



**EAST MORICHES
UNION FREE SCHOOL DISTRICT**

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

June 30, 2012

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

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, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012, on our consideration of the East Moriches Union Free School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in assessing the results of our audit.

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 19 and 53 through 55, 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.

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 56 through 59 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 statement and, accordingly, we express no opinion on it.

Cullen & Danowski, LLP

October 22, 2012

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole. This should be read in conjunction with the financial statements.

1. FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2012 are as follows:

- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$128,171.
- The 2012-2013 budget in the amount of \$24,570,067 was approved by the voters.
- The District's net assets, as reflected in the district-wide financial statements, decreased by \$567,566, which reflects the impact of the net other postemployment benefit liability that the District is not permitted to fund by law.
- The District's municipal bond rating from Standard and Poor's was upgraded from "A" with a stable outlook to "A+" with a stable outlook on January 4, 2012.
- The District advanced refunded \$13,765,000 of serial bonds originally issued in 2003. The new bonds bear lower interest rates. The transaction will result in an economic gain of approximately \$881,000.

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 optional 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, 2012**

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

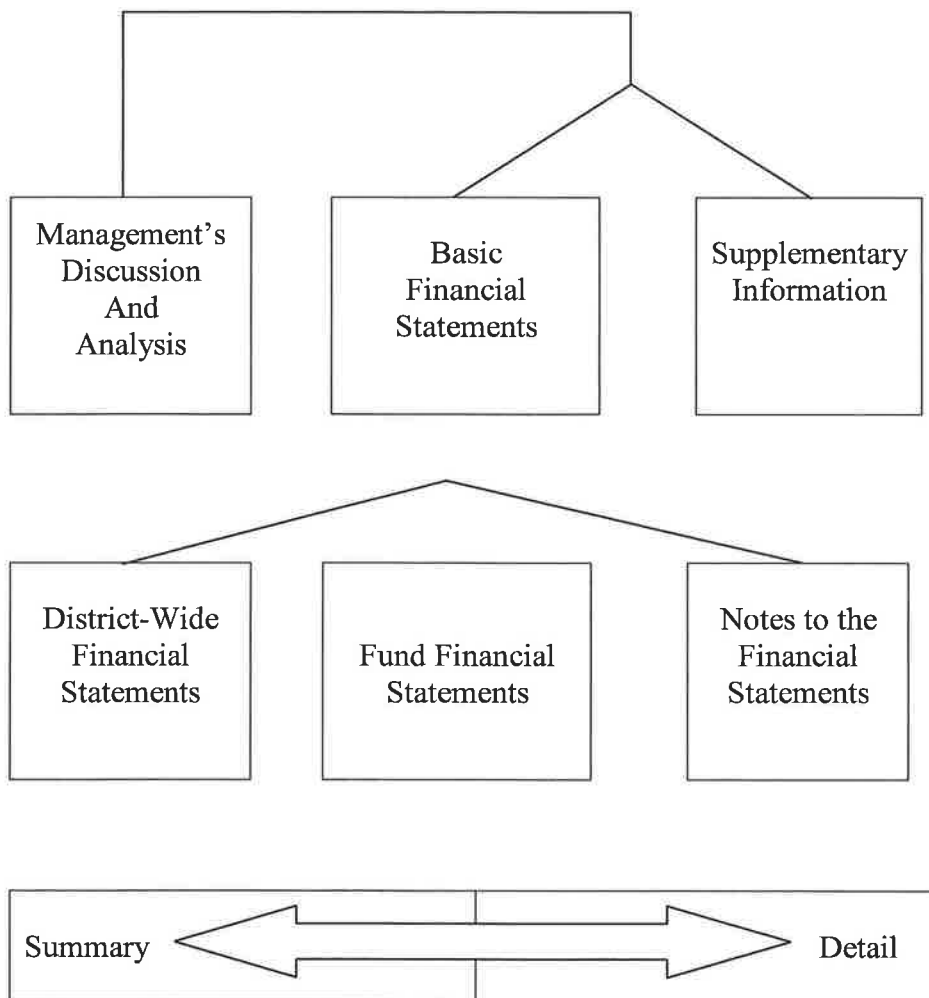


Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and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

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

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 Assets • 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 Assets • Statement of Changes in Fiduciary Net Assets
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 and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All financial assets and liabilities, short-term and long-term
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, 2012**

A. District-Wide 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 Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

- Over time, increases and decreases in net assets 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 assets 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 Assets:

- 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 asset balances as follows:
 - *Net Assets* invested in capital assets, net of related debt;
 - *Restricted net assets* 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 assets* are net assets that do 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, 2012**

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, debt service 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 assets and changes in net assets.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Assets

The District's total net assets decreased by \$567,566 between fiscal year 2012 and 2011. The 2011 balances were restated to correct an understatement of capital assets in the amount of \$355,190 as the result of eliminating assets and related depreciation expense that were duplicated in the District's asset valuation. A summary of the District's Statements of Net Assets for June 30, 2012 and 2011 is as follows:

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

	Fiscal Year 2012	As Restated Fiscal Year 2011	Increase/ (Decrease)	Total Percentage Change
Current assets and other assets	\$ 11,030,356	\$ 9,592,823	\$ 1,437,533	14.99%
Capital assets, net	22,826,204	23,315,408	(489,204)	-2.10%
Total Assets	<u>\$ 33,856,560</u>	<u>\$ 32,908,231</u>	<u>\$ 948,329</u>	2.88%
Current and other liabilities	\$ 8,207,363	\$ 7,888,467	\$ 318,896	4.04%
Long-term liabilities	22,127,108	22,387,939	(260,831)	-1.17%
Net OPEB obligation	4,328,780	2,870,950	1,457,830	50.78%
Total Liabilities	<u>34,663,251</u>	<u>33,147,356</u>	<u>1,515,895</u>	4.57%
Net Assets				
Investment in capital assets, net of related debt	2,487,492	2,360,490	127,002	5.38%
Restricted	924,993	736,772	188,221	25.55%
Unrestricted (deficit)	(4,219,176)	(3,336,387)	(882,789)	-26.46%
Total Net Assets	<u>(806,691)</u>	<u>(239,125)</u>	<u>(567,566)</u>	237.35%
Total Liabilities and Net Assets	<u>\$ 33,856,560</u>	<u>\$ 32,908,231</u>	<u>\$ 948,329</u>	2.88%

Current and other assets increased by \$1,437,533, compared to the prior year. This was primarily due to an increase in the District's cash balances offset by decreases in due from other governments and accounts receivable.

Capital assets, net decreased by \$489,204 due to depreciation expense in excess of capital asset additions, net of disposals (see Note 7).

Current and other liabilities increased by \$318,896 compared to the prior year. This increase was primarily due to an increase in tax anticipation notes payable and due to teachers' retirement system, offset by decreases in accounts payable, bond interest payable and bond anticipation notes payable.

Long-term liabilities decreased by \$260,831 compared to the prior year primarily due to a decrease in bonds payable, offset by increases in compensated absences payable.

The District's net other postemployment benefits (OPEB) obligation increased over the prior year by \$1,457,830 as compared to the prior year. 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 12 "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, 2012**

The net assets investment in capital assets, net of related debt, 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 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 net assets in the amount of \$924,993 relates to the District's restricted reserves. This balance increased over the prior year by \$188,221 due to the funding of reserves in the amount of \$391,885 and interest earned by the reserves of \$2,840, offset by an appropriation from the retirement contribution reserve of \$156,504 and the unemployment reserve of \$50,000.

The unrestricted net assets deficit of \$4,219,176 relates to the balance of the District's net assets. This balance does not include the District's reserves, which are classified as restricted net assets (as discussed above). The deficit increased by \$882,789.

B. Changes in Net Assets

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. 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, 2012 and 2011 are as follows:

	Fiscal Year 2012	Fiscal Year 2011	Increase (Decrease)	Total Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 219,410	\$ 267,996	\$ (48,586)	-18.13%
Operating Grants	699,821	757,391	(57,570)	-7.60%
General Revenues				
Property Taxes & STAR	17,407,322	16,974,795	432,527	2.55%
State Sources	5,606,997	5,574,897	32,100	0.58%
Other	305,345	209,660	95,685	45.64%
Total Revenues	<u>\$ 24,238,895</u>	<u>\$ 23,784,739</u>	<u>\$ 454,156</u>	1.91%
Expenses				
General Support	\$ 2,202,344	\$ 2,317,795	\$ (115,451)	-4.98%
Instruction	20,198,142	19,771,364	426,778	2.16%
Pupil Transportation	1,349,952	1,388,251	(38,299)	-2.76%
Debt Service - Interest	834,982	1,004,467	(169,485)	-16.87%
Food Service Program	221,041	205,287	15,754	7.67%
Total Expenses	<u>\$ 24,806,461</u>	<u>\$ 24,687,164</u>	<u>\$ 119,297</u>	0.48%
Increase/(Decrease) in Net Assets	<u>\$ (567,566)</u>	<u>\$ (902,425)</u>	<u>\$ 334,859</u>	-37.11%

The District's net assets decreased by \$567,566 and \$902,425 for the years ended June 30, 2012 and 2011, respectively.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

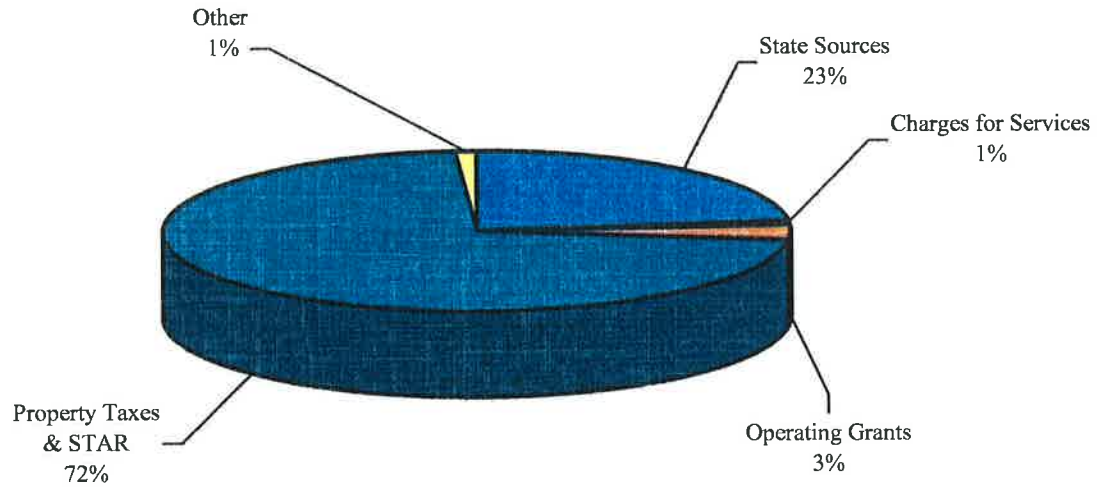
The District's revenues increased by \$454,156 or 1.91%. Most of the increase is attributable to an increase in property taxes and STAR offset by a decrease in operating grants, as federal aid provided through Education Stabilization Funds of the American Recovery and Reinvestment Act of 2009 (ARRA) was phased out in fiscal 2012.

The District's expenses increased slightly by \$119,297, or 0.48%. The increases in expenses are predominately related to instruction and food service which were offset by decreases in general support, pupil transportation and debt service. Instructional expenditures increased primarily as a result of additional costs related to the District's programs for children with handicapping conditions. General support expenditures decreased primarily as a result of decreased costs in central services.

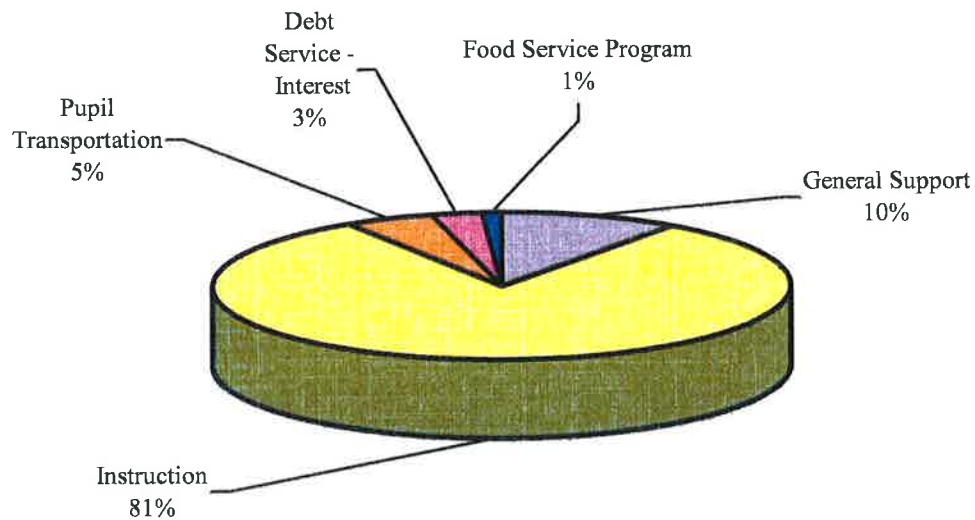
As indicated in the pie charts that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 72% of the total for 2012.) Instructional expense is the largest category of expenses incurred (i.e., 81% of the total for 2012).

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

A graphic display of the distribution of revenues for Fiscal Year 2012 as follows:



A graphic display of the distribution of expenses for Fiscal Year 2012 as follows:



**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

C. Governmental Activities

Revenues for the District's governmental activities totaled \$24,238,895 while total expenses equaled \$24,806,461. Although total expenditures 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 by each of these functions.

Table A-7: Net Cost of Governmental Activities

Category	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2011
General Support	\$2,202,344	\$2,317,795	\$2,202,344	\$2,317,795
Instruction	20,198,142	19,754,504	19,460,036	18,917,373
Pupil Transportation	1,349,952	1,388,251	1,349,952	1,388,251
Debt Service - Interest	834,982	1,004,467	834,982	1,004,467
School Lunch Program	221,041	205,287	39,916	33,891
Total	<u>\$24,806,461</u>	<u>\$24,670,304</u>	<u>\$23,887,230</u>	<u>\$23,661,777</u>

- The cost of all governmental activities this year was \$24,806,461. (Statement of Activities and Changes in Net Assets Expenses column-see Exhibit 3)
- The users of the District's programs financed \$219,410 of the cost. (Statement of Activities and Changes in Net Assets Charges For Services and Sales column-see Exhibit 3)
- The federal and state governments subsidized certain programs with grants of \$699,821 (Statement of Activities and Changes in Net Assets Operating Grants column – see Exhibit 3)
- Most of the District's net costs of \$23,887,230 were financed by District taxpayers and state and federal aid. (Statements of Activities and Changes in Net Assets Net (Expenses) Revenue and Changes in Net Assets column-see Exhibit 3)

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2012, the District's governmental funds reported a combined fund balance of \$3,151,422, which is an increase of \$1,018,378 from the prior year. A summary of the change in fund balance by fund is as follows:

	Fiscal Year 2012	Fiscal Year 2011	Changes
General Fund			
Restricted for employee benefits accrued liability	\$ 233,975	\$ 232,848	\$ 1,127
Restricted for unemployment insurance	100,680	50,436	50,244
Restricted for retirement contribution	504,160	453,488	50,672
Restricted for workers' compensation	86,178	-	86,178
Assigned-appropriated for subsequent year's expenditures	321,000	487,000	(166,000)
Assigned-general support	28,536	32,241	(3,705)
Assigned-instruction	13,516	22,973	(9,457)
Unassigned	1,396,390	1,277,278	119,112
	<u>2,684,435</u>	<u>2,556,264</u>	<u>128,171</u>
School Lunch Fund			
Nonspendable	4,300	4,942	(642)
Assigned	45,535	71,838	(26,303)
	<u>49,835</u>	<u>76,780</u>	<u>(26,945)</u>
Capital Projects Fund			
Assigned	417,152		417,152
Unassigned (Deficit)	-	(500,000)	500,000
	<u>417,152</u>	<u>(500,000)</u>	<u>917,152</u>
 Total Fund Balance	 <u>\$ 3,151,422</u>	 <u>\$ 2,133,044</u>	 <u>\$ 1,018,378</u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$128,171, as revenues and other sources exceeded expenditures and other uses on the modified accrual basis of accounting. When compared to the prior year, revenues increased by approximately \$350,000 and expenditures increased by approximately \$315,000. The increase in revenues was primarily due to an increase in real property taxes, which increased approximately \$413,000 and state aid, which increased approximately \$93,000. These increases were offset by a reduction in federal aid of approximately \$245,000 and other reductions in charges for services and use of money and property. The increase in expenditures was primarily due to an increase of approximately \$390,000 in the interfund transfer to the capital projects fund to fund the District's cupola and masonry reconstruction projects, as

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

well as increases in employee benefits and debt service – principal of approximately \$81,000 and \$45,000, respectively. These increases were offset by decreases in general support, pupil transportation and debt service – interest.

Changes in the components of the District's fund balance, include a decrease in the amount assigned – appropriated for the 2012-13 budget of \$166,000, and net increases in the District's reserves of \$188,221 due to interest earned in the restricted reserves and the use of and funding of restricted reserves.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is a decrease of \$26,945, which was the operating loss of the school lunch fund.

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is an increase of \$917,152. The increase is the result of proceeds from serial bonds of \$500,000 and an operating transfer in from the general fund of \$436,600 to fund the cupola and masonry reconstruction projects, offset by capital outlay of \$19,448 on the masonry reconstruction project.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2011-2012 Adopted Budget

The District's adopted General Fund budget for the year ended June 30, 2012 was \$24,085,123. This amount was increased by encumbrances carried forward from the prior year in the amount of \$55,214 and budget revisions of \$483,075, which resulted in a final budget of \$24,623,412. The majority of the funding was estimated to come from property taxes and STAR revenue of \$17,240,537.

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".

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

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	\$ 1,277,278
Revenues Over Budget	37,684
Expenditures and Encumbrances Under Budget	1,278,228
Appropriations for budget revision	(481,075)
Transfer to Restricted Reserves	(391,178)
Interest earned in Restricted Reserves	(3,547)
Appropriated to fund the June 30, 2013 Budget	(321,000)
Closing, Unassigned Fund Balance	<u>\$ 1,396,390</u>

Opening, Unassigned Fund Balance

The opening, unassigned fund balance represents the fund balance retained by the District as of June 30, 2011 that was not restricted or assigned for subsequent year's taxes. This amount is limited to 4% of the subsequent year's budget. The District's unassigned fund balance was 5.3% of the 2011-2012 adopted budget.

Revenues Over budget

The 2011-2012 final budget for revenues was \$23,393,619. Actual revenues received for the year were \$23,431,303. The excess of actual revenue to estimated revenue was \$37,684.

Expenditures and Encumbrances Under Budget

The 2011-2012 final budget for expenditures was \$24,623,412. Actual expenditures for the year were \$23,303,132 and outstanding encumbrances were \$42,052 at June 30, 2012. Combined, the expenditures plus encumbrances for 2011-12 were \$23,345,184. The final budget was under expended by \$1,278,228. The expenditures and encumbrances under budget were primarily in general support and instruction codes within the budget.

Appropriations for Budget Revision

The appropriations for budget revision in the amount of \$481,075 represent increases to the general fund budget funded from unassigned fund balance. These additional appropriations represent an appropriation for a transfer to the capital fund in the amount of \$436,600 and for equipment purchases in the amount of \$44,475.

Transfers to 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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

The \$(391,178) shown in the previous table consists of transfers to the retirement contribution reserve in the amount of \$205,000, the unemployment reserve in the amount of \$100,000, as well as the funding of a new reserve for workers' compensation in the amount of \$86,178.

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	\$ 244
Retirement contributions	2,176
Employee benefits accrued liabilities	<u>1,127</u>
	<u>\$3,547</u>

No interest was allocated to the workers' compensation reserve as this reserve was not funded until June 30, 2012.

Appropriated Fund Balance

The District has chosen to use \$321,000 of available fund balance to partially fund the approved budget for the year ending June 30, 2013.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2012-2013 fiscal year with an unassigned fund balance of \$1,396,390. This amount is 5.7% of the 2012-2013 adopted budget.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2012, 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, 2012. A summary of the District's capital assets, net of depreciation at June 30, 2012 and 2011 are as follows:

Category	Fiscal Year 2012	Fiscal Year 2011, as restated	Increase (Decrease)
Land	\$ 265,000	\$ 265,000	-
Construction in Progress	19,448	-	19,448
Buildings & Building Improvements	27,395,504	27,387,814	7,690
Furniture & Equipment	845,287	1,269,890	(424,603)
Vehicles	18,000	18,000	-
Subtotal	28,543,239	28,940,704	(397,465)
Less: Accumulated Depreciation	5,717,035	5,625,296	91,739
Total Net Capital Assets	<u>\$ 22,826,204</u>	<u>\$ 23,315,408</u>	<u>\$ (489,204)</u>

The District's capital asset inventory report was updated during the year ended June 30, 2012. The 2011 balances have been restated to reflect the updated report.

B. Debt Administration

At June 30, 2012, the District had total bonds payable of \$20,910,000. 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, 2012**

A summary of the outstanding debt at June 30, 2012 and 2011 is as follows:

Issue Date	Interest Rate	2012	2011	Increase (Decrease)
July 2, 2003	4.0-5.0%	\$ 6,090,000	\$ 20,440,000	\$ (14,350,000)
June 15, 2007	3.75-4.375%	1,200,000	1,410,000	(210,000)
July 1, 2011	4.0-4.75%	500,000	-	500,000
January 10, 2012	2.0-5.0%	13,120,000	-	13,120,000
		<u>\$ 20,910,000</u>	<u>\$ 21,850,000</u>	<u>\$ (940,000)</u>

Additionally, the District carries a deferred financing premium of \$628,712, as a result of the refunding.

The District's latest municipal bond rating from Standard and Poor's is A+ with a stable outlook. This was upgraded from A with a stable outlook. The District's total outstanding indebtedness of \$20,910,000 is 24% of its debt limit of \$86,902,616.

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

The General Fund budget for the 2012-2013 school year in the amount of \$24,570,067 was approved by the voters. This is an increase of \$484,944 or 2.0% 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, 2013 budget was \$321,000, which is a decrease of \$166,000.

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, the end of federal government assistance through ARRA funding, and the enactment of the Real Property Tax Levy Limit ("Tax Cap") Law by New York State.

The NYS Legislature has introduced and 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 2012-2013 budget complies with the tax levy limit, which was an increase of 2.28% over the 2011-2012 tax levy, and was adjusted for the pension contribution exclusion 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, 2012**

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 ASSETS-GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

ASSETS

Cash	\$ 9,562,975
Receivables	
Accounts receivable	4,249
Due from other governments	1,363,540
Due from other funds	95,292
Inventories	4,300
Capital assets, net	
Capital assets not being depreciated	284,448
Capital assets being depreciated, net of accumulated depreciation	<u>22,541,756</u>
TOTAL ASSETS	<u>\$ 33,856,560</u>

LIABILITIES

Payables	
Accounts payable	\$ 1,062,427
Accrued liabilities	42,972
Bond interest payable	328,429
Tax anticipation notes payable	6,000,000
Due to other governments	98
Due to teachers' retirement system	674,328
Due to employees' retirement system	49,211
Deferred credits	
Deferred Revenue	49,898
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	919,091
Due and payable after one year	
Bonds payable, net	20,619,621
Compensated absences payable	588,396
Net OPEB obligation	<u>4,328,780</u>
TOTAL LIABILITIES	<u>34,663,251</u>
Investment in capital assets, net of related debt	2,487,492
Restricted	924,993
Unrestricted (deficit)	<u>(4,219,176)</u>
TOTAL NET ASSETS (DEFICIT)	<u>(806,691)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,856,560</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

		Program Revenues		Net (Expense)
	Expenses	Charges for	Operating	Revenue and
		Services	Grants	Changes in
FUNCTIONS / PROGRAMS				Net Assets
General support	\$ (2,202,344)	\$ -	\$ -	\$ (2,202,344)
Instruction	(20,198,142)	96,779	641,327	(19,460,036)
Pupil transportation	(1,349,952)			(1,349,952)
Debt service - interest	(834,982)			(834,982)
Food Service program	(221,041)	122,631	58,494	(39,916)
TOTAL FUNCTIONS AND PROGRAMS	\$ (24,806,461)	\$ 219,410	\$ 699,821	(23,887,230)
GENERAL REVENUES				
Real property taxes				15,526,883
Other tax items				1,882,031
Use of money & property				61,034
Miscellaneous				242,719
State sources				5,606,997
TOTAL GENERAL REVENUES				23,319,664
CHANGE IN NET ASSETS				(567,566)
TOTAL NET ASSETS - BEGINNING OF YEAR, AS RESTATED SEE NOTE 7				(239,125)
TOTAL NET ASSETS (DEFICIT) - END OF YEAR				\$ (806,691)

**EAST MORICHES UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
ASSETS					
Cash	\$ 9,551,805	\$ 3,290	\$ 7,880	\$ -	\$ 9,562,975
Receivables					
Accounts receivable	4,249				4,249
Due from other governments	730,277	628,731	4,532		1,363,540
Due from other funds	724,106		43,136	417,152	1,184,394
Inventories			4,300		4,300
TOTAL ASSETS	\$ 11,010,437	\$ 632,021	\$ 59,848	\$ 417,152	\$ 12,119,458
LIABILITIES AND FUND EQUITY					
Payables					
Accounts payable	\$ 1,049,306	\$ 3,206	\$ 9,915	\$ -	\$ 1,062,427
Accrued liabilities	42,972				42,972
Tax anticipation notes payable	6,000,000				6,000,000
Due to other governments			98		98
Due to other funds	460,287	628,815			1,089,102
Due to teachers' retirement system	674,328				674,328
Due to employees' retirement system	49,211				49,211
Deferred credits	49,898				49,898
Deferred revenue	8,326,002	632,021	10,013	-	8,968,036
TOTAL LIABILITIES					
FUND BALANCES					
Nonspendable					
Restricted	924,993		4,300		4,300
Assigned	363,052		45,535	417,152	924,993
Unassigned	1,396,390				825,739
TOTAL FUND BALANCES	2,684,435	-	49,835	417,152	3,151,422
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,010,437	\$ 632,021	\$ 59,848	\$ 417,152	\$ 12,119,458

**EAST MORICHES UNION FREE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Governmental Fund Balances	<u>\$ 3,151,422</u>
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Amounts reported for governmental activities in the Statement of Net Assets 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 Assets 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	28,543,239
Accumulated depreciation	<u>(5,717,035)</u>
	<u>22,826,204</u>

Governmental funds report the effect of issuance costs, 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	(628,712)
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Long-term liabilities, including bonds payable, are not due and payable in the current period

Accrued interest on bonds payable	(328,429)
Bonds payable	(20,910,000)
Compensated absences payable	(588,396)
Net OPEB obligation	<u>(4,328,780)</u>
	<u>(26,155,605)</u>

Total Net Assets (Deficit)	<u>\$ (806,691)</u>
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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, 2012

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$15,526,883	\$ -	\$ -	\$ -	\$ -	\$15,526,883
Other tax items	1,882,031					1,882,031
Charges for services	96,779					96,779
Use of money and property	60,976		58			61,034
Miscellaneous	242,719					242,719
State sources	5,606,997	210,723	3,372			5,821,092
Federal sources		430,604	42,289			472,893
Surplus food			12,833			12,833
Sales			122,631			122,631
TOTAL REVENUES	23,416,385	641,327	181,183	-	-	24,238,895
EXPENDITURES						
General support	1,747,171			192,932		1,940,103
Instruction	15,327,913	619,341				15,947,254
Pupil transportation	1,282,827	67,125				1,349,952
Employee benefits	2,702,035					2,702,035
Debt service - principal	809,918					809,918
Debt service - interest	951,529		208,128		19,448	951,529
Cost of sales						208,128
Capital outlay						19,448
TOTAL EXPENDITURES	22,821,393	686,466	208,128	192,932	19,448	23,928,367
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	594,992	(45,139)	(26,945)	(192,932)	(19,448)	310,528
OTHER FINANCING SOURCES AND USES						
Proceeds from serial bonds					500,000	500,000
Bond anticipation notes redeemed from appropriations					14,918	14,918
Bond Premium				1,123,568		1,123,568
Payment to refunded bond escrow agent				(14,050,636)		(14,050,636)
Refunded bonds issued				13,120,000		13,120,000
Operating transfers in	14,918	45,139			436,600	496,657
Operating transfers (out)	(481,739)				(14,918)	(496,657)
TOTAL OTHER SOURCES (USES)	(466,821)	45,139	-	192,932	936,600	707,850
NET CHANGE IN FUND BALANCES	128,171	-	(26,945)	-	917,152	1,018,378
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	2,556,264	-	76,780	-	(500,000)	2,133,044
FUND BALANCE (DEFICIT) - ENDING OF YEAR	\$ 2,684,435	\$ -	\$ 49,835	\$ -	\$ 417,152	\$ 3,151,422

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, 2012

Net change in Fund Balances \$ 1,018,378

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

Long-Term Revenue and Expense Differences

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	(50,457)
Increase in the net OPEB Obligation	<u>(1,457,830)</u>
	<u>(1,508,287)</u>

Capital Related Differences

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 Assets 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	151,425
Depreciation Expense	<u>(640,629)</u>
	<u>(489,204)</u>

Long-Term Debt Transaction Differences

Proceeds from the issuance of bonds is an other funding source in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.

Serial Bonds - EXCEL Project	(500,000)
Serial Bonds - Advanced refund	<u>(13,120,000)</u>
	<u>(13,620,000)</u>

Governmental funds report the effect of premiums when debt is first issued whereas these amounts are deferred and amortized in the Statement of Activities. (1,123,568)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 795,000

Payment to escrow agent is an expenditure in the governmental funds, but it decreases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities 14,050,636

Governmental funds report the issuance costs, premium, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. 192,932

Amortization of deferred financing premium, net 16,288

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, 2011 to June 30, 2012. 100,259

Change in Net Assets of Governmental Activities \$ (567,566)

EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
ASSETS		
Cash	\$ 141,498	\$ 1,427
TOTAL ASSETS	<u>\$ 141,498</u>	<u>\$ 1,427</u>
LIABILITIES		
Due to other funds	\$ 95,292	\$ -
Other liabilities	46,206	
TOTAL LIABILITIES	<u>\$ 141,498</u>	<u>\$ -</u>
NET ASSETS		
Reserved for scholarships		\$ 1,427
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,427</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	\$ 500
Interest and earnings	<u>7</u>
TOTAL ADDITIONS	<u>507</u>
DEDUCTIONS	
Scholarships and awards	<u>1,050</u>
TOTAL DEDUCTIONS	<u>1,050</u>
CHANGE IN NET ASSETS	(543)
NET ASSETS - BEGINNING OF YEAR	<u>1,970</u>
NET ASSETS - ENDING OF YEAR	<u><u>\$ 1,427</u></u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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 Statement 14, *The Financial Reporting Entity* and No. 39, *Determining Whether Certain Organizations are Component Units*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

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

i) Extraclassroom Activity Funds

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management. The District reports these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Assets – Fiduciary Fund. Separate audited financial statements of the extraclassroom activity funds can be found at the District’s Business Office.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

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 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.

C) Basis of Presentation

i) District-Wide Financial Statements

The Statement of Net Assets 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 Assets 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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

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.

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.

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

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 or extraclassroom activity funds 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.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

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 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 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 assets are available, the District's policy concerning which to apply first varies with the intended use, and with associated legal requirements, many of which are described elsewhere in these Notes to Financial Statements.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

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 Assets for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables 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.

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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

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. A reserve for inventory has been recognized to indicate that this does not constitute available spendable resources.

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

L) 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:

	<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

M) Deferred Revenues

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

N) Vested Employee Benefits - Compensated Absences

Compensated absences consist of unpaid accumulated annual sick leave, 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 be eligible to receive a payment based on unused accumulated sick leave.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

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. These amounts are expensed on a pay-as-you go basis.

O) Other Benefits

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

In addition to providing pension benefits, the District provides 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.

P) Short-Term Debt

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

The District may issue Bond Anticipation Notes (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.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

Q) Accrued Liabilities and Long-Term Obligations

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

R) Equity Classifications

District-Wide Financial Statements

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

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

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

Unrestricted net assets – reports all other net assets 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 District implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54) which redefines how fund balances of the governmental funds are presented in the financial statements. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. There are five classifications of fund balance as detailed below; however, in the Fund Financial Statements there are four classifications of fund balance presented:

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

- 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 \$4,300.
- 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

Workers' Compensation	\$ 86,178
Unemployment insurance	100,680
Retirement contribution	504,160
Employee Benefit Accrued Liability	233,975
	<u>\$ 924,993</u>

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.

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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

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.

Reserve for Employee Benefit Accrued Liability

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.

- 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 districts highest level of decision making authority, (i.e., the Board of Education). The District has no committed fund balances as of June 30, 2012.
- 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>School Lunch</u>	<u>Capital</u>	<u>Total</u>
Designated for subsequent				
year's expenditures	\$ 321,000	\$ -	\$ -	\$ 321,000
General support	28,536			28,536
Instruction	13,516			13,516
School lunch		45,535		45,535
Capital			417,152	417,152
Total	<u>\$ 363,052</u>	<u>\$ 45,535</u>	<u>\$ 417,152</u>	<u>\$ 825,739</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

Designated for Subsequent Year's Expenditure

The amount of \$321,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2013.

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 15 for further detail regarding significant encumbrances.

- 5) **Unassigned Fund Balance** - Includes all other general fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the District.

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.

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 Statement of Activities, compared with the current financial resource measurement focus of the governmental funds.

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

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

(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.

(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 Assets. In additions, 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 Assets.

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), which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected new

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

The following supplemental appropriations occurred during the year:

	Fiscal Year 2012
<u>Budget Revisions:</u>	
Appropriated for transfer to capital fund	\$ 436,600
Appropriated for equipment purchase	44,475
Gifts and donations	2,000
	<u>\$ 483,075</u>

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

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

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.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

Unassigned Fund Balance

The District's unassigned fund balance was in excess of the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year. The District is in the process of formulating a plan to reduce the unassigned fund balance to within the permissible limit.

Over Expenditures of Certain Appropriations

Certain general fund appropriations were over expended in the general support and categories other financing uses. 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. Investments are stated at fair value.

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.

NOTE 5 – PARTICIPATION IN BOCES

During the year ended June 30, 2012, the District was billed \$1,437,969 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$160,370. Financial statements for the BOCES are available from the BOCES administrative office at 201 Sunrise Highway, Patchogue, New York 11772.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 6 – DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2012 consisted of:

General Fund

New York State Aid - General Aid	\$ 29,509
New York State Aid - Excess Cost Aid	136,730
New York State Aid - Tuition Chapter 47	403,227
BOCES Aid	71,943
New York State Aid - High Cost Aid	81,345
Tuition - Charges for Services	7,523
	<u>730,277</u>

Special Aid Fund

Federal and State Grants	628,731
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School Lunch Fund

Federal and State Food Service Program Reimbursements	<u>4,532</u>
	<u><u>\$ 1,363,540</u></u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 7 - CAPITAL ASSETS/RESTATEMENT OF BALANCES

The District made a prior period adjustment to capital assets which increased beginning net assets by \$355,190. The prior period adjustment was made to reflect assets that were duplicated in the District's asset valuation and the duplication of the related depreciation expense on such assets and the reclassification of vehicles. The changes are as follows:

Total nondepreciable historical cost	<u>265,000</u>	<u>-</u>	<u>265,000</u>
Capital assets that are depreciated:			
Building & Building Improvements	27,387,814		27,387,814
Furniture and equipment	1,692,272	(422,382)	1,269,890
Vehicles	-	18,000	18,000
Total depreciable historical cost	<u>29,080,086</u>	<u>(404,382)</u>	<u>28,675,704</u>
Less accumulated depreciation:			
Building & Building Improvements	4,825,581	(235,380)	4,590,201
Furniture and equipment	1,559,287	(542,192)	1,017,095
Vehicles	-	18,000	18,000
Total accumulated depreciation	<u>6,384,868</u>	<u>(759,572)</u>	<u>5,625,296</u>
Total depreciable historical cost, net	<u>\$ 22,960,218</u>	<u>\$ 355,190</u>	<u>\$ 23,315,408</u>

Net Assets (specifically net assets invested in capital assets, net of related debt) have been restated as of July 1, 2011 to give effect as follows:

	<u>Net Assets</u>
Balance as of July 1, 2011, as reported	\$ 2,005,300
Plus: Capital asset valuation change	355,190
Balance as of July 1, 2011, as restated	<u>\$ 2,360,490</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

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

	June 30, 2011	Additions	Reclassifications	June 30, 2012
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 265,000	\$ -	\$ -	\$ 265,000
Construction in Progress	-	19,448		19,448
Total capital assets not being depreciated	265,000	19,448	-	284,448
Capital assets that are depreciated:				
Building and Improvements	27,387,814	7,690		27,395,504
Furniture and equipment, as restated	1,269,890	124,287	(548,890)	845,287
Vehicles, as restated	18,000	-		18,000
Total capital assets being depreciated	28,675,704	131,977	(548,890)	28,258,791
Less accumulated depreciation for:				
Building and Improvements	4,590,201	579,197		5,169,398
Furniture and equipment	1,017,095	61,432	(548,890)	529,637
Vehicles	18,000	-		18,000
Total accumulated depreciation	5,625,296	640,629	(548,890)	5,717,035
Capital assets, net	\$ 23,315,408	\$ (489,204)	\$ -	\$ 22,826,204

Depreciation expense was charged to governmental functions as follows:

General support	\$ 4,636
Instruction	623,080
School lunch program	12,913
	<u>\$ 640,629</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 8 – INTERFUND TRANSACTIONS

	Interfund		Interfund	
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 724,106	\$ 460,287	\$ 14,918	\$ 481,739
Special Aid Fund		628,815	45,139	
School Lunch Fund	43,136			
Capital Projects Fund	417,152		436,600	14,918
Total government activities	1,184,394	1,089,102	496,657	496,657
Fiduciary Agency Funds		95,292		
Totals	<u>\$ 1,184,394</u>	<u>\$ 1,184,394</u>	<u>\$ 496,657</u>	<u>\$ 496,657</u>

The District typically transfers from the general fund to the special aid fund in accordance with the general fund budget.

The District also transferred \$436,600 from the general fund to the capital fund to fund the cupola and masonry projects, and the capital fund transferred \$14,918 to the general fund to return remaining funds on the completed tank replacement and boiler projects.

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 9 - SHORT-TERM DEBT

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

	Maturity	Interest Rate (Average)	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	6/21/2012	0.81-1.00%	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
TAN	6/20/2013	1.50%	-	6,000,000	-	6,000,000
BAN	7/1/2011	1.55%	514,918	-	514,918	-
Total			<u>\$ 5,514,918</u>	<u>\$ 6,000,000</u>	<u>\$ 5,514,918</u>	<u>\$ 6,000,000</u>

Interest expense on short-term debt for the year ended June 30, 2012 was \$41,469.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 10 – 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, 2012:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Long-term liabilities:					
Bonds payable	\$ 21,850,000	\$ 13,620,000	\$ 14,560,000	\$ 20,910,000	\$ 880,000
Deferred financing premium	-	645,000	16,288	628,712	39,091
Bonds payable, net	21,850,000	14,265,000	14,576,288	21,538,712	919,091
Other long-term liabilities:					
Compensated absences	537,939	50,457	-	588,396	-
	<u>\$ 22,387,939</u>	<u>\$ 14,315,457</u>	<u>\$ 14,576,288</u>	<u>\$ 22,127,108</u>	<u>\$ 919,091</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	6/30/2034	4.0-5.0%	\$ 6,090,000
Serial bonds - deficit	6/15/2007	6/30/2017	3.75-4.375%	1,200,000
Serial bonds - EXCEL	7/1/2011	7/1/2026	4.0-4.75%	500,000
Serial bonds - advance refunding	1/10/2012	6/30/2029	2.0-5.0%	13,120,000
				<u>\$ 20,910,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ended June 30,	Principal	Interest	Total
2013	\$ 880,000	\$ 789,699	\$ 1,669,699
2014	885,000	786,268	1,671,268
2015	910,000	755,955	1,665,955
2016	940,000	727,981	1,667,981
2017	960,000	699,136	1,659,136
2018-2022	3,855,000	3,095,803	6,950,803
2023-2027	4,835,000	2,192,162	7,027,162
2028-2032	6,020,000	1,051,234	7,071,234
2033-2034	1,625,000	54,563	1,679,563
	<u>\$ 20,910,000</u>	<u>\$ 10,152,801</u>	<u>\$ 31,062,801</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

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 net proceeds of \$14,046,905 (including a premium of \$1,123,568 and after payment of \$196,663 in underwriting fees, insurance, and other issuance costs) were used to purchase United States government securities. This advance refunding was undertaken to reduce total debt service payments as a result of the lower interest rate associated with the new bond. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is \$880,965. The net deferred amounts on refunding are being amortized on a straightline basis over 16.4 years. The refunded bonds are callable on July 1, 2022.

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

	<u>Total</u>
Interest paid	\$910,060
Less interest accrued in the prior year	(428,688)
Plus interest accrued in the current year	328,429
Less deferred amounts on financing	<u>(16,288)</u>
Total expense	<u>\$793,513</u>

NOTE 11 – PENSION PLANS

General Information:

The District participates in the New York State 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

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012**

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.

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 11.11% of the annual covered payroll for the fiscal year ended June 30, 2012. Rates applicable to the fiscal years ended June 30, 2011 and 2010 were respectively, 8.62% and 6.19%. During the fiscal year ended June 30, 2012 (Final Billing Date November 01, 2011), your required contributions paid to the system were \$611,703. 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
2011 - 2012	\$ 145,906	\$ 611,703
2010 - 2011	120,342	483,416
2009 - 2010	84,511	383,590

NOTE 12 – 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.

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

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

are made. For the year ended June 30, 2012, the District recognized a general fund expenditure of \$571,292 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, 2012
Annual OPEB Cost and Net OPEB Obligation	
Annual required contribution	\$ 2,084,908
Interest on net OPEB obligation	100,794
Adjustment to Annual Required Contribution	(156,580)
Annual OPEB cost (expense)	2,029,122
Contributions made	(571,292)
Increase in net OPEB obligation	1,457,830
Net OPEB obligation-beginning of year	2,870,950
Net OPEB obligation-end of year	<u>\$ 4,328,780</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 2012, 2011 and 2010 were as follows:

Fiscal Year Ending	Annual OPEB Cost	OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	\$ 1,335,532	\$ 367,851	28%	\$ 1,872,029
6/30/11	1,393,795	394,874	28%	2,870,950
6/30/12	2,029,122	571,292	28%	4,328,780

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$19,881,133 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$19,881,133. The covered payroll (annual payroll of active employees covered by the plan) was \$6,171,987, and the ratio of the UAAL to the covered payroll was 322.12%.

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, 2011 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 3.5% investment rate of return and the healthcare cost trend rate of 9% 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. The remaining amortization period at July 1, 2011 was 25 years.

NOTE 13 – 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.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

Public Entity Risk Pool – Risk Sharing

The District participates in the New York State Public Schools Workers' Compensation Trust, a risk sharing pool, to insure Worker's Compensation claims. This is a public entity risk pool created under Article 5 of the Worker's Compensation Law, to finance liability and risks related to Worker's Compensation claims.

The Plan's total liability, discounted at 3%, at June 30, 2012 was \$17,527,775. The District's share of this liability is \$12,269. During the year ended June 30, 2012, the District's contribution to the plan was \$56,878.

Financial statements for the year ended June 30, 2012 can be obtained from the District's administrative office.

NOTE 14 – 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 15 – 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.

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,	
2013	\$ 58,919
2014	58,919
2015	58,919
	<u>\$ 176,757</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012 were \$42,052. Significant encumbrances of \$26,709 were assigned to contractual, \$14,038 was assigned to supplies and \$1,305 was assigned to maintenance and repairs.
- ii) **Special Aid Fund** - Total encumbrances of the special aid fund as of June 30, 2012 were \$199. Significant encumbrances of \$199 were assigned to supplies.

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, 2012

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real Property Taxes	\$ 15,526,851	\$ 15,526,851	\$ 15,526,883	\$ 32
Other Tax Items	1,880,439	1,880,439	1,882,031	1,592
Charges for Services	70,000	70,000	96,779	26,779
Use of Money & Property	90,000	90,000	60,976	(29,024)
Miscellaneous	103,500	103,500	242,719	137,219
State Sources	5,720,829	5,720,829	5,606,997	(113,832)
Other Financing Sources				
Operating transfers	-	-	14,918	14,918
	<u>\$ 23,391,619</u>	<u>\$ 23,393,619</u>	<u>\$ 23,431,303</u>	<u>\$ 37,684</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.

Final Budget

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, 2012

	Original Budget	Final Budget	Actual	Year-End Encumbrances	Variance with Actual and Encumbrances
EXPENDITURES					
General Support					
Board of Education	\$ 21,117	\$ 21,117	\$ 16,639	\$ -	\$ 4,478
Central Administration	271,629	270,116	261,527	-	8,589
Finance	260,292	264,826	248,334	26,709	(10,217)
Staff	30,000	42,500	42,500	-	-
Central Services	1,098,166	1,142,641	970,219	1,827	170,595
Special Items	220,813	220,813	207,952	-	12,861
Total General Support	1,902,017	1,962,013	1,747,171	28,536	186,306
Instructional					
Instruction, Adm. & Imp.	224,626	234,136	229,608	-	4,528
Teaching - Regular School	10,100,770	10,091,372	9,609,033	11,802	470,537
Programs for Children with					
Handicapping Conditions	5,079,448	5,021,157	4,659,157	-	362,000
Occupational Education	119,300	154,400	139,400	-	15,000
Instructional Media	342,938	346,438	324,532	1,714	20,192
Pupil Services	372,566	378,624	366,183	-	12,441
Total Instruction	16,239,648	16,226,127	15,327,913	13,516	884,698
Pupil Transportation	1,381,046	1,381,046	1,282,827	-	98,219
Employee Benefits	2,754,148	2,754,148	2,702,035	-	52,113
Debt Service					
Debt Service Principal	809,918	809,918	809,918	-	-
Debt Service Interest	1,020,060	1,020,060	951,529	-	68,531
Total Debt Service	1,829,978	1,829,978	1,761,447	-	68,531
TOTAL EXPENDITURES	24,106,837	24,153,312	22,821,393	42,052	1,289,867
Other Financing Uses					
Transfers to Other Funds	33,500	470,100	481,739	-	(11,639)
	\$ 24,140,337	\$ 24,623,412	23,303,132	\$ 42,052	\$ 1,278,228
Net changes in fund balance	(748,718)	(1,229,793)	128,171		
Fund balance - beginning	748,718	1,229,793	2,556,264		
Fund balance - ending	\$ -	\$ -	\$ 2,684,435		

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, 2012

Valuation Date	Actuarial Value of Assets	Accrual Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
July 1, 2009	\$ -	\$ 13,117,045	\$ 13,117,045	N/A	\$ 6,316,353	207.67%
July 1, 2010	-	13,881,207	13,881,207	N/A	6,632,170	209.30%
July 1, 2011	-	19,881,133	19,881,133	N/A	6,171,987	322.12%

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND USE OF UNASSIGNED FUND BALANCE- GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 24,085,123
Add: Prior year's encumbrances	55,214
Original Budget	<u>\$ 24,140,337</u>
Budget Revision:	<u>483,075</u>
Final Budget	<u><u>\$ 24,623,412</u></u>
Next Year's budget is a voter-approved budget of	<u><u>\$ 24,570,067</u></u>

USE OF ASSIGNED APPROPRIATED AND UNASSIGNED FUND BALANCE

Assigned: appropriated and unassigned Fund Balance- As of the beginning of the year	\$ 1,764,278
Less: Appropriated fund balance used for the levy of taxes - Adopted Budget	487,000
Unassigned Fund Balance- As of the beginning of the year	<u><u>\$ 1,277,278</u></u>

Project Title	Project #	Budget		Expenditures		Unexpended Balance	Methods of Financing			Fund Balance June 30, 2012		
		June 30, 2011	June 30, 2012	Prior Years	Current Year		Total	Proceeds of Obligations	State Aid		Local Sources	Total
Excel Roof Construction	0001-014	\$ 543,559	\$ 543,559	\$ 543,559	\$ -	\$ 543,559	\$ -	\$ 354,693	\$ 188,366	\$ 500	\$ 543,559	\$ -
Tank Replacement/Boiler Project	0001-015	493,414	505,206	490,288	-	490,288	14,918	160,225	66,397	278,584	505,206	14,918
Cupola Project	0001-016	-	143,000	-	-	-	143,000	-	-	143,000	143,000	143,000
Masonry Reconstruction	0001-017	-	293,600	-	19,448	19,448	274,152	-	-	293,600	293,600	274,152
TOTAL		<u>\$ 1,036,973</u>	<u>\$ 1,483,365</u>	<u>\$ 1,033,847</u>	<u>\$ 19,448</u>	<u>\$ 1,053,295</u>	<u>\$ 432,070</u>	<u>\$ 514,918</u>	<u>\$ 254,763</u>	<u>\$ 715,684</u>	<u>\$ 1,485,365</u>	<u>432,070</u>
Less: transfer to general fund (14,918)												
Fund Balance												
<u>\$ 417,152</u>												

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES
COMPARED TO ST-3 DATA
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Property Taxes	A-1001	\$ 15,526,883	\$ 15,526,883
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	5,606,997	5,606,997
Federal Aid	AT-4999	-	-
TOTAL REVENUES	AT-5999	23,431,303	23,431,303
EXPENDITURES			
General Support	AT-1999	1,747,171	1,747,171
Pupil Transportation	AT-5599	1,282,827	1,282,827
Debt Service-Principal	AT-9798.6	809,918	809,918
Debt Service-Interest	AT-9798.7	951,529	951,529
TOTAL EXPENDITURES	AT-9999	23,303,132	23,303,132

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2012**

Capital assets, net		\$ 22,826,204
Deduct:		
Short-term portion of construction bonds payable, net	\$ (699,091)	
Long-term portion of construction bonds payable, net	<u>(19,639,621)</u>	
		<u>(20,338,712)</u>
Investment in capital assets, net of related debt		<u><u>\$ 2,487,492</u></u>

**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 the financial statements of the governmental activities, each major fund and the fiduciary funds of the East Moriches Union Free School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the East Moriches Union Free School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the East Moriches Union Free School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the East Moriches Union Free School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the East Moriches Union Free School District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we 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 22, 2012.

This report is intended solely for the use and information of the Board of Education, Audit Committee, management, others you deem appropriate within the District, and any governmental authorities you need to share this information with. It is not intended to be and should not be used by anyone other than these specified parties.

Cullin & Danowski, LLP

October 22, 2012

