550,690           | 550,690           |
| Contributions made                         | (360,389)         | (387,557)         |
| Increase in net OPEB obligation            | 190,301           | 163,133           |
| Net OPEB obligation - beginning of year    | 163,133           | -                 |
| Net OPEB obligation - end of year          | <u>\$ 353,434</u> | <u>\$ 163,133</u> |

As of July 1, 2008, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial accrued liability for benefits for governmental activities was \$5,468,571.

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 health care 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 is presented as required supplemental information.

**Funding Status and Funding Progress**—As of June 30, 2010, the District has had only one actuarial valuation performed. Accordingly, information from the study is presented in the District's Schedule of Funding Progress and the Schedule of the District's Contributions. The District's Schedule of Funding Progress is presented below:

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability ("AAL") | Unfunded AAL ("UAAL") | Funded Ratio | Covered Payroll | Ratio of UAAL to Budget Covered Payroll |
|--------------------------|---------------------------|-------------------------------------|-----------------------|--------------|-----------------|---|
| As of 7/1/2008           | \$ -                      | \$ 5,468,571                        | \$ 5,468,571          | 0.0%         | \$ 13,981,730   | 39.1%                                   |

The Schedule of the District's Contributions is shown below:

| Year Ended June 30, | Annual Required Contribution | Contributions Made | Percentage Contributed |
|---------------------|------------------------------|--------------------|------------------------|
| 2010                | \$ 550,690                   | \$ 360,389         | 65.4%                  |
| 2009                | 550,690                      | 387,557            | 70.4%                  |

**Actuarial Methods and Assumptions**—Calculations are based on the types of benefits provided under the terms of the substantive plan, the plan as understood by the employer and the plan members, at the time of the valuation and on the pattern of cost sharing between the employee and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the July 1, 2008 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a valuation date and measurement date of July 1, 2008. The expected investment rate of return on employer’s assets is 5.0%. The 2006 New York State Teachers’ retirement System rates were used for mortality rates and retirement rates. The unfunded actuarial accrued liability is being amortized over 30 years, therefore the remaining amortization period at June 30, 2010 was twenty-eight years.

## 10. AGENCY FUNDS

An agency fund exists for temporary deposit funds. The following is a summary of changes in assets and liabilities for the fiscal year ended June 30, 2010.

|                                  | Balance<br>6/30/2009 | Additions            | Deletions              | Balance<br>6/30/2010 |
|----------------------------------|----------------------|----------------------|------------------------|----------------------|
| Assets:                          |                      |                      |                        |                      |
| Cash                             | \$ 72,205            | \$ 21,900,454        | (21,899,168)           | \$ 73,491            |
|                                  | <u>\$ 72,205</u>     | <u>\$ 21,900,454</u> | <u>\$ (21,899,168)</u> | <u>\$ 73,491</u>     |
| Liabilities:                     |                      |                      |                        |                      |
| Agency liabilities               | \$ 2,430             | \$ 21,722,897        | (21,722,208)           | \$ 3,119             |
| Extraclassroom activity balances | 69,775               | 177,557              | (176,960)              | 70,372               |
|                                  | <u>\$ 72,205</u>     | <u>\$ 21,900,454</u> | <u>\$ (21,899,168)</u> | <u>\$ 73,491</u>     |

## 11. NET ASSETS

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted. A reconciliation is provided below.

**Investment in Capital Assets, net of related debt**—This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construct or improvement of these assets reduce the balance in this category. The following presents a reconciliation of capital assets (net of accumulated depreciation), net of total indebtedness to net assets invested in capital assets, net of related debt:

|   |                      |
|---|----------------------|
| Capital assets, net of accumulated depreciation                                 | \$ 20,043,630        |
| Long-term debt issued to acquire District assets, net of issuance costs         | (3,815,619)          |
| BANs issued to acquire District assets  | (7,520,000)          |
| Less: Debt reserve from issuance of debt not used for capital asset acquisition | 1,005,347            |
| Unspent proceeds from BANs  | <u>2,006,531</u>     |
| Net assets invested in capital assets, net of related debt                      | <u>\$ 11,719,889</u> |

A portion of the District’s fund balance reserved for debt service is from interest earnings on unspent proceeds. This amount, \$203,232, is considered restricted net assets.

**Restricted Net Assets**—This category presents external restriction imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The following presents a reconciliation of restricted net assets:

|  |                |                    |
|--|----------------|--------------------|
| Fund balance reserves:   |                |                    |
| Debt service   | \$ 1,208,579   |                    |
| Capital  | <u>575,637</u> | 1,784,216          |
| Less: Reserves included within net assets invested in capital assets, net of related debt: |                |                    |
| Debt reserve from issuance of debt not used for capital asset acquisition                  |                | <u>(1,005,347)</u> |
| Restricted net assets  |                | <u>\$ 778,869</u>  |

**Unrestricted Net Assets**—This category represents net assets of the District not restricted for any project or other purpose.

**12. RISK FINANCING AND CONTINGENCIES**

**General Liability**—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 3 years.

**Consortiums and Self-insured Plans**—The District participates in Chautauqua County School Districts Medical Health 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 \$200,000 per insured event. The pool obtains independent coverage for insured events in excess of the \$200,000 limit, and the District has essentially transferred all related risk to the pool.

The District participates in Erie #2 Area Schools Self Funded Workers’ Compensation Plan, a risk-sharing pool, to insure Workers’ Compensation claims. This is a public entity risk pool created under Article 5 of the Workers’ Compensation Law, to finance liability and risks related to Workers’ Compensation claims. The Erie #2 Are Schools Self Funded Workers’ Compensation Plan is considered a self-sustaining risk pool that will provide coverage for its members in excess up to \$375,000 per insured event. The District has obtained independent coverage for events up to \$375,000. The District has essentially transferred all related risk to the Plan. The District’s share of the liability for unbilled and open claims is \$205,225. No provision has been made in the financial statements for this liability since it’s anticipated that no claim will exceed current insurance coverage.

**Grants**—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.

**Litigation**—Various legal actions are pending against the District. The outcome of these matters is not presently determinable but, in the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the District.

### **13. ECONOMIC DEPENDENCE**

The District has one taxpayer who participates in a PILOT program. The taxpayer paid \$4.6 million in payments during the current year. This amount represents 32.1 percent of all real property tax and real property tax items revenue. The PILOT agreement was executed April 25, 2008. As a result, payments will be made over a 20 year term.

### **14. DEFICIT FUND BALANCE**

At June 30, 2010, the Capital Projects Fund reported deficit fund balances of \$2,051,840. The Capital Projects deficit will be remedied through the issuance of long-term debt.

### **15. SUBSEQUENT EVENTS**

On July 29, 2010, the District retired \$7,520,000 and issued \$15,000,000 of bond anticipation notes with interest rates ranging between 1.35 percent and 2.00 percent. These notes mature on July 28, 2011. Additionally, on July 29, 2010, the District issued \$7,369,600 of serial bonds, with interest rates ranging between 2.25 and 4.00 percent. These bonds mature on June 15, 2025. The debt issuances are used to pay for BANs maturing on July 29, 2010 and to fund capital projects.

\* \* \* \* \*

## SUPPLEMENTAL SCHEDULES



**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Change from Adopted Budget to Final Budget - General Fund**  
**Year Ended June 30, 2010**

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|                              |        |                       |
|------------------------------|--------|-----------------------|
| Adopted budget 2009-2010     | \$     | 36,333,819            |
| Additions:                   |        |                       |
| Encumbrances - June 30, 2009 |        | 303,291               |
| Original budget 2009-2010    |        | 36,637,110            |
| Budget revisions             |        | -                     |
| Final budget 2009-2010       | \$     | 36,637,110            |
| <br>Adopted budget 2010-2011 | <br>\$ | <br><u>36,345,975</u> |

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**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Use of Unreserved Fund Balance - General Fund**  
**As of the Beginning of the Year Ended June 30, 2010**

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|  |    |           |
|--|----|-----------|
| Fund balance (unreserved), July 1, 2009          | \$ | 2,057,315 |
| Less:  |    |           |
| Appropriated fund balance used for levy of taxes |    | (603,962) |
| Fund balance (undesignated)                      | \$ | 1,453,353 |

(1) This schedule summarizes information as of the beginning of the year (i.e. July 1, 2009). The purpose is to demonstrate the District's compliance with the level of fund balance restrictions as contained in the State of New York Real Property Tax Law.

**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Capital Project Expenditures**  
**Year Ended June 30, 2010**

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| <u>Project Title</u>  | <u>Original<br/>Appropriation</u> | <u>Revised<br/>Appropriation</u> | <u>Expenditures to Date</u> |                         | <u>Total<br/>Project<br/>Expenditures</u> | <u>Unexpended<br/>Balance</u> |
|-----------------------|-----------------------------------|----------------------------------|-----------------------------|-------------------------|---|-------------------------------|
|                       |                                   |                                  | <u>Prior<br/>Years</u>      | <u>Current<br/>Year</u> |   |                               |
| Excel Project         | \$ 7,520,000                      | \$ 7,520,000                     | \$ 390,189                  | \$ 5,273,680            | \$ 5,663,869                              | \$ 1,856,131                  |
| District Wide Project | <u>33,100,000</u>                 | <u>33,100,000</u>                | <u>167,444</u>              | <u>1,436,676</u>        | <u>1,604,120</u>                          | <u>31,495,880</u>             |
|                       | <u>\$ 40,620,000</u>              | <u>\$ 40,620,000</u>             | <u>\$ 557,633</u>           | <u>\$ 6,710,356</u>     | <u>\$ 7,267,989</u>                       | <u>\$ 33,352,011</u>          |

**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Encumbrances - Budget and Actual - General Fund**  
**Year Ended June 30, 2010**

|  | <u>Adopted<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>        | <u>Variance<br/>with Final<br/>Budget</u> |
|--|---------------------------|-------------------------|----------------------|---|
| <b>REVENUES</b>                              |                           |                         |                      |   |
| Local sources:                               |                           |                         |                      |   |
| Real property taxes                          | \$ 9,614,516              | \$ 6,925,562            | \$ 6,925,164         | \$ (398)                                  |
| Real property tax items                      | 4,600,000                 | 7,288,954               | 7,455,292            | 166,338                                   |
| Charges for services                         | 68,000                    | 68,000                  | 104,412              | 36,412                                    |
| Use of money and property                    | 36,000                    | 36,000                  | 49,611               | 13,611                                    |
| Sale of property and compensation for loss   | 1,550                     | 1,550                   | 100                  | (1,450)                                   |
| Miscellaneous                                | 138,000                   | 138,000                 | 339,993              | 201,993                                   |
| Interfund revenue                            | 30,000                    | 30,000                  | 42,930               | 12,930                                    |
| State sources:                               |                           |                         |                      |   |
| Basic formula                                | 18,918,847                | 14,965,357              | 15,544,342           | 578,985                                   |
| Lottery aid                                  | -                         | 3,145,243               | 3,215,334            | 70,091.00                                 |
| BOCES aid                                    | 1,908,300                 | 1,908,300               | 1,701,252            | (207,048)                                 |
| State aid - other                            | 214,644                   | 214,644                 | 335,705              | 121,061                                   |
| Federal aid                                  | 50,000                    | 858,247                 | 1,415,098            | 556,851                                   |
| Total revenues                               | <u>35,579,857</u>         | <u>35,579,857</u>       | <u>37,129,233</u>    | <u>1,549,376</u>                          |
| <b>OTHER FINANCING SOURCES</b>               |                           |                         |                      |   |
| Transfers in                                 | <u>150,000</u>            | <u>150,000</u>          | <u>-</u>             | <u>(150,000)</u>                          |
| Total revenues and other financing sources   | <u>35,729,857</u>         | <u>35,729,857</u>       | <u>\$ 37,129,233</u> | <u>1,399,376</u>                          |
| Appropriated fund balance                    | <u>603,962</u>            | <u>907,253</u>          |                      |   |
| Total revenues and appropriated fund balance | <u>\$ 36,333,819</u>      | <u>\$ 36,637,110</u>    |                      |   |

(continued)

**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Encumbrances - Budget and Actual - General Fund**  
**Year Ended June 30, 2010**

|  | <u>Adopted<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>       | <u>Encum-<br/>brances</u> | <u>Variance<br/>with Final<br/>Budget</u> |
|--|---------------------------|-------------------------|---------------------|---------------------------|---|
| <b>EXPENDITURES</b>  |                           |                         |                     |                           |   |
| General Support:   |                           |                         |                     |                           |   |
| Board of education   | \$ 17,180                 | \$ 17,180               | \$ 4,770            | \$ -                      | \$ 12,410                                 |
| Central administration   | 210,084                   | 210,084                 | 199,855             | -                         | 10,229                                    |
| Finance  | 255,968                   | 255,968                 | 238,252             | -                         | 17,716                                    |
| Staff  | 253,006                   | 318,134                 | 301,710             | -                         | 16,424                                    |
| Central services   | 3,068,683                 | 3,046,988               | 2,656,905           | 64,535                    | 325,548                                   |
| Special items  | 334,727                   | 344,057                 | 301,569             | 1,250                     | 41,238                                    |
| Instruction:   |                           |                         |                     |                           |   |
| Instruction, administration and improvements   | 1,532,402                 | 1,587,100               | 1,453,273           | 120                       | 133,707                                   |
| Teaching - regular school  | 11,473,301                | 11,744,667              | 10,947,836          | 29,296                    | 767,535                                   |
| Programs for pupils with handicapping conditions   | 4,512,274                 | 4,496,074               | 4,219,502           | 5,108                     | 271,464                                   |
| Occupational education   | 1,074,219                 | 1,041,258               | 969,845             | -                         | 71,413                                    |
| Teaching - special school  | 217,620                   | 151,320                 | 88,872              | 149                       | 62,299                                    |
| Instructional media  | 964,382                   | 1,022,125               | 971,574             | 30,397                    | 20,154                                    |
| Pupil services   | 1,960,483                 | 1,949,665               | 1,848,591           | 3,956                     | 97,118                                    |
| Pupil transportation   | 1,084,581                 | 1,084,581               | 1,007,607           | -                         | 76,974                                    |
| Community services   | 31,776                    | 24,776                  | 1,139               | -                         | 23,637                                    |
| Employee benefits  | 8,282,805                 | 8,282,805               | 6,748,541           | -                         | 1,534,264                                 |
| Debt service:  |                           |                         |                     |                           |   |
| Debt service - principal   | 869,077                   | 869,077                 | 869,077             | -                         | -   |
| Debt service - interest  | 166,251                   | 166,251                 | 166,251             | -                         | -   |
| Total expenditures   | <u>36,308,819</u>         | <u>36,612,110</u>       | <u>32,995,169</u>   | <u>134,811</u>            | <u>3,482,130</u>                          |
| <b>OTHER FINANCING USES</b>  |                           |                         |                     |                           |   |
| Transfers out  | <u>25,000</u>             | <u>25,000</u>           | <u>-</u>            | <u>-</u>                  | <u>25,000</u>                             |
| Total expenditures and other financing uses  | <u>\$ 36,333,819</u>      | <u>\$ 36,637,110</u>    | <u>32,995,169</u>   | <u>\$ 134,811</u>         | <u>\$ 3,507,130</u>                       |
| Excess of revenues and other financing sources<br>over expenditures and other financing uses |                           |                         | <u>\$ 4,134,064</u> |                           |   |

(concluded)

**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Certain Revenues and Expenditures**  
**Compared to ST-3 Data - General Fund**  
**Year Ended June 30, 2010**

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|                                 | <u>Account<br/>Code</u> | <u>ST-3<br/>Amount</u> | <u>Audited<br/>Amount</u> |
|---------------------------------|-------------------------|------------------------|---------------------------|
| <b>REVENUES</b>                 |                         |                        |                           |
| Real property taxes             | AT-1001                 | \$ 6,925,163           | \$ 6,925,164              |
| State aid                       | AT-3999                 | 20,796,633             | 20,796,633                |
| Federal aid                     | AT-4999                 | 1,415,098              | 1,415,098                 |
| Total revenues                  | AT-5999                 | 37,129,233             | 37,129,233                |
| <b>EXPENDITURES</b>             |                         |                        |                           |
| General support                 | AT-1999                 | 3,703,061              | 3,703,061                 |
| Pupil transportation            | AT-5599                 | 1,007,607              | 1,007,607                 |
| Debt service - principal        | AT-9798.6               | 869,077                | 869,077                   |
| Debt service - interest         | AT-9798.7               | 166,251                | 166,251                   |
| Total expenditures & other uses | AT-9999                 | 32,995,169             | 32,995,169                |

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# FEDERAL AWARDS



**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

| <u>Federal Grantor / Program Title</u>                      | <u>Federal<br/>CFDA<br/>Number</u> | <u>Grantor's<br/>Number</u> | <u>Expenditures</u> |
|---|------------------------------------|-----------------------------|---------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                       |                                    |                             |                     |
| <b>Passed through State Department of Education:</b>        |                                    |                             |                     |
| National School Breakfast Program                           | 10.553                             | N/A                         | \$ 142,570          |
| National School Lunch Program                               | 10.555                             | N/A                         | 510,150             |
| Commodity Supplemental Food Program                         | 10.565                             | N/A                         | 57,322              |
| Child Nutrition Equipment, Recovery                         | 10.579                             | 5004-10-0090                | <u>15,218</u>       |
| <b>TOTAL US DEPARTMENT OF AGRICULTURE</b>                   |                                    |                             | <u>725,260</u>      |
| <b>U.S. DEPARTMENT OF TRANSPORTATION:</b>                   |                                    |                             |                     |
| <b>Passed through the NYS Department of Transportation:</b> |                                    |                             |                     |
| Safe Routes to Schools                                      | 20.205                             | N/A                         | <u>90,185</u>       |
| <b>TOTAL US DEPARTMENT OF TRANSPORTATION</b>                |                                    |                             | <u>90,185</u>       |
| <b>U.S. DEPARTMENT OF EDUCATION</b>                         |                                    |                             |                     |
| <b>Passed through State Department of Education:</b>        |                                    |                             |                     |
| Title I - Local Assistance                                  | 84.010                             | 0021-10-0350                | 1,184,265           |
| Title I - Local Assistance                                  | 84.010                             | 0021-09-0350                | 93,260              |
| Title I Grants - School Improvement                         | 84.010                             | 0011-10-3345                | 15,749              |
| Title I Grants - School Improvement                         | 84.010                             | 0011-09-3345                | 39,404              |
| Title I Grants - School Improvement                         | 84.377                             | 0011-09-3345                | 48,944              |
| Title I - Local Assistance, Recovery                        | 84.389                             | 5021-10-0350                | 521,796             |
| IDEA Part B   | 84.027                             | 0032-10-0103                | 542,720             |
| IDEA Part B   | 84.027                             | 0032-09-0103                | 65,200              |
| IDEA - Preschool  | 84.173                             | 0033-10-0103                | 32,666              |
| IDEA - Preschool  | 84.173                             | 0033-09-0103                | 24,507              |
| IDEA Part B, Recovery                                       | 84.391                             | 5032-10-0103                | 268,762             |
| IDEA - Preschool, Recovery                                  | 84.392                             | 5033-10-0103                | 13,549              |
| Title IV  | 84.186                             | 0180-10-0350                | 8,328               |
| Title IV  | 84.186                             | 0180-09-0350                | 15,131              |
| 21st Century Grant-HS                                       | 84.287                             | 0187-10-4041                | 291,275             |
| Title V   | 84.298                             | 0002-09-0350                | 2,509               |

(continued)

**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

| <b>Federal Grantor / Program Title</b>  | <b>Federal<br/>CFDA<br/>Number</b> | <b>Grantor's<br/>Number</b> | <b>Expenditures<br/>(concluded)</b> |
|---|------------------------------------|-----------------------------|-------------------------------------|
| Title IID                               | 84.318                             | 0292-10-0350                | 11,658                              |
| Title IID                               | 84.318                             | 0292-09-0350                | 1,121                               |
| Title IID - EETT                        | 84.318                             | 0292-09-0350                | 38,475                              |
| Reading First                           | 84.357                             | 0243-10-0209                | 132,115                             |
| Title VIB                               | 84.358                             | 0006-10-0350                | 3,211                               |
| Title VIB                               | 84.358                             | 0006-09-0350                | 65,373                              |
| Title III LEP                           | 84.365                             | 0293-10-0350                | 36,468                              |
| Title III LEP                           | 84.365                             | 0293-09-0350                | 27,963                              |
| Title IIA                               | 84.367                             | 0147-10-0350                | 156,945                             |
| Title IIA                               | 84.367                             | 0147-09-0350                | 85,529                              |
| Education Stabilization, Recovery       | 84.394                             | 5000-10-0350                | 1,077,372                           |
| Mentor Teacher Internship, Recovery     | 84.397                             | 5663-10-0121                | 14,485                              |
| <b>Direct awards:</b>                   |                                    |                             |                                     |
| Advanced placement                      | 84.330                             | N/A                         | 120,210                             |
| <b>TOTAL US DEPARTMENT OF EDUCATION</b> |                                    |                             | <u>4,938,990</u>                    |
| <b>TOTAL FEDERAL AWARDS EXPENDED</b>    |                                    |                             | <u>\$ 5,754,435</u>                 |

The notes to the schedule of federal awards are an integral part of this schedule.

**DUNKIRK CITY SCHOOL DISTRICT**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

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**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Dunkirk City School District, New York (the "District") and is presented on the modified accrual basis of accounting. The information in this schedule 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 basic financial statements.

**2. BASIS OF ACCOUNTING**

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

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

**3. NON-MONETARY FEDERAL PROGRAM**

The District is the recipient of a federal award program that does not result in cash receipts or disbursements termed a "non-monetary program." During the year ended June 30, 2010, the District used \$57,322 worth of commodities.

**4. RECONCILIATION TO THE BASIC FINANCIAL STATEMENTS**

Total Federal expenditures of the District's 2009-10 fiscal year is reconciled to Federal aid as reported in the financial statements as follows:

|   |                    |
|---|--------------------|
| Balance per schedule of expenditures of federal awards                              | \$5,754,435        |
| Medicaid reimbursement (not included on schedule of expenditures of federal awards) | <u>337,726</u>     |
| Total federal revenue per financial statements                                      | <u>\$6,092,161</u> |

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

The Board of Education  
Dunkirk City School District, New York

We have audited the basic financial statements of Dunkirk City School District, New York (the "District"), as of and for the year ended June 30, 2010, and have issued our report thereon dated October 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-1, 2010-2, and 2010-3 to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 test disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-4.

We noted certain matters that we reported to management of the District in a separate letter dated October 13, 2010.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and accordingly express no opinion on it.

This report is intended solely for the information and use of the District's Audit Committee, Board of Education, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 Dresch & Malin LLP

October 13, 2010

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

The Board of Education  
Dunkirk City School District, New York

**Compliance**

We have audited the Dunkirk City School District's (the "District"), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on Dunkirk City School District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questionable costs as item 2010-5.

## Internal Control Over Compliance

The management of the 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 the District's internal control over compliance with 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 District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questionable costs as item 2010-4. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's response to our findings is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's Audit Committee, Board of Education, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 13, 2010

**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2010**

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**Part I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- |  |       |     |       |               |
|--|-------|-----|-------|---------------|
| 1. Material weakness(es) identified?                     | _____ | Yes | ✓     | No            |
| 2. Significant deficiency(ies) identified?               | ✓     | Yes | _____ | None reported |
| 3. Noncompliance material to financial statements noted? | _____ | Yes | ✓     | No            |

**Federal Awards:**

Internal control over major programs:

- |  |       |     |       |               |
|--|-------|-----|-------|---------------|
| 4. Material weakness(es) identified?       | _____ | Yes | ✓     | No            |
| 5. Significant deficiency(ies) identified? | ✓     | Yes | _____ | None reported |

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

- |   |   |     |       |    |
|---|---|-----|-------|----|
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | ✓ | Yes | _____ | No |
|---|---|-----|-------|----|

7. The District's major programs were:

| <b>Name of Federal Program</b>                | <b>CFDA NUMBER</b> |
|---|--------------------|
| Child Nutrition Cluster:                      |                    |
| National School Breakfast                     | 10.553             |
| National School Lunch                         | 10.555             |
| Title I Grants:                               |                    |
| Title I – Local Assistance/School Improvement | 84.010             |
| Title I – School Improvement                  | 84.377             |
| Title I – Local Assistance, Recovery          | 84.389A            |
| Special Education Cluster:                    |                    |
| IDEA, Part B                                  | 84.027             |
| IDEA, Preschool                               | 84.173             |
| IDEA, Part B, Recovery                        | 84.391             |
| IDEA, Preschool, Recovery                     | 84.392             |
| Fiscal Stabilization Funds:                   |                    |
| Education Stabilization, Recovery             | 84.394             |
| Mentor Teacher Internship, Recovery           | 84.397             |

8. Dollar threshold used to distinguish between Type A and Type B programs? \$ 300,000

- |   |       |     |   |    |
|---|-------|-----|---|----|
| 9. Auditee qualified as low-risk auditee? | _____ | Yes | ✓ | No |
|---|-------|-----|---|----|

## Part II. FINANCIAL STATEMENT FINDINGS SECTION

*We consider the deficiencies presented below to be significant deficiencies in internal control.*

### Finding 2010-1—Journal Entries

**Criteria**—A formal policy should be established to clearly identify the procedures necessary to independently review and record a journal entry. This policy should require adequate supporting documentation and an understanding of each entry that is recorded.

**Condition**—Although the District regularly reviews entries throughout the year, it was noted that seven journal entries in a sample of twenty-five lacked evidence of review.

**Effect**—The absence of a formal policy for the journal entry process threatens consistency in the recording and reviewing processes.

**Cause**—Lack of a formal policy for recording and reviewing journal entries.

**Recommendation**—We recommend the District continue to practice its procedures relating to journal entries that require formal documentation of review of approved entries through a sign off to ensure that all entries are reviewed and understood by an individual who did not prepare/post the entry.

**Management's corrective action plan**—The District has initiated a procedure during the year requiring independent review and sign-off on journal entries prior to execution.

### Finding 2010-2—Accounts Payable

**Criteria**—The District should properly record expenditures within the Special Aid fund based on the liability being established by the receipt of goods and services prior to year end.

**Condition**—In attempt to record all grant expenditures within the specified grant period, the District improperly accrues certain expenditures as accounts payable based upon the grant period, regardless of when goods/services are actually received/rendered.

**Cause**—Lack of formal procedures at year end.

**Effect**—Increased risk of misstatement of financial statements.

**Recommendation**—We recommend that the District review outstanding purchase orders and invoices within the Special Aid Fund at year for proper treatment regardless of the time period of the grant.

**Management's corrective action plan**—The District will review purchase orders and invoices at year end in order to determine appropriate treatment.

### **Finding 2010-3—Payroll Controls**

**Criteria**—Proper controls surrounding the payroll function should include an independent review of bank reconciliations and payroll calculations. Additionally, payroll should be periodically checked against the personnel records for terminated employees, fictitious employees, etc.

**Condition**— During our audit, we noted the following payroll deficiencies:

- A formal review of payroll bank reconciliations was not documented on the bank statements or reconciliations.
- An error in the calculation of an overtime rate for one employee.
- The District’s payroll is not periodically checked against personnel records for terminated employees, fictitious employees, etc. Additionally, the distribution of the payroll is not rotated periodically to different employees without prior notice or distributed by someone other than the person who prepares payroll.

**Cause**—Lack of formal policies and procedures.

**Effect**—Potential misappropriation of assets.

**Recommendation**— We recommend that the documentation of the review of payroll reconciliations should be made on the face of the bank statement or reconciliation. Additionally, we recommend an individual independent of the payroll function periodically test payroll records for accuracy and ensure that all employees paid are active employees.

**Management’s corrective action plan**—The District will implement additional payroll controls.

**We consider the deficiency presented below to be an instance of noncompliance that is required to be reported under *Governmental Auditing Standards*:**

### **Finding 2010-4—National School Breakfast & Lunch Program—Verification Procedures**

**Criteria**—The District should be verifying students status with regards to free and reduced lunch.

**Condition**—We found that one student inappropriately received a free status.

**Cause**—The District lacks a formal process that requires a review within the verification process to ensure that students are receiving the appropriate status.

**Effect**—Federal reimbursements may be reduced or disallowed.

**Recommendation**—We recommend that the District compare verified applications to the students status to ensure that the status is appropriate.

**Management’s Corrective Action Plan**—The District will implement additional procedures, which include comparing verified applications to the students status to ensure that the status is appropriate. The application referenced above was approved for reduced status for the 2010-2011 school year.

**Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION**

*We consider the deficiency presented below to be a significant deficiency over compliance.*

**Finding 2010-5— CFDA Nos. 10.553 & 10.555, National School Breakfast & Lunch Program—  
Verification Procedures**

**Criteria**—Depending on the outcome of the verification process, the District should be taking additional actions including taking an additional sample if status changes from free or reduced to paid and updating the student’s status if not appropriate.

**Condition**—During the 2009-2010 audit of the Child Nutrition Cluster, it was noted that one application selected for verification received free status for the year that was eligible for reduced status.

**Cause**—Lack of review within verification process.

**Effect**—Federal reimbursements may be reduced or disallowed.

**Recommendation**—We recommend that the District compare verified applications to the students status to ensure that the status is appropriate.

**Management’s Corrective Action Plan**—The application was approved for reduced status for the 2010-2011 school year.

**DUNKIRK CITY SCHOOL DISTRICT**  
**Schedule of Prior Federal Award Audit Findings**  
**Year Ended June 30, 2010**  
**(Follow-up on Year Ended June 30, 2009)**

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**Finding 2009-4—CFDA Nos. 10.553 & 10.555, National School Breakfast & Lunch Program**

**Criteria**—At the end of the time period for a student that has temporary approval, school officials must re-evaluate the household's situation and should contact the household to determine if circumstances have changed. The District may then continue eligibility on a temporary basis and re-evaluate at another interval or approve/deny new application if circumstances have changed.

**Condition**—During the 2008-2009 audit of the Child Nutrition Cluster, it was noted that a student was awarded temporary free lunch, with temporary status expiring in December 2008. The application was not re-evaluated.

**Effect**—Federal reimbursements may be reduced or disallowed.

**Cause**—Lack of procedures to follow up with temporary status.

**Recommendation**—We recommend that the District implement formal procedures to evaluate temporary approvals as needed.

**Management's corrective action plan**—The District concurs with the finding and notes that significant resources were dedicated to staff development, improving the reliability of the software system, and removing old, incorrect data from the system. With these improvements in place, the District has re-emphasized appropriate approval procedures for the 2009-10 school year including follow-up on temporary approvals.

**Current Status**—The District has implemented appropriate procedures to follow-up on temporary approvals.

**Finding 2009-5— CFDA Nos. 10.553 & 10.555, National School Breakfast & Lunch Program**

**Criteria**—Depending on the outcome of the verification process the District should be taking additional actions including taking an additional sample if status changes from free/reduced to paid and updating the students status if not appropriate.

**Condition**—During the 2008-2009 audit of the Child Nutrition Cluster, the following was noted from a sample of verifications:

- 1 family did not respond.
- 2 students that received reduced lunches for the remainder of the year that did not appear to be eligible for free/reduced lunch.
- 3 students who appear to have appropriately received free lunch, did not provide supporting documentation for child support income as stated on application.
- 2 students that received free lunch for the remainder of the year appear to be eligible for reduced lunch.

**Effect**—Federal reimbursements may be reduced or disallowed.

**Cause**—Lack of follow-up within verification process.

**Recommendation**—We recommend that the District implement formal procedures to perform entire verification process within allotted timeframe.

**Management’s corrective action plan**—The District concurs with the finding and notes that significant resources were dedicated to staff development, improving the reliability of the software system, and removing old, incorrect data from the system. With these improvements in place, the District has re-emphasized appropriate approval procedures for the 2009-10 school year including follow-up on verifications.

**Current Status**—The District has implemented additional procedures relating to the verification process; however, a finding related to the verification process was noted in the current year.

**Finding 2009-6—CFDA No. 84.287, 21<sup>st</sup> Century Grant**

**Criteria**—Procedures should be implemented in regards to accounts payable in order to ensure that liabilities and revenues are properly recorded at year-end. Additionally, all documentation relating to expenditures should be properly maintained.

**Condition**—During the 2008-2009 audit it was noted that the District records accounts payable in the Special Aid Fund based upon the grants which period ends June 30 in order to record those expenditures before the end of the grant period, regardless if a liability has been incurred. Additionally, documentation could not be provided for a disbursement relating to the 21<sup>st</sup> Century grant.

**Effect**—Federal reimbursements may be reduced or disallowed. Additionally, revenue and expenditures of the special aid fund may be misstated.

**Cause**—Lack of formal procedures.

**Recommendation**—We recommend that the District establishes appropriate procedures at year-end to ensure that grant funds are appropriately expended and recorded in the appropriate year.

**Management’s corrective action plan**—The District concurs with the finding and has initiated monthly appropriation review for all federal expenditures. Grant managers are required to plan and report on expenditures on a timely basis in order to facilitate proper documentation of all expenditures and allow for amendment and rollover of unexpended funds.

**Current Status**—No instances of lack of documentation were noted in the current year. Additionally, expenditures tested in relation to the special aid fund appear to have been liquidated in a timely manner.

## **RATING**

Moody's Investors Service has assigned the District an underlying rating of A2 and is expected to assign the Bonds the rating of "Aa3" (negative outlook), based upon issuance by AGM of its standard form of Municipal Bond Insurance Policy, as indicated on the revised cover page of the Official Statement. Such rating will reflect only the view of such rating agency and any desired explanation of the significance of such rating should be obtained from such rating agency as follows: Moody's Investor's Service, 250 Greenwich Street, Public Finance Group, 23<sup>rd</sup> Floor, New York, New York, 10007, (212) 553-4091. Generally, rating agencies base their ratings on rating investigation, studies and assumptions they have made in addition to the information and materials provided by the issuer. There is no assurance that a particular rating will apply for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any downward revision or withdrawal of such rating could have an adverse effect on the market price of the Bonds. Such rating should not be taken as a recommendation to buy or hold the Bonds.

## **BOND INSURANCE**

### **BOND INSURANCE POLICY**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **ASSURED GUARANTY MUNICIPAL CORP.**

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA+" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On June 13, 2011, S&P issued a release stating that it had affirmed the "AA+" financial strength rating of AGM, with a stable outlook. Reference is made to the release, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

On January 24, 2011, S&P published a Request for Comment: Bond Insurance Criteria (the "Bond Insurance RFC") in which it requested comments on its proposed changes to its bond insurance ratings criteria. In the Bond Insurance RFC, S&P notes that it could lower its financial strength ratings on existing investment-grade bond insurers (including AGM) by one or more rating categories if the proposed bond insurance ratings criteria are adopted, unless those bond insurers (including AGM) raise additional capital or reduce risk. Reference is made to the Bond Insurance RFC, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at [www.moodys.com](http://www.moodys.com), for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2011, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, which was filed by AGL with the SEC on May 10, 2011.

### *Capitalization of AGM*

At March 31, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$ 3,058,791,206 and its total net unearned premium reserve was approximately \$ 2,285,987,748, in each case, in accordance with statutory accounting principles.

### *Incorporation of Certain Documents by Reference*

Portions of the following document filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (which was filed by AGL with the SEC on March 1, 2011); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 (which was filed by AGL with the SEC on May 10, 2011).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "APPENDIX D - BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "APPENDIX D - BOND INSURANCE".



# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer