



**EAST MORICHES
UNION FREE SCHOOL DISTRICT**

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

June 30, 2009

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, 2009, 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.

Except as discussed in the following paragraph, 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.

Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amounts at which capital assets, net (stated at \$20,947,023) and investment in capital assets, net of related debt (stated at \$0) are recorded in the accompanying Statement of Net Assets at June 30, 2009, or the amount of depreciation expense (stated at \$614,282) recorded in the accompanying Statement of Activities for the year then ended.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the capital assets, net, investment in capital assets, net of related debt, and depreciation expense, been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of East Moriches Union Free School District as of June 30, 2009, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* for the year ended June 30, 2009.

In addition, in our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of each major fund, as well as, the fiduciary funds of the East Moriches Union Free School District as of June 30, 2009, 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 2, 2009, 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.

The management's discussion and analysis, budgetary comparison information and the schedule of funding progress for other postemployment benefits on pages 3 through 12 and 43 through 45, respectively, are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Moriches Union Free School District's basic financial statements. The other supplementary information on pages 46 through 49 is not a required part of the basic financial statements, but is supplementary information required by the New York State Education Department. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the other supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying management responses in the schedule of findings and responses and corrective action plan are presented for purposes of additional analysis as required by *Government Auditing Standards* and are not required parts of the basic financial statements of East Moriches Union Free School District. The management responses in the schedule of findings and responses and corrective action plan have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Coughlin, Fenwick, Cullen & Demowski, LLP

October 2, 2009

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

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, 2009. 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

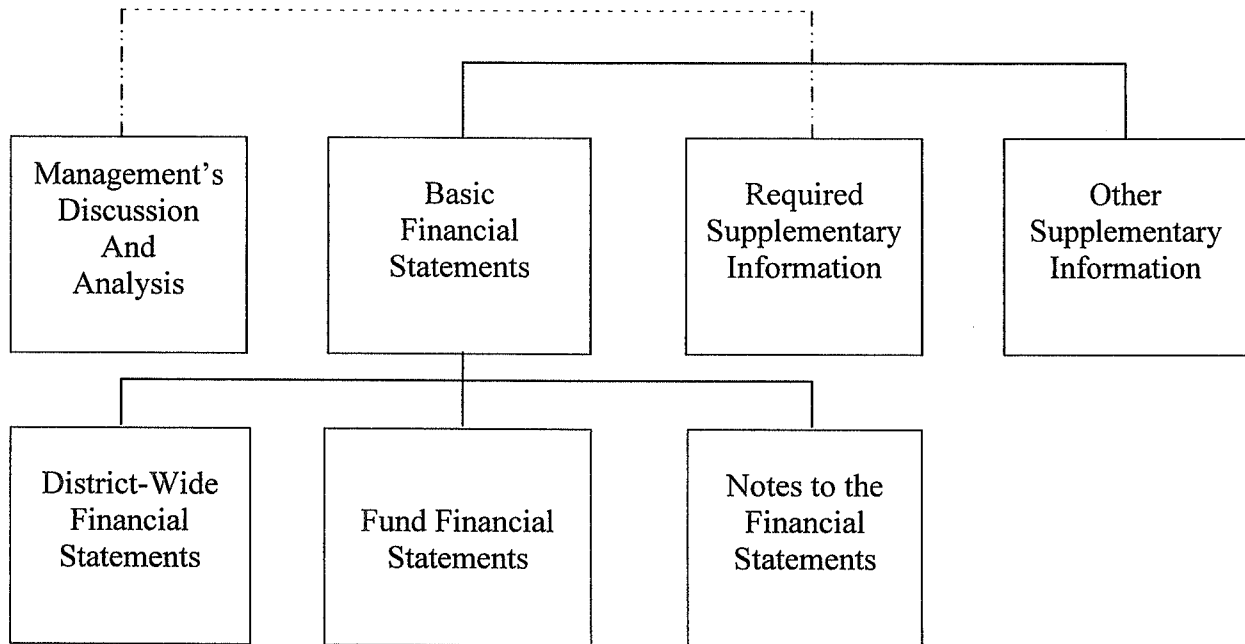
Key financial highlights for the fiscal year 2009 are as follows:

- The District's net deficit, as reflected in the district-wide financial statements, decreased by \$130,475.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by approximately \$943,000.
- The 2009-2010 budget in the amount of \$23,748,980 was approved by the voters.
- The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB) during the year. Under the accrual basis of accounting, the District is now required to record, as a current year expense, the cost of providing health retirement benefits to active and retired employees. During the year ended June 30, 2009, the District recorded an increase in net OPEB obligation of \$904,348 relating to these benefits.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: management's discussion and analysis (MD&A), the basic financial statements, required supplementary information and optional supplementary information. The basic financial statements consist of district-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationships of these statements follows:

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**



A. District-Wide Financial Statements

The district-wide financial statements are organized to provide an understanding of the fiscal performance of the District as a whole in a manner similar to a private sector business. There are two district-wide financial statements - the Statement of Net Assets and the Statement of Activities. These statements provide both an aggregate and long-term view of the District's finances.

These statements utilize the accrual basis of accounting. The accrual basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Assets

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

The Statement of Activities

The Statement of Activities presents information showing the change in net assets during the fiscal year. All changes in net assets are recorded at the time the underlying financial event occurs. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future periods.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the District are reported in the governmental funds and the fiduciary funds.

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period that they become measurable, funded through available resources and payable within a current period.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides.

Because the focus of governmental funds is narrower than that of district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, you may better understand the long-term impact of the District's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues and Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds: general fund, special aid fund, school lunch fund and capital projects fund; each of which is considered to be a major fund and is presented separately in the fund financial statements.

Fiduciary funds

Fiduciary funds are used to account for assets held by the District in its capacity as agent or trustee. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. The fiduciary activities have been excluded from the district-wide financial statements because the District cannot use these assets to finance its operations.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Assets

The District's total net deficit decreased by \$130,475 between fiscal year 2009 and 2008. A summary of the District's Statements of Net Assets for June 30, 2009 and 2008 is as follows:

	Fiscal Year 2009	Fiscal Year 2008	Increase/ (Decrease)	Total Percentage Change
Current assets and other assets	\$ 9,658,078	\$ 8,623,483	\$ 1,034,595	12%
Capital assets, net	20,947,023	21,525,191	(578,168)	-3%
Total Assets	<u>\$ 30,605,101</u>	<u>\$ 30,148,674</u>	<u>\$ 456,427</u>	2%
Long-term liabilities	\$ 25,062,431	\$ 24,895,950	\$ 166,481	1%
Other liabilities	7,607,095	7,447,624	159,471	2%
Total Liabilities	<u>\$ 32,669,526</u>	<u>\$ 32,343,574</u>	<u>\$ 325,952</u>	1%
Net Deficit				
Unrestricted (Deficit)	<u>\$ (2,064,425)</u>	<u>\$ (2,194,900)</u>	<u>\$ 130,475</u>	6%
Total Net Deficit	<u>\$ (2,064,425)</u>	<u>\$ (2,194,900)</u>	<u>\$ 130,475</u>	6%

Current and other assets increased by \$1,034,595, compared to the prior year. Cash increased by approximately \$1,400,000 while receivables, primarily amounts due from other governments, decreased by approximately \$365,000.

Total liabilities increased by \$325,952, compared to the prior year. The increase was primarily due to the District's recording the net OPEB obligations at June 30, 2009 and higher compensated absences liability, offset by lower accounts payable and bonds payable.

The unrestricted net deficit in the amount of \$2,064,425 relates to the balance of the District's net assets. The deficit decreased from the prior year by \$130,475.

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 this statement for the years ended June 30, 2009 and 2008 is as follows:

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

	Fiscal Year 2009	Fiscal Year 2008	Increase (Decrease)	Total Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 300,402	\$ 189,823	\$ 110,579	58.25%
Operating Grants	419,321	355,939	63,382	17.81%
General Revenues				
Property Taxes & STAR	16,079,668	14,795,540	1,284,128	8.68%
State Sources	6,784,526	6,615,812	168,714	2.55%
Other	580,970	544,143	36,827	6.77%
Total Revenues	<u>\$ 24,164,887</u>	<u>\$ 22,501,257</u>	<u>\$ 1,663,630</u>	7.39%
Expenses				
General Support	\$ 1,940,245	\$ 1,917,581	\$ 22,664	1.18%
Instruction	19,292,787	17,328,829	1,963,958	11.33%
Pupil Transportation	1,448,105	1,296,705	151,400	11.68%
Community Service	-	2,928	(2,928)	-100.00%
Debt Service - Interest	1,113,445	1,164,761	(51,316)	-4.41%
School Lunch Program	239,830	189,549	50,281	26.53%
Total Expenses	<u>\$ 24,034,412</u>	<u>\$ 21,900,353</u>	<u>\$ 2,134,059</u>	9.74%
Increase in Net Assets	<u>\$ 130,475</u>	<u>\$ 600,904</u>	<u>\$ (470,429)</u>	-78.29%

The District's net assets increased by \$130,475 and \$600,904 for the years ended June 30, 2009 and 2008, respectively.

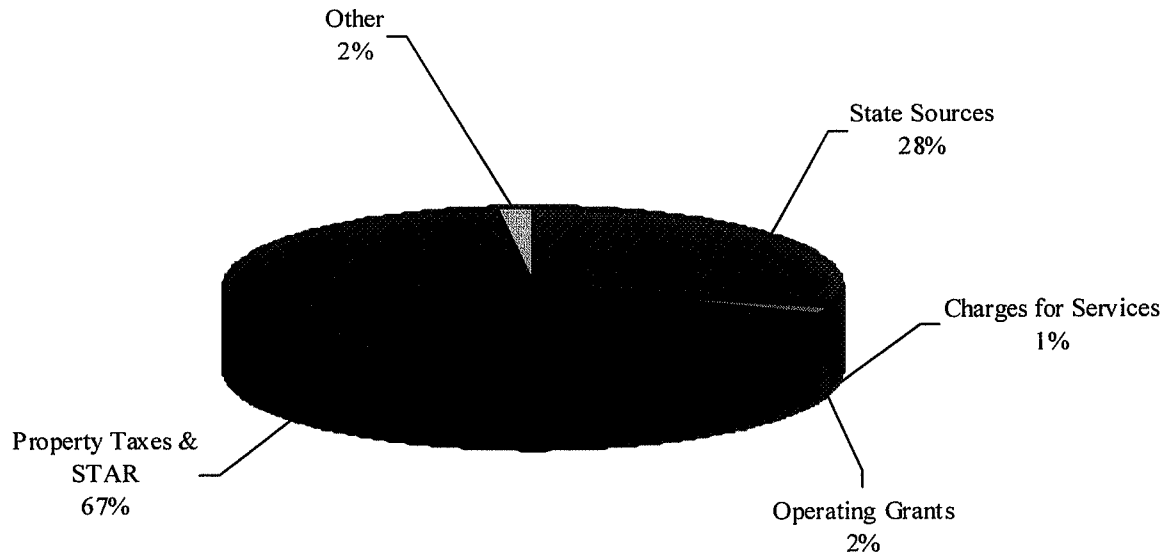
The District's revenues increased by \$1,663,630 or 7.39%. Most of the increase is attributable to property taxes and state aid.

The District's expenses increased by \$2,134,059 or 9.74%. Most of the increase is attributable to instruction, pupil transportation and the net OPEB obligation.

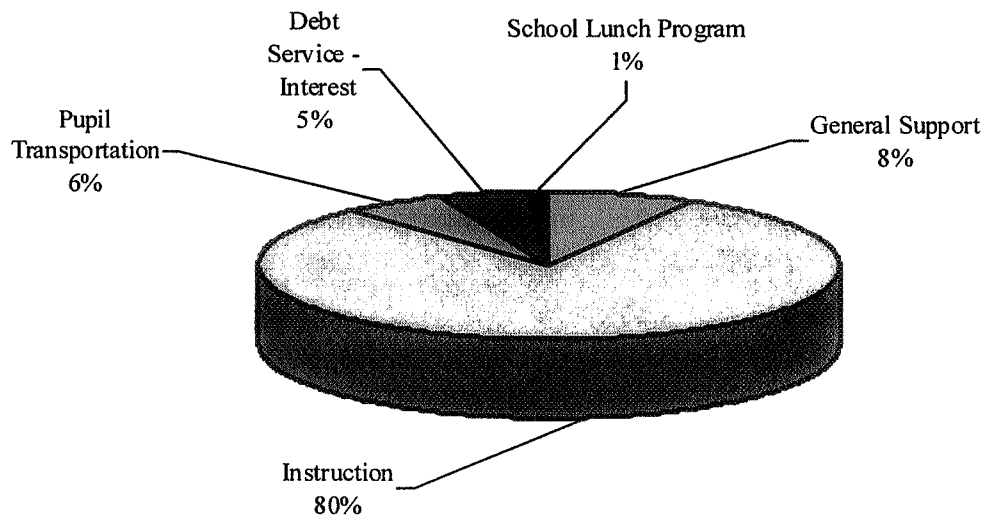
As indicated in the pie charts that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 67% of the total for 2009.) Instructional expenses is the largest category of expenses incurred (i.e., 80% of the total for 2009).

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

A graphic display of the distribution of revenues for Fiscal Year 2009 as follows:



A graphic display of the distribution of expenses for Fiscal Year 2009 as follows:



**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2009, the District's governmental funds reported a combined fund balance of \$2,502,687, which is an increase of \$864,083 from the prior year. A summary of the change in fund balance by fund is as follows:

	Fiscal Year 2009	Fiscal Year 2008	Changes
General Fund			
Reserve for Encumbrances	\$ 97,219	\$ 46,908	\$ 50,311
Reserve for Employee Benefits			
Accrued Liability	506,504	100,000	406,504
Reserve for Unemployment	25,000	-	25,000
Reserve for Retirement Contribution	200,000	-	200,000
Unreserved - Designated	425,000	550,000	(125,000)
Unreserved - Undesignated	<u>1,267,677</u>	<u>881,230</u>	<u>386,447</u>
	<u>2,521,400</u>	<u>1,578,138</u>	<u>943,262</u>
School Lunch Fund			
Reserve for Encumbrances	0	2,105	(2,105)
Reserve for Inventory	5,117	4,612	505
Unreserved - Undesignated	<u>12,284</u>	<u>53,749</u>	<u>(41,465)</u>
	<u>17,401</u>	<u>60,466</u>	<u>(43,065)</u>
Capital Projects Fund			
Reserve for Encumbrances	454,900	-	454,900
Unreserved - Undesignated (Deficit)	<u>(491,014)</u>	<u>-</u>	<u>(491,014)</u>
	<u>(36,114)</u>	<u>-</u>	<u>(36,114)</u>
Total Fund Balance	<u><u>\$ 2,502,687</u></u>	<u><u>\$ 1,638,604</u></u>	<u><u>\$ 864,083</u></u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$943,262, primarily due to revenues of \$23,593,820, in excess of expenditures and other uses of \$22,650,558 based on the modified accrual basis of accounting. Compared to the prior year, revenues grew 7.3% while expenditures grew 6.9%. The District transferred \$731,504 of the surplus into reserves.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is a decrease of \$43,065, which was attributable to the allocation of additional costs for monitors' to the program.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$36,114. The decrease is due to expenditures incurred for the new EXCEL projects. Revenues will be recognized in a future period when the EXCEL aid from the state becomes available.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2008-2009 Budget

The District's General Fund budget for the year ended June 30, 2009 was \$23,394,907. This amount was increased by encumbrances carried forward from the prior year in the amount of \$46,908 and budget revisions of \$10,000, which resulted in a final budget of \$23,451,815. The majority of the funding was property taxes and STAR revenue of \$15,954,779.

B. Change in General Fund's Unreserved–Undesignated Fund Balance (Budget to Actual)

The General Fund's unreserved – undesignated fund balance is a component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves and designations to fund the subsequent years' budget. It is this balance that is commonly referred to as "Fund Balance." The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget is as follows:

Opening, Unreserved – Undesignated Fund Balance	\$ 881,230
Revenues Over Budget	738,913
Expenditures and Encumbrances Under Budget	704,038
Transfer to Reserve for Employee Benefit Accrued Liability	(406,504)
Transfer to Reserve for Unemployment Insurance	(25,000)
Transfer to Reserve for Retirement Contribution	(200,000)
Appropriated for June 30, 2010 Budget	(425,000)
Closing, Unreserved – Undesignated Fund Balance	<u>\$ 1,267,677</u>

Opening Unreserved – Undesignated Fund Balance

The unreserved – undesignated fund balance represents the fund balance retained by the District as of June 30, 2008 that is not reserved or designated for subsequent year's taxes.

Revenues Over budget

The 2008-2009 final budget for revenues was \$22,854,907. Actual revenues received for the year were \$23,593,820. The excess of revenue over estimated revenue was \$738,913.

Expenditures and Encumbrances Under Budget

The 2008-2009 final budget for expenditures was \$23,451,815. Actual expenditures for the year were \$22,650,558 and outstanding encumbrances were \$97,219 at June 30, 2009. The final budget

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

was under expended/under encumbered by \$704,038. The expenditures and encumbrances under budget were primarily in instruction and employee benefits.

Closing Unreserved – Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2009-2010 fiscal year with an undesignated fund balance of \$1,267,677. The unreserved undesignated fund balance is in excess of the New York State Real Property Tax Law §1318 limit.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2009, the District had invested in a broad range of capital assets, including land, buildings, and improvements and equipment. The net decrease in capital assets is due to depreciation in excess of capital additions recorded for the year ended June 30, 2009. A summary of the District's capital assets, net of depreciation at June 30, 2009 and 2008 is as follows:

<u>Category</u>	<u>Fiscal Year 2009</u>	<u>Fiscal Year 2008</u>	<u>Increase (Decrease)</u>
Land & Land Improvements	\$ 265,000	\$ 265,000	-
Construction in Progress	36,114	-	36,114
Buildings & Building Improvements	24,536,298	24,536,298	-
Furniture & Equipment	824,499	824,499	-
Subtotal	25,661,911	25,625,797	36,114
Less: Accumulated Depreciation	4,714,888	4,100,606	614,282
Total Net Capital Assets	<u>\$ 20,947,023</u>	<u>\$ 21,525,191</u>	<u>\$ (578,168)</u>

B. Debt Administration

At June 30, 2009, the District had total bonds payable of \$23,365,000. 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 of \$2,000,000 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. The decrease in outstanding debt represents principal payments.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

A summary of the outstanding debt at June 30, 2009 and 2008 is as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
July 2, 2003	4.0-5.0%	\$ 21,555,000	\$ 22,090,000	\$ (535,000)
June 15, 2007	3.75-4.375%	1,810,000	2,000,000	(190,000)
		<u>\$ 23,365,000</u>	<u>\$ 24,090,000</u>	<u>\$ (725,000)</u>

The District's latest municipal bond rating from Standard and Poor's is A+. The District's total outstanding indebtedness is approximately 23% of its debt limit.

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

The General Fund budget for the 2009-2010 school year in the amount of \$23,748,980 was approved by the voters. This is an increase of \$354,073 or 1.51% over the previous year's budget. The increase was primarily due to increases in instructional costs and general support services.

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, 2009

ASSETS

Cash	
Unrestricted	\$ 8,578,665
Receivables	
Taxes receivable	10,160
Accounts receivable	9,175
Due from other governments	955,246
Due from other funds	99,715
Inventories	5,117
Capital assets, net	
Capital assets not being depreciated	301,114
Capital assets being depreciated, net of accumulated depreciation	<u>20,645,909</u>
TOTAL ASSETS	<u>\$ 30,605,101</u>

LIABILITIES

Payables	
Accounts payable	\$ 1,640,198
Accrued liabilities	11,213
Bond interest payable	451,704
Tax anticipation notes payable	5,000,000
Due to other governments	1,028
Due to teachers' retirement system	479,412
Due to employees' retirement system	17,207
Deferred revenue	6,333
Long-term liabilities	
Due and payable within one year	
Bonds payable	750,000
Compensated absences payable	216,394
Due and payable after one year	
Bonds payable	22,615,000
Compensated absences payable	576,689
Net OPEB obligation	<u>904,348</u>
TOTAL LIABILITIES	32,669,526
NET DEFICIT	<u>(2,064,425)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 30,605,101</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

		Program Revenues		Net (Expense)
	Expenses	Charges for	Operating	Revenue and
		Services	Grants	Changes in
FUNCTIONS / PROGRAMS				Net Assets
General support	\$ (1,940,245)			\$ (1,940,245)
Instruction	(19,292,787)	\$ 151,213	\$ 374,302	(18,767,272)
Pupil transportation	(1,448,105)			(1,448,105)
Debt service-Interest	(1,113,445)			(1,113,445)
School lunch program	(239,830)	149,189	45,019	(45,622)
TOTAL FUNCTIONS AND PROGRAMS	<u>\$ (24,034,412)</u>	<u>\$ 300,402</u>	<u>\$ 419,321</u>	<u>(23,314,689)</u>
GENERAL REVENUES				
Real property taxes				\$ 14,343,329
Other tax items - including STAR reimbursement				1,757,591
Use of money & property				100,832
Sale of property and compensation for loss				2,515
Miscellaneous				456,371
State sources				6,784,526
TOTAL GENERAL REVENUES				<u>\$ 23,445,164</u>
CHANGE IN NET ASSETS				130,475
TOTAL NET DEFICIT - BEGINNING OF YEAR				<u>(2,194,900)</u>
TOTAL NET DEFICIT - END OF YEAR				<u>\$ (2,064,425)</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 8,542,471	\$ 3,192	\$ 33,002	\$ -	\$ 8,578,665
Receivables					
Taxes receivable	10,160				10,160
Accounts receivable	9,175				9,175
Due from other governments	607,963	334,472	12,811		955,246
Due from other funds	450,978				450,978
Inventories			5,117		5,117
TOTAL ASSETS	<u>\$ 9,620,747</u>	<u>\$ 337,664</u>	<u>\$ 50,930</u>	<u>\$ -</u>	<u>\$ 10,009,341</u>
LIABILITIES AND FUND EQUITY					
Payables					
Accounts payable	\$ 1,585,182	\$ 7,256	\$ 17,849	\$ 29,911	\$ 1,640,198
Accrued liabilities	11,213				11,213
Tax anticipation notes payable	5,000,000				5,000,000
Due to other governments			1,028		1,028
Due to other funds		330,408	14,652	6,203	351,263
Due to teachers' retirement system	479,412				479,412
Due to employees' retirement system	17,207				17,207
Deferred credits					
Deferred revenue	6,333				6,333
TOTAL LIABILITIES	<u>7,099,347</u>	<u>337,664</u>	<u>33,529</u>	<u>36,114</u>	<u>7,506,654</u>
FUND BALANCES					
Reserve for Encumbrances	97,219			454,900	552,119
Reserve for Employee benefits accrued liability	506,504				506,504
Reserve for Unemployment insurance	25,000				25,000
Reserve for Retirement contribution	200,000				200,000
Reserve for Inventory			5,117		5,117
Unreserved-Designated for Subsequent Year's Expenditures	425,000				425,000
Unreserved-Undesignated (Deficit)	1,267,677		12,284	(491,014)	788,947
TOTAL FUND BALANCES (DEFICIT)	<u>2,521,400</u>	<u>-</u>	<u>17,401</u>	<u>(36,114)</u>	<u>2,502,687</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,620,747</u>	<u>\$ 337,664</u>	<u>\$ 50,930</u>	<u>\$ -</u>	<u>\$ 10,009,341</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total Governmental Fund Balances	\$ 2,502,687
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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	25,661,911
Accumulated depreciation	(4,714,888)
	20,947,023

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	(23,365,000)
Accrued interest on bonds payable	(451,704)
Compensated absences	(793,083)
Net OPEB obligation	(904,348)
	(25,514,135)

Total Net Deficit	\$ (2,064,425)
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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, 2009

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$14,343,329	\$ -	\$ -	\$ -	\$ 14,343,329
Other tax items	1,757,591				1,757,591
Charges for services	151,213				151,213
Use of money and property	100,790		42		100,832
Sale of property and compensation for loss			2,515		2,515
Miscellaneous	456,371				456,371
State sources	6,784,526	178,493	3,015		6,966,034
Federal sources		195,809	22,905		218,714
Surplus food			19,099		19,099
Sales			149,189		149,189
TOTAL REVENUES	23,593,820	374,302	196,765	-	24,164,887
EXPENDITURES					
General support	1,573,227				1,573,227
Instruction	15,753,827	337,150			16,090,977
Pupil transportation	1,380,979	67,126			1,448,105
Employee benefits	2,063,065				2,063,065
Debt service - Principal	725,000				725,000
Debt service - Interest	1,124,486				1,124,486
Cost of sales			239,830		239,830
Capital outlay				36,114	36,114
TOTAL EXPENDITURES	22,620,584	404,276	239,830	36,114	23,300,804
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	973,236	(29,974)	(43,065)	(36,114)	864,083
OTHER FINANCING SOURCES AND USES					
Operating transfers in		29,974			29,974
Operating transfers (out)	(29,974)				(29,974)
TOTAL OTHER SOURCES (USES)	(29,974)	29,974	-	-	-
NET CHANGE IN FUND BALANCES	943,262	-	(43,065)	(36,114)	864,083
FUND BALANCE - BEGINNING OF YEAR	1,578,138		60,466	-	1,638,604
FUND BALANCE (DEFICIT) - ENDING OF YEAR	\$ 2,521,400	\$ -	\$ 17,401	\$ (36,114)	\$ 2,502,687

**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, 2009**

Net change in Fund Balances	\$ 864,083
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Amounts reported for governmental activities in the Statement of Activities are different because:

Long-Term Revenue and Expense Differences

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in a reduction of the long-term liability and an increase in net assets.

Decrease in the workers' compensation liability	73,508
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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	(60,641)
Increase in the net OPEB obligation	(904,348)
	(964,989)

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 for construction in progress	36,114
Depreciation expense	(614,282)
	(578,168)

Long-Term Debt Transaction Differences

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.

	725,000
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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, 2008 to June 30, 2009.

	11,041
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Change in Net Assets of Governmental Activities	\$ 130,475
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EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
JUNE 30, 2009

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
ASSETS		
Cash	\$ 147,693	\$ 1,493
TOTAL ASSETS	<u>\$ 147,693</u>	<u>\$ 1,493</u>
LIABILITIES		
Due to other funds	\$ 99,715	\$ -
Extraclassroom activity balance	37,384	
Other liabilities	10,594	
TOTAL LIABILITIES	<u>\$ 147,693</u>	<u>\$ -</u>
NET ASSETS		
Reserved for scholarships		\$ 1,493
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,493</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Interest and earnings	\$ 5
TOTAL ADDITIONS	<u>5</u>
DEDUCTIONS	
Scholarships and awards	<u>25</u>
TOTAL DEDUCTIONS	<u>25</u>
CHANGE IN NET ASSETS	(20)
NET ASSETS - BEGINNING OF YEAR	<u>1,513</u>
NET ASSETS - ENDING OF YEAR	<u><u>\$ 1,493</u></u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

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.

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, 2009**

B) Joint Venture

The District is one of 51 component school districts 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. Indirect expenses, principally 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, 2009**

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.

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, 2009

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 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) 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

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

one year. Permanent transfers of funds include the transfers in and transfers out to provide financing or other services.

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.

G) 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.

H) Cash and Cash Equivalents/Investments

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.

Investments are reported at fair value, based on quoted market prices.

I) Receivables

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

J) 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

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

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.

K) Capital Assets

Capital assets are reflected in the district-wide financial statements. Capital assets 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	50 years
Site improvements	1,500	30 years
Furniture and equipment	500	5-20 years

L) 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.

M) 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, 2009

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.

N) 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 post-employment benefits in accordance with GASB Statement No. 45 (GASB 45) *Accounting and Financial Reporting by Employers for Post Employment 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.

O) 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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

P) Accrued Liabilities and Long-Term Obligations

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

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

Q) Equity Classifications

District-Wide statements

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

Invested in capital assets, net of related debt consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, 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 Statements

Unreserved fund balance consists of two classifications. First, a designation of unreserved fund balance indicates the planned use of these resources in the subsequent year's budget. Second, the undesignated portion reports remaining fund balance that has not been designated or reserved. NYS Real Property Tax Law 1318, as amended with an effective date of July 1, 2007, restricts the

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

unreserved, undesignated fund balance of the General Fund to an amount not greater than 4% of the subsequent year's budget.

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. These reserve funds are established through Board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund.

Fund balance reserves currently in use by the District include the following:

Reserve for Encumbrances

Reserve for Encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year. The reserve is accounted for in the General Fund and the Capital Projects Fund.

Reserve for Employee Benefit Accrued Liability

Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefit 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. The reserve is accounted for in the General Fund.

Reserve for Unemployment Insurance

Unemployment Insurance Reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the General Fund.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

Reserve for Retirement Contribution

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

Reserve for Inventory

Reserve for Inventory is used to restrict that portion of fund balance, which is not available for appropriation. The reserve is accounted for in the School Lunch Fund.

Reserve for Scholarships

Reserve for Scholarships is used to account for monies donated for scholarship purposes, net of earnings and awards. The reserve is accounted for in the Private Purpose Trust Fund.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES

For the year ended June 30, 2009, the District implemented GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*. GASB 45 establishes standards for the measurement, recognition and display of other post employment benefit expenses/expenditures and related liabilities, note disclosures, and required supplementary information (RSI) in the financial reports of State and local government employers.

NOTE 3 – 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

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

Statement of Net Assets versus the solely current financial resources focus of the governmental funds Balance Sheet.

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

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

(i) Long-Term Revenue and Expense Differences

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

(ii) Capital Related Differences

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

(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 4 – 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.

Appropriations are adopted at the program line item level.

The voters of the District defeated the proposed budget; consequently, the Board of Education adopted a contingency budget, which includes appropriations for teachers’ salaries and other ordinary contingent expenses. The contingency budget total is capped

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

at the lesser of 120% of the CPI or 4% over the prior year's budget. In addition, the administrative component of a contingency budget, exclusive of the capital component, may not comprise a greater percentage of the budget than the lesser of that percentage of the prior year's budget or that percentage in the last defeated budget.

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 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 2009
Budget Revisions:	
Contingent expenditures funded by donations	<u>\$10,000</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 reservations of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

Unreserved-Undesignated Fund Balance

The District's unreserved undesignated 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 undesignated fund balance to within the permissible limit. This plan will address funding its reserves to a fiscally prudent level and addressing the capital needs of the District.

Over Expenditures of Certain Appropriations

Certain general fund appropriations were over expended. These were in the following appropriation categories of the budget: general support and instruction. The general fund budget in total was not over expended.

Inter-fund Transfers

The District made inter-fund transfers during the year, which exceeded amounts provided in the District's budget.

Capital Projects Fund

The capital projects fund had a deficit unreserved-undesignated fund balance of \$491,014. This will be funded when the District obtains Excel aid for its current construction project. The District issued a bond anticipation note on July 1, 2009 in the amount of \$514,918 as temporary financing until this EXCEL aid is received from the State for the roof construction project.

NOTE 5 – 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:

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

- 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 risk or foreign currency risk.

NOTE 6 – PARTICIPATION IN BOCES

During the year ended June 30, 2009, the District was billed \$2,560,721 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$254,769. Financial statements for the BOCES are available from the BOCES administrative office at 201 Sunrise Highway, Patchogue, New York 11772.

NOTE 7 – DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2009 consisted of:

General Fund	
New York State Aid – General Aid	\$ 48,482
New York State Aid – Excess Cost Aid	140,865
New York State Aid – Tuition Chapter 47	243,768
BOCES Aid	121,940
Other Districts - Tuition	52,908
	<hr/> 607,963
Special Aid Fund	
Federal and state grants	334,472
School Lunch Fund	
Federal and state food service program reimbursements	<hr/> 12,811
	<hr/> \$ 955,246

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 8 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2009 were as follows:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 265,000	\$ -	\$ -	\$ 265,000
Construction in Progress	-	36,114	-	36,114
Total capital assets not being depreciated	265,000	36,114	-	301,114
Capital assets that are depreciated:				
Building and Improvements	24,536,298	-	-	24,536,298
Furniture and equipment	824,499	-	-	824,499
Total capital assets being depreciated	25,360,797	-	-	25,360,797
Less accumulated depreciation for:				
Building and Improvements	3,345,138	545,251		3,890,389
Furniture and equipment	755,468	69,031		824,499
Total accumulated depreciation	4,100,606	614,282	-	4,714,888
Capital assets, net	\$ 21,525,191	\$ (578,168)	\$ -	\$ 20,947,023

Depreciation expense was charged to governmental functions as follows:

General support	\$ 55,807
Instruction	558,475
Total depreciation expense	<u>\$ 614,282</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 9 – INTERFUND TRANSACTIONS

	Interfund		Interfund	
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 450,978	\$ -	\$ -	\$ 29,974
Special Aid Fund		330,408	29,974	
School Lunch Fund		14,652		
Capital Projects Fund		6,203		
Total government activities	450,978	351,263	29,974	29,974
Fiduciary Agency Fund		99,715		
Totals	<u>\$ 450,978</u>	<u>\$ 450,978</u>	<u>\$ 29,974</u>	<u>\$ 29,974</u>

The District typically transfers from the General Fund to the Special Aid Fund in accordance with the general fund budget.

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 10 - SHORT-TERM DEBT

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

	Maturity	Interest Rate (Average)	Beginning Balance	Issued	Redeemed	Ending Balance
TANs	6/24/2009	2.62%	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
TANs	6/24/2010	2.22%	-	5,000,000	-	5,000,000
Total			<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

Interest expense on short-term debt for the year ended June 30, 2009 was \$130,037.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 11 – LONG-TERM DEBT OBLIGATIONS

The following tables summarize the changes in governmental activities in long-term liabilities for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
Long-term liabilities:					
Bonds payable	\$ 24,090,000	\$ -	\$ 725,000	\$ 23,365,000	\$ 750,000
Other long-term liabilities:					
Compensated absences	732,442	65,004	4,363	793,083	216,394
Workers' compensation	73,508	-	73,508	-	-
Net OPEB obligation		904,348		904,348	-
	<u>\$ 24,895,950</u>	<u>\$ 969,352</u>	<u>\$ 802,871</u>	<u>\$ 25,062,431</u>	<u>\$ 966,394</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%	\$ 21,555,000
Serial bonds - deficit	6/15/2007	6/30/2017	3.75-4.375%	1,810,000
				<u>\$ 23,365,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ended June 30,	Principal	Interest	Total
2010	\$ 750,000	\$ 964,479	\$ 1,714,479
2011	765,000	933,794	1,698,794
2012	795,000	902,079	1,697,079
2013	820,000	869,349	1,689,349
2014	855,000	835,224	1,690,224
2015-2019	4,235,000	3,628,044	7,863,044
2020-2024	4,290,000	2,783,309	7,073,309
2025-2029	5,365,000	1,783,344	7,148,344
2030-2034	5,490,000	528,083	6,018,083
	<u>\$ 23,365,000</u>	<u>\$ 13,227,705</u>	<u>\$ 36,592,705</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

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

	<u>Total</u>
Interest paid	\$994,449
Less interest accrued in the prior year	(462,745)
Plus interest accrued in the current year	<u>451,704</u>
Total expense	<u><u>\$983,408</u></u>

NOTE 12 – PENSION PLANS

General information

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

Provisions and administration

Teacher's Retirement System

The NYSTRS is administered by the New York State Teachers' Retirement Board. 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 for the System. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

Employee's Retirement System

The NYSERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the State Retirement and Social Security Law. 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, Governor Alfred E. Smith, State Office Building, Albany, New York 12244.

Funding policies

The Systems are noncontributory for the employee, except for employees who joined the Systems after July 27, 1976 with less than 10 years of accredited service, who contribute 3% of their salary. For the NYSERS, the Comptroller shall certify annually, the rates

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

expressed as proportions of members' payroll annually, which shall be 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
2008 - 2009	\$ 64,520	\$ 408,234
2007 - 2008	\$ 81,585	\$ 467,639
2006 - 2007	\$ 103,786	\$ 390,664

NOTE 13 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS

Plan Description

The District provides primarily post employment health insurance coverage (the Healthcare Plan) to retired employees and their spouses in accordance with the provisions of various employment contracts. The Healthcare Plan is a single-employer defined benefit healthcare plan. Benefits are provided through the New York State Health Insurance Program Empire Plan. The District implemented GASB 45 prospectively in this transition year of implementation.

Funding Policy

The District assumes a portion of the premium costs and recognizes the cost of the healthcare plan annually as an expenditure in the general fund of the fund financial statements as payments are made. For the year ended June 30, 2009, the District recognized a general fund expenditure of \$375,941 for insurance premiums for 43 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 post-employment 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:

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

	For the Year Ended June 30, 2009
Annual OPEB Cost and Net OPEB Obligation	
Annual required contribution	\$1,280,289
Interest on net OPEB obligation	0
Adjustment to Annual Required Contribution	0
Annual OPEB cost (expense)	1,280,289
Contributions made	(375,941)
Increase in net OPEB obligation	904,348
Net OPEB obligation-beginning of year	0
Net OPEB obligation-end of year	<u>\$904,348</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009, the transition year, was as follows:

Fiscal Year Ending	Annual OPEB Cost	OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	\$ 1,280,289	\$ 375,941	29%	\$ 904,348

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$12,390,027, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,390,027. The covered payroll (annual payroll of active employees covered by the plan) was \$6,015,574, and the ratio of the UAAL to the covered payroll was 206%.

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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009**

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, 2008 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 4.5% investment rate of return and the healthcare cost trend rate of 10%-12% 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, 2008 was 29 years.

NOTE 14 – RISK MANAGEMENT

General Information

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

Public Entity Risk Pool – Risk Sharing

The District participates in 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, 2009 was \$11,902,759. The District's share of this liability is \$111,886. The Plan has assets of \$8,885,157 available as of June 30, 2009, to pay these liabilities. During the year ended June 30, 2009, the District's contribution to the plan was \$41,689.

The plan has issued financial statements for the year ended June 30, 2009. Copies of these statements can be obtained from the District's administrative office.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 15 – FUND BALANCES – UNRESERVED: DESIGNATED FOR SUBSEQUENT YEARS' EXPENDITURES

The amount of \$425,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2010.

NOTE 16 – LITIGATION

The District is involved in lawsuits arising from the normal conduct of its affairs. Some of these lawsuits seek damages which may be in the excess of the District's insurance coverage. However, it is not possible to determine the District's potential exposure, if any, at this time.

NOTE 17 – 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 \$73,676. The minimum remaining operating lease payments are as follows:

Fiscal Year Ending June 30,	
2010	\$ 73,676
2011	73,676
2012	<u>12,279</u>
	<u>\$ 159,631</u>

NOTE 18 – SUBSEQUENT EVENTS

On July 1, 2009, the District issued a bond anticipation note in the amount of \$514,918 as temporary financing until EXCEL aid is received for the roof construction project. The bond anticipation note is due on July 1, 2010 and bears an interest rate of 2.35%.

**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, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Final Budget Variance with Budgetary Actual</u>
REVENUES				
Local Sources				
Real Property Taxes	\$ 14,176,822	\$ 14,176,822	\$ 14,343,329	\$ 166,507
Other Tax Items	1,777,957	1,777,957	1,757,591	(20,366)
Charges for Services	154,755	154,755	151,213	(3,542)
Use of Money & Property	186,865	186,865	100,790	(86,075)
Miscellaneous	13,108	23,108	456,371	433,263
State Sources	6,125,744	6,125,744	6,784,526	658,782
Medicaid Reimbursement	36,097	36,097	0	(36,097)
Other Sources				
Interfund Revenue	373,559	373,559	0	(373,559)
	<u>\$ 22,844,907</u>	<u>\$ 22,854,907</u>	<u>\$ 23,593,820</u>	<u>\$ 738,913</u>

Note to Required Supplementary Information

Budget Basis of Accounting

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

EAST MORICHES UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance with Budgetary Actual and Encumbrances
EXPENDITURES					
General Support					
Board of Education	\$ 18,020	\$ 21,267	\$ 19,672	\$ 74	\$ 1,521
Central Administration	286,101	290,260	262,346	10	27,904
Finance	240,300	254,250	213,012	31,003	10,235
Staff	16,000	16,000	11,093	8,500	(3,593)
Central Services	1,031,617	1,018,600	882,468	44,435	91,697
Special Items	193,934	193,932	184,636		9,296
Instructional					
Instruction, Adm. & Imp.	215,582	215,270	217,984		(2,714)
Teaching - Regular School	10,566,469	10,481,710	10,278,979	203	202,528
Programs for Children with					
Handicapping Conditions	4,764,729	4,734,272	4,664,190		70,082
Occupational Education	143,000	211,855	212,956		(1,101)
Instructional Media	96,064	119,399	113,539	4,234	1,626
Pupil Services	270,057	284,061	266,179	660	17,222
Pupil Transportation	1,417,373	1,417,373	1,380,979		36,394
Employee Benefits	2,244,143	2,295,143	2,063,065	8,100	223,978
Debt Service					
Debt Service Principal	725,000	725,000	725,000		0
Debt Service Interest	1,194,449	1,143,449	1,124,486		18,963
TOTAL EXPENDITURES	23,422,838	23,421,841	22,620,584	97,219	704,038
Other Financing Uses					
Transfers to Other Funds	18,977	29,974	29,974		0
	23,441,815	23,451,815	22,650,558	\$ 97,219	\$ 704,038
Net changes in fund balance	(596,908)	(596,908)	943,262		
Fund balance - beginning	596,908	596,908	1,578,138		
Fund balance - ending	\$ -	\$ -	\$ 2,521,400		

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 POST-EMPLOYMENT BENEFITS (OPEB)
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Covered Payroll</u>
July 1, 2008	\$ -	\$ 12,390,027	\$ 12,390,027	0.00%	\$ 6,015,574	205.97%

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND USE OF UNRESERVED FUND BALANCE- GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 23,394,907
Add: Prior year's encumbrances	46,908
Original Budget	<u>\$ 23,441,815</u>
Budget Revision:	<u>10,000</u>
Final Budget	<u><u>\$ 23,451,815</u></u>
Next year's budget is a voter-approved budget of	<u><u>\$ 23,748,980</u></u>

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance- As of the beginning of the year	\$ 1,431,230
Less:	
Designated fund balance used for the levy of taxes- Adopted Budget	<u>550,000</u>
Undesignated Fund Balance- As of the beginning of the year	<u><u>\$ 881,230</u></u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
AS OF JUNE 30, 2009

Project Title	Project #	Budget		Expenditures		Unexpended Balance	Methods of Financing		Proceeds of Obligations	Local Sources		Total	Fund Balance June 30, 2009
		June 30, 2008	June 30, 2009	Prior Years	Current Year		State Aid	Local		State Aid	Sources		
EXCEL Roof Construction	0001-014	\$ -	\$ 769,683	\$ -	\$ 36,114	\$ 36,114	#####	\$ -	\$ -	#####	\$ -	\$ 769,683	\$ 733,569
TOTAL		\$ -	\$ 769,683	\$ -	\$ 36,114	\$ 36,114	#####	\$ -	\$ -	#####	\$ -	\$ 769,683	733,569
Less: State aid not recognized													(769,683)
Fund Balance													\$ (36,114)

**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, 2009**

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Property Taxes	A-1001	\$ 14,343,329	\$ 14,343,329
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	6,784,526	6,784,526
Federal Aid	AT-4999	-	-
TOTAL REVENUES	AT-5999	23,593,820	23,593,820
EXPENDITURES			
General Support	AT-1999	1,573,227	1,573,227
Pupil Transportation	AT-5599	1,380,979	1,380,979
Debt Service-Principal	AT-9798.6	725,000	725,000
Debt Service-Interest	AT-9798.7	1,124,486	1,124,486
TOTAL EXPENDITURES	AT-9999	22,650,558	22,650,558

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2009**

Capital assets, net		\$ 20,947,023
Deduct:		
Short-term portion of bonds payable	\$ (555,000)	
Long-term portion of bonds payable	<u>(21,000,000)</u>	
		(21,555,000)
Plus: Portion of debt not related to capital assets, net		<u>607,977</u>
Investment in capital assets, net of related debt		<u><u>\$ -</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, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 2, 2009. Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amounts at which capital assets, net (stated at \$20,947,023) and investment in capital assets, net of related debt (stated at \$0) are recorded in the accompanying Statement of Net Assets at June 30, 2009, or the amount of depreciation expense (stated at \$614,282) recorded in the accompanying Statement of Activities for the year then ended. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 05-4, to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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 2, 2009.

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.

Coughlin, Funabata Cullen, Demowski, LLP

October 2, 2009

EAST MORICHES UNION FREE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2009

FINANCIAL STATEMENTS FINDING

Significant Deficiency

05-4. Capital Assets

Condition: The District's capital assets record has not been updated and/or validated since 2002.

Criteria: Internal controls should be in place that provide reasonable assurance that the District can account for the capital assets that it purchased.

Effect: Because the District's capital assets are not properly recorded, management can not be sure that it has custody of all previously purchased assets and that the balances are properly stated in the District's financial statements.

Recommendation: The District should obtain a new capital assets inventory. Once this inventory is complete, the District should implement a procedure for updating this record on at least an annual basis.

Management's Response: The District has contracted with an appraisal company to complete a capital assets inventory during the 2009-2010 school year.

EAST MORICHES UNION FREE SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2009

The District's corrective action plan for the year ended June 30, 2009, is under separate cover.

