



**EAST MORICHES
UNION FREE SCHOOL DISTRICT**

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

June 30, 2011

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the East Moriches Union Free School District as of June 30, 2011, 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.

As described in Note 1S, "Adopted Change in Accounting Standards", the District has adopted the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, on our consideration of the East Moriches Union Free School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 3 through 13 and 45 through 47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Moriches Union Free School District's basic financial statements. The other supplementary information on pages 48 through 51 is not a required part of the basic financial statements, but is supplementary information required by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we express no opinion on it.

Cullen & Danowski, LLP

October 19, 2011

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

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, 2011. 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

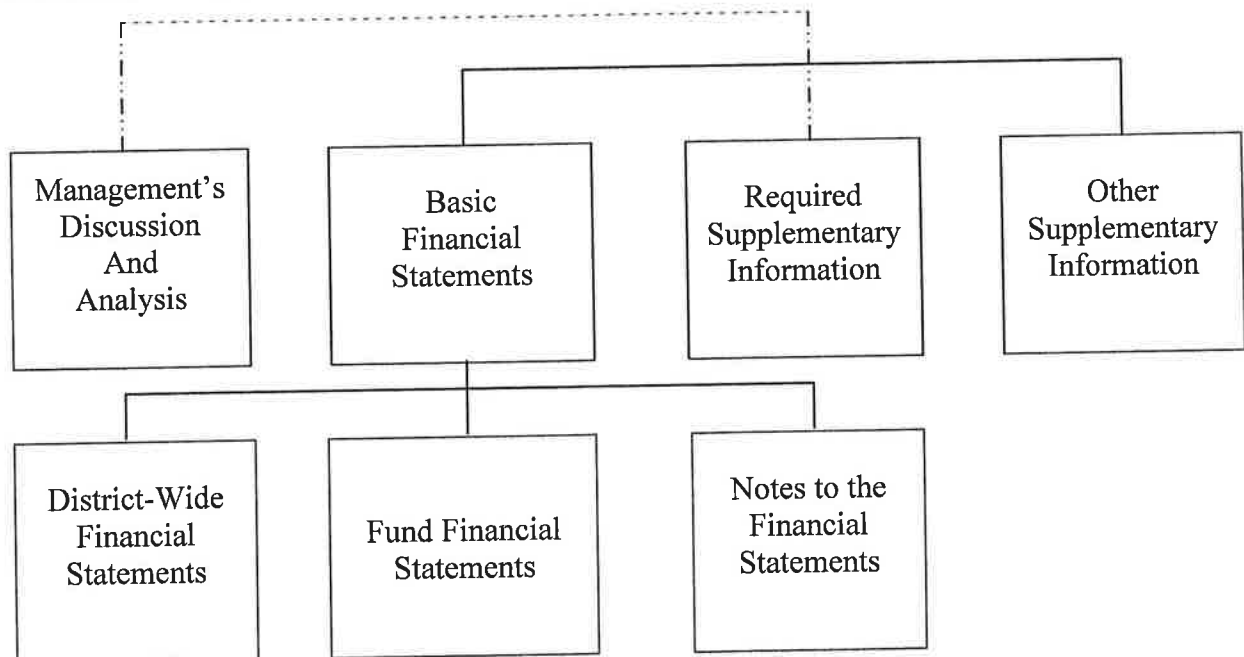
Key financial highlights for the fiscal year 2011 are as follows:

- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$91,820.
- The 2011-2012 budget in the amount of \$24,085,123 was approved by the voters.
- The District's net assets, as reflected in the district-wide financial statements, decreased by \$902,425, which reflects the impact of the net other post employment benefit liability that the District is not permitted to fund by law.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: management's discussion and analysis (MD&A), the basic financial statements, required supplementary information and other 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, 2011**

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 or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities

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.

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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

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.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Assets

The District's total net assets decreased by \$902,425 between fiscal year 2011 and 2010. A summary of the District's Statements of Net Assets for June 30, 2011 and 2010 is as follows:

	Fiscal Year 2011	Fiscal Year 2010	Increase/ (Decrease)	Total Percentage Change
Current assets and other assets	\$ 9,592,823	\$ 11,372,441	\$ (1,779,618)	-15.65%
Capital assets, net	22,960,218	23,287,926	(327,708)	-1.41%
Total Assets	<u>\$ 32,553,041</u>	<u>\$ 34,660,367</u>	<u>\$ (2,107,326)</u>	-6.08%
Current and other liabilities	\$ 7,888,467	\$ 9,315,735	\$ (1,427,268)	-15.32%
Long-term liabilities	22,387,939	23,164,493	(776,554)	-3.35%
Net OPEB obligation	2,870,950	1,872,029	998,921	53.36%
Total Liabilities	<u>\$ 33,147,356</u>	<u>\$ 34,352,257</u>	<u>\$ (1,204,901)</u>	-3.51%
Net Assets				
Investment in capital assets, net of related debt	\$ 2,005,300	\$ 1,981,953	23,347	1.18%
Restricted	736,772	738,521	(1,749)	-0.24%
Unrestricted (deficit)	(3,336,387)	(2,412,364)	(924,023)	-38.30%
Total Net Assets	<u>\$ (594,315)</u>	<u>\$ 308,110</u>	<u>\$ (902,425)</u>	-292.89%

Reclassifications have been made to the restricted and unrestricted net assets to conform to the 2011 financial statement classification. This new classification is consistent to restricted fund balance per

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

Governmental Accounting Standards Board (GASB) Statement No. 54. Such reclassification had no effect on the total assets as previously reported.

Current and other assets decreased by \$1,779,618, compared to the prior year. Cash decreased by approximately \$1,177,000 and amounts due from other governments decreased by approximately \$578,000.

Capital assets, net decreased by \$327,708 as capital asset additions were exceeded by depreciation expense (see Note 7).

Total liabilities decreased by \$1,204,901, compared to the prior year. The decrease was primarily due to a decrease at June 30, 2011 in accrued liabilities due to retirement incentives, tax anticipation notes payable decreased by \$1,000,000, compensated absences payable included significant retirements in 2010 and repayment of serial bonds offset by the increase in the net OPEB obligation.

The net assets invested in capital assets, net of related debt, relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, and furniture & equipment, net of depreciation and related debt. This number increased from the prior year by \$23,347 primarily due to capital additions (not financed by debt) and principal payments on debt used to finance capital additions in excess of depreciation and related expense.

The restricted net assets in the amount of \$736,772 relates to the District's reserves. This balance decreased from the prior year by \$1,749 as appropriations from the reserves of \$155,442 to fund contributions to the NYS Employees' Retirement System and sick day payouts exceeded transfers into the reserves from surplus and interest earned by the reserves.

The unrestricted net assets deficit of \$(3,336,387) relates to the balance of the District's net assets. This balance does not include the District's reserves, which are classified as restricted net assets. Additionally, in accordance with state guidelines, the District is only permitted to fund other postemployment benefits (OPEB) on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation.

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, 2011 and 2010 is as follows:

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)	Total Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 267,996	\$ 266,430	\$ 1,566	0.59%
Operating Grants	757,391	1,510,875	(753,484)	-49.87%
General Revenues				
Property Taxes & STAR	16,974,795	16,635,568	339,227	2.04%
State Sources	5,574,897	5,726,777	(151,880)	-2.65%
Other	209,660	263,607	(53,947)	-20.46%
Total Revenues	<u>\$ 23,784,739</u>	<u>\$ 24,403,257</u>	<u>\$ (618,518)</u>	-2.53%
Expenses				
General Support	\$ 2,317,795	\$ 2,246,661	\$ 71,134	3.17%
Instruction	19,771,364	19,877,988	(106,624)	-0.54%
Pupil Transportation	1,388,251	1,328,037	60,214	4.53%
Debt Service - Interest	1,004,467	1,062,276	(57,809)	-5.44%
Food Service Program	205,287	199,040	6,247	3.14%
Total Expenses	<u>\$ 24,687,164</u>	<u>\$ 24,714,002</u>	<u>\$ (26,838)</u>	-0.11%
Increase/(Decrease) in Net Assets	<u>\$ (902,425)</u>	<u>\$ (310,745)</u>	<u>\$ (591,680)</u>	190.41%

The District's net assets decreased by \$902,425 and \$310,745 for the years ended June 30, 2011 and 2010, respectively.

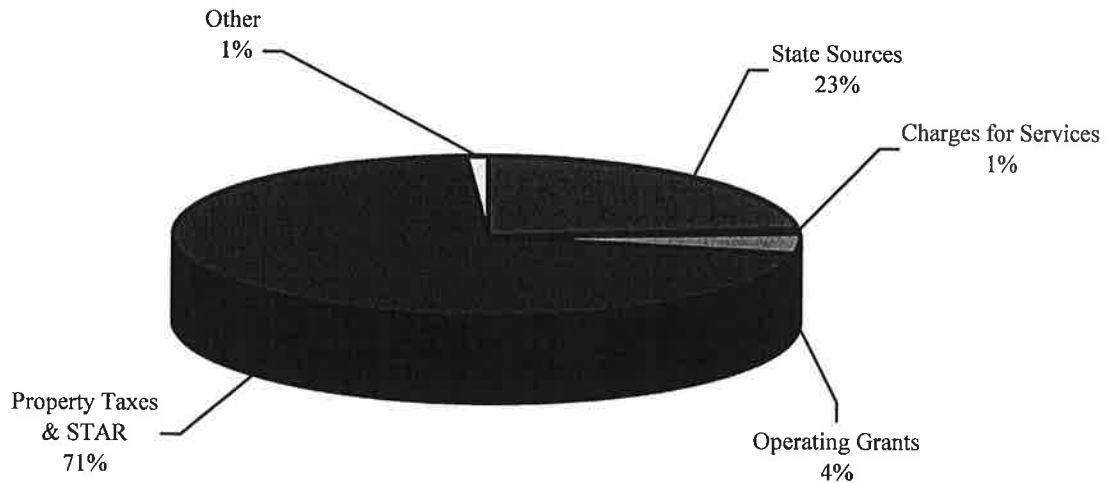
The District's revenues decreased by \$618,518 or 2.53%. Most of the decrease is attributable to operating grants, as federal aid provided through Education Stabilization Funds of the American Recovery and Reinvestment Act of 2009 (ARRA) were reduced in fiscal 2011. Additionally, the District's state aid decreased as New York State deals with budget issues at the state level. However, this was offset by an increase in property taxes and STAR.

The District's expenses decreased by \$26,838 or 0.11%. The decreases in expenses are predominately related to general support and pupil transportation with an offset in instruction and debt service. Due to significant retirements in 2010, the District was able to keep cost low because the District didn't replace all retirees and for those replaced the salaries were less than their retired employees.

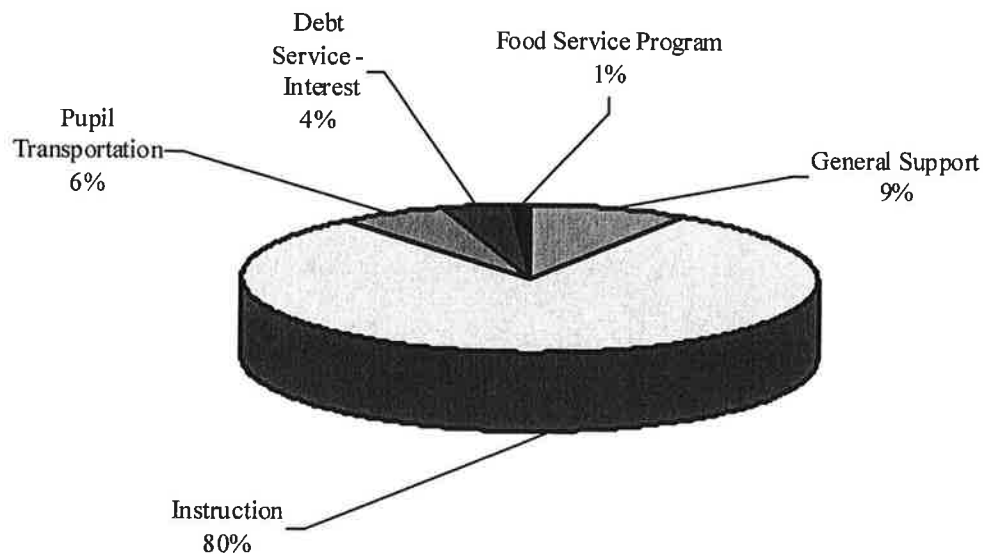
As indicated in the pie charts that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 71% of the total for 2011.) Instructional expense is the largest category of expenses incurred (i.e., 80% of the total for 2011).

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

A graphic display of the distribution of revenues for Fiscal Year 2011 as follows:



A graphic display of the distribution of expenses for Fiscal Year 2011 as follows:



**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2011, the District's governmental funds reported a combined fund balance of \$2,133,044, which is a decrease of \$363,917 from the prior year. A summary of the change in fund balance by fund is as follows:

	Fiscal Year 2011	Fiscal Year 2010	Changes
General Fund			
Restricted for employee benefits accrued liability	\$ 232,848	\$ 286,856	\$ (54,008)
Restricted for unemployment insurance	50,436	50,185	251
Restricted for retirement contribution	453,488	401,480	52,008
Assigned-designated for subsequent year's expenditures	487,000	487,000	-
Assigned-general support	32,241	60,717	(28,476)
Assigned-instruction	22,973	490	22,483
Unassigned	1,277,278	1,177,716	99,562
	<u>2,556,264</u>	<u>2,464,444</u>	<u>91,820</u>
School Lunch Fund			
Nonspendable	4,942	7,076	(2,134)
Assigned	71,838	49,574	22,264
	<u>76,780</u>	<u>56,650</u>	<u>20,130</u>
Capital Projects Fund			
Unassigned	(500,000)	(24,133)	(475,867)
	<u>(500,000)</u>	<u>(24,133)</u>	<u>(475,867)</u>
Total Fund Balance	<u>\$ 2,133,044</u>	<u>\$ 2,496,961</u>	<u>\$ (363,917)</u>

Reclassifications have been made to the 2010 fund balance classifications to conform to the 2011 financial statement classification, which are in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. Such reclassification had no effect on the totals.

The District can attribute changes to fund balance and reserves primarily due to Board approved transfers to pay expenses, and allocation of interest and earning.

A. General Fund

The net change in the general fund – fund balance is an increase of \$91,820, as revenues and other sources of \$23,080,477 exceeded expenditures and other uses of \$22,988,657. Revenues decreased \$468,527 (1.99%) compared to 2010, expenditures and other uses decreased by \$617,303 (2.62%)

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

compared to 2010, and transfers to other funds decreased \$283,867 compared to 2010. The District was able to maintain the amount of fund balance – assigned-appropriated for the subsequent year's budget at the prior year level of \$487,000.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is an increase of \$20,130. The District's revenues were less than expenditures. The District authorized an interfund transfer from the general fund to the school lunch fund in the amount of \$54,000, which created the increase in fund balance.

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$475,867. The deficit unassigned fund balance of \$500,000 will be funded when the District issues permanent financing. On July 1, 2011, the District issued serial bonds for this project in the amount of \$500,000 with interest rates ranging from 4.00% to 4.75%. The bonds mature January 1, 2026.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2010-2011 Budget

The District's General Fund budget for the year ended June 30, 2011 was \$23,848,980. This amount was increased by encumbrances carried forward from the prior year in the amount of \$61,207 and budget revisions of \$69,442, which resulted in a final budget of \$23,979,629. The majority of the funding was estimated to come from property taxes and STAR revenue of \$16,968,360.

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

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

Opening, Unassigned Fund Balance	\$ 1,177,716
Revenues Under Budget	(195,503)
Expenditures and Encumbrances Under Budget	935,758
Transfer to Reserves	(150,000)
Interest earned in reserves	(3,693)
Appropriated for June 30, 2012 Budget	(487,000)
Closing, Unassigned Fund Balance	<u>\$ 1,277,278</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

Opening Unassigned Fund Balance

The opening unassigned fund balance represents the fund balance retained by the District as of June 30, 2010 that is not restricted or assigned for subsequent year's taxes. This amount is limited to 4% of the subsequent year's budget. The District's balance was 4.94%.

Revenues Under budget

The 2010-2011 final budget for revenues was \$23,275,980. Actual revenues received for the year were \$23,080,477. The excess of estimated revenue to actual revenue was \$195,503.

Expenditures and Encumbrances Under Budget

The 2010-2011 final budget for expenditures was \$23,979,629. Actual expenditures for the year were \$22,988,657 and outstanding encumbrances were \$55,214 at June 30, 2011. The final budget was under expended by \$935,758. The expenditures and encumbrances under budget were primarily in instruction.

Transfers to Reserves

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

The \$(150,000) shown in the above table is a transfer to the retirement contribution reserve.

Interest Earned in Reserves

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

Unemployment insurance	\$ 251
Retirement contributions	2,008
Employee benefits accrued liabilities	1,434
	<u>\$ 3,693</u>

Appropriated Fund Balance

The District has chosen to use \$487,000 of available fund balance to partially fund the approved budget for the year ending June 30, 2012.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2011-12 fiscal year with an unassigned fund balance of \$1,277,278. This amount is 5.30% of the 2011-2012 budget.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2011, the District had invested in a broad range of capital assets, including land, buildings, and improvements and equipment. The decrease in capital assets is due to depreciation in excess of capital additions recorded for the year ended June 30, 2011. A summary of the District's capital assets, net of depreciation at June 30, 2011 and 2010 is as follows:

Category	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)
Land & Land Improvements	\$ 265,000	\$ 265,000	-
Construction in Progress	-	5,518	(5,518)
Buildings & Building Improvements	27,387,814	26,848,276	539,538
Furniture & Equipment	1,692,272	1,654,014	38,258
Subtotal	29,345,086	28,772,808	572,278
Less: Accumulated Depreciation	6,384,868	5,484,882	899,986
Total Net Capital Assets	<u>\$ 22,960,218</u>	<u>\$ 23,287,926</u>	<u>\$ (327,708)</u>

B. Debt Administration

At June 30, 2011, the District had total bonds payable of \$21,850,000. The July 2003 bonds were issued for the renovation of an existing school building and the construction of a new elementary school building. The June 2007 bonds were issued to finance the June 30, 2006 deficit in the general fund pursuant to Chapter 354 of the Laws of 2006 of the State of New York. The decrease in outstanding debt represents principal payments.

A summary of the outstanding debt at June 30, 2011 and 2010 is as follows:

Issue Date	Interest Rate	2011	2010	Increase (Decrease)
July 2, 2003	4.0-5.0%	\$ 20,440,000	\$ 21,000,000	\$ (560,000)
June 15, 2007	3.75-4.375%	1,410,000	1,615,000	(205,000)
		<u>\$ 21,850,000</u>	<u>\$ 22,615,000</u>	<u>\$ (765,000)</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

At June 30, 2011 the District owed \$514,918 in bond anticipation notes payable. The District repaid the bond anticipation note on July 1, 2011 with serial bond proceeds of \$500,000 and principal payments of \$14,918.

The District's latest municipal bond rating from Standard and Poor's is A+. The District's total outstanding indebtedness of \$22,569,918 is 25.97% of its debt limit of \$86,902,616.

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

The General Fund budget for the 2011-2012 school year in the amount of \$24,085,123 was approved by the voters. This is an increase of \$236,143 or 0.99% over the previous year's budget. The increase was primarily due to increases in instructional costs and general support services.

The District issued serial bonds on July 1, 2011 in the amount of \$500,000 with rates ranging from 4.00 – 4.75%.

The assigned appropriated fund balance applied to June 30, 2012 budget was \$487,000.

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

The NYS Legislature has introduced and approved a property tax cap beginning in the 2012-2013 school year. This law limits tax levy growth to the lesser of two percent or the annual increase in the CPI. Limited exemptions to exceed the levy cap are provided for taxes needed to pay for voter-approved capital expenditures, pension rate increases, court orders and torts over five percent of the prior year's levy. If the tax levy proposed to the voters is within the district's tax levy cap, then a majority vote would be required for approval. If the proposed tax levy exceeds the district's tax levy cap, the threshold required for approval would be 60 percent of the vote. A school district that does not levy an amount up to the cap in any one year would be allowed to carry over unused tax levy capacity into future years.

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, 2011

ASSETS

Cash	
Unrestricted	\$ 8,068,226
Receivables	
Accounts receivable	31,513
Due from other governments	1,388,285
Due from other funds	99,857
Inventories	4,942
Capital assets, net	
Capital assets not being depreciated	265,000
Capital assets being depreciated, net of accumulated depreciation	<u>22,695,218</u>
TOTAL ASSETS	<u>\$ 32,553,041</u>

LIABILITIES

Payables	
Accounts payable	\$ 1,177,582
Accrued liabilities	31,648
Bond interest payable	428,688
Tax anticipation notes payable	5,000,000
Bond anticipation notes payable	514,918
Due to other governments	1,036
Due to other funds	500
Due to teachers' retirement system	547,460
Due to employees' retirement system	43,940
Compensated absences payable	55,442
Deferred Revenue	87,253
Long-term liabilities	
Due and payable within one year	
Bonds payable	795,000
Compensated absences payable	132,921
Due and payable after one year	
Bonds payable	21,055,000
Compensated absences payable	405,018
Net OPEB obligation	<u>2,870,950</u>
TOTAL LIABILITIES	<u>33,147,356</u>
Investment in capital assets, net of related debt	2,005,300
Restricted	736,772
Unrestricted (deficit)	<u>(3,336,387)</u>
TOTAL NET ASSETS	<u>(594,315)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,553,041</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Assets
FUNCTIONS / PROGRAMS				
General support	\$ (2,317,795)	\$ -	\$ -	\$ (2,317,795)
Instruction	(19,754,504)	134,311	702,820	(18,917,373)
Pupil transportation	(1,388,251)			(1,388,251)
Debt service-Interest	(1,004,467)			(1,004,467)
Food Service program	(205,287)	133,685	37,711	(33,891)
TOTAL FUNCTIONS AND PROGRAMS	<u>\$ (24,670,304)</u>	<u>\$ 267,996</u>	<u>\$ 740,531</u>	<u>(23,661,777)</u>
GENERAL REVENUES				
Real property taxes				15,114,166
Other tax items				1,865,604
Use of money & property				76,532
Sale of property and compensation for loss				8
Miscellaneous				128,145
State sources				<u>5,574,897</u>
TOTAL GENERAL REVENUES				<u>22,759,352</u>
CHANGE IN NET ASSETS				(902,425)
TOTAL NET ASSETS - BEGINNING OF YEAR				<u>308,110</u>
TOTAL NET ASSETS - END OF YEAR				<u>\$ (594,315)</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
ASSETS					
Cash	\$ 8,033,963	\$ 6,499	\$ 27,764	\$ -	\$ 8,068,226
Unrestricted					
Receivables					
Accounts receivable	31,513				31,513
Due from other governments	924,514	391,021	6,354	66,396	1,388,285
Due from other funds	540,587		50,134		590,721
Inventories			4,942		4,942
TOTAL ASSETS	<u>\$ 9,530,577</u>	<u>\$ 397,520</u>	<u>\$ 89,194</u>	<u>\$ 66,396</u>	<u>\$ 10,083,687</u>
LIABILITIES AND FUND EQUITY					
Payables					
Accounts payable	\$ 1,157,936	\$ 8,268	\$ 11,378	\$ -	\$ 1,177,582
Accrued liabilities	31,648				31,648
Tax anticipation notes payable	5,000,000				5,000,000
Bond anticipation notes payable				514,918	514,918
Due to other governments			1,036		1,036
Due to other funds	50,634	389,252		51,478	491,364
Due to teachers' retirement system	547,460				547,460
Due to employees' retirement system	43,940				43,940
Compensated absences	55,442				55,442
Deferred credits	87,253				87,253
Deferred revenue					
TOTAL LIABILITIES	<u>6,974,313</u>	<u>397,520</u>	<u>12,414</u>	<u>566,396</u>	<u>7,950,643</u>
FUND BALANCES					
Nonspendable			4,942		4,942
Restricted	736,772				736,772
Assigned	542,214		71,838		614,052
Unassigned (Deficit)	1,277,278			(500,000)	777,278
TOTAL FUND BALANCES (DEFICIT)	<u>2,556,264</u>	<u>-</u>	<u>76,780</u>	<u>(500,000)</u>	<u>2,133,044</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,530,577</u>	<u>\$ 397,520</u>	<u>\$ 89,194</u>	<u>\$ 66,396</u>	<u>\$ 10,083,687</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Governmental Fund Balances	<u>\$ 2,133,044</u>
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Original cost of the capital assets	29,345,086
Accumulated depreciation	<u>(6,384,868)</u>
	<u>22,960,218</u>

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

Accrued interest on bonds payable	(428,688)
Bonds payable	(21,850,000)
Compensated absences payable	(537,939)
Net OPEB obligation	<u>(2,870,950)</u>
	<u>(25,687,577)</u>

Total Net Assets	<u>\$ (594,315)</u>
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EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$15,114,166	\$ -	\$ -	\$ -	\$ 15,114,166
Other tax items	1,865,604				1,865,604
Charges for services	134,311				134,311
Use of money and property	76,511		21		76,532
Sale of property and compensation for loss	8				8
Miscellaneous	127,745			400	128,145
State sources	5,514,018	181,380	2,799	60,879	5,759,076
Federal sources	244,988	276,452	29,815		551,255
Surplus food			5,097		5,097
Sales			133,685		133,685
TOTAL REVENUES	23,077,351	457,832	171,417	61,279	23,767,879
EXPENDITURES					
General support	1,832,911				1,832,911
Instruction	15,329,740	439,218			15,768,958
Pupil transportation	1,331,834	56,417			1,388,251
Employee benefits	2,621,335				2,621,335
Debt service - Principal	765,000				765,000
Debt service - Interest	1,016,034		205,287		1,016,034
Cost of sales					205,287
Capital outlay				534,020	534,020
TOTAL EXPENDITURES	22,896,854	495,635	205,287	534,020	24,131,796
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	180,497	(37,803)	(33,870)	(472,741)	(363,917)
OTHER FINANCING SOURCES AND USES					
Operating transfers in	3,126	37,803	54,000		94,929
Operating transfers (out)	(91,803)			(3,126)	(94,929)
TOTAL OTHER SOURCES (USES)	(88,677)	37,803	54,000	(3,126)	-
NET CHANGE IN FUND BALANCES	91,820	-	20,130	(475,867)	(363,917)
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	2,464,444	-	56,650	(24,133)	2,496,961
FUND BALANCE (DEFICIT) - ENDING OF YEAR	\$ 2,556,264	\$ -	\$ 76,780	\$ (500,000)	\$ 2,133,044

**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 FISCAL YEAR ENDED JUNE 30, 2011**

Net change in Fund Balances	\$ (363,917)
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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 compensated absence liability	11,554
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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 net OPEB Obligation	(998,921)
	(987,367)

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	572,278
Depreciation Expense	(899,986)
	(327,708)

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.

	765,000
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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, 2010 to June 30, 2011.

	11,567
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Change in Net Assets of Governmental Activities	\$ (902,425)
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**EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
ASSETS		
Cash	\$ 134,888	\$ 1,470
Due from other funds	-	500
TOTAL ASSETS	<u>\$ 134,888</u>	<u>\$ 1,970</u>
LIABILITIES		
Due to other funds	\$ 99,857	\$ -
Extraclassroom activity balance	20,644	
Other liabilities	14,387	
TOTAL LIABILITIES	<u>\$ 134,888</u>	<u>\$ -</u>
NET ASSETS		
Reserved for scholarships		\$ 1,970
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,970</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Interest and earnings	\$ 11
TOTAL ADDITIONS	<u>11</u>
DEDUCTIONS	
Scholarships and awards	<u>25</u>
TOTAL DEDUCTIONS	<u>25</u>
CHANGE IN NET ASSETS	(14)
NET ASSETS - BEGINNING OF YEAR	<u>1,984</u>
NET ASSETS - ENDING OF YEAR	<u><u>\$ 1,970</u></u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

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

A) Reporting Entity

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

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

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

i) Extraclassroom Activity Funds

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

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

B) Joint Venture

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

C) Basis of Presentation

i) District-Wide Financial Statements

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

The Statement of Net Assets presents the financial position of the District at fiscal year end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. 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, 2011

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, 2011

D) Basis of Accounting and Measurement Focus

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

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

E) Real Property Taxes

Calendar

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

Enforcement

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

F) Restricted Resources

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

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

G) Interfund transactions

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

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

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

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

H) Use of Estimates

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

I) Cash and Cash Equivalents

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

J) Receivables

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

K) Inventories

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food donated by the U. S. Department of Agriculture, at the Government's assigned value, which approximates market. These inventories are accounted for on the consumption method. A reserve for inventory has been recognized to indicate that this does not constitute available spendable resources.

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

L) Capital Assets

Capital assets are reflected in the district-wide financial statements. Capital assets 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

M) Deferred Revenues

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

N) Vested Employee Benefits - Compensated Absences

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may be eligible to receive a payment based on unused accumulated sick leave.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

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

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

In the fund financial statements only the amount of matured liabilities is accrued within the general fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

O) Other Benefits

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

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if District employees are eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District accounts for these 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.

P) Short-Term Debt

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

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

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

Q) Accrued Liabilities and Long-Term Obligations

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

R) Equity Classifications

District-Wide Financial Statements

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

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

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

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

Fund Financial Statements

As of these financial statements, the District has adopted GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" (GASB 54) which redefines how fund balances of the governmental funds are presented in the financial statements. There are five classifications of fund balance as detailed below; however, in the Fund Financial Statements there are four classifications of fund balance presented:

- 1) **Non-Spendable Fund Balance** - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the school lunch fund of \$4,942.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

- 2) **Restricted Fund Balance** - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

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

General Fund

Unemployment insurance	\$50,436
Retirement contribution	453,488
Employee Benefit Accrued Liability	232,848
	<u>\$736,772</u>

Unemployment Insurance Reserve

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

Retirement Contribution Reserve

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

Reserve for Employee Benefit Accrued Liability

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

- 3) **Committed Fund Balance** - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the school

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

districts highest level of decision making authority, (i.e., the Board of Education). The District has no committed fund balances as of June 30, 2011.

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

The District has established a fund balance policy that allows the Board of Education or its designated official to set forth the fund balance that is assigned.

This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The District has classified the following as assigned:

<u>Assigned for:</u>	<u>General</u>	<u>School Lunch</u>	<u>Total</u>
Designated for subsequent			
year's expenditures	\$487,000		\$487,000
General support	32,241		32,241
Instruction	22,973		22,973
School lunch		\$71,838	71,838
Total	<u>\$542,214</u>	<u>\$71,838</u>	<u>\$614,052</u>

Beginning fund balances for the District's governmental funds and the governmental activities have been reclassified to reflect the above classifications.

Designated for Subsequent Year's Expenditure

The amount of \$487,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2012.

Encumbrances

Encumbrances have been assigned based upon the District's intent to be used for a specific purpose such as general support, instruction and capital projects. See Note 3 for further detail regarding accountability and Note 15 for further detail regarding significant encumbrances.

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

NYS Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the District's budget for

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

the general fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances included in the assigned fund balance are also excluded from the 4% limitation.

Order of Use of Fund Balance:

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

S) Adopted Change in Accounting Standards:

GASB has issued Statement 54, *Fund Balance Reporting and Government Fund Type Definitions*, which enhances the usefulness of the fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government type definitions. GASB Statement 54 is effective for the District's fiscal year ending June 30, 2011, and was adopted by the District. (See Note 1 R for further information).

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

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

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

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

(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.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

(i) Long-Term Revenue and Expense Differences

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

(ii) Capital Related Differences

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

(iii) Long-Term Debt Transaction Differences

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

Appropriations are adopted at the program line item level.

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

The following supplemental appropriations occurred during the year:

	Fiscal Year 2011
<u>Budget Revisions:</u>	
Contingent expenditures funded by donations	\$14,000
Sick day payout funded by the employee benefit accrued liability reserve	55,442
	<u>\$69,442</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.

Unassigned Fund Balance

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

Over Expenditures of Certain Appropriations

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

Capital Projects Fund

The capital projects fund had a deficit unassigned fund balance of \$500,000. This will be funded when the District issues permanent financing.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

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

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

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

NOTE 5 – PARTICIPATION IN BOCES

During the year ended June 30, 2011, the District was billed \$1,784,711 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$161,591. Financial statements for the BOCES are available from the BOCES administrative office at 201 Sunrise Highway, Patchogue, New York 11772.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 6 – DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2011 consisted of:

General Fund	
New York State Aid – Excess Cost Aid	\$ 142,795
New York State Aid – Tuition Chapter 47	384,024
BOCES Aid	72,596
ARRA – Education Stabilization	52,849
New York State Aid – High Cost Aid	272,250
	<hr/> 924,514
Special Aid Fund	
Federal and state grants	391,021
School Lunch Fund	
Federal and state food service program reimbursements	6,354
Capital Projects Fund	
New York State Aid - EXCEL Aid	66,396
	<hr/>
	<u>\$ 1,388,285</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 7 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2011 were as follows:

	Balance June 30, 2010	Additions	Reductions/ Reclassifications	Balance June 30, 2011
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 265,000	\$ -	\$ -	\$ 265,000
Construction in Progress	5,518	534,020	(539,538)	-
Total capital assets not being depreciated	270,518	534,020	(539,538)	265,000
Capital assets that are depreciated:				
Building and Improvements	26,848,276	539,538	-	27,387,814
Furniture and equipment	1,654,014	38,258		1,692,272
Total capital assets being depreciated	28,502,290	577,796	-	29,080,086
Less accumulated depreciation for:				
Building and Improvements	4,128,751	696,830		4,825,581
Furniture and equipment	1,356,131	203,156		1,559,287
Total accumulated depreciation	5,484,882	899,986	-	6,384,868
Capital assets, net	\$ 23,287,926	\$ 211,830	\$ (539,538)	\$ 22,960,218

Depreciation expense was charged to governmental functions as follows:

General support	\$ 96,115
Instruction	803,871
Total depreciation expense	<u>\$ 899,986</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 8 – INTERFUND TRANSACTIONS

	Interfund		Interfund	
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 540,587	\$ 50,634	\$ 3,126	\$ 91,803
Special Aid Fund		389,252	37,803	
School Lunch Fund	50,134		54,000	
Capital Projects Fund		51,478		3,126
Total government activities	590,721	491,364	94,929	94,929
Fiduciary Agency Funds	500	99,857		
Totals	<u>\$ 591,221</u>	<u>\$ 591,221</u>	<u>\$ 94,929</u>	<u>\$ 94,929</u>

The District typically transfers from the general fund to the special aid fund in accordance with the general fund budget. The District also transferred \$54,000 from the general fund to the school lunch fund to fund the program.

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

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

NOTE 9 - SHORT-TERM DEBT

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

	Maturity	Interest Rate (Average)	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	6/21/2012	0.81-1.00%	\$ -	\$ 5,000,000		\$ 5,000,000
TAN	6/29/2011	1.19%	6,000,000		6,000,000	-
BAN	7/1/2011	1.55%	514,918			514,918
Total			<u>\$ 6,514,918</u>	<u>\$ 5,000,000</u>	<u>\$ 6,000,000</u>	<u>\$ 5,514,918</u>

Interest expense on short-term debt for the year ended June 30, 2011 was \$82,240.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 10 – LONG-TERM DEBT OBLIGATIONS

The following tables summarize the changes in governmental activities in long-term liabilities for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Long-term liabilities:					
Bonds payable	\$ 22,615,000	\$ -	\$ 765,000	\$ 21,850,000	\$ 795,000
Other long-term liabilities:					
Compensated absences	549,493		11,554	537,939	132,921
	<u>\$ 23,164,493</u>	<u>\$ -</u>	<u>\$ 776,554</u>	<u>\$ 22,387,939</u>	<u>\$ 927,921</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%	\$ 20,440,000
Serial bonds - deficit	6/15/2007	6/30/2017	3.75-4.375%	1,410,000
				<u>\$ 21,850,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ended June 30,	Principal	Interest	Total
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	885,000	799,761	1,684,761
2016	920,000	762,962	1,682,962
2017-2021	4,035,000	3,282,719	7,317,719
2022-2026	4,685,000	2,414,584	7,099,584
2027-2031	5,880,000	1,306,041	7,186,041
2032-2034	2,975,000	156,713	3,131,713
	<u>\$ 21,850,000</u>	<u>\$ 11,329,432</u>	<u>\$ 33,179,432</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

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

	<u>Total</u>
Interest paid	\$933,794
Less interest accrued in the prior year	(440,255)
Plus interest accrued in the current year	428,688
Total expense	<u>\$922,227</u>

NOTE 11 – 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, Office of the State Comptroller, 110 State Street, Albany, and New York 12244.

Funding Policies

The Systems are noncontributory for the employee except for those who joined the Systems after July 27, 1976 with less than ten years of credited service, who contribute 3% of their salary or joined the Systems on or after January 1, 2010 who contribute 3% of their salary to NYSERS or 3.5% of their salary to NYSTRS throughout active membership. For the NYSERS, the Comptroller shall certify annually the rates expressed as proportions of members' payroll

**EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011**

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, rates are established annually for NYSTRS by the New York State Teachers' Retirement Board.

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
2010 - 2011	\$ 120,342	\$ 483,416
2009 - 2010	84,511	383,590
2008 - 2009	64,520	408,234

NOTE 12 – 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.

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, 2011, the District recognized a general fund expenditure of \$394,874 for insurance premiums for 43 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other post-employment 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, 2011

	For the Year Ended June 30, 2011
Annual OPEB Cost and Net OPEB Obligation	
Annual required contribution	\$1,425,099
Interest on net OPEB obligation	85,941
Adjustment to Annual Required Contribution	(117,245)
Annual OPEB cost (expense)	1,393,795
Contributions made	(394,874)
Increase in net OPEB obligation	998,921
Net OPEB obligation-beginning of year	1,872,029
Net OPEB obligation-end of year	<u>\$2,870,950</u>

The District's annual OPEB cost, OPEB contributions, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011, 2010 and 2009 were 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
6/30/10	1,335,532	367,851	28%	1,872,029
6/30/11	1,393,795	394,874	28%	2,870,950

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$13,881,207 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,881,207. The covered payroll (annual payroll of active employees covered by the plan) was \$6,632,170, and the ratio of the UAAL to the covered payroll was 209.30%.

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, 2011

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, 2010 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 8%-10% initially, reduced by decrements to an ultimate rate of 5% after years 2014-15. The UAAL is being amortized using the level dollar amortization method over a period of 30 years. The remaining amortization period at July 1, 2011 was 27 years.

NOTE 13 – RISK MANAGEMENT

General Information

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

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, 2011 was \$15,265,824. The District's share of this liability is \$3,053. During the year ended June 30, 2011, the District's contribution to the plan was \$56,145.

Financial statements for the year ended June 30, 2011 can be obtained from the District's administrative office.

NOTE 14 – LITIGATION

The District is involved in lawsuits arising from the normal conduct of its affairs. 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.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Grants

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

Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$73,676. The minimum remaining operating lease payments are as follows:

Fiscal Year Ending June 30,	
2012	\$ 58,919
2013	58,919
2014	58,919
2015	58,919
	<u>\$ 235,676</u>

Encumbrances:

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

- i) **General Fund** - Total encumbrances of the general fund as of June 30, 2011 were \$55,214. Significant encumbrances of \$35,617 were assigned to contractual, \$18,721 was assigned to supplies and \$876 was assigned to maintenance and repairs.
- ii) **Special Aid Fund** - Total encumbrances of the special aid fund as of June 30, 2011 were \$6,163. Significant encumbrances of \$5,043 were assigned to supplies, \$1,000 was assigned to purchased services and \$120 was assigned to travel.

NOTE 16 – SUBSEQUENT EVENTS:

The District issued serial bonds on July 1, 2011 in the amount of \$500,000 with rates ranging from 4.00–4.75%. The bonds mature January 1, 2026.

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 FISCAL YEAR ENDED JUNE 30, 2011

	<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	\$ 15,369,794	\$ 15,114,166	\$ 15,114,166	\$ -
Other Tax Items	1,703,311	1,854,194	1,865,604	11,410
Charges for Services	90,000	134,801	134,311	(490)
Use of Money & Property	85,000	85,000	76,511	(8,489)
Sale of property and compensation for loss			8	8
Miscellaneous	21,500	168,762	127,745	(41,017)
State Sources				
	5,992,375	5,919,057	5,514,018	(405,039)
Federal Sources				
Other Sources	-	-	244,988	244,988
Interfund Revenue				
	-	-	3,126	3,126
	<u>\$ 23,261,980</u>	<u>\$ 23,275,980</u>	<u>\$ 23,080,477</u>	<u>\$ (195,503)</u>

Note to Required Supplementary Information

Budget Basis of Accounting

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

EAST MORICHES UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND (continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Variance with Budgetary Actual and Encumbrances
EXPENDITURES					
General Support					
Board of Education	\$ 20,503	\$ 20,903	\$ 16,101	\$ 14	\$ 4,788
Central Administration	277,900	272,844	267,057	260	5,527
Finance	266,184	263,695	227,754	28,092	7,849
Staff	25,350	37,850	35,888		1,962
Central Services	1,178,531	1,217,069	1,069,855	3,875	143,339
Special Items	216,813	217,782	216,256		1,526
Instructional					
Instruction, Adm. & Imp.	224,626	252,258	259,559		(7,301)
Teaching - Regular School	10,498,518	10,290,932	9,952,509	15,348	323,075
Programs for Children with					
Handicapping Conditions	4,713,328	4,604,312	4,310,360		293,952
Occupational Education	209,520	96,495	81,431		15,064
Instructional Media	372,837	456,717	438,014	2,836	15,867
Pupil Services	334,419	361,618	287,867	4,789	68,962
Pupil Transportation	1,381,046	1,388,252	1,331,834		56,418
Employee Benefits	2,334,818	2,644,077	2,621,335		22,742
Debt Service					
Debt Service Principal	765,000	765,000	765,000		-
Debt Service Interest	1,058,794	1,057,825	1,016,034		41,791
TOTAL EXPENDITURES	23,878,187	23,947,629	22,896,854	55,214	995,561
Other Financing Uses					
Transfers to Other Funds	32,000	32,000	91,803		(59,803)
	\$ 23,910,187	\$ 23,979,629	22,988,657	\$ 55,214	\$ 935,758
Net changes in fund balance	(648,207)	(703,649)	91,820		
Fund balance - beginning	648,207	703,649	2,464,444		
Fund balance - ending	\$ -	\$ -	\$ 2,556,264		

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)
JUNE 30, 2011**

Valuation Date	Actuarial Value of Assets	Accrual Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
July 1, 2008	\$ -	\$ 12,390,027	\$12,390,027	N/A	\$ 6,015,574	205.97%
July 1, 2009	-	13,117,045	13,117,045	N/A	6,316,353	207.67%
July 1, 2010	-	13,881,207	13,881,207	N/A	6,632,170	209.30%

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND USE OF UNASSIGNED FUND BALANCE- GENERAL FUND
JUNE 30, 2011**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 23,848,980
Add: Prior year's encumbrances	61,207
Original Budget	<u>\$ 23,910,187</u>
Budget Revision:	<u>69,442</u>
Final Budget	<u><u>\$ 23,979,629</u></u>
Next Year's budget is a voter-approved budget of	<u><u>\$ 24,085,123</u></u>

USE OF ASSIGNED APPROPRIATED AND UNASSIGNED FUND BALANCE

Assigned: appropriated and unassigned Fund Balance- As of the beginning of the year	\$ 1,664,716
Less:	
Appropriated fund balance used for the levy of taxes - Adopted Budget	487,000
Unassigned Fund Balance- As of the beginning of the year	<u><u>\$ 1,177,716</u></u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
JUNE 30, 2011

Project Title	Project #	Budget		Expenditures		Unexpended Balance	Methods of Financing			Fund Balance June 30, 2011
		June 30, 2010	June 30, 2011	Prior Years	Current Year		Total	State Aid	Local Sources	
Excel Roof Construction	0001-014	\$ 569,583	\$ 543,559	\$ 494,309	\$ 49,250	\$ -	\$ 543,559	\$ 188,366	\$ 500	\$ 543,559
Tank Replacement/Boiler Project	0001-015	481,910	493,414	5,518	484,770	3,126	490,288	66,397	281,710	3,126
TOTAL		<u>\$ 1,051,493</u>	<u>\$ 1,036,973</u>	<u>\$ 499,827</u>	<u>\$ 534,020</u>	<u>\$ 3,126</u>	<u>\$ 1,033,847</u>	<u>\$ 254,763</u>	<u>\$ 282,210</u>	<u>\$ 1,036,973</u>
Less: BAN proceeds										(500,000)
Less: Transfer to general fund										(3,126)
Fund Balance										<u>\$ (500,000)</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES
COMPARED TO ST-3 DATA
JUNE 30, 2011**

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Property Taxes	A-1001	\$ 15,114,166	\$ 15,114,166
Non-Property Taxes	AT-1199	\$ -	\$ -
State Aid	AT-3999	\$ 5,514,018	\$ 5,514,018
Federal Aid	AT-4999	\$ 244,988	\$ 244,988
TOTAL REVENUES	AT-5999	\$ 23,080,477	\$ 23,080,477
EXPENDITURES			
General Support	AT-1999	\$ 1,832,911	\$ 1,832,911
Pupil Transportation	AT-5599	\$ 1,331,834	\$ 1,331,834
Debt Service-Principal	AT-9798.6	\$ 765,000	\$ 765,000
Debt Service-Interest	AT-9798.7	\$ 1,016,034	\$ 1,016,034
TOTAL EXPENDITURES	AT-9999	\$ 22,988,657	\$ 22,988,657

Supplemental Schedule #6

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
JUNE 30, 2011**

Capital assets, net		\$ 22,960,218
Deduct:		
Bond anticipation notes payable	(514,918)	
Short-term portion of bonds payable	(795,000)	
Long-term portion of bonds payable	<u>(19,645,000)</u>	
		<u>(20,954,918)</u>
Investment in capital assets, net of related debt		<u>\$ 2,005,300</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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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 19, 2011.

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.

Cullen & Danowski, LLP

October 19, 2011

