



**EAST MORICHES
UNION FREE SCHOOL DISTRICT**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITOR'S REPORTS**

June 30, 2014

EAST MORICHES UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
East Moriches Union Free School District
East Moriches, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the East Moriches Union Free School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the East Moriches Union Free School District, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 3 through 17 and 48 through 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Moriches Union Free School District's basic financial statements. The other supplementary information on pages 51 through 53 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the East Moriches Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the East Moriches Union Free School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

October 24, 2014

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

The East Moriches Union Free School District's discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-Wide and fund based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2014 are as follows:

- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$500,557.
- The 2014-2015 budget in the amount of \$25,876,539 was approved by the voters.
- The District's net position, as reflected in the district-wide financial statements, decreased by \$1,014,378, which reflects the impact of the net other postemployment benefit liability that the District is not permitted to fund by law.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *District-Wide Financial Statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-Wide Financial Statements.
- The *Governmental Fund Statements* tell how basic services such as instruction and support functions were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of District.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Table A-1 shows how the various parts of this annual report are arranged and relate to one another.

Table A-1: Organization of the District's Annual Financial Report

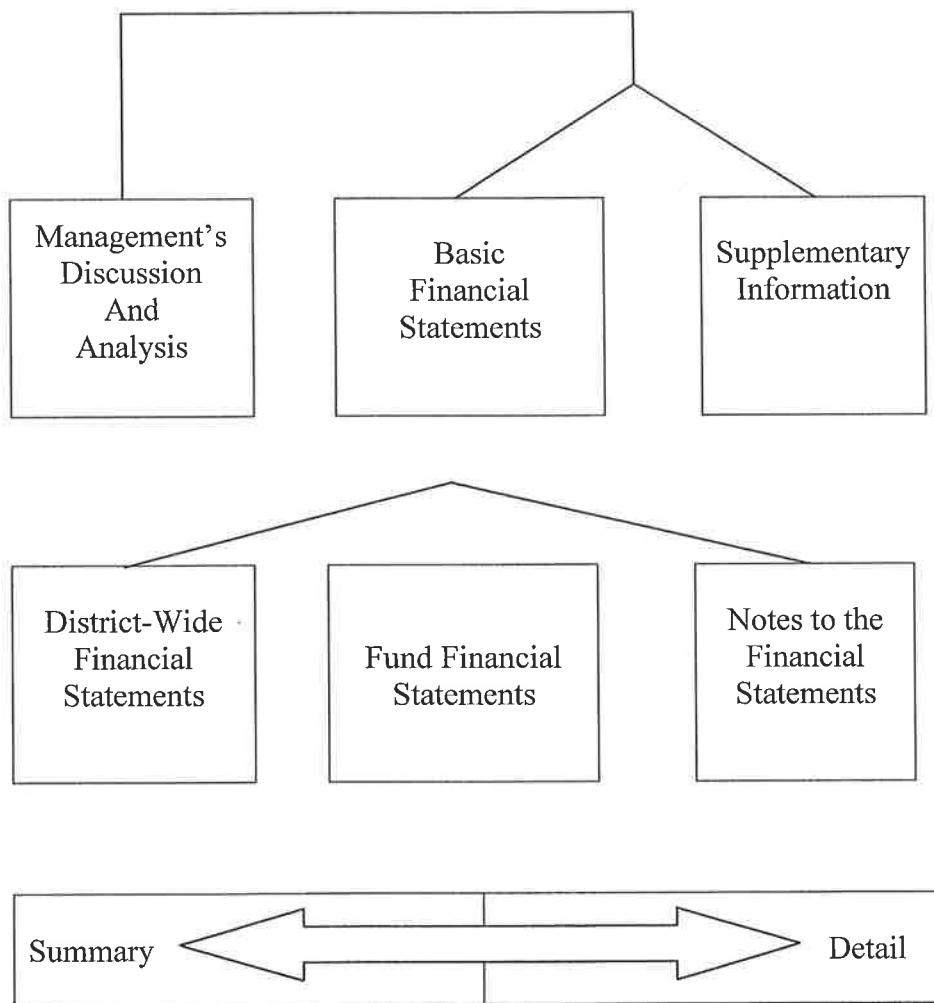


Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Table A-2: Major Features of the District-Wide and Fund Financial Statements

	District-Wide Financial Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

A. District-Wide Financial Statements

The District-Wide Financial Statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-Wide Financial Statements report the District's *net position* and how they have changed. Net position, the difference between the assets, liabilities and deferred inflows of resources, is one way to measure the financial health or position of the District.

- Over time, increases and decreases in net position are an indicator of whether the financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the District, additional non-financial factors such as changes in the District's property tax base and the condition of buildings and other facilities should be considered.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) is expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated if it does not provide or reduce current financial resources. Finally, capital assets and long-term debt are both accounted for in account groups and do not affect the fund balances.

District-Wide Financial Statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the Statement of Net Position:

- Capitalize current outlays for capital assets;
- Report long-term debt as a liability;
- Depreciate capital assets and allocate the depreciation to the proper program/activities;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting; and
- Allocate net position balances as follows:
 - *Net Position* investment in capital assets;
 - *Restricted net position* are those with constraints placed on the use by external sources (creditors, grantors, contributors or laws or regulations of governments) or approved by law through constitutional provisions or enabling legislation.
 - *Unrestricted net position* is net position that does not meet any of the above restrictions.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

B. Fund Financial Statements

The Fund Financial Statements provide more detailed information about the District's funds. Funds are accounting devices that the District uses to keep track of specific revenue sources and spending on particular programs. The funds have been established by the laws of the State of New York.

The District has two kinds of funds:

- *Governmental funds:* Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-Wide Financial Statements, reconciliations are provided to explain the relationship (or differences) between them. In summary, the government fund statements focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general fund, special aid fund, school lunch fund and capital projects fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- *Fiduciary funds:* The District is the trustee or *fiduciary* for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position decreased by \$1,014,378 between fiscal year 2014 and 2013. A summary of the District's Statements of Net Position for June 30, 2014 and 2013 is as follows:

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

	Fiscal Year 2014	Fiscal Year 2013	Increase/ (Decrease)	Total Percentage Change
Current assets and other assets	\$ 11,653,241	\$ 11,470,670	\$ 182,571	1.59%
Capital assets, net	22,127,890	22,496,963	(369,073)	-1.64%
Total Assets	<u>\$ 33,781,131</u>	<u>\$ 33,967,633</u>	<u>\$ (186,502)</u>	-0.55%
Current and other liabilities	\$ 8,517,351	\$ 8,634,739	\$ (117,388)	-1.36%
Long-term liabilities	20,427,542	21,278,337	(850,795)	-4.00%
Net OPEB obligation	7,702,565	5,930,199	1,772,366	29.89%
Total Liabilities	<u>36,647,458</u>	<u>35,843,275</u>	<u>804,183</u>	2.24%
Deferred inflows of resources	<u>38,355</u>	<u>14,662</u>	<u>23,693</u>	161.59%
Net Position				
Net investment in capital assets	3,182,360	2,857,342	325,018	11.37%
Restricted	1,014,646	741,756	272,890	36.79%
Unrestricted (deficit)	<u>(7,101,688)</u>	<u>(5,489,402)</u>	<u>(1,612,286)</u>	-29.37%
Total Net Position (Deficit)	<u>\$ (2,904,682)</u>	<u>\$ (1,890,304)</u>	<u>\$ (1,014,378)</u>	53.66%

Current and other assets increased by \$182,571, compared to the prior year. This was primarily due to an increase in the District's cash balances and accounts receivable offset by decreases in due from other governments and due from other funds.

Capital assets, net decreased by \$369,073 due to depreciation expense in excess of capital asset additions (see Note 6).

Current and other liabilities decreased by \$117,388 compared to the prior year. This decrease was primarily due to decreases in accounts payable and bond interest payable offset by increases in retainage payable and due to teachers' and employees' retirement systems.

Long-term liabilities decreased by \$850,795 compared to the prior year primarily due to a decrease in bonds payable offset by an increase in compensated absences payable.

The District's net other postemployment benefits (OPEB) obligation increased over the prior year by \$1,772,366. This increase was the result of the current year unfunded OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis ("pay-as-you-go"). Under current NYS laws, there is no provision to fund this obligation by any other means than the "pay-as-you-go" method. The accompanying notes to the financial statements, Note 11 "Postemployment (Health Insurance) Benefits" provides additional information.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

The net investment in capital assets relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, furniture & equipment and vehicles, net of depreciation and related debt. This number increased over the prior year by \$325,018 primarily due to capital additions (not financed by debt) and principal payments on debt used to finance capital additions in excess of the depreciation expense.

The restricted amount of \$1,014,646 relates to the District's restricted reserves. This balance increased from the prior year by \$272,890. The District appropriated \$280,410 of restricted reserves to fund the 2013-14 budget of which \$48,921 was not used and was returned to the restricted reserves. During 2013-14, the District funded the reserves in the amount of \$532,000. In addition, the District appropriated \$28,864 from the employee benefit accrued liability reserve to fund compensated absences payouts. The reserves earned \$1,243 in interest.

The unrestricted deficit of \$(7,101,688) relates to the balance of the District's net position. The deficit increased by \$1,612,286, primarily as a result of the increase in the net OPEB obligation.

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of these statements for the years ended June 30, 2014 and 2013 is as follows:

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)	Total Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 363,289	\$ 303,047	\$ 60,242	19.88%
Operating Grants	474,532	485,136	(10,604)	-2.19%
General Revenues				
Property Taxes & STAR	18,313,506	17,803,482	510,024	2.86%
State Sources	6,181,025	6,013,942	167,083	2.78%
Other	362,969	219,105	143,864	65.66%
Total Revenues	<u>\$ 25,695,321</u>	<u>\$ 24,824,712</u>	<u>\$ 870,609</u>	3.51%
Expenses				
General Support	\$ 2,446,374	\$ 2,149,333	\$ 297,041	13.82%
Instruction	22,167,228	21,415,824	751,404	3.51%
Pupil Transportation	1,123,425	1,283,686	(160,261)	-12.48%
Debt Service - Interest	765,676	840,149	(74,473)	-8.86%
Food Service Program	206,996	219,333	(12,337)	-5.62%
Total Expenses	<u>\$ 26,709,699</u>	<u>\$ 25,908,325</u>	<u>\$ 801,374</u>	3.09%
(Decrease) in Net Position	<u>\$ (1,014,378)</u>	<u>\$ (1,083,613)</u>	<u>\$ 69,235</u>	-6.39%

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

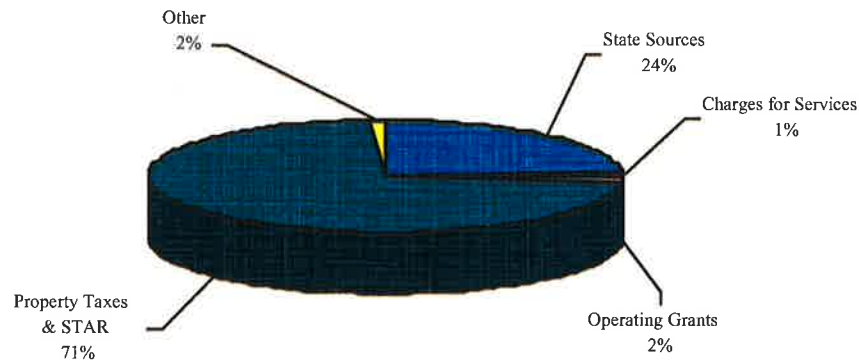
The District's net position decreased by \$1,014,378 and \$1,083,613 for the years ended June 30, 2014 and 2013, respectively.

The District's revenues increased by \$870,609 or 3.51%. Most of the increase is attributable to an increase in property taxes and STAR and state sources.

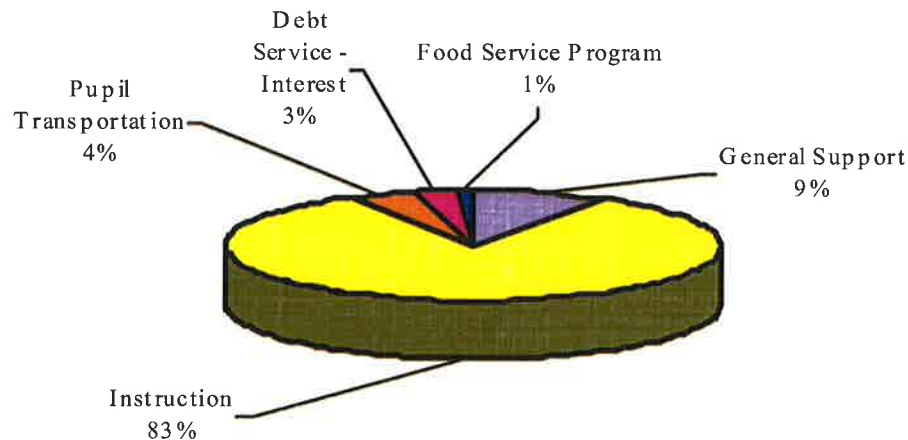
The District's expenses increased by \$801,374 or 3.09%. The increases in expenses are predominately related to general support and instruction, which were offset by decreases in pupil transportation, debt service - interest and food service. Instruction expenses increased due to increases in salaries and tuition costs. General support expenses increased primarily as a result of increased costs in central services.

As indicated in the pie charts that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 71% of the total for 2014.) Instructional expense is the largest category of expenses incurred (i.e., 83% of the total for 2014).

A graphic display of the distribution of revenues for Fiscal Year 2014 as follows:



A graphic display of the distribution of expenses for Fiscal Year 2014 as follows:



**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

C. Governmental Activities

Revenues for the District's governmental activities totaled \$25,695,321 while total expenses equaled \$26,709,699. Although total expenses exceeded total revenues, the continuation of the overall good financial condition of the District, as a whole, can be credited to:

- Continued leadership of the District's board and administration;
- Use of prudent fiscal management practices;
- Effective use of services, including Eastern Suffolk BOCES, and various cost saving initiatives;
- Improved curriculum and student services along with community support;

Table A-7 presents the cost of major District activities: instruction, general support, pupil transportation, debt service and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden borne by the District's taxpayers for each of these functions.

Table A-7: Net Cost of Governmental Activities

Category	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2013
General Support	\$2,446,374	\$2,149,333	\$2,446,374	\$2,149,333
Instruction	22,167,228	21,415,824	21,503,822	20,800,469
Pupil Transportation	1,123,425	1,283,686	1,123,425	1,283,686
Debt Service - Interest	765,676	840,149	765,676	840,149
School Lunch Program	206,996	219,333	32,581	46,505
Total	<u>\$26,709,699</u>	<u>\$25,908,325</u>	<u>\$25,871,878</u>	<u>\$25,120,142</u>

- The cost of all governmental activities this year was \$26,709,699. (Statement of Activities and Changes in Net Position Expenses column-see Exhibit 3)
- The users of the District's programs financed \$363,289 of the cost. (Statement of Activities and Changes in Net Position Charges For Services and Sales column-see Exhibit 3)
- The federal and state governments subsidized certain programs with grants of \$474,532 (Statement of Activities and Changes in Net Position Operating Grants column – see Exhibit 3)
- Most of the District's net costs of \$25,871,878 were financed by District taxpayers and state and federal aid. (Statements of Activities and Changes in Net Position Net (Expense) Revenue and Changes in Net Position column-see Exhibit 3)

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2014, the District's governmental funds reported a combined fund balance of \$3,386,978, which is an increase of \$236,041 from the prior year. A summary of the change in fund balance by fund is as follows:

	Fiscal Year 2014	Fiscal Year 2013	Changes
General Fund			
Restricted for employee benefits accrued liability	\$ 438,581	\$ 234,853	\$ 203,728
Restricted for retirement contribution	411,220	325,970	85,250
Restricted for unemployment insurance	78,095	94,432	(16,337)
Restricted for workers' compensation	86,750	86,501	249
Assigned-appropriated for subsequent year's expenditures	275,000	225,000	50,000
Assigned-general support	38,809	170,918	(132,109)
Assigned-instruction	27,269	3,506	23,763
Unassigned	1,035,059	749,046	286,013
	<u>2,390,783</u>	<u>1,890,226</u>	<u>500,557</u>
School Lunch Fund			
Nonspendable	2,428	2,354	74
Assigned		8,503	(8,503)
	<u>2,428</u>	<u>10,857</u>	<u>(8,429)</u>
Capital Projects Fund			
Assigned	993,767	1,249,854	(256,087)
	<u>993,767</u>	<u>1,249,854</u>	<u>(256,087)</u>
Total Fund Balance	<u>\$ 3,386,978</u>	<u>\$ 3,150,937</u>	<u>\$ 236,041</u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$500,557, compared to a decrease of \$794,209 in fiscal 2013, as revenues exceeded expenditures on the modified accrual basis of accounting. When compared to the prior year, revenues increased by approximately \$895,000 and expenditures decreased by approximately \$399,000. The increase in revenues was primarily due to an increase in real property taxes, which increased approximately \$449,000 and state aid, which increased approximately \$186,000. The decrease in expenditures was primarily due to a decrease of approximately \$1,100,000 in interfund transfers to other funds, a decrease of \$134,000 in pupil transportation and a decrease of \$10,000 in debt service offset by increases in general support of \$221,000, instruction of \$231,000, and employee benefits of \$393,000.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

B. School Lunch Fund

The net change in the school lunch fund – fund balance is a decrease of \$8,429, which was the operating loss of the school lunch fund. This operating loss was minimized by a \$17,178 transfer from the general fund.

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$256,087. The decrease is the result of the capital outlay on the masonry reconstruction projects and middle school renovations.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2013-2014 Adopted Budget

The District's adopted General Fund budget for the year ended June 30, 2014 was \$25,474,921. This amount was increased by encumbrances carried forward from the prior year in the amount of \$174,424 and budget revisions of \$28,864, which resulted in a final budget of \$25,678,209. The majority of the funding was estimated to come from property taxes and STAR revenue of \$18,313,506.

B. Change in General Fund's Unassigned Fund Balance (Budget to Actual)

The general fund's unassigned fund balance is a component to total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves and appropriations to fund subsequent years' budgets. It is this balance that is commonly referred to as "Fund Balance".

The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget is as follows:

Opening, Unassigned Fund Balance	\$ 749,046
Revenues Over Budget	108,203
Expenditures and Encumbrances Under Budget	1,034,974
Change in Restricted Reserves	(580,921)
Interest earned in Restricted Reserves	(1,243)
Appropriated to fund the June 30, 2015 Budget	(275,000)
Closing, Unassigned Fund Balance	<u>\$ 1,035,059</u>

Opening, Unassigned Fund Balance

The opening, unassigned fund balance represents the fund balance retained by the District as of June 30, 2013 that was not restricted or assigned for subsequent year's taxes. The unassigned fund balance equaled 2.94% of the 2013-14 budget and was below the 4% statutory maximum, according to New York State Real Property Tax Law.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Revenues Over budget

The 2013-2014 final budget for revenues was \$24,969,511. Actual revenues received for the year were \$25,077,714. The excess of actual revenue to estimated revenue was \$108,203.

Expenditures and Encumbrances Under Budget

The 2013-2014 final budget for expenditures was \$25,678,209. Actual expenditures for the year were \$24,577,157 and outstanding encumbrances were \$66,078 at June 30, 2014. Combined, the expenditures plus encumbrances for 2013-14 were \$24,643,235. The final budget was under expended by \$1,034,974. The expenditures and encumbrances under budget were primarily in general support, instruction and pupil transportation codes within the budget.

Change in Restricted Reserves

Monies transferred from budget lines within the general fund operating budget into required reserves do not affect the combined reserved, assigned, and unassigned fund balance unless, and until these monies are actually expended. The transfers do, however, reduce the District's discretion regarding the use of these transferred monies, and thus, reduce the unassigned portion of the fund balance by the amount of the transfers.

The \$(580,921) shown in the previous table consists of the funding of reserves in the amount of \$532,000 and \$48,921 of unused appropriated reserves that was returned to the reserves for future use.

Interest Earned in Restricted Reserves

Revenues such as interest earned in a general fund reserve increase the reserve and, therefore, decrease the unassigned portion of the general fund-fund balance.

The reserves earned interest as follows:

Unemployment insurance	\$ 128
Retirement contribution	275
Workers' compensation	248
Employee benefits accrued liabilities	592
	<u>\$1,243</u>

Appropriated Fund Balance

The District has chosen to use \$275,000 of available fund balance to partially fund the approved budget for the year ending June 30, 2015.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the table, the District will begin the 2014-2015 fiscal year with an unassigned fund balance of \$1,035,059. This amount is 4.00% of the 2014-2015 adopted budget.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2014, the District had invested in a broad range of capital assets, including land; construction in progress; buildings and building improvements; furniture and equipment; and vehicles. The decrease in capital assets is due to depreciation expense in excess of capital additions recorded for the year ended June 30, 2014. A summary of the District's capital assets, net of depreciation at June 30, 2014 and 2013 are as follows:

Category	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)
Land	\$ 265,000	\$ 265,000	-
Construction in Progress	90,252	306,786	(216,534)
Buildings & Building Improvements	27,868,125	27,395,504	472,621
Furniture & Equipment	785,397	870,346	(84,949)
Vehicles	18,000	18,000	-
Subtotal	29,026,774	28,855,636	171,138
Less: Accumulated Depreciation	6,898,884	6,358,673	540,211
Total Net Capital Assets	<u>\$ 22,127,890</u>	<u>\$ 22,496,963</u>	<u>\$ (369,073)</u>

B. Debt Administration

At June 30, 2014, the District had total bonds payable of \$19,145,000. The July 2003 bonds were issued for the renovation of an existing school building and the construction of a new elementary school building. The June 2007 bonds were issued to finance the June 30, 2006 deficit in the general fund pursuant to Chapter 354 of the Laws of 2006 of the State of New York. On March 2, 2012, the District issued \$13,120,000 in serial bonds with an interest rate of 2.00 – 5.00% to advance refund \$13,765,000 of outstanding serial bonds. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$881,000. The net decrease in outstanding debt represents principal payments made during the current year and the refunding transaction.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

A summary of the outstanding debt at June 30, 2014 and 2013 is as follows:

Issue Date	Interest Rate	2014	2013	Increase (Decrease)
July 2, 2003	4.0-5.0%	\$ 5,490,000	\$ 5,490,000	\$ -
June 15, 2007	3.75-4.375%	750,000	980,000	(230,000)
July 1, 2011	4.0-4.75%	460,000	485,000	(25,000)
January 10, 2012	2.0-5.0%	12,445,000	13,075,000	(630,000)
		<u>\$ 19,145,000</u>	<u>\$ 20,030,000</u>	<u>\$ (885,000)</u>

Additionally, the District carries a deferred financing premium of \$550,530, as a result of the refunding.

The District's latest municipal bond rating from Standard and Poor's is A+ with a stable outlook.

The District's total outstanding indebtedness of \$19,145,000 is 24% of its debt limit of \$78,650,011.

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

The General Fund budget for the 2014-2015 school year in the amount of \$25,876,539 was approved by the voters. This is an increase of \$401,618 or 1.58% over the previous year's budget. The increase was primarily due to increases in instructional costs and general support services.

The assigned appropriated fund balance applied to June 30, 2015 budget was \$275,000, which is an increase of \$50,000 from the prior year. Additionally, the District expects to appropriate \$201,381 from the retirement contribution reserve and \$50,000 from the unemployment insurance reserve to fund the budget and reduce taxes for the year ending June 30, 2015.

Future budgets may be negatively affected by certain trends impacting school districts. These factors include rising retirement system rates, rising health care premiums, lower state aid, and the enactment of the Real Property Tax Levy Limit ("Tax Cap") Law by New York State.

The NYS Legislature approved a property tax cap beginning in the 2012-2013 school year. This law limits tax levy growth to the lesser of two percent or the annual increase in the CPI. Limited exemptions to exceed the levy cap are provided for taxes needed to pay for voter-approved capital expenditures, pension rate increases, court orders and torts over five percent of the prior year's levy. If the tax levy proposed to the voters is within the district's tax levy cap, then a majority vote would be required for approval. If the proposed tax levy exceeds the district's tax levy cap, the threshold required for approval would be 60 percent of the vote. A school district that does not levy an amount up to the cap in any one year would be allowed to carry over unused tax levy capacity into the next fiscal year. The District's adopted 2014-2015 tax levy complies with the tax levy limit, which was an increase of 1.49% over the 2013-2014 tax levy, and was adjusted for the TRS pension contribution, a PILOT and the capital tax levy exclusion, net of State building aid.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

8. CONTACTING THE DISTRICT

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

Dr. Charles Russo
Superintendent of Schools
East Moriches Union Free School District
Administrative Office
9 Adelaide Avenue
East Moriches, New York 11940

EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF NET POSITION-GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

ASSETS

Cash	
Unrestricted	\$ 8,959,663
Restricted	1,014,646
Receivables	
Accounts receivable	5,085
Due from other governments	1,615,586
Due from other funds	55,833
Inventories	2,428
Capital assets, net	
Capital assets not being depreciated	355,252
Capital assets being depreciated, net of accumulated depreciation	<u>21,772,638</u>
TOTAL ASSETS	<u>33,781,131</u>

LIABILITIES

Payables	
Accounts payable	1,027,668
Retainage payable	21,998
Bond interest payable	368,057
Tax anticipation notes payable	6,000,000
Due to other governments	10
Due to teachers' retirement system	1,036,082
Due to employees' retirement system	63,536
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	949,091
Due and payable after one year	
Bonds payable, net	18,746,439
Compensated absences payable	732,012
Net OPEB obligation	<u>7,702,565</u>
TOTAL LIABILITIES	<u>36,647,458</u>

DEFERRED INFLOWS OF RESOURCES

Deferred revenues	<u>38,355</u>
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NET POSITION

Net Investment in Capital Assets	<u>3,182,360</u>
Restricted	
Employee benefit accrued liability	438,581
Retirement contribution	411,220
Unemployment insurance	78,095
Workers' compensation	<u>86,750</u>
	<u>1,014,646</u>
Unrestricted (deficit)	<u>(7,101,688)</u>
TOTAL NET POSITION (DEFICIT)	<u><u>\$ (2,904,682)</u></u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

		Program Revenues		Net (Expense)
	Expenses	Charges for	Operating	Revenue and
		Services	Grants	Changes in
FUNCTIONS / PROGRAMS				Net Position
General support	\$ (2,446,374)	\$ -	\$ -	\$ (2,446,374)
Instruction	(22,167,228)	250,061	413,345	(21,503,822)
Pupil transportation	(1,123,425)			(1,123,425)
Debt service - interest	(765,676)			(765,676)
Food Service program	(206,996)	113,228	61,187	(32,581)
TOTAL FUNCTIONS AND PROGRAMS	\$ (26,709,699)	\$ 363,289	\$ 474,532	(25,871,878)
GENERAL REVENUES				
Real property taxes				16,321,375
Other tax items				2,034,947
Use of money & property				56,587
Sale of property and compensation for loss				17,643
Miscellaneous				240,780
State sources				6,181,025
Federal sources				5,143
TOTAL GENERAL REVENUES				24,857,500
CHANGE IN NET POSITION				(1,014,378)
TOTAL NET POSITION (DEFICIT) - BEGINNING OF YEAR				(1,890,304)
TOTAL NET POSITION (DEFICIT) - END OF YEAR				\$ (2,904,682)

EAST MORICHES UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 8,943,800	\$ 6,240	\$ 9,623	\$ -	\$ 8,959,663
Restricted	1,014,646				1,014,646
Receivables					
Accounts receivable	5,085				5,085
Due from other governments	1,116,259	494,244	5,083		1,615,586
Due from other funds	548,733			1,015,765	1,564,498
Inventories			2,428		2,428
TOTAL ASSETS	\$ 11,628,523	\$ 500,484	\$ 17,134	\$ 1,015,765	\$ 13,161,906
LIABILITIES					
Payables					
Accounts payable	\$ 1,005,388	\$ 10,605	\$ 11,675	\$ -	\$ 1,027,668
Retainage payable				21,998	21,998
Tax anticipation notes payable	6,000,000				6,000,000
Due to other governments			10		10
Due to other funds	1,015,765	489,879	3,021		1,508,665
Due to teachers' retirement system	1,036,082				1,036,082
Due to employees' retirement system	63,536				63,536
TOTAL LIABILITIES	9,120,771	500,484	14,706	21,998	9,657,959
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue	116,969				116,969
FUND BALANCES					
Nonspendable					
Restricted			2,428		2,428
Employee benefit accrued liability	438,581				438,581
Retirement contribution	411,220				411,220
Unemployment insurance	78,095				78,095
Workers' compensation	86,750				86,750
Assigned					
Appropriated fund balance	275,000				275,000
Unappropriated fund balance	66,078			993,767	1,059,845
Unassigned	1,035,059				1,035,059
TOTAL FUND BALANCES	2,390,783	-	2,428	993,767	3,386,978
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 11,628,523	\$ 500,484	\$ 17,134	\$ 1,015,765	\$ 13,161,906

**EAST MORICHES UNION FREE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Governmental Fund Balances	\$ 3,386,978
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Original cost of the capital assets	29,026,774
Accumulated depreciation	(6,898,884)
	22,127,890

Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities

Deferred financing premium	(550,530)
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Deferred Revenue - The Statement of Net Position recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual method.	78,614
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Accrued interest on bonds payable	(368,057)
Bonds payable	(19,145,000)
Compensated absences payable	(732,012)
Net OPEB obligation	(7,702,565)
	(27,947,634)

Total Net Position (Deficit)	\$(2,904,682)
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EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$16,321,375	\$ -	\$ -	\$ -	\$ 16,321,375
Other tax items	2,034,947				2,034,947
Charges for services	250,061				250,061
Use of money and property	56,532		55		56,587
Sale of property and compensation for loss	17,643				17,643
Miscellaneous	240,780				240,780
State sources	6,151,233	211,082	2,666		6,364,981
Federal sources	5,143	202,263	45,701		253,107
Surplus food			12,820		12,820
Sales			113,228		113,228
TOTAL REVENUES	25,077,714	413,345	174,470	-	25,665,529
EXPENDITURES					
General support	1,871,747				1,871,747
Instruction	16,589,791	421,116			17,010,907
Pupil transportation	1,085,851	37,574			1,123,425
Employee benefits	3,267,045				3,267,045
Debt service - principal	885,000				885,000
Debt service - interest	815,200		200,077		815,200
Cost of sales					200,077
Capital outlay				256,087	256,087
TOTAL EXPENDITURES	24,514,634	458,690	200,077	256,087	25,429,488
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	563,080	(45,345)	(25,607)	(256,087)	236,041
OTHER FINANCING SOURCES AND USES					
Operating transfers in		45,345	17,178		62,523
Operating transfers (out)	(62,523)				(62,523)
TOTAL OTHER SOURCES (USES)	(62,523)	45,345	17,178	-	-
NET CHANGE IN FUND BALANCES	500,557	-	(8,429)	(256,087)	236,041
FUND BALANCES - BEGINNING OF YEAR	1,890,226	-	10,857	1,249,854	3,150,937
FUND BALANCES - END OF YEAR	\$ 2,390,783	\$ -	\$ 2,428	\$ 993,767	\$ 3,386,978

**EAST MORICHES UNION FREE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances	<u>\$ 236,041</u>
Amounts reported for governmental activities in the Statement of Activities are different because:	
<u>Long-Term Revenue and Expense Differences</u>	
In the Statement of Activities, certain operating expenses do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds.	
Increase in the compensated absence liability	(73,296)
Increase in the net OPEB Obligation	<u>(1,772,366)</u>
	<u>(1,845,662)</u>
Potential revenues that do not meet both the measurable and available criteria for recognition in the current year are reported as deferred revenues in the Governmental Funds, but are recognized as current revenues in the Statement of Activities.	<u>29,792</u>
<u>Capital Related Differences</u>	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expense in the Statement of Activities. This is the amount by which depreciation exceeded capital outlays for the period	
Capital outlay	276,641
Disposals	(363)
Depreciation expense	<u>(645,351)</u>
	<u>(369,073)</u>
<u>Long-Term Debt Transaction Differences</u>	
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	<u>885,000</u>
Amortization of deferred financing premium, net	<u>39,091</u>
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2013 to June 30, 2014.	<u>10,433</u>
Change in Net Position of Governmental Activities	<u><u>\$(1,014,378)</u></u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
ASSETS		
Cash	\$ 111,132	\$ 1,328
TOTAL ASSETS	<u>\$ 111,132</u>	<u>\$ 1,328</u>
LIABILITIES		
Due to other funds	\$ 55,833	\$ -
Other liabilities	55,299	
TOTAL LIABILITIES	<u>\$ 111,132</u>	<u>\$ -</u>
NET POSITION		
Restricted for scholarships		\$ 1,328
TOTAL LIABILITIES AND NET POSITION		<u>\$ 1,328</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	\$ -
Interest and earnings	-
TOTAL ADDITIONS	<u>-</u>
DEDUCTIONS	
Scholarships and awards	<u>50</u>
TOTAL DEDUCTIONS	<u>50</u>
CHANGE IN NET POSITION	(50)
NET POSITION - BEGINNING OF YEAR	<u>1,378</u>
NET POSITION - END OF YEAR	<u><u>\$ 1,328</u></u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The financial statements of East Moriches Union Free School District (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies utilized by the District are described as follows:

A) Reporting Entity

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

The financial reporting entity is based on criteria set forth by GASB. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District’s reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no other entities which would be included in the District’s reporting entity as a component unit.

B) Joint Venture

The District is a component district in the Board of Cooperative Educational Services of Eastern Suffolk, (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs, which provides educational and support activities. BOCES are organized under Section §1950 of the New York State Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section §119-n (a) of the General Municipal Law. A BOCES’ budget is comprised of separate budgets for administrative, program and capital costs. Each component district’s share of administrative and capital cost is determined by resident public school district enrollment, as defined in the Education Law, Section §1950(4)(b)(7). There is no authority or process

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

by which a school district can terminate its status as a BOCES component. In addition, component districts pay tuition or a service fee for programs in which its students participate.

During the year ended June 30, 2014, the District was billed \$1,404,060 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$184,087. Financial statements for the BOCES are available from the BOCES administrative office at 201 Sunrise Highway, Patchogue, New York 11772.

C) Basis of Presentation

i) District-Wide Financial Statements

The Statement of Net Position and the Statement of Activities present financial information about the overall financial activities of the District, except for fiduciary activities. Eliminations have been made to minimize the double counting of interfund transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The Statement of Net Position presents the financial position of the District at fiscal year end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Employee benefits are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, grants, contributions and other revenues that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including real property taxes and state aid, are presented as general revenues.

ii) Fund Financial Statements

The Fund Financial Statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category, governmental and fiduciary, are presented. The emphasis of fund financial statements is on major governmental funds as defined by GASB, each displayed in a separate column. The District financial statements reflect the following major fund categories:

Governmental Funds:

General Fund - is the general operating fund and is used to account for all financial transaction except those required to be accounted for in another fund.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

Special Aid Fund - is used to account for the proceeds of specific revenue sources, such as Federal and State grants, that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

School Lunch Fund - is used to account for the activities of the school lunch operations.

Capital Project Funds - is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

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

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

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

D) Basis of Accounting and Measurement Focus

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

The fund financial statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences and other

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

postemployment benefits which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

E) Real Property Taxes

Calendar

Real property taxes are levied annually by the Board of Education no later than November 1st and become a lien on December 1st. Taxes are collected by the Town of Brookhaven and remitted to the District from December to June.

Enforcement

Uncollected real property taxes are subsequently enforced by Suffolk County in June.

F) Restricted Resources

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

G) Interfund Transactions

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfers in and transfers out to provide financing or other services. This includes the transfer of unrestricted general fund revenues to finance various programs that the District must account for in other funds in accordance with budgetary authorizations.

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

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

A detailed disclosure by individual fund for interfund receivables, payables, transfers in and transfers out activity is provided subsequently in these Notes to Financial Statements.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

H) Use of Estimates

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

I) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and investments with a maturity date of three months or less from date of acquisition.

J) Receivables

Receivables are shown net of an allowance for uncollectibles, if any. However, no allowance for uncollectibles has been provided since it is believed that such allowance would not be material.

K) Inventories

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food donated by the U. S. Department of Agriculture, at the Government's assigned value, which approximates market. These inventories are accounted for on the consumption method.

Purchases of inventorable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

A portion of fund balance has been classified as nonspendable to indicate that inventories do not constitute available spendable resources.

L) Restricted Assets:

Certain cash balances are restricted by various legal and contractual obligations, such as legal and debt agreements.

M) Capital Assets

Capital assets are reflected in the district-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at estimated fair market value at the date of donation.

All capital assets, except land and construction in progress, are depreciated on a straight line basis over their estimated useful lives. Capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts, and estimated useful lives of capital assets as reported in the district-wide statements are as follows:

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 15,000	30 - 50 years
Furniture and equipment	500	5-20 years
Vehicles	500	5-20 years

N) Deferred Inflows - Deferred Revenues

Deferred revenues are reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. These amounts are recorded as deferred inflows of resources. In subsequent periods, when the availability criterion is met, deferred revenues are reclassified as revenues. In the District-wide financial statements, deferred revenues are generally treated as revenues.

O) Vested Employee Benefits - Compensated Absences

Compensated absences consist of unpaid accumulated annual sick leave and vacation time.

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave. Certain collectively bargained agreements require these termination payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the fund financial statements only the amount of matured liabilities is accrued within the general fund based upon expendable and available financial resources.

P) Other Benefits

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

District employees may choose to participate in the District's elective deferred compensation plans established under Internal Revenue Code Sections 403(b) and 457.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if District employees are eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District accounts for these postemployment benefits in accordance with GASB Statement No. 45 (GASB 45) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB). The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the general fund, in the year paid. In the district-wide statements, post-employment costs are measured and disclosed using the accrual basis of accounting.

Q) Short-Term Debt

The District may issue Tax Anticipation Notes (TAN) and Revenue Anticipation Notes (RAN), 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 TANs and RANs represent a liability that will be extinguished by the use of expendable, available resources of the fund.

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

R) Accrued Liabilities and Long-Term Obligations

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

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due and payable within one year or due and payable after one year in the Statement of Net Position.

S) Equity Classifications

District-Wide Financial Statements

In the district-wide financial statements, the District is permitted to use three classes of net position:

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

Net investment in capital assets consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets.

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

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

Fund Financial Statements

The fund statements report fund balance classifications according to the relative strength of spending constraints placed on the purpose for which resources can be used as follows:

- 1) **Non-Spendable Fund Balance** - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the school lunch fund of \$2,428.
- 2) **Restricted Fund Balance** - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Currently, New York State laws still use the terminology “reserves” and districts are allowed to use reserves authorized by law. The District has classified the following reserves as restricted:

General Fund

Employee Benefit Accrued Liability	\$ 438,581
Retirement contribution	411,220
Unemployment insurance	78,095
Workers' Compensation	86,750
	<u>\$ 1,014,646</u>

Employee Benefit Accrued Liability Reserve

According to General Municipal Law §6-p, is used to reserve funds for the payment of accrued employee benefits due to an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Retirement Contribution Reserve

According to General Municipal Law §6-r, is used for the purpose of financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the Board.

Unemployment Insurance Reserve

According to General Municipal Law §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.

Workers' Compensation Reserve

According to General Municipal Law §6-j, is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within 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.

Restricted Reserves for Subsequent Year's Budget

The District expects to appropriate the following amounts from reserves, which are reported in the June 30, 2014 restricted fund balances, to fund the budget and reduce taxes for the year ending June 30, 2015:

Retirement contribution	\$ 201,381
Unemployment insurance	50,000
	<u>\$ 251,381</u>

- 3) **Committed Fund Balance** - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the school district's highest level of decision making authority, (i.e., the Board of Education). The District has no committed fund balances as of June 30, 2014.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

- 4) **Assigned Fund Balance**- Includes amounts that are constrained by the school district's intent to be used for specific purposes, but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District management through Board policies.

The District has established a fund balance policy that allows the Board of Education or its designated official to set forth the fund balance that is assigned. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The District has classified the following as assigned:

<u>Assigned for:</u>	<u>General</u>	<u>Capital</u>	<u>Total</u>
Designated for subsequent year's expenditures	\$ 275,000	\$ -	\$ 275,000
General support	38,809		38,809
Instruction	27,269		27,269
Capital		993,767	993,767
Total	<u>\$ 341,078</u>	<u>\$ 993,767</u>	<u>\$ 1,334,845</u>

Designated for Subsequent Year's Expenditures

The amount of \$275,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2015.

Encumbrances

Encumbrances have been assigned based upon the District's intent to be used for a specific purpose such as general support, instruction and capital projects. See Note 3 for further detail regarding accountability and Note 14 for further detail regarding significant encumbrances.

5) **Unassigned Fund Balance**

Unassigned – represents the residual classification for the District's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

NYS Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the District's budget for the general fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances included in the assigned fund balance are also excluded from the 4% limitation.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

Order of Use of Fund Balance:

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves) the Board will assess the current financial condition of the District and then determine the order of application of expenditures to which the fund balance classification will be charged.

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

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

(A) Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities

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

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

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

(i) Long-Term Revenue and Expense Differences

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

(ii) Capital Related Differences

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

(iii) Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because the issuance of long-term debt provides current financial resources to governmental funds, but is recorded as a liability in the Statement of Net Position. In addition, both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the general fund, the only fund with a legally adopted budget.

The voters of the District approved the proposed appropriation budget for the general fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by 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) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

The following supplemental appropriations occurred during the year:

Budget Revisions:	Fiscal Year 2014
Compensated absences payouts funded by the employee benefit accrued liability reserve	\$ 28,864
	<u>\$ 28,864</u>

Budgets are adopted annually on a basis consistent with GAAP.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

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

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 assigned, unappropriated fund balance, unless classified as restricted or committed 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.

Over Expenditures of Certain Appropriations

Certain general fund appropriations were over expended in the general support and other financing uses categories. The general fund budget in total was not over expended.

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The District's investment policies are governed by state statutes and District policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC 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.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

- Uncollateralized;
- Collateralized by securities held by the pledging financial institution; or
- Collateralized by securities held by the pledging financial institution's trust department or agent, but not in the District's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year-end.

The District did not have any investments at year-end or during the year. Consequently, the District was not exposed to any material interest rate risk or foreign currency risk.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 5 – DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2014 consisted of:

General Fund	
New York State Aid - General Aid	\$ 63,736
New York State Aid - Excess Cost Aid	120,324
New York State Aid - Tuition Chapter 47	626,166
BOCES Aid	202,711
New York State Aid - Homeless	78,614
Tuition - Charges for Services	24,708
	<u>1,116,259</u>
Special Aid Fund	
Federal and State Grants	494,244
School Lunch Fund	
Federal and State Food Service Program Reimbursements	<u>5,083</u>
	<u><u>\$ 1,615,586</u></u>

NOTE 6 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2014 were as follows:

	Balance June 30, 2013	Additions	Reductions/ Reclassifications	Balance June 30, 2014
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 265,000	\$ -	\$ -	\$ 265,000
Construction in Progress	306,786	90,252	(306,786)	90,252
Total capital assets not being depreciated	<u>571,786</u>	<u>90,252</u>	<u>(306,786)</u>	<u>355,252</u>
Capital assets that are depreciated:				
Building and Improvements	27,395,504	165,835	306,786	27,868,125
Furniture and equipment	870,346	20,554	(105,503)	785,397
Vehicles	18,000			18,000
Total capital assets being depreciated	<u>28,283,850</u>	<u>186,389</u>	<u>201,283</u>	<u>28,671,522</u>
Less accumulated depreciation for:				
Building and Improvements	5,748,595	587,074		6,335,669
Furniture and equipment	592,078	58,277	(105,140)	545,215
Vehicles	18,000			18,000
Total accumulated depreciation	<u>6,358,673</u>	<u>645,351</u>	<u>(105,140)</u>	<u>6,898,884</u>
Capital assets, net	<u><u>\$ 22,496,963</u></u>	<u><u>\$ (368,710)</u></u>	<u><u>\$ (363)</u></u>	<u><u>\$ 22,127,890</u></u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

Depreciation expense was charged to governmental functions as follows:

General support	\$ 64,728
Instruction	573,703
School lunch program	6,920
	<u>\$ 645,351</u>

NOTE 7 – INTERFUND TRANSACTIONS

	Interfund		Interfund	
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 548,733	\$ 1,015,765	\$ -	\$ 62,523
Special Aid Fund		489,879	45,345	
School Lunch Fund		3,021	17,178	
Capital Projects Fund	1,015,765			
Total government activities	1,564,498	1,508,665	62,523	62,523
Fiduciary Agency Funds		55,833		
Totals	<u>\$ 1,564,498</u>	<u>\$ 1,564,498</u>	<u>\$ 62,523</u>	<u>\$ 62,523</u>

The District typically transfers from the general fund to the special aid fund for the District's share of the costs for the summer program for students with disabilities. The transfer to the school lunch fund was made to fund the operating deficit.

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

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

NOTE 8 - SHORT-TERM DEBT

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

	Maturity	Interest Rate (Effective)	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	6/19/2014	0.47%	\$ 3,000,000	\$ -	\$ 3,000,000	\$ -
TAN	6/19/2014	0.5135%	3,000,000		3,000,000	-
TAN	6/19/2015	0.3565%	-	6,000,000	-	6,000,000
Total			<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>

The District received \$37,860 in premiums on the TAN. This amount is deferred in both the fund financial statements, as well as the district-wide financial statements.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

Interest expense on short-term debt for the year ended June 30, 2014 was \$28,932, which is net of a premium of \$14,310 received from the 2013-14 TAN issuances.

NOTE 9 – LONG-TERM DEBT OBLIGATIONS

The following tables summarize the balances and activity, excluding other postemployment benefits, in long-term liabilities for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Long-term liabilities:					
Bonds payable	\$ 20,030,000	\$ -	\$ 885,000	\$ 19,145,000	\$ 910,000
Deferred financing premium	589,621	-	39,091	550,530	39,091
Bonds payable, net	20,619,621	-	924,091	19,695,530	949,091
Other long-term liabilities:					
Compensated absences	658,716	73,296	-	732,012	-
	<u>\$ 21,278,337</u>	<u>\$ 73,296</u>	<u>\$ 924,091</u>	<u>\$ 20,427,542</u>	<u>\$ 949,091</u>

The General Fund has typically been used to liquidate long-term liabilities.

Bonds payable are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Serial bonds - construction	7/2/2003	7/1/2033	4.0-5.0%	\$ 5,490,000
Serial bonds - deficit	6/15/2007	6/15/2017	3.75-4.375%	750,000
Serial bonds - EXCEL	7/1/2011	7/1/2026	4.0-4.75%	460,000
Serial bonds - advance refunding	1/10/2012	7/1/2028	2.0-5.0%	12,445,000
				<u>\$ 19,145,000</u>

The following is a summary of debt service requirements for bonds payable:

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	\$ 910,000	\$ 755,955	\$ 1,665,955
2016	940,000	727,981	1,667,981
2017	960,000	699,136	1,659,136
2018	720,000	666,124	1,386,124
2019	745,000	643,812	1,388,812
2020-2024	4,175,000	2,801,965	6,976,965
2025-2029	5,205,000	1,753,778	6,958,778
2030-2034	5,490,000	528,084	6,018,084
	<u>\$ 19,145,000</u>	<u>\$ 8,576,835</u>	<u>\$ 27,721,835</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

The deferred financing premium is amortized on the straight-line method over the life of the refunded bonds.

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

	<u>Total</u>
Interest paid	\$786,268
Less interest accrued in the prior year	(378,490)
Plus interest accrued in the current year	368,057
Less deferred amounts on financing	(39,091)
Total expense	<u>\$736,744</u>

NOTE 10 – PENSION PLANS

General Information:

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

Provisions and Administration:

Teachers' Retirement System

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

Employees' Retirement System

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Funding Policies:

The Systems are noncontributory, except for employees who joined the Systems after July 27, 1976 and before January 1, 2010, who contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined on or after January 1, 2010 and before April 1, 2012, employees in NYSERS contribute 3% of their salary throughout their active membership and those in NYSTRS contribute 3.5% throughout their active membership. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. For NYSTRS, employers are required to contribute at an actuarially determined rate, currently 16.25% of the annual covered payroll for the fiscal year ended June 30, 2014. Rates applicable to the fiscal years ended June 30, 2013 and 2012 were respectively, 11.84% and 11.11%. During the fiscal year ended June 30, 2014 (Final Billing Date November 1, 2012), the required contributions paid to the system were \$992,912. This represents 100% of the contributions due. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually, which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

The District is required to contribute at an actuarially determined rate. The District contributions made to the Systems were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

Year	ERS	TRS
2013 - 2014	\$ 215,025	\$ 992,912
2012 - 2013	179,362	686,858
2011 - 2012	145,906	611,703

Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the employees for the year ended June 30, 2014 totaled \$348,742.

Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with the Internal Revenue Code §457 for all employees. The District makes no contributions into this plan. The amount deferred by eligible employees for the year ended June 30, 2014 totaled \$44,568.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 11 – POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS

Plan Description

The District provides primarily postemployment health insurance coverage (the Healthcare Plan) to retired employees and their spouses in accordance with the provisions of various employment contracts. The Healthcare Plan is a single-employer defined benefit healthcare plan. Benefits are provided through the New York State Health Insurance Program Empire Plan. The Plan does not issue a stand-alone financial report.

Funding Policy

The District assumes a portion of the premium costs and recognizes the cost of the healthcare plan annually as an expenditure in the general fund of the fund financial statements as payments are made. For the year ended June 30, 2014, the District recognized a general fund expenditure of \$549,889 for insurance premiums for 53 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the “pay as you go” method.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District net OPEB obligation to the plan:

	For the Year Ended June 30, 2014
Annual OPEB Cost and Net OPEB Obligation	
Annual required contribution	\$ 2,227,931
Interest on net OPEB obligation	230,198
Adjustment to Annual Required Contribution	(135,874)
Annual OPEB cost (expense)	2,322,255
Contributions made	(549,889)
Increase in net OPEB obligation	1,772,366
Net OPEB obligation-beginning of year	5,930,199
Net OPEB obligation-end of year	<u>\$ 7,702,565</u>

The District’s annual OPEB cost, OPEB contributions, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for June 30, 2014, and the two preceding years are as follows:

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>OPEB Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 2,029,122	\$ 571,292	28%	\$ 4,328,780
6/30/13	2,113,973	512,554	24%	5,930,199
6/30/14	2,322,255	549,889	24%	7,702,565

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$21,336,215 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$21,336,215. The covered payroll (annual payroll of active employees covered by the plan) was \$6,804,616, and the ratio of the UAAL to the covered payroll was 313.56%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2013 actuarial valuation prepared by an outside actuarial firm, the projected unit credit actuarial cost method was used to value the actuarial accrued liability and normal cost. The actuarial assumptions included a 3.75% investment rate of return and the healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5% after years 2014-15. The UAAL is being amortized using the level dollar amortization method over a period of 30 years.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 12 – RISK MANAGEMENT

General Information

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

Public Entity Risk Pool – Risk Sharing

The District participates in New York Schools Insurance Reciprocal (NYSIR), a non-risk-retained public entity risk pool for its property and liability insurance coverage. The pool is operated for the benefit of 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. The pool obtains independent coverage for insured events in excess of certain defined limits, and the District has essentially transferred all related risk to the pool.

In addition, the District participates in the New York State Public Schools Workers' Compensation Trust, 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 Plan's total liability, discounted at 3%, at June 30, 2014 was \$19,107,618. The District's share of this liability is \$245,879. During the year ended June 30, 2014, the District's contribution to the plan was \$67,303. The Plan has assets (cash and investments) of \$8,162,273 at June 30, 2014 to pay these liabilities.

Financial statements for the year ended June 30, 2014 can be obtained from the District's administrative office.

NOTE 13 – LITIGATION

The District is involved in lawsuits arising from the normal conduct of its affairs. Management believes that the outcome of any matters will not have a material effect on these financial statements.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Grants

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

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2014

Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$58,919. The minimum remaining operating lease payments are as follows:

Fiscal Year Ending	
June 30, 2015	<u>\$ 58,919</u>

Encumbrances:

Significant encumbrances included in governmental fund balances have been classified as assigned fund balance and are as follows:

- i) **General Fund** - Total encumbrances of the general fund as of June 30, 2014 were \$66,078. Significant encumbrances of \$38,809 were assigned to finance, \$20,978 were assigned to supplies and \$6,291 was assigned to contractual.
- ii) **Capital Projects Fund** - Total encumbrances of the capital projects fund as of June 30, 2014 were \$858,439 assigned to general construction.

Supplemental Schedule #1

EAST MORICHES UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real Property Taxes	\$ 16,433,067	\$ 16,321,375	\$ 16,321,375	\$ -
Other Tax Items	1,937,082	2,048,774	2,034,947	(13,827)
Charges for Services	220,000	220,000	230,061	30,061
Use of Money & Property	75,000	75,000	56,532	(18,468)
Sale of property and compensation for loss			17,643	17,643
Miscellaneous	29,500	29,500	240,780	211,280
State Sources	6,274,862	6,274,862	6,151,233	(123,629)
Federal Sources			5,143	5,143
	<u>\$ 24,969,511</u>	<u>\$ 24,969,511</u>	<u>\$ 25,077,714</u>	<u>\$ 108,203</u>

Note to Required Supplementary Information

Budget Basis of Accounting
Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND (continued)
FOR THE YEAR ENDED JUNE 30, 2014**

	Original Budget	Final Budget	Actual	Year-End Encumbrances	Variance with Actual and Encumbrances
EXPENDITURES					
General Support					
Board of Education	\$ 21,103	\$ 20,575	\$ 14,078		\$ 6,497
Central Administration	281,951	289,915	277,738		12,177
Finance	261,565	266,561	247,510	\$ 38,809	(19,758)
Staff	40,000	40,523	35,542		4,981
Central Services	1,210,558	1,210,955	1,091,868		119,087
Special Items	198,015	205,011	205,011		0
Total General Support	2,013,192	2,033,540	1,871,747	38,809	122,984
Instruction					
Instruction, Adm. & Imp.	267,571	261,858	239,318		22,540
Teaching - Regular School	10,825,556	10,760,497	10,671,884	27,042	61,571
Programs for Students with Disabilities	5,185,940	5,119,780	4,676,655		443,125
Occupational Education	156,000	269,835	269,835		0
Instructional Media	347,377	362,244	351,726	227	10,291
Pupil Services	398,092	396,791	380,373		16,418
Total Instruction	17,180,536	17,171,005	16,589,791	27,269	553,945
Pupil Transportation	1,359,378	1,359,378	1,085,851		273,527
Employee Benefits	3,304,971	3,325,367	3,267,045		58,322
Debt Service					
Debt Service Principal	885,000	885,000	885,000		0
Debt Service Interest	861,268	858,919	815,200		43,719
Total Debt Service	1,746,268	1,743,919	1,700,200	-	43,719
TOTAL EXPENDITURES	25,604,345	25,633,209	24,514,634	66,078	1,052,497
Other Financing Uses					
Transfers to Other Funds	45,000	45,000	62,523		(17,523)
	\$ 25,649,345	\$ 25,678,209	\$ 24,577,157	\$ 66,078	\$ 1,034,974
Net changes in fund balance	(679,834)	(708,698)	500,557		
Fund balance - beginning	679,834	708,698	1,890,226		
Fund balance - ending	\$ -	\$ -	\$ 2,390,783		

Note to Required Supplementary Information

Budget Basis of Accounting
Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
JUNE 30, 2014**

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
July 1, 2011	\$ -	\$ 19,881,133	\$ 19,881,133	N/A	\$ 6,171,987	322.12%
July 1, 2012	-	21,084,560	21,084,560	N/A	6,480,586	325.35%
July 1, 2013	-	21,336,215	21,336,215	N/A	6,804,616	313.56%

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND THE REAL PROPERTY TAX LIMIT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 25,474,921
Add: Prior year's encumbrances	174,424
Original Budget	<u>\$ 25,649,345</u>
Budget Revision:	<u>28,864</u>
Final Budget	<u><u>\$ 25,678,209</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2014-15 voter-approved expenditure budget	<u>\$ 25,876,539</u>
Maximum allowed (4% of 2014-15 budget)	<u>\$ 1,035,062</u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law*:	
Unrestricted fund balance:	
Assigned fund balance	\$ 341,078
Unassigned fund balance	1,035,059
Total unrestricted fund balance	<u>1,376,137</u>
Less:	
Appropriated fund balance	275,000
Encumbrances included in assigned fund balance	66,078
Total adjustments	<u>341,078</u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law	<u><u>\$ 1,035,059</u></u>
Actual percentage of 2014-15 budget	<u><u>4.00%</u></u>

* Per Office of the State Comptroller's "Fund Balance Reporting and Governmental Fund Type Definitions", updated April 2011 (Originally Issued November 2010), the portion of [General Fund] fund balance subject to Section 1318 of the Real Property Tax Law is: unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.

EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECT EXPENDITURES-CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2014

Project Title	Project #	Budget		Prior Years	Expenditures		Unexpended Balance	Methods of Financing			Fund Balance June 30, 2014
		June 30, 2013	June 30, 2014		Current Year	Total		State Aid	Local Sources	Total	
Cupola Project	0001-016	\$ 143,000	\$ 143,000	\$ 136,162	\$ -	\$ 136,162	\$ 6,838		\$ 143,000	\$ 143,000	\$ 6,838
Masonry Reconstruction	0001-017	436,600	436,600	170,624	165,835	336,459	100,141		436,600	436,600	100,141
Middle School Renovation	0001-018	977,040	977,040	-	90,252	90,252	886,788		977,040	977,040	886,788
TOTAL		<u>\$ 1,556,640</u>	<u>\$ 1,556,640</u>	<u>\$ 306,786</u>	<u>\$ 256,087</u>	<u>\$ 562,873</u>	<u>\$ 993,767</u>	<u>\$ -</u>	<u>\$ 1,556,640</u>	<u>\$ 1,556,640</u>	<u>\$ 993,767</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2014**

Capital assets, net			\$ 22,127,890
Deduct:			
Short-term portion of construction bonds payable, net	\$ (709,091)		
Long-term portion of construction bonds payable, net	<u>(18,236,439)</u>		
			<u>(18,945,530)</u>
Net investment in capital assets			<u><u>\$ 3,182,360</u></u>

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

To the Board of Education
East Moriches Union Free School District
East Moriches, New York

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund and the fiduciary funds of the East Moriches Union Free School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the East Moriches Union Free School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 East Moriches Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the East Moriches Union Free School District's internal control.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the East Moriches Union Free School District in a separate letter dated October 24, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cullen & Danowski, LLP

October 24, 2014

