



**EAST MORICHES  
UNION FREE SCHOOL DISTRICT**

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

**June 30, 2010**

**EAST MORICHES 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, 2010, 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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2010, on our consideration of the East Moriches Union Free School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Moriches Union Free School District's basic financial statements. The other supplementary information on pages 46 through 49 is not a required part of the basic financial statements, but is supplementary information required by the New York State Education Department. 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*

September 27, 2010

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010. 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.

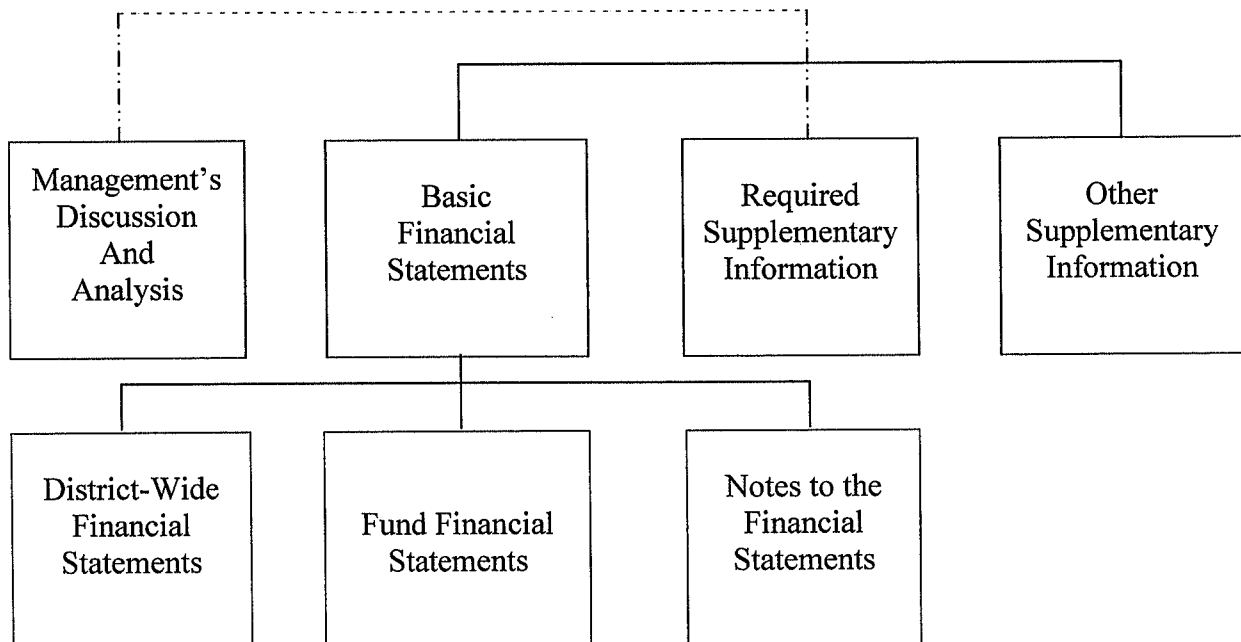
**1. FINANCIAL HIGHLIGHTS**

Key financial highlights for the fiscal year 2010 are as follows:

- The general fund's total fund balance, as reflected in the fund financial statements, decreased by \$56,956.
- The 2010-2011 budget in the amount of \$23,848,980 was approved by the voters.
- The District completed a capital asset valuation during the year ended June 30, 2010, which resulted in an increase in net assets of \$2,683,280 that is reported as a prior period adjustment.
- The District's net assets, as reflected in the district-wide financial statements, decreased by \$310,745, 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 optional supplementary information. The basic financial statements consist of district-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationships of these statements follows:



**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

**A. District-Wide Financial Statements**

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

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

The Statement of Net Assets

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

The Statement of Activities

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

**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, 2010**

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 \$310,745 between fiscal year 2010 and 2009. The 2009 balances have been restated to reflect additional capital assets, net and net assets of \$2,683,280 as a result of a capital asset valuation that was performed during the 2010 fiscal year. A summary of the District's Statements of Net Assets for June 30, 2010 and 2009 is as follows:

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

	Fiscal Year 2010	Restated Fiscal Year 2009	Increase/ (Decrease)	Total Percentage Change
Current assets and other assets	\$ 11,372,441	\$ 9,658,078	\$ 1,714,363	18%
Capital assets, net	23,287,926	23,630,303	(342,377)	-1%
Total Assets	<u>\$ 34,660,367</u>	<u>\$ 33,288,381</u>	<u>\$ 1,371,986</u>	4%
Long-term liabilities	\$ 23,164,493	\$ 24,158,083	\$ (993,590)	-4%
Current and other liabilities	9,315,735	7,607,095	1,708,640	22%
Net OPEB obligation	1,872,029	904,348	967,681	107%
Total Liabilities	<u>\$ 34,352,257</u>	<u>\$ 32,669,526</u>	<u>\$ 1,682,731</u>	5%
Net Assets				
Investment in capital assets, net of related debt	\$ 1,981,953	\$2,075,303	(93,350)	-4%
Unrestricted (deficit)	(1,673,843)	(1,456,448)	(217,395)	-15%
Total Net Assets	<u>\$ 308,110</u>	<u>\$ 618,855</u>	<u>\$ (310,745)</u>	50%

Current and other assets increased by \$1,714,363, compared to the prior year. Cash increased by approximately \$667,000 while receivables, primarily amounts due from other governments, increased by approximately \$1,046,000.

Capital assets, net decreased by \$342,377 as capital asset additions were exceeded by depreciation expense (see Note 7).

Total liabilities increased by \$1,682,731, compared to the prior year. The increase was primarily due to the District's increase at June 30, 2010 in the net OPEB obligation, tax anticipation and bond anticipation notes payable, offset by the repayment of serial bonds.

Net assets invested in capital assets, net of related debt decreased by \$93,350 as non-financed capital asset additions, less depreciation, exceeded construction debt payments.

The unrestricted deficit in the amount of \$1,673,843 relates to the balance of the District's net assets and reflects the impact of the net OPEB obligation which the District is not permitted to fund by law.



**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010 and 2009 is as follows:

	Fiscal Year 2010	Fiscal Year 2009	Increase (Decrease)	Total Percentage Change
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 266,430	\$ 300,402	\$ (33,972)	-11.31%
Operating Grants	1,510,875	419,321	1,091,554	260.31%
General Revenues				
Property Taxes & STAR	16,635,568	16,079,668	555,900	3.46%
State Sources	5,726,777	6,784,526	(1,057,749)	-15.59%
Other	263,607	580,970	(317,363)	-54.63%
Total Revenues	<u>\$ 24,403,257</u>	<u>\$ 24,164,887</u>	<u>\$ 238,370</u>	0.99%
<b>Expenses</b>				
General Support	\$ 2,246,661	\$ 1,940,245	\$ 306,416	15.79%
Instruction	19,877,988	19,292,787	585,201	3.03%
Pupil Transportation	1,328,037	1,448,105	(120,068)	-8.29%
Debt Service - Interest	1,062,276	1,113,445	(51,169)	-4.60%
School Lunch Program	199,040	239,830	(40,790)	-17.01%
Total Expenses	<u>\$ 24,714,002</u>	<u>\$ 24,034,412</u>	<u>\$ 679,590</u>	2.83%
Increase/(Decrease) in Net Assets	<u>\$ (310,745)</u>	<u>\$ 130,475</u>	<u>\$ (441,220)</u>	-338.16%

The District's net assets decreased by \$310,745 and increased by \$130,475 for the years ended June 30, 2010 and 2009, respectively.

The District's revenues increased by \$238,370 or 0.99%. Most of the increase is attributable to property taxes and STAR. 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 operating grants to support educational programs, including \$992,657 of education stabilization funds provided under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Other general revenues decreased as the District did not realize a refund of prior year expenses in 2010 related to prior year tuition rate adjustments for district students attending other districts as it had in 2009.

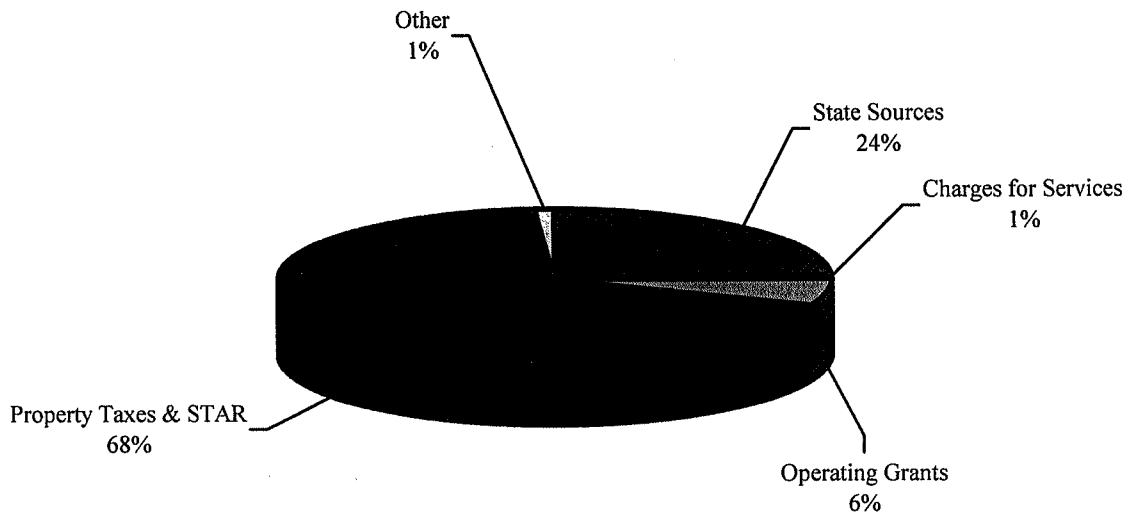
The District's expenses increased by \$679,590 or 2.83%. The District realized a decrease in tuition expense charged by other districts as the number of students receiving services declined in 2010.

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

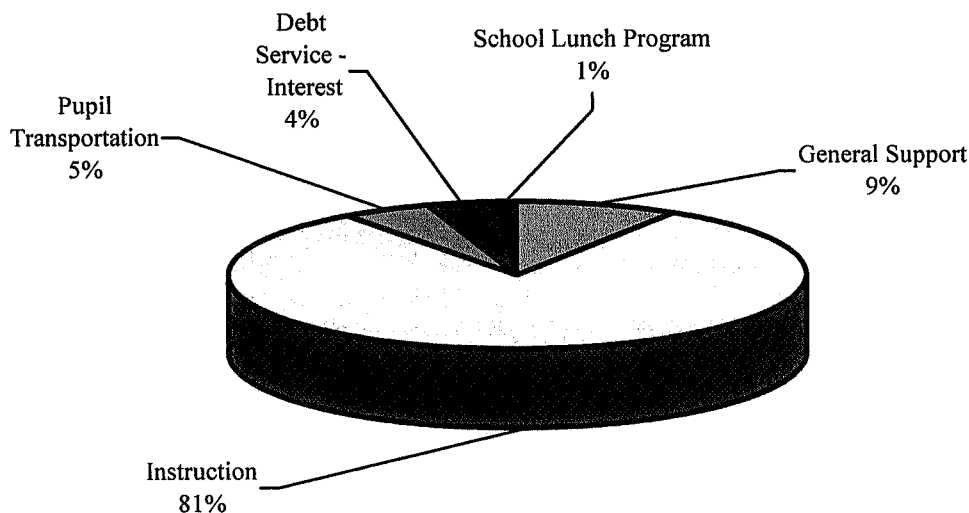
With less students receiving services at other districts, the District's out of district transportation cost also decreased. Transportation expense was further reduced as the District entered into a new transportation contract in 2010 and realized savings resulting from more efficient bus routes. These cost savings offset structural increases primarily in salaries and benefits, and limited the overall expense growth to 2.83%.

As indicated in the pie charts that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 68% of the total for 2010.) Instructional expenses is the largest category of expenses incurred (i.e., 81% of the total for 2010).

A graphic display of the distribution of revenues for Fiscal Year 2010 as follows:



A graphic display of the distribution of expenses for Fiscal Year 2010 as follows:



**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

**4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

At June 30, 2010, the District's governmental funds reported a combined fund balance of \$2,496,961, which is a decrease of \$5,726 from the prior year. A summary of the change in fund balance by fund is as follows:

	Fiscal Year 2010	Fiscal Year 2009	Changes
<b>General Fund</b>			
Reserve for Encumbrances	\$ 61,207	\$ 97,219	\$ (36,012)
Reserve for Employee Benefits			
Accrued Liability	286,856	506,504	(219,648)
Reserve for Unemployment	50,185	25,000	25,185
Reserve for Retirement Contribution	401,480	200,000	201,480
Unreserved - Designated	487,000	487,000	-
Unreserved - Undesignated	1,177,716	1,205,677	(27,961)
	<u>2,464,444</u>	<u>2,521,400</u>	<u>(56,956)</u>
<b>School Lunch Fund</b>			
Reserve for Inventory	7,076	5,117	1,959
Unreserved - Undesignated	49,574	12,284	37,290
	<u>56,650</u>	<u>17,401</u>	<u>39,249</u>
<b>Capital Projects Fund</b>			
Reserve for Encumbrances	603,428	454,900	148,528
Unreserved - Undesignated (Deficit)	(627,561)	(491,014)	(136,547)
	<u>(24,133)</u>	<u>(36,114)</u>	<u>11,981</u>
 Total Fund Balance	 <u>\$ 2,496,961</u>	 <u>\$ 2,502,687</u>	 <u>\$ (5,726)</u>

**A. General Fund**

The net change in the general fund – fund balance is a decrease of \$56,956, as expenditures and other uses of \$23,605,004 exceeded revenues of \$23,549,004. In 2009, the net change was an increase of \$943,262. Revenues decreased \$44,816 (0.19%) compared to 2009. Property taxes and STAR increased \$555,900 (3.46%), but this was negated by decreases in other revenues, such as state aid (net of ARRA funds) and refunds of prior year's expenditures resulting from tuition rate adjustments as previously discussed. Expenditures and other uses increased by \$955,402 (4.29%). Transfers to other funds increased \$345,696, primarily as a result of the District providing \$67,000 to the school lunch program and \$281,310 to the capital projects fund per voter approval. In addition, the District accrued \$418,396 in compensated absences for retirees at June 30, 2010 as a result of a local retirement incentive based on unused sick days. The balance of the increase (0.84%) is a result of structural increases primarily in salaries and benefits, which were offset by savings in tuition expenditures and transportation costs as previously discussed.

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

The composition of the fund balance changed, although in total the fund balance decreased by \$56,956. During the year, the District appropriated \$418,396 from the employee benefits accrued liability reserve to fund the retirement incentive. At year end, the District transferred \$420,000 from the unreserved fund balance into the reserves. The District was able to maintain the amount of fund balance – unreserved designated 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 \$39,249. The District's revenues were less than expenditures, but it was to a lesser extent than in 2009. The District authorized an interfund transfer from the general fund to the school lunch fund in the amount of \$67,000 which created the increase in fund balance.

**C. Capital Projects Fund**

The net change in the capital projects fund – fund balance is an increase of \$11,981. The District's voters authorized two capital projects that are being funded by debt issuance, state EXCEL aid and local source revenues. During 2010, the District recognized EXCEL aid, local source revenue and an interfund transfer from the general fund that exceeded expenditures by \$11,981. In future years, the District will receive additional EXCEL aid and issue permanent financing to replace a bond anticipation note that was issued in 2010.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2009-2010 Budget**

The District's General Fund budget for the year ended June 30, 2010 was \$23,748,980. This amount was increased by encumbrances carried forward from the prior year in the amount of \$97,219 and budget revisions of \$781,596, which resulted in a final budget of \$24,627,795. The majority of the funding was estimated to come from property taxes and STAR revenue of \$16,627,517.

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

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

Opening, Unreserved – Undesignated Fund Balance	\$ 1,267,677
Additional appropriated fund balance to fund 2010 budget	(62,000)
Appropriations for Budget Revisions	(348,310)
Revenues Over Budget	272,134
Expenditures and Encumbrances Under Budget	960,628
Transfer to Reserve for Employee Benefit Accrued Liability	(198,748)
Transfer to Reserve for Unemployment Insurance	(25,185)
Transfer to Reserve for Retirement Contribution	(201,480)
Appropriated for June 30, 2011 Budget	(487,000)
Closing, Unreserved – Undesignated Fund Balance	<u>\$ 1,177,716</u>

Opening Unreserved – Undesignated Fund Balance

The unreserved – undesignated fund balance represents the fund balance retained by the District as of June 30, 2009 that is not reserved or designated for subsequent year's taxes.

Additional Designated Fund Balance to Fund 2010 Budget

The District appropriated an additional \$62,000 of fund balance when the tax rate was set with the town to partially fund the budget for the year ended June 30, 2010.

Appropriations for Budget Revision

The District appropriated \$348,310 of fund balance during the year to fund a budget revision for interfund transfers to the school lunch fund and capital projects fund.

Revenues Over budget

The 2009-2010 final budget for revenues was \$24,627,795. Actual revenues received for the year were \$23,549,004. The excess of revenue to estimated revenue was \$272,134.

Expenditures and Encumbrances Under Budget

The 2009-2010 final budget for expenditures was \$24,627,795. Actual expenditures for the year were \$23,605,960 and outstanding encumbrances were \$61,207 at June 30, 2010. The final budget was under expended/under encumbered by \$960,628. The expenditures and encumbrances under budget were primarily in instruction.

Transferred To/From Reserves

During the year ended June 30, 2010, the Board of Education of the District approved to transfer \$195,000 into the employee benefit accrued liability reserve, \$200,000 into the retirement contribution reserve and \$25,000 into the unemployment insurance reserve. In addition, interest of \$5,413 was transferred to the reserves. These transfers represent a decrease to the unreserved-undesignated fund balance.

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2011.

Closing Unreserved – Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2010-2011 fiscal year with an undesignated fund balance of \$1,177,716. The unreserved undesignated fund balance is in excess of the New York State Real Property Tax Law §1318 limit by \$223,757.

**6. CAPITAL ASSET AND DEBT ADMINISTRATION**

**A. Capital Assets**

At June 30, 2010, 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, 2010. A summary of the District's capital assets, net of depreciation at June 30, 2010 and 2009 is as follows:

Category	Fiscal Year 2010	Fiscal Year 2009 as restated	Increase (Decrease)
Land & Land Improvements	\$ 265,000	\$ 265,000	-
Construction in Progress	5,518	36,114	(30,596)
Buildings & Building Improvements	26,848,276	26,353,968	494,308
Furniture & Equipment	1,654,014	1,647,787	6,227
Subtotal	28,772,808	28,302,869	469,939
Less: Accumulated Depreciation	5,484,882	4,672,566	812,316
Total Net Capital Assets	<u>\$ 23,287,926</u>	<u>\$ 23,630,303</u>	<u>\$ (342,377)</u>

**B. Debt Administration**

At June 30, 2010, the District had total bonds payable of \$22,615,000. 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, 2010 and 2009 is as follows:

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Issue Date</u>	<u>Interest Rate</u>	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
July 2, 2003	4.0-5.0%	\$ 21,000,000	\$ 21,555,000	\$ (555,000)
June 15, 2007	3.75-4.375%	1,615,000	1,810,000	(195,000)
		<u>\$ 22,615,000</u>	<u>\$ 23,365,000</u>	<u>\$ (750,000)</u>

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

**7. FACTORS BEARING ON THE DISTRICT'S FUTURE**

The General Fund budget for the 2010-2011 school year in the amount of \$23,848,980 was approved by the voters. This is an increase of \$100,000 or 0.42% over the previous year's budget. The increase was primarily due to increases in instructional costs and general support services.

**8. CONTACTING THE DISTRICT**

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

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS-GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2010**

**ASSETS**

Cash	
Unrestricted	\$ 9,245,355
Receivables	
Accounts receivable	54,158
Due from other governments	1,966,482
Due from other funds	99,370
Inventories	7,076
Capital assets, net	
Capital assets not being depreciated	270,518
Capital assets being depreciated, net of accumulated depreciation	<u>23,017,408</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 34,660,367</u></b>

**LIABILITIES**

Payables	
Accounts payable	\$ 1,027,065
Accrued liabilities	409,832
Bond interest payable	440,255
Tax anticipation notes payable	6,000,000
Bond anticipation notes payable	514,918
Due to other governments	17,083
Due to other funds	500
Due to teachers' retirement system	440,572
Due to employees' retirement system	28,754
Compensated absences payable	418,396
Deferred Revenue	18,360
Long-term liabilities	
Due and payable within one year	
Bonds payable	765,000
Due and payable after one year	
Bonds payable	21,850,000
Compensated absences payable	549,493
Net OPEB obligation	<u>1,872,029</u>
<b>TOTAL LIABILITIES</b>	<b><u>34,352,257</u></b>
Investment in capital assets, net of related debt	1,981,953
Unrestricted (deficit)	<u>(1,673,843)</u>
<b>TOTAL NET ASSETS</b>	<b><u>308,110</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 34,660,367</u></b>



**EAST MORICHES UNION FREE SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
<b>FUNCTIONS / PROGRAMS</b>				
General support	\$ (2,246,661)			\$ (2,246,661)
Instruction	(19,877,988)	\$ 124,800	\$ 1,481,237	(18,271,951)
Pupil transportation	(1,328,037)			(1,328,037)
Debt service-Interest	(1,062,276)			(1,062,276)
School lunch program	(199,040)	141,630	29,638	(27,772)
<b>TOTAL FUNCTIONS AND PROGRAMS</b>	<u>\$ (24,714,002)</u>	<u>\$ 266,430</u>	<u>\$ 1,510,875</u>	<u>\$ (22,936,697)</u>
 <b>GENERAL REVENUES</b>				
Real property taxes				\$ 14,928,829
Other tax items				1,714,402
Use of money & property				83,954
Miscellaneous				171,990
State sources				5,726,777
<b>TOTAL GENERAL REVENUES</b>				<u>\$ 22,625,952</u>
 <b>CHANGE IN NET ASSETS</b>				(310,745)
 <b>TOTAL NET ASSETS - BEGINNING OF YEAR, AS RESTATED</b>				<u>618,855</u>
 <b>TOTAL NET ASSETS - END OF YEAR</b>				<u>\$ 308,110</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
<b>ASSETS</b>					
Cash					
Unrestricted	\$ 9,202,958	\$ 3,290	\$ 39,107	\$ -	\$ 9,245,355
Receivables					
Accounts receivable	38,141		16,017		54,158
Due from other governments	1,316,807	452,253	3,538	193,884	1,966,482
Due from other funds	553,043		20,439	355,651	929,133
Inventories			7,076		7,076
<b>TOTAL ASSETS</b>	<b>\$ 11,110,949</b>	<b>\$ 455,543</b>	<b>\$ 86,177</b>	<b>\$ 549,535</b>	<b>\$ 12,202,204</b>
<b>LIABILITIES AND FUND EQUITY</b>					
Payables					
Accounts payable	\$ 954,001	\$ 1,870	\$ 12,444	\$ 58,750	\$ 1,027,065
Accrued liabilities	409,832				409,832
Tax anticipation notes payable	6,000,000				6,000,000
Bond anticipation notes payable				514,918	514,918
Due to other governments			17,083		17,083
Due to other funds	376,590				376,590
Due to teachers' retirement system	440,572				440,572
Due to employees' retirement system	28,754	453,673			482,427
Compensated Absences	418,396				418,396
Deferred credits	18,360				18,360
Deferred revenue					
<b>TOTAL LIABILITIES</b>	<b>\$ 8,646,505</b>	<b>\$ 455,543</b>	<b>\$ 29,527</b>	<b>\$ 573,668</b>	<b>\$ 9,705,243</b>
<b>FUND BALANCES</b>					
Reserve for Encumbrances	61,207			603,428	664,635
Reserve for Employee benefits accrued liability	286,856				286,856
Reserve for Unemployment insurance	50,185				50,185
Reserve for Retirement contribution	401,480				401,480
Reserve for Inventory			7,076		7,076
Unreserved-Designated for Subsequent Year's Expenditures	487,000				487,000
Unreserved-Undesignated (Deficit)	1,177,716		49,574	(627,561)	599,729
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>\$ 2,464,444</b>	<b>\$ -</b>	<b>\$ 56,650</b>	<b>\$ (24,133)</b>	<b>\$ 2,496,961</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,110,949</b>	<b>\$ 455,543</b>	<b>\$ 86,177</b>	<b>\$ 549,535</b>	<b>\$ 12,202,204</b>

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See Accompanying Notes to Financial Statements.

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010**

Total Governmental Fund Balances	<u>\$ 2,496,961</u>
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Original cost of the capital assets	28,772,808
Accumulated depreciation	<u>(5,484,882)</u>
	<u>23,287,926</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	(440,255)
Bonds payable	(22,615,000)
Compensated absences	(549,493)
Net OPEB obligation	<u>(1,872,029)</u>
	<u>(25,476,777)</u>

Total Net Assets	<u><u>\$ 308,110</u></u>
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**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
<b>REVENUES</b>					
Real property taxes	\$14,928,829	\$ -	\$ -	\$ -	\$ 14,928,829
Other tax items	1,714,402				1,714,402
Charges for services	124,800				124,800
Use of money and property	83,933		21		83,954
Miscellaneous	171,490			500	171,990
State sources	5,532,893	158,043	1,482	193,884	5,886,302
Federal sources	992,657	330,537	16,447		1,339,641
Surplus food			11,709		11,709
Sales			141,630		141,630
<b>TOTAL REVENUES</b>	<u>23,549,004</u>	<u>488,580</u>	<u>171,289</u>	<u>194,384</u>	<u>24,403,257</u>
<b>EXPENDITURES</b>					
General support	1,791,569				1,791,569
Instruction	15,729,003	450,912			16,179,915
Pupil transportation	1,263,009	65,028			1,328,037
Employee benefits	2,622,984				2,622,984
Debt service - Principal	750,000				750,000
Debt service - Interest	1,073,725				1,073,725
Cost of sales			199,040		199,040
Capital outlay				463,713	463,713
<b>TOTAL EXPENDITURES</b>	<u>23,230,290</u>	<u>515,940</u>	<u>199,040</u>	<u>463,713</u>	<u>24,408,983</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>318,714</u>	<u>(27,360)</u>	<u>(27,751)</u>	<u>(269,329)</u>	<u>(5,726)</u>
<b>OTHER FINANCING SOURCES AND USES</b>					
Operating transfers in		27,360	67,000	281,310	375,670
Operating transfers (out)	(375,670)				(375,670)
<b>TOTAL OTHER SOURCES (USES)</b>	<u>(375,670)</u>	<u>27,360</u>	<u>67,000</u>	<u>281,310</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(56,956)	-	39,249	11,981	(5,726)
<b>FUND BALANCE (DEFICIT) - BEGINNING OF YEAR</b>	<u>2,521,400</u>		<u>17,401</u>	<u>(36,114)</u>	<u>2,502,687</u>
<b>FUND BALANCE (DEFICIT) - ENDING OF YEAR</b>	<u>\$ 2,464,444</u>	<u>\$ -</u>	<u>\$ 56,650</u>	<u>\$ (24,133)</u>	<u>\$ 2,496,961</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

Net change in Fund Balances \$ (5,726)

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 243,590

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 (967,681)  
(724,091)

Capital Related Differences

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized and shown in the Statement of Net Assets and allocated over their useful lives as annual depreciation expense in the Statement of Activities. This is the amount by which depreciation exceeded capital outlays for the period

Capital outlay for construction in progress and capital assets 469,939  
 Depreciation Expense (812,316)  
(342,377)

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.

750,000

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, 2009 to June 30, 2010.

11,449

Change in Net Assets of Governmental Activities \$ (310,745)

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2010**

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
<b>ASSETS</b>		
Cash	\$ 142,777	\$ 1,484
Due from other funds	0	500
<b>TOTAL ASSETS</b>	<u>\$ 142,777</u>	<u>\$ 1,984</u>
<b>LIABILITIES</b>		
Due to other funds	\$ 99,370	\$ -
Extraclassroom activity balance	27,050	
Other liabilities	16,357	
<b>TOTAL LIABILITIES</b>	<u>\$ 142,777</u>	<u>\$ -</u>
<b>NET ASSETS</b>		
Reserved for scholarships		\$ 1,984
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u>\$ 1,984</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Private Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Gifts and contributions	\$ 500
Interest and earnings	16
<b>TOTAL ADDITIONS</b>	<u>516</u>
<b>DEDUCTIONS</b>	
Scholarships and awards	<u>25</u>
<b>TOTAL DEDUCTIONS</b>	<u>25</u>
<b>CHANGE IN NET ASSETS</b>	491
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,493</u>
<b>NET ASSETS - ENDING OF YEAR</b>	<u><u>\$ 1,984</u></u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010**

**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, 2010**

**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, 2010**

**D) Basis of Accounting and Measurement Focus**

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

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

**E) Real Property Taxes**

Calendar

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

Enforcement

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

**F) Interfund transactions**

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfers in and transfers out to provide financing or other services.

In the district-wide statements, the amounts reported on the Statement of Net Assets for interfund receivables and payables represent amounts due between different fund types

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

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

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

**G) Use of Estimates**

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

**H) Cash and Cash Equivalents/Investments**

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

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

**I) Receivables**

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

**J) Inventories**

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**K) Capital Assets**

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

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

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 15,000	50 years
Site improvements	1,500	30 years
Furniture and equipment	500	5-20 years

**L) Deferred Revenues**

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

**M) Vested Employee Benefits - Compensated Absences**

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

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

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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**N) Other Benefits**

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

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

**O) Short-Term Debt**

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

The District may issue Bond Anticipation Notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds.

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

**P) Accrued Liabilities and Long-Term Obligations**

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**Q) Equity Classifications**

**District-Wide statements**

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

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

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

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

**Fund Statements**

Unreserved fund balance consists of two classifications. First, a designation of unreserved fund balance indicates the planned use of these resources in the subsequent year's budget. Second, the undesignated portion reports remaining fund balance that has not been designated or reserved. NYS Real Property Tax Law 1318, as amended with an effective date of July 1, 2007, restricts the unreserved, undesignated fund balance of the General Fund to an amount not greater than 4% of the subsequent year's budget.

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

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

**Reserve for Encumbrances**

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

Reserve for Employee Benefit Accrued Liability

Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefit due to an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the General Fund.

Reserve for Unemployment Insurance

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

Reserve for Retirement Contribution

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

Reserve for Inventory

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

Reserve for Scholarships

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



**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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.

**(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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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.

The following supplemental appropriations occurred during the year:

	<u>Fiscal Year 2010</u>
Budget Revisions:	
Contingent expenditures funded by donations	\$14,890
Interfund transfers funded by appropriated fund balance	348,310
Compensated absences appropriated from reserves	<u>418,396</u>
	<u><u>\$781,596</u></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

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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.

**Unreserved-Undesignated Fund Balance**

The District's unreserved undesignated fund balance was in excess of the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year. The District is in the process of formulating a plan to reduce the undesignated fund balance to within the permissible limit. This plan will address funding its reserves to a fiscally prudent level and addressing the capital needs of the District.

**Over Expenditures of Certain Appropriations**

Certain general fund appropriations were over expended in the instructional category. The general fund budget in total was not over expended.

**Capital Projects Fund**

The capital projects fund had a deficit unreserved-undesignated fund balance of \$627,561. This will be funded when the District obtains Excel aid for its current construction projects and issues permanent financing to replace a bond anticipation note issued in 2010.

**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.

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**NOTE 5 – PARTICIPATION IN BOCES**

During the year ended June 30, 2010, the District was billed \$1,916,798 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$245,001. Financial statements for the BOCES are available from the BOCES administrative office at 201 Sunrise Highway, Patchogue, New York 11772.

**NOTE 6 – DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2010 consisted of:

General Fund	
New York State Aid – Excess Cost Aid	\$ 116,118
New York State Aid – Tuition Chapter 47	509,401
BOCES Aid	110,104
ARRA – Education Stabilization	581,184
	<hr/>
	1,316,807
Special Aid Fund	
Federal and state grants	452,253
School Lunch Fund	
Federal and state food service program reimbursements	3,538
Capital Projects Fund	
New York State Aid - EXCEL Aid	193,884
	<hr/>
	<u>\$ 1,966,482</u>

**NOTE 7 - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2010 were as follows:

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Balance June 30, 2009, as restated	Additions	Reclassifications	Balance June 30, 2010
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 265,000	\$ -	\$ -	\$ 265,000
Construction in Progress	36,114	1,020	(31,616)	5,518
Total capital assets not being depreciated	<u>301,114</u>	<u>1,020</u>	<u>(31,616)</u>	<u>270,518</u>
Capital assets that are depreciated:				
Building and Improvements, as restated	26,353,968	462,692	31,616	26,848,276
Furniture and equipment, as restated	1,647,787	6,227	-	1,654,014
Total capital assets being depreciated	<u>28,001,755</u>	<u>468,919</u>	<u>31,616</u>	<u>28,502,290</u>
Less accumulated depreciation for:				
Building and Improvements, as restated	3,513,852	614,899		4,128,751
Furniture and equipment, as restated	1,158,714	197,417		1,356,131
Total accumulated depreciation	<u>4,672,566</u>	<u>812,316</u>	<u>-</u>	<u>5,484,882</u>
Capital assets, net	<u>\$ 23,630,303</u>	<u>\$ (342,377)</u>	<u>\$ -</u>	<u>\$ 23,287,926</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 84,366
Instruction	<u>727,950</u>
Total depreciation expense	<u>\$ 812,316</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 8 – INTERFUND TRANSACTIONS**

	Interfund		Interfund	
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 553,043	\$ 376,590	\$ -	\$ 375,670
Special Aid Fund		453,673	27,360	
School Lunch Fund	20,439		67,000	
Capital Projects Fund	355,651		281,310	
Total government activities	929,133	830,263	375,670	375,670
Fiduciary Agency Fund	500	99,370		
Totals	<u>\$ 929,633</u>	<u>\$ 929,633</u>	<u>\$ 375,670</u>	<u>\$ 375,670</u>

The District typically transfers from the general fund to the special aid fund in accordance with the general fund budget. The District transferred \$281,310 from the general fund to the capital projects fund for the boiler replacement project as approved by the voters of the District. The District also transferred \$67,000 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
TANs	6/24/2010	2.22%	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
BAN	7/1/2010	2.35%		514,918		514,918
TANs	6/29/2011	1.19%		6,000,000		6,000,000
Total			<u>\$ 5,000,000</u>	<u>\$ 6,514,918</u>	<u>\$ 5,000,000</u>	<u>\$ 6,514,918</u>

Interest expense on short-term debt for the year ended June 30, 2010 was \$109,246.

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Long-term liabilities:					
Bonds payable	\$ 23,365,000	\$ -	\$ 750,000	\$ 22,615,000	\$ 765,000
Other long-term liabilities:					
Compensated absences	793,083	174,806	418,396	549,493	-
	<u>\$ 24,158,083</u>	<u>\$ 174,806</u>	<u>\$ 1,168,396</u>	<u>\$ 23,164,493</u>	<u>\$ 765,000</u>

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

Bonds payable are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Serial bonds - construction	7/2/2003	6/30/2034	4.0-5.0%	\$ 21,000,000
Serial bonds - deficit	6/15/2007	6/30/2017	3.75-4.375%	1,615,000
				<u>\$ 22,615,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	\$ 765,000	\$ 933,794	\$ 1,698,794
2012	795,000	902,079	1,697,079
2013	820,000	869,349	1,689,349
2014	855,000	835,224	1,690,224
2015	885,000	799,761	1,684,761
2016-2020	4,135,000	3,453,032	7,588,032
2021-2025	4,485,000	2,603,841	7,088,841
2026-2030	5,615,000	1,550,631	7,165,631
2031-2034	4,260,000	315,515	4,575,515
	<u>\$ 22,615,000</u>	<u>\$ 12,263,226</u>	<u>\$ 34,878,226</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2010**

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

	<u>Total</u>
Interest paid	\$964,479
Less interest accrued in the prior year	(451,704)
Plus interest accrued in the current year	440,255
Total expense	<u>\$953,030</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, Governor Alfred E. Smith, State Office Building, Albany, New York 12244.

Funding policies

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



**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

proportions of members' payroll annually, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

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

Year	ERS	TRS
2009 - 2010	\$ 84,511	\$ 383,590
2008 - 2009	\$ 64,520	\$ 408,234
2007 - 2008	\$ 81,585	\$ 467,639

**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, 2010, the District recognized a general fund expenditure of \$367,851 for insurance premiums for 43 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the "pay as you go" method.

**Annual OPEB Cost and Net OPEB Obligation**

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	For the Year Ended June 30, 2010
<b>Annual OPEB Cost and Net OPEB Obligation</b>	
Annual required contribution	\$1,350,904
Interest on net OPEB obligation	42,202
Adjustment to Annual Required Contribution	(57,574)
Annual OPEB cost (expense)	1,335,532
Contributions made	(367,851)
Increase in net OPEB obligation	967,681
Net OPEB obligation-beginning of year	904,348
Net OPEB obligation-end of year	<u>\$1,872,029</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 2010 and 2009 were as follows:

Year Ending	OPEB Cost	OPEB Contributions	OPEB Cost Contributed	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

**Funded Status and Funding Progress**

As of July 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$13,117,045 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,117,045. The covered payroll (annual payroll of active employees covered by the plan) was \$6,316,353, and the ratio of the UAAL to the covered payroll was 208%.

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, 2010**

**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, 2009 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 9%-11% 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, 2009 was 28 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, 2010 was \$12,405,114. The District's share of this liability is \$16,127. During the year ended June 30, 2010, the District's contribution to the plan was \$50,280.

Financial statements for the year ended June 30, 2010 can be obtained from the District's administrative office.

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 14 – FUND BALANCES – UNRESERVED: DESIGNATED FOR SUBSEQUENT YEARS' EXPENDITURES**

The amount of \$487,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2011. The District has also appropriated \$100,000 from the reserve for retirement contribution to fund a portion of the employees retirement expense as part of their 2010-2011 Budget

**NOTE 15 – LITIGATION**

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

**NOTE 16 – 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,	
2011	\$ 73,676
2012	12,279
	<u>\$ 85,955</u>

**NOTE 17 – PRIOR PERIOD ADJUSTMENTS**

Net Assets have been restated as of July 1, 2009 to give effect as follows:

	Net Assets
Balance as of July 1, 2009, as reported	(\$2,064,425)
Add: Capital asset valuation change	2,683,280
Balance as of July 1, 2009, as restated	<u>\$618,855</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED JUNE 30, 2010**

The capital assets have been restated as follows:

	Beginning Balance, Reported	Restatements	Beginning Balance, Restated
Governmental activities:			
Capital assets that are not depreciated:			
Land	\$265,000	\$0	\$265,000
Construction in progress	36,114		36,114
Total nondepreciable historical cost	<u>301,114</u>	<u>0</u>	<u>301,114</u>
Capital assets that are depreciated:			
Building & Building Improvements	24,536,298	1,817,670	26,353,968
Furniture and equipment	824,499	823,288	1,647,787
Total depreciable historical cost	<u>25,360,797</u>	<u>2,640,958</u>	<u>28,001,755</u>
Less accumulated depreciation:			
Building & Building Improvements	3,890,389	(376,537)	3,513,852
Furniture and equipment	824,499	334,215	1,158,714
Total accumulated depreciation	<u>4,714,888</u>	<u>(42,322)</u>	<u>4,672,566</u>
Total depreciable historical cost, net	<u><u>\$20,947,023</u></u>	<u><u>\$2,683,280</u></u>	<u><u>\$23,630,303</u></u>

**NOTE 18 – SUBSEQUENT EVENTS:**

On July 1, 2010, the District renewed its bond anticipation note totaling \$514,918. The note bears an interest rate of 1.550% and matures on July 1, 2011.

**EAST MORICHES UNION FREE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Final Budget</u> <u>Variance</u> <u>with Budgetary</u> <u>Actual</u>
<b>REVENUES</b>				
Local Sources				
Real Property Taxes	\$ 14,953,178	\$ 14,920,778	\$ 14,928,829	\$ 8,051
Other Tax Items	1,736,339	1,706,739	1,714,402	7,663
Charges for Services	90,000	90,000	124,800	34,800
Use of Money & Property	75,000	75,000	83,933	8,933
Miscellaneous	14,000	28,890	171,490	142,600
State Sources	6,455,463	6,455,463	5,532,893	(922,570)
Federal Sources			992,657	992,657
	<u>\$ 23,323,980</u>	<u>\$ 23,276,870</u>	<u>\$ 23,549,004</u>	<u>\$ 272,134</u>

**Note to Required Supplementary Information**

Budget Basis of Accounting

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

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Year-End Encumbrances</u>	<u>Final Budget Variance with Budgetary Actual and Encumbrances</u>
<b>EXPENDITURES</b>					
General Support					
Board of Education	\$ 20,127	\$ 20,127	\$ 18,072		\$ 2,055
Central Administration	299,274	296,861	283,949		12,912
Finance	270,443	272,829	229,579	33,584	9,666
Staff	24,500	24,500	20,116	3,350	1,034
Central Services	1,192,850	1,190,262	1,033,425	23,783	133,054
Special Items	196,211	220,211	206,428		13,783
Instructional					
Instruction, Adm. & Imp.	224,417	224,417	236,777		(12,360)
Teaching - Regular School	10,080,762	10,083,176	10,220,146	90	(137,060)
Programs for Children with					
Handicapping Conditions	4,988,650	4,978,182	4,322,096		656,086
Occupational Education	202,500	210,582	188,631		21,951
Instructional Media	397,397	412,288	451,487		(39,199)
Pupil Services	324,335	326,921	309,866	400	16,655
Pupil Transportation	1,381,046	1,381,046	1,263,009		118,037
Employee Benefits	2,329,234	2,747,630	2,622,984		124,646
Debt Service					
Debt Service Principal	750,000	750,000	750,000		0
Debt Service Interest	1,129,479	1,105,479	1,073,725		31,754
<b>TOTAL EXPENDITURES</b>	<u>23,811,225</u>	<u>24,244,511</u>	<u>23,230,290</u>	<u>61,207</u>	<u>953,014</u>
Other Financing Uses					
Transfers to Other Funds	34,974	383,284	375,670		7,614
	<u>\$ 23,846,199</u>	<u>\$ 24,627,795</u>	<u>23,605,960</u>	<u>\$ 61,207</u>	<u>\$ 960,628</u>
Net changes in fund balance	(522,219)	(1,350,925)	(56,956)		
Fund balance - beginning	522,219	1,350,925	2,521,400		
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,464,444</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 FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
FOR THE YEAR ENDED JUNE 30, 2010**

Valuation Date	Actuarial		Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
	Value of Assets	Accrual Liability				
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%



**EAST MORICHES UNION FREE SCHOOL DISTRICT  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET  
AND USE OF UNRESERVED FUND BALANCE- GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

Adopted Budget	\$ 23,748,980
Add: Prior year's encumbrances	97,219
Original Budget	<u>\$ 23,846,199</u>
Budget Revision:	<u>781,596</u>
Final Budget	<u><u>\$ 24,627,795</u></u>
Next Year's budget is a voter-approved budget of	<u><u>\$ 23,848,980</u></u>

**USE OF UNRESERVED FUND BALANCE**

Unreserved Fund Balance- As of the beginning of the year	\$ 1,692,677
Less:	
Designated fund balance used for the levy of taxes - Adopted Budget	425,000
Additional designated fund balance used for the levy of taxes - Tax Rate Setting	<u>62,000</u>
Undesignated Fund Balance- As of the beginning of the year	<u><u>\$ 1,205,677</u></u>

EAST MORICHES UNION FREE SCHOOL DISTRICT  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND  
AS OF JUNE 30, 2010

Project Title	Project #	Budget		Expenditures		Unexpended Balance	Methods of Financing			Fund Balance June 30, 2010
		June 30, 2009	June 30, 2010	Prior Years	Current Year		State Aid	Local Sources	Total	
Excel Roof Construction	0001-014	\$ 569,083	\$ 569,583	\$ 31,616	\$ 462,693	\$ 494,309	\$ 188,366	\$ 500	\$ 569,583	\$ 75,274
Tank Replacement	0001-015	200,600	481,910	4,498	1,020	5,518	66,399	281,310	481,910	476,392
<b>TOTAL</b>		<u>\$ 769,683</u>	<u>\$ 1,051,493</u>	<u>\$ 36,114</u>	<u>\$ 463,713</u>	<u>\$ 499,827</u>	<u>\$ 254,765</u>	<u>\$ 281,810</u>	<u>\$ 1,051,493</u>	<u>\$ 551,666</u>
Less: State Aid not recognized										(60,881)
Less: BAN Proceeds										(514,918)
Fund Balance										<u>\$ (24,133)</u>

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES  
COMPARED TO ST-3 DATA  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
<b>REVENUES</b>			
Property Taxes	A-1001	\$ 14,928,829	\$ 14,928,829
Non-Property Taxes	AT-1199	\$ -	\$ -
State Aid	AT-3999	\$ 5,532,893	\$ 5,532,893
Federal Aid	AT-4999	\$ 992,657	\$ 992,657
<b>TOTAL REVENUES</b>	AT-5999	\$ 23,549,004	\$ 23,549,004
<b>EXPENDITURES</b>			
General Support	AT-1999	\$ 1,791,569	\$ 1,791,569
Pupil Transportation	AT-5599	\$ 1,263,009	\$ 1,263,009
Debt Service-Principal	AT-9798.6	\$ 750,000	\$ 750,000
Debt Service-Interest	AT-9798.7	\$ 1,073,725	\$ 1,073,725
<b>TOTAL EXPENDITURES</b>	AT-9999	\$ 23,605,960	\$ 23,605,960

**EAST MORICHES UNION FREE SCHOOL DISTRICT  
SUPPLEMENTARY INFORMATION  
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Capital assets, net</b>		\$ 23,287,926
<b>Deduct:</b>		
Bond anticipation notes payable	(514,948)	
Short-term portion of bonds payable	(560,000)	
Long-term portion of bonds payable	(20,440,000)	
Less: unspent bond anticipation notes	<u>208,975</u>	
		<u>(21,305,973)</u>
<b>Investment in capital assets, net of related debt</b>		<u><u>\$ 1,981,953</u></u>

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

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

We have audited the financial statements of the governmental activities, each major fund and the fiduciary funds of the East Moriches Union Free School District, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 September 27, 2010.

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*

September 27, 2010

