

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES WITH
INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2012**

PORT JEFFERSON UNION FREE SCHOOL DISTRICT

TABLE OF CONTENTS

I. INDEPENDENT AUDITORS' REPORT, MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL STATEMENTS

Independent Auditors' Report

<u>Exhibit Number</u>		<u>Page</u>
1	Management's Discussion and Analysis (Required Supplementary Information) (MD&A)	3 - 12
2	Statement of Net Assets – Governmental Activities	13
3	Statement of Activities and Changes in Net Assets	14
4	Balance Sheet – Governmental Funds	15
5	Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	16
6	Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	17
7	Reconciliation of Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	18
8	Statement of Fiduciary Net Assets – Fiduciary Funds	19
9	Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	20
10	Notes to Financial Statements	21 - 38

II. REQUIRED SUPPLEMENTARY INFORMATION

SS1	Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	39 - 40
SS2	Schedule of Funding Progress for Other Post-Employment Benefits	41

III. OTHER SUPPLEMENTARY INFORMATION

SS3	Schedules of Change from Adopted Budget to Final Budget and Use of Assigned; Appropriated and Unassigned Fund Balance – General Fund	42
SS4	Schedule of Project Expenditures - Capital Projects Fund	43
SS5	Schedule of Certain Revenues and Expenditures Compared to ST-3 Data	44
SS6	Investment in Capital Assets, Net of Related Debt	45

IV. 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

INDEPENDENT AUDITORS' REPORT

The Board of Education
Port Jefferson Union Free School District
Port Jefferson, New York

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Port Jefferson Union Free School District as of and for the year ended June 30, 2012, which collectively comprise the Port Jefferson Union Free School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Port Jefferson Union Free School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

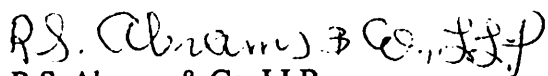
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 as well as the fiduciary funds of the Port Jefferson Union Free School District as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012 on our consideration of the Port Jefferson Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages 3 through 12 and 39 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port Jefferson Union Free School District's financial statements as a whole. The other supplementary financial information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


R.S. Abrams & Co. LLP
September 27, 2012

PORT JEFFERSON UNION FREE SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

The Port Jefferson Union Free School District's discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole. This should be read in conjunction with the financial statements, which immediately follow this section.

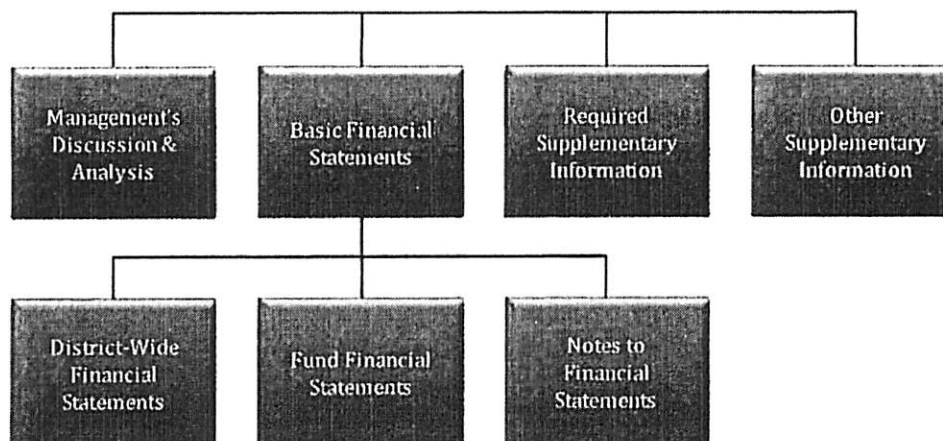
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2012 are as follows:

- The District's total net assets, as reflected in the district-wide financial statements, decreased by \$2,421,957. This was due to an excess of expenses over revenues based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$40,857,885. Of this amount, \$1,236,394 was offset by program charges for services and operating grants. General revenues of \$37,199,534 amount to 96.8% of total revenues, and were not adequate to cover the balance of program expenses.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$1,003,988. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- The budget for the 2012-13 school year in the amount of \$38,076,500 was approved by the voters on May 19, 2012. The budget presented to the taxpayers showed a 1.9% spending increase from the prior year budget.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

A. District-Wide Financial Statements

The district-wide financial statements present the governmental activities of the District and 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. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Assets

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

The Statement of Activities

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

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 fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The District maintains five individual governmental funds: general fund, special aid fund, school lunch fund, debt service 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's 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 \$2,421,957 between fiscal year 2012 and 2011. A summary of the District's Statement of Net Assets is as follows:

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Current and Other Assets	\$ 13,574,627	\$ 12,261,378	\$ 1,313,249	10.71 %
Capital Assets, Net	<u>17,047,684</u>	<u>17,914,326</u>	<u>(866,642)</u>	(4.84)%
Total Assets	<u>30,622,311</u>	<u>30,175,704</u>	<u>446,607</u>	1.48 %
Current and Other Liabilities	3,744,638	3,421,500	323,138	9.44 %
Long-Term Liabilities	10,852,946	12,150,101	(1,297,155)	(10.68)%
Net Other Postemployment Benefits Obligation	<u>14,696,322</u>	<u>10,853,741</u>	<u>3,842,581</u>	35.40 %
Total Liabilities	<u>29,293,906</u>	<u>26,425,342</u>	<u>2,868,564</u>	10.86 %
Net Assets				
Invested in Capital Assets, Net of Related Debt	8,807,684	8,599,326	208,358	2.42 %
Restricted	7,845,601	6,810,835	1,034,766	15.19 %
Unrestricted (Deficit)	<u>(15,324,880)</u>	<u>(11,659,799)</u>	<u>(3,665,081)</u>	31.43 %
Total Net Assets	<u>\$ 1,328,405</u>	<u>\$ 3,750,362</u>	<u>\$ (2,421,957)</u>	(64.58)%

Current and other assets increased by \$1,313,249 during the year. The District's cash position increased by \$935,965 as the District generated positive cash flow from operations during the year. Additionally, amounts due to the District increased \$354,163 over prior year balances.

Capital Assets, net decreased during the year by \$866,642. The current year depreciation expense of \$1,438,002 was offset by furniture and equipment purchases and capital project expenditures totaling \$571,360.

Current and other liabilities increased by \$323,138, mainly due to increased amounts due to the state retirement plans.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Long-term liabilities decreased by \$1,297,155, principally due to the repayment of \$1,075,000 of serial bond principal.

Net other postemployment benefits obligation increased by \$3,842,581 as the current OPEB cost exceeded contributions in accordance with GASB Statement No. 45. The accompanying Notes to Financial Statements, Note 13 "Postemployment Benefits" provides additional information.

The net assets invested in capital assets, net of related debt, relates to the investment in capital assets at cost such as land; construction in progress; buildings and improvements; site improvements; and, furniture and equipment, net of depreciation and related debt. This number increased over the prior year as follows:

	<u>Increase (Decrease)</u>
Capital asset additions - total	\$ 571,360
Principal debt reduction of construction bonds	1,075,000
Depreciation expense	<u>(1,438,002)</u>
	<u>\$ 208,358</u>

The restricted net assets in the amount of \$7,845,601 relates to the District's reserves. This number increased over the prior year by \$1,034,766 as follows:

Board approved increases of reserve balances	\$ 1,000,000
Interest earned on reserves	<u>34,766</u>
	<u>\$ 1,034,766</u>

The unrestricted net assets decreased by \$3,665,081 during the year. As of June 30, 2012, this component of net assets is in a deficit position of \$15,324,880. The District's assets are not sufficient to cover unfunded liabilities such as the net other postemployment benefits obligations.

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, 2012 and 2011 is as follows:

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Program Revenues				
Charges for Services	\$ 431,783	\$ 333,359	\$ 98,424	29.52 %
Operating Grants	804,611	997,789	(193,178)	(19.36)%
General Revenues				
Property Taxes and STAR	31,447,574	29,525,729	1,921,845	6.51 %
State Sources	2,814,181	2,880,975	(66,794)	(2.32)%
Other	2,937,779	2,864,187	73,592	2.57 %
Total Revenues	<u>38,435,928</u>	<u>36,602,039</u>	<u>1,833,889</u>	5.01 %
Expenses				
General Support	5,959,810	5,683,943	275,867	4.85 %
Instruction	32,218,231	32,885,270	(667,039)	(2.03)%
Pupil Transportation	2,035,016	2,185,628	(150,612)	(6.89)%
Debt Service - Interest	369,087	406,385	(37,298)	(9.18)%
Food Service Program	275,741	231,642	44,099	19.04 %
Total Expenses	<u>40,857,885</u>	<u>41,392,868</u>	<u>(534,983)</u>	(1.29)%
Decrease in Net Assets	<u>\$ (2,421,957)</u>	<u>\$ (4,790,829)</u>	<u>\$ 2,368,872</u>	(49.45)%

The District's net assets decreased \$2,421,957 and \$4,790,829 for the years ended June 30, 2012 and 2011, respectively.

The District's revenues increase by \$1,833,889 or 5.01%. The major factors that contributed to the increase were:

- Property taxes and STAR revenues increased by \$1,921,845.
- The District received \$193,178 less in operating grants, mainly as a result of the decrease in federal ARRA funding.

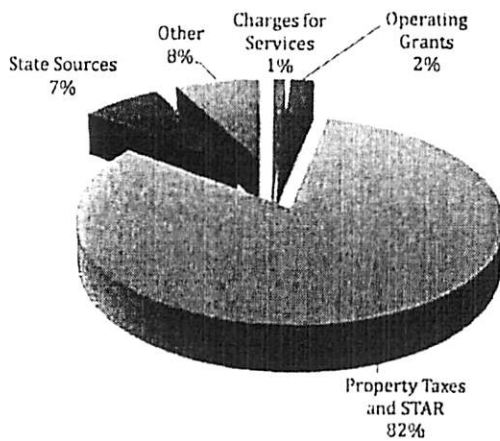
The District's expenses for the year decreased by \$534,983, which was a decrease of 1.29%.

As indicated on the pie charts that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 82% and 80% of the total for the years 2012 and 2011, respectively). Instructional expenses is the largest category of expenses incurred (79% of the total for both 2012 and 2011).

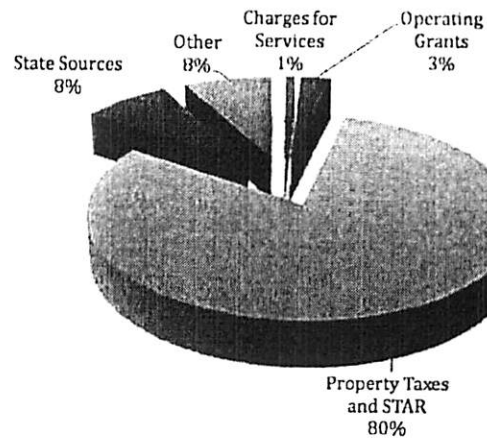
A graphic display of the distribution of revenues for the two years follows:

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

June 30, 2012

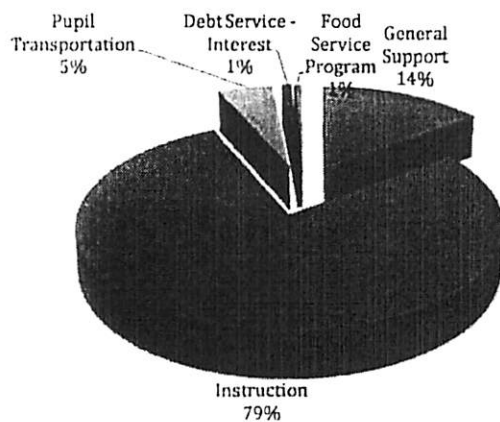


June 30, 2011

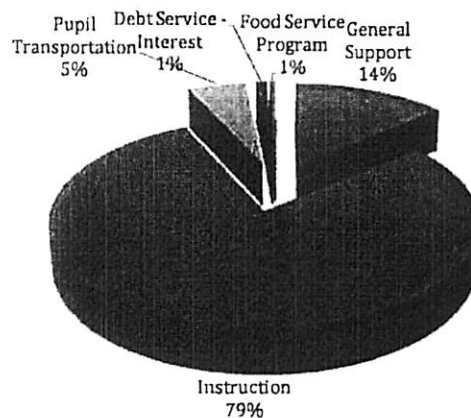


A graphic display of the distribution of expenses for the two years follows:

June 30, 2012



June 30, 2011



4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2012, the District's governmental funds reported a combined fund balance of \$9,540,367 which is an increase of \$995,559 over the prior year. This increase is due to an excess of revenues over expenditures based on the modified accrual basis of accounting. A summary of the change in fund balance by fund presented in accordance with GASB 54 classifications is as follows:

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	<u>2012</u>	<u>2011</u>	<u>Operating Changes</u>
General Fund			
Restricted:			
Workers' compensation	\$ 928,380	\$ 624,147	\$ 304,233
Unemployment insurance	638,612	336,331	302,281
Retirement contribution	1,265,260	859,431	405,829
Employee benefit accrued liability	2,216,962	2,202,027	14,935
Assigned:			
Unappropriated fund balance	1,616	34,020	(32,404)
Unassigned: Fund balance	<u>1,495,781</u>	<u>1,486,667</u>	<u>9,114</u>
	<u>6,546,611</u>	<u>5,542,623</u>	<u>1,003,988</u>
Special Aid Fund			
Assigned: Unappropriated fund balance	5,407	11,707	(6,300)
Unassigned: Fund balance (deficit)	<u>(5,407)</u>	<u>(11,707)</u>	<u>6,300</u>
	<u>-</u>	<u>-</u>	<u>-</u>
School Lunch Fund			
Nonspendable: Inventory	253	278	(25)
Assigned: Unappropriated fund balance	<u>4,664</u>	<u>5,983</u>	<u>(1,319)</u>
	<u>4,917</u>	<u>6,261</u>	<u>(1,344)</u>
Debt Service Fund			
Restricted: Debt service	<u>2,796,387</u>	<u>2,788,899</u>	<u>7,488</u>
Capital Projects Fund			
Assigned: Unappropriated fund balance	<u>192,452</u>	<u>207,025</u>	<u>(14,573)</u>
Total Fund Balance	<u>\$ 9,540,367</u>	<u>\$ 8,544,808</u>	<u>\$ 995,559</u>

A. General Fund

The general fund-fund balance increased during the year by \$1,003,988. Actual revenues totaling \$36,976,721 exceeded total expenditures of \$35,972,733.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is a decrease of \$1,344, which was the operating loss incurred during the year.

C. Debt Service Fund

The net change in the debt service fund – fund balance is an increase of \$7,488. The District will use this reserve to offset future debt principal and interest payments.

D. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$14,573. Capital expenditures of \$495,774 were offset by revenue totaling \$481,201.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2011-12 Budget

The District's general fund adopted budget for the year ended June 30, 2012 was \$37,354,521. This amount was increased by encumbrances carried forward from the prior year in the amount of \$34,020 for a total final budget of \$37,388,541.

The budget was funded through a combination of revenues and designated fund balance. The majority of this funding source was \$31,960,867 in estimated property taxes and STAR.

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

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

Opening Unassigned Fund Balance	\$ 1,486,667
Revenues Under Budget	(377,800)
Expenditures and Encumbrances Under Budget	1,414,192
Transfers to Reserves	(1,000,000)
Interest Allocated to Reserves	<u>(27,278)</u>
Closing Unassigned Fund Balance	<u>\$ 1,495,781</u>

Opening Unassigned Fund Balance

The \$1,486,667 shown in the table is the portion of the District's June 30, 2011 fund balance that was retained as unassigned. This was 4% of the District's 2011-12 approved operating budget of \$37,354,521. It is the maximum unassigned fund balance permitted by law, and is generally regarded as a positive financial management indicator.

Revenues Under Budget

The District's estimated revenues exceeded the actual revenues by \$377,800. The District deferred \$513,501 of real property tax revenue in accordance with the provisions of the Suffolk County Tax Act.

Expenditures and Encumbrances Under Budget

The District's expenditures and encumbrances totaling \$35,974,349 were \$1,414,192 less than budgeted. This saving was attained through a combination of staff reductions, cost reductions and savings initiatives.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Transfers to Reserves

Pursuant to resolutions by the Board of Education, the District transferred \$1,000,000 to the following reserves to set aside funds to cover future District expenditures:

Reserve for:

Workers' Compensation	\$ 300,000
Unemployment Insurance	300,000
Retirement Contribution	<u>400,000</u>
	<u><u>\$ 1,000,000</u></u>

Closing Unassigned Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2012-13 fiscal year with an unassigned fund balance of \$1,495,781. This is an increase of \$9,114 over the unassigned fund balance from the prior year as of June 30, 2012. This unassigned portion remains very close to the permissible 4.0% statutory maximum and is an indicator of stability in the District's management of its general fund unassigned fund balance.

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2012, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to depreciation expense in excess of capital additions recorded for the year ended June 30, 2012. A summary of the District's capital assets, net of depreciation at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Land	\$ 171,241	\$ 171,241	\$ -
Construction work in progress	623,859	128,085	495,774
Buildings and improvements	15,273,116	16,661,480	(1,388,364)
Furniture and equipment	<u>979,468</u>	<u>953,520</u>	<u>25,948</u>
Capital assets, net	<u><u>\$ 17,047,684</u></u>	<u><u>\$ 17,914,326</u></u>	<u><u>\$ (866,642)</u></u>

B. Debt Administration

At June 30, 2012, the District had total bonds payable of \$8,240,000. The bonds were issued for school building improvements. The decrease in outstanding debt represents principal payments. There were no new issuances of long-term debt during the year ended June 30, 2012. A summary of the outstanding debt at June 30, 2012 and 2011 is as follows:

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

<u>Issue Date</u>	<u>Interest Rate</u>	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
2006	4% - 4.375%	\$ 1,800,000	\$ 2,000,000	\$ (200,000)
2008	3% - 4%	2,940,000	3,515,000	(575,000)
2008	3.5% - 4%	<u>3,500,000</u>	<u>3,800,000</u>	<u>(300,000)</u>
		<u>\$ 8,240,000</u>	<u>\$ 9,315,000</u>	<u>\$ (1,075,000)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's total outstanding indebtedness currently does not exceed its debt limit, which is 10% of the full valuation of the taxable real property within the District.

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 19, 2012, for the year ending June 30, 2013, is \$38,076,500, which is an increase of \$721,979 over the prior year's budget.

The Long Island Power Authority has initiated a tax certiorari proceeding to challenge their property tax assessment. The results of such a challenge can have a considerable effect on the District's residential property taxes and future school district budgets.

Chapter 97 of the 2011 Laws of New York will limit the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation effective for the 2012-13 fiscal year. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. The District's tax levy for the 2012-13 budget was within the tax levy limits of New York State law.

8. CONTACTING THE DISTRICT

This financial report is designed to provide the reader with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Requests for additional information can be directed to:

Mr. Sean Leister
Assistant Superintendent for Business
Port Jefferson Union Free School District
550 Scraggy Hill Road
Port Jefferson, NY 11777

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2012

ASSETS

Cash	
Unrestricted	\$ 12,242,093
Receivables	
Accounts receivable	36,706
Due from other funds	6,472
Due from state and federal	705,776
Due from other governments	233,110
Inventory	253
Deferred expenditures	350,217
Capital assets:	
Not being depreciated	795,100
Being depreciated, net of accumulated depreciation	<u>16,252,584</u>
Total Assets	<u><u>\$ 30,622,311</u></u>

LIABILITIES

Payables	
Accounts payable	\$ 507,381
Accrued liabilities	30,009
Accrued interest on bonds payable	20,499
Due to other governments	44
Due to teachers' retirement system	1,772,307
Due to employees' retirement system	137,423
Compensated absences payable	215,142
Deferred credits	
Deferred revenues	1,061,833
Long-term liabilities	
Due and payable within one year	
Bonds payable	1,100,000
Compensated absences payable	200,000
Workers' compensation liabilities	15,000
Due and payable after one year	
Bonds payable	7,140,000
Compensated absences payable	2,366,446
Workers' compensation liabilities	31,500
Net other postemployment benefits obligation	<u>14,696,322</u>
Total Liabilities	<u><u>29,293,906</u></u>

NET ASSETS

Investment in capital assets, net of related debt	8,807,684
Restricted	7,845,601
Unrestricted (deficit)	<u>(15,324,880)</u>
Net Assets	<u><u>1,328,405</u></u>
Total Liabilities and Net Assets	<u><u>\$ 30,622,311</u></u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2012

		<u>Program Revenues</u>		<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants</u>	<u>Changes in</u>
				<u>Net Assets</u>
PROGRAMS/FUNCTIONS				
General support	\$ 5,959,810	\$	\$	\$ (5,959,810)
Instruction	32,218,231	258,437	761,228	(31,198,566)
Pupil transportation	2,035,016			(2,035,016)
Debt service - interest	369,087			(369,087)
Food service program	275,741	173,346	43,383	(59,012)
Total Functions and Programs	<u>\$ 40,857,885</u>	<u>\$ 431,783</u>	<u>\$ 804,611</u>	<u>(39,621,491)</u>
GENERAL REVENUES				
Real property taxes				30,246,149
Other tax items				2,478,854
Use of money and property				852,950
Forfeitures				5,350
Sale of property and compensation for loss				11,260
Miscellaneous				279,471
State sources				2,814,181
Federal sources				481,201
Medicaid reimbursement				30,118
Total General Revenues				<u>37,199,534</u>
Change in Net Assets				(2,421,957)
Total Net Assets - Beginning of Year				<u>3,750,362</u>
Total Net Assets - End of Year				<u>\$ 1,328,405</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2012

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 10,843,266	\$ 238,715	\$ 15,295	\$	\$ 1,144,817	\$ 12,242,093
Receivables						
Accounts receivable	36,706					36,706
Due from other funds	169,357			2,796,387		2,965,744
Due from state and federal	89,570	612,269	3,937			705,776
Due from other governments	233,110					233,110
Inventory			253			253
Total Assets	<u>\$ 11,372,009</u>	<u>\$ 850,984</u>	<u>\$ 19,485</u>	<u>\$ 2,796,387</u>	<u>\$ 1,144,817</u>	<u>\$ 16,183,682</u>
LIABILITIES						
Payables						
Accounts payable	\$ 490,547	\$ 2,310	\$ 14,524	\$	\$	\$ 507,381
Accrued liabilities	30,009					30,009
Due to other funds	1,161,469	845,438			952,365	2,959,272
Due to other governments			44			44
Due to teachers' retirement system	1,772,307					1,772,307
Due to employees' retirement system	137,423					137,423
Compensated absences payable	215,142					215,142
Deferred credits						
Deferred revenues	1,018,501	3,236				1,021,737
Total Liabilities	<u>4,825,398</u>	<u>850,984</u>	<u>14,568</u>	<u>-</u>	<u>952,365</u>	<u>6,643,315</u>
FUND BALANCES						
Nonspendable: Inventory			253			253
Restricted:						
Workers' compensation	928,380					928,380
Unemployment insurance	638,612					638,612
Retirement contribution	1,265,260					1,265,260
Employee benefit accrued liability	2,216,962					2,216,962
Debt service				2,796,387		2,796,387
Assigned:						
Unappropriated fund balance	1,616	5,407	4,664		192,452	204,139
Unassigned: Fund balance (deficit)	<u>1,495,781</u>	<u>(5,407)</u>				<u>1,490,374</u>
Total Fund Balances	<u>6,546,611</u>	<u>-</u>	<u>4,917</u>	<u>2,796,387</u>	<u>192,452</u>	<u>9,540,367</u>
Total Liabilities and Fund Balances	<u>\$ 11,372,009</u>	<u>\$ 850,984</u>	<u>\$ 19,485</u>	<u>\$ 2,796,387</u>	<u>\$ 1,144,817</u>	<u>\$ 16,183,682</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2012

Total Governmental Fund Balances	\$ 9,540,367
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Long-term receivables and the related revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.	3,236
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Expenditures that are recorded in the governmental fund that effect future periods are recorded as deferred expenditures in the Statement of Net Assets.	350,217
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The cost of 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 capital assets	\$ 35,326,809	
Accumulated depreciation	<u>(18,279,125)</u>	
		17,047,684

Premiums received on bonds are recorded as revenue in the governmental funds in the year received. However, the premium is recorded as a liability in the Statement of Net Assets and amortized over the life of the related bond issue.

Total bond premium	(61,905)	
Less: accumulated amortization	<u>18,573</u>	
		(43,332)

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

Accrued interest on bonds payable	(20,499)	
Bonds payable	(8,240,000)	
Compensated absences payable	(2,566,446)	
Workers' compensation liabilities	(46,500)	
Net other postemployment benefits obligation	<u>(14,696,322)</u>	
		<u>(25,569,767)</u>

Total Net Assets	\$ <u>1,328,405</u>
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PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2012

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 30,246,149	\$	\$	\$	\$	\$ 30,246,149
Other tax items	2,478,854					2,478,854
Charges for services	258,437					258,437
Use of money and property	829,248		10,023	7,488		846,759
Forfeitures	5,350					5,350
Sale of property and compensation for loss	11,260					11,260
Miscellaneous	303,124	14,598	3,664			321,386
State sources	2,814,181	144,900	2,741			2,961,822
Medicaid reimbursement	30,118					30,118
Federal sources		605,723	28,929		481,201	1,115,853
Surplus food			11,713			11,713
Sales - school lunch			173,346			173,346
Total Revenues	36,976,721	765,221	230,416	7,488	481,201	38,461,047
EXPENDITURES						
General support	4,514,312					4,514,312
Instruction	19,301,136	765,221				20,066,357
Pupil transportation	1,988,673					1,988,673
Employee benefits	8,671,531					8,671,531
Debt service						
Principal	1,075,000					1,075,000
Interest	372,081					372,081
Cost of sales			281,760			281,760
Capital outlay					495,774	495,774
Total Expenditures	35,922,733	765,221	281,760	-	495,774	37,465,488
Excess (Deficiency) of Revenues Over Expenditures	1,053,988	-	(51,344)	7,488	(14,573)	995,559
OTHER FINANCING SOURCES AND (USES)						
Operating transfers in			50,000			50,000
Operating transfers (out)	(50,000)					(50,000)
Total Other Financing Sources and (Uses)	(50,000)	-	50,000	-	-	-
Net Change in Fund Balances	1,003,988	-	(1,344)	7,488	(14,573)	995,559
Fund Balances - Beginning of Year	5,542,623		6,261	2,788,899	207,025	8,544,808
Fund Balances - End of Year	\$ 6,546,611	\$ -	\$ 4,917	\$ 2,796,387	\$ 192,452	\$ 9,540,367

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2012

Net Change in Fund Balances \$ 995,559

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

Long-Term Revenue and Expense Differences

In the Statement of Activities, certain operating revenues are measured by the amounts earned during the year. In the governmental funds, however, revenue for these items are measured by the amount of financial resources provided (essentially, the amounts actually received).

MTA payroll tax reimbursement	\$ (27,317)
Local grant revenue	(3,993)

Expenditures for insurance are recorded in the governmental fund when paid; however, the expense is recorded in the Statement of Activities in the period that it relates to. Prepaid insurance increased from June 30, 2011 to June 30, 2012.	16,677
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Bond premiums are recorded as revenue in the governmental funds when received; however, the revenue is recorded in the Statement of Activities over the life of the bonds.	6,191
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In the Statement of Activities, certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Decrease in compensated absences payable	35,269	
Decrease in workers' compensation liabilities	186,886	
Increase in net other postemployment benefits obligation	<u>(3,842,581)</u>	(3,628,868)

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 expenses in the Statement of Activities. This is the amount by which depreciation exceeded capital outlays in the period.

Capital outlays	571,360	
Depreciation expense	<u>(1,438,002)</u>	(866,642)

Long-Term Debt Transactions Differences

Repayment of long-term debt 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.

Repayment of bond principal	1,075,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2011 to June 30, 2012.

	<u>2,994</u>	<u>1,077,994</u>
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Change in Net Deficit of Governmental Activities		<u>\$ (2,421,957)</u>
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PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Assets -
Fiduciary Funds
June 30, 2012

	<u>Agency</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash	\$ 49,989	\$ 18,872
Total Assets	<u>\$ 49,989</u>	<u>\$ 18,872</u>
 LIABILITIES		
Extraclassroom activity balances	\$ 41,974	\$
Due to other funds	6,147	325
Other liabilities	<u>1,868</u>	
Total Liabilities	<u>\$ 49,989</u>	325
 NET ASSETS		
Reserved for scholarships		<u>18,547</u>
Total Liabilities and Net Assets		<u>\$ 18,872</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets -
Fiduciary Funds
For The Year Ended June 30, 2012

	<u>Private Purpose Trust</u>
ADDITIONS	
Contributions	\$ 9,662
Investment earnings	
Interest	<u>25</u>
Total Additions	<u>9,687</u>
 DEDUCTIONS	
Scholarships and awards	<u>14,850</u>
Change in Net Assets	(5,163)
Net Assets - Beginning of Year	<u>23,710</u>
Net Assets - End of Year	<u><u>\$ 18,547</u></u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Port Jefferson Union Free School District (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 standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the District are 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 seven 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 No. 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:

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.

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 share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the 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 Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

§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 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 school districts pay tuition or a service fee for programs in which its students participate.

C. Basis of Presentation

District-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the overall governmental 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 nonexchange 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 a program or function and, therefore, 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 (a) charges paid by the recipients of goods or services offered by the programs and (b) 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.

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's 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 transactions 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 by either governments that provide the funds or outside parties.

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

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capital Projects Fund – 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.

D. Basis of Accounting and Measurement Focus

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

The fund 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 no later than November 1st and become a lien on December 1st. Taxes are collected by the Town of Brookhaven and remitted to the District from December to June.

Enforcement

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Resources

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

G. Interfund Transactions

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

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

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

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

H. Use of Estimates

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

I. 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.

J. Receivables

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

K. Inventories and Prepaid Items

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

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

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. These items are reported as assets on the Statement of Net Assets or Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

L. Capital Assets

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

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

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 15,000	30 years
Furniture and equipment	2,000	5-20 years
Land improvements	15,000	30 years
Vehicles	2,000	8 years

M. Deferred Revenues

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

N. Vested Employee Benefits – Compensated Absences

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

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

O. Other Benefits

Eligible District employees participate in the New York State Teachers' Retirement System or the New York State Employees' 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 the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District accounts for these postemployment benefits in accordance with GASB Statement No. 45 (GASB 45) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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, postemployment costs are measured and disclosed using the accrual basis of accounting.

P. Short-Term Debt

The District may issue revenue anticipation notes (RAN) and 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 RANs and 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.

Q. Accrued Liabilities and Long-Term Obligations

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

R. Equity Classifications

District-Wide Statements

In the district-wide statements there are 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 acquisitions, construction and improvements 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 two classifications and are deemed to be available for general use by the District.

Fund Statements

During the year ended June 30, 2011 the District implemented GASB 54, (see Note 2 "Changes in Accounting Principles" for additional information). Under GASB 54, the fund balance now consists of five classifications; however, the District only utilizes the following four:

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans, receivables, financial assets held for resale and principal of an endowment. The District utilizes the following nonspendable fund balance:

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.

Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by credits, grants, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Restricted fund balances, generally referred to as reserves in accordance with New York State law, 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:

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Workers' Compensation Reserve

Workers' Compensation Reserve (GML §6-j) is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. The reserve is accounted for in the general fund.

Unemployment Insurance Reserve

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.

Retirement Contribution Reserve

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.

Employee Benefit Accrued Liability Reserve

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

Restricted for Debt Service

Unexpended balances of proceeds of borrowings for capital projects; interest and earnings from investing proceeds of obligations, and premium and accrued interest are recorded in the debt service fund and held until appropriated for debt payments. This restricted fund balance is accounted for in the debt service fund.

Assigned – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the District's Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance includes an amount appropriated to partially fund the subsequent year's budget. Assigned fund balance also includes encumbrances not classified as restricted at the end of the fiscal year.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Unassigned – represents the residual classification for the District's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted or assigned. NYS Real Property Tax Law §1318, restricts the unassigned fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.

Fund Balance Classification

Any portion of fund balance may be applied or transferred for a specific purpose by law, voter approval if required by law or by formal action of the Board of Education if voter approval is not required. Amendments or modification to the applied or transferred fund balance must also be approved by formal action of the Board of Education.

The Board of Education shall delegate the authority to assign fund balance, for encumbrance purposes, to the person(s) to whom it has delegated the authority to sign purchase orders.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned)

The expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the assigned fund balance to the extent that there is an assignment and then from the unassigned fund balance.

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE 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. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund 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 three broad categories.

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.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 as 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.

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 addition, both interest and principal are recorded as expenditures in the fund statements when due and payable, whereas interest expense is recorded in the Statement of Activities as it accrues, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

The voters of the District approved the proposed appropriation budget for the general fund. Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations 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. No supplemental appropriations occurred during the year.

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.

The budget for the 2012-13 school year in the amount of \$38,076,500 was approved by the voters on May 19, 2012.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. 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 part of other assigned, unappropriated fund balance, unless classified as restricted or committed, and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

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:

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

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

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

5. PARTICIPATION IN BOCES

During the year ended June 30, 2012, the District was billed \$1,863,105 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$204,532. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. DUE FROM STATE AND FEDERAL

Due from state and federal at June 30, 2012 consisted of:

General Fund	
New York State Aid - excess cost aid	\$ 54,570
Medicare Part D reimbursements	<u>35,000</u>
	89,570
Special Aid Fund	
Federal and state grants	612,269
School Lunch Fund	
Federal & state food service program reimbursements	<u>3,937</u>
	<u>\$ 705,776</u>

7. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2012 in the amount of \$233,110 consists of amounts due from other school districts for tuition and health services in the amount of \$139,074 and \$94,036 due from BOCES.

8. CAPITAL ASSETS

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

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Governmental activities				
Capital assets not being depreciated				
Land	\$ 171,241	\$	\$	\$ 171,241
Construction work in progress	<u>128,085</u>	<u>495,774</u>		<u>623,859</u>
Total capital assets not being depreciated	<u>299,326</u>	<u>495,774</u>	-	<u>795,100</u>
Capital assets being depreciated				
Buildings and improvements	32,709,446	3,687	(1,659)	32,711,474
Furniture and equipment	<u>1,754,090</u>	<u>71,899</u>	<u>(5,754)</u>	<u>1,820,235</u>
Total capital assets being depreciated	<u>34,463,536</u>	<u>75,586</u>	<u>(7,413)</u>	<u>34,531,709</u>
Less accumulated depreciation for:				
Buildings and improvements	16,047,966	1,392,051	(1,659)	17,438,358
Furniture and equipment	<u>800,570</u>	<u>45,951</u>	<u>(5,754)</u>	<u>840,767</u>
Total accumulated depreciation	<u>16,848,536</u>	<u>1,438,002</u>	<u>(7,413)</u>	<u>18,279,125</u>
Total capital assets, being depreciated, net	<u>17,615,000</u>	<u>(1,362,416)</u>	-	<u>16,252,584</u>
Capital assets, net	<u>\$ 17,914,326</u>	<u>\$ (866,642)</u>	<u>\$ -</u>	<u>\$ 17,047,684</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Depreciation expense was charged to governmental functions as follows:

General support	\$ 32,810
Instruction	1,401,303
Food service program	<u>3,889</u>
Total depreciation expense	<u>\$ 1,438,002</u>

9. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2012, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 169,357	\$ 1,161,469	\$	\$ 50,000
Special Aid Fund		845,438		
School Lunch Fund			50,000	
Debt Service Fund	2,796,387			
Capital Projects Fund		952,365		
Fiduciary Funds		<u>6,472</u>		
Total	<u>\$ 2,965,744</u>	<u>\$ 2,965,744</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

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

10. SHORT-TERM DEBT

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

	Maturity	Interest Rate	Balance June 30, 2011	Issued	Redeemed	Balance June 30, 2012
TAN	6/28/2012	0.48%	\$	\$ 8,600,000	\$ (8,600,000)	\$

Interest on short-term debt for the year was \$29,037.

11. LONG-TERM LIABILITIES

Long-term liability balances and activity for the year are summarized below:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 9,315,000	\$	\$ (1,075,000)	\$ 8,240,000	\$ 1,100,000
Other long-term liabilities					
Compensated absences	2,601,715		(35,269)	2,566,446	200,000
Workers' compensation	<u>233,386</u>		<u>(186,886)</u>	<u>46,500</u>	<u>15,000</u>
	<u>\$ 12,150,101</u>	<u>\$</u>	<u>\$ (1,297,155)</u>	<u>\$ 10,852,946</u>	<u>\$ 1,315,000</u>

The general fund has typically been used to liquidate other long-term liabilities.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Bonds payable are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2012
Construction serial bond	2006	6/1/2021	4% - 4.375%	\$ 1,800,000
Construction serial bond	2008	6/1/2019	3% - 4%	2,940,000
Construction serial bond	2008	6/15/2023	3.5% - 4%	3,500,000
				<u>\$ 8,240,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,100,000	\$ 302,794	\$ 1,402,794
2014	1,140,000	263,643	1,403,643
2015	1,135,000	223,153	1,358,153
2016	1,120,000	181,963	1,301,963
2017	650,000	148,394	798,394
2018 - 2022	2,745,000	372,263	3,117,263
2023	350,000	14,000	364,000
Total	<u>\$ 8,240,000</u>	<u>\$ 1,506,210</u>	<u>\$ 9,746,210</u>

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

Interest paid	\$ 343,044
Less interest accrued in the prior year	(23,493)
Plus interest accrued in the current year	<u>20,499</u>
Total interest expense on long-term debt	<u>\$ 340,050</u>

12. PENSION PLANS

A. General Information

The District participates in the New York State Teachers' Retirement System (NYSTRS) and the New York State and Local Employees' Retirement System (NYSERS). 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.

B. Provisions and Administration

Teachers' 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. The 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 the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Employees' 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 New York 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 the New York State and Local Employees' Retirement System, Office of the State Comptroller, 110 State Street, Albany, NY 12244.

C. Funding Policies

The Systems are noncontributory for the employee except for those who joined the Systems after July 27, 1976 with less than ten years of credited service, who contribute 3 % of their salary. Effective January 1, 2010, new employees joining the NYSERS will contribute 3% of their salary throughout active membership while new NYSTRS members will be required to contribute 3.5% of their salary to NYSTRS throughout active membership. For employees hired on or after April 1, 2012, employee contribution rates are dependent upon salaries and range from 3% to 6% of salary throughout active membership. For the NYSERS, the Comptroller shall certify annually the rates expressed as proportions of members' payroll annually, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, rates are established annually for NYSTRS by the New York State Teachers' Retirement Board.

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

<u>Year</u>	<u>NYSTRS</u>	<u>NYSERS</u>
2012	\$ 1,614,280	\$ 451,428
2011	1,330,200	359,121
2010	896,711	212,942

13. POSTEMPLOYMENT BENEFITS

A. Plan Description

The District provides postemployment health care insurance coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the New York State Health Insurance Program – Empire Plan. The District implemented GASB 45 prospectively in this transition year of implementation.

B. Funding Policy

The District assumes the full cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as payments are made. For the year ended June 30, 2012, the District recognized a general fund expenditure of \$1,789,129 for 221 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.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution (ARC)	\$ 5,761,453
Interest on net OPEB obligation	542,687
Adjustment to ARC	<u>(672,430)</u>
Annual OPEB cost (expense)	5,631,710
Contributions made	<u>(1,789,129)</u>
 Increase in net OPEB obligation	 3,842,581
Net OPEB obligation - beginning of year	<u>10,853,741</u>
 Net OPEB obligation - end of year	 <u><u>\$ 14,696,322</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 5,631,710	31.8%	\$ 14,696,322
June 30, 2011	5,363,295	34.5%	10,853,741
June 30, 2010	5,683,641	36.0%	7,343,014

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$54,583,834 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$54,583,834. The covered payroll (annual payroll of active employees covered by the plan) was \$17,262,199, and the ratio of the UAAL to the covered payroll was 316.2%.

Actuarial valuations of an ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Actuarial Methods and Assumptions

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

In the July 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5% discount rate and for medical inflation an ultimate healthcare cost trend rate of 6%. The UAAL is being amortized over 30 years using an interest rate equal to the funding rate of 5%. The remaining amortization period at June 30, 2012, was 27 years.

14. RISK MANAGEMENT

A. General Information

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by a combination of self-insurance reserves 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.

B. Risk Retention

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unreported claims which were incurred on or before year end but not reported (IBNR). Claims activity is summarized below:

	<u>2011</u>	<u>2012</u>
Unpaid claims at beginning of year	\$ 172,742	\$ 233,386
Incurred claims and claim adjustment expenses	138,284	(111,944)
Claim payments	<u>(77,640)</u>	<u>(74,942)</u>
Unpaid claims at year end	<u>\$ 233,386</u>	<u>\$ 46,500</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

15. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2012, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance:

General Fund	
General Support	\$ 1,216
Instruction	<u>400</u>
	1,616
Special Aid Fund	
Instruction	5,407
Capital Projects Fund	
Capital projects	<u>48,859</u>
	<u>\$ 55,882</u>

B. 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.

C. 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 excess of the District's insurance coverage. However, it is not possible to determine the District's potential exposure, if any, at this time.

D. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$91,508. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 86,790
2014	70,320
2015	<u>30,437</u>
	<u>\$ 187,547</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 30,631,555	\$ 30,759,442	\$ 30,246,149	\$ (513,293)
Other tax items	2,454,312	2,326,425	2,478,854	152,429
Charges for services	276,000	276,000	258,437	(17,563)
Use of money and property	845,000	845,000	829,248	(15,752)
Forfeitures			5,350	5,350
Sale of property and compensation for loss			11,260	11,260
Miscellaneous	99,000	99,000	303,124	204,124
Total Local Sources	34,305,867	34,305,867	34,132,422	(173,445)
State Sources	3,048,654	3,048,654	2,814,181	(234,473)
Medicaid Reimbursement			30,118	30,118
Total Revenues	37,354,521	37,354,521	36,976,721	\$ (377,800)

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.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 32,200	\$ 38,598	\$ 38,173	\$	\$ 425
Central administration	337,444	314,019	308,515		5,504
Finance	549,609	558,233	540,790		17,443
Staff	180,447	302,547	226,565		75,982
Central services	2,695,804	3,100,969	3,006,557	1,216	93,196
Special items	430,973	419,825	393,712		26,113
Total General Support	4,226,477	4,734,191	4,514,312	1,216	218,663
Instruction					
Instruction, administration & improvement	1,358,683	1,363,665	1,263,016		100,649
Teaching - regular school	10,219,836	10,360,131	10,262,232		97,899
Programs for children with handicapping conditions	4,466,526	4,587,895	4,519,406		68,489
Occupational education	189,036	189,036	172,770		16,266
Instructional media	1,082,545	1,123,297	1,111,368	400	11,529
Pupil services	2,016,901	2,097,722	1,972,344		125,378
Total Instruction	19,333,527	19,721,746	19,301,136	400	420,210
Pupil Transportation	2,086,908	2,059,453	1,988,673		70,780
Employee Benefits	10,033,585	9,356,320	8,671,531		684,789
Debt Service					
Principal	1,075,000	1,075,000	1,075,000		-
Interest	583,044	391,831	372,081		19,750
Total Debt Service	1,658,044	1,466,831	1,447,081	-	19,750
Total Expenditures	37,338,541	37,338,541	35,922,733	1,616	1,414,192
OTHER USES					
Operating transfers out	50,000	50,000	50,000		-
Total Expenditures and Other Uses	37,388,541	37,388,541	35,972,733	\$ 1,616	\$ 1,414,192
Net Change in Fund Balances	(34,020)	(34,020)	1,003,988		
Fund Balances - Beginning of Year	34,020	34,020	5,542,623		
Fund Balances - End of Year	\$ -	\$ -	\$ 6,546,611		

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.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedule of Funding Progress - Other Postemployment Benefits
For The Year Ended June 30, 2012

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Actuarial Accrual Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2010	\$ -	\$ 54,583,834	\$ 54,583,834	0%	\$ 17,262,199	316.2%
January 1, 2008	-	52,215,100	52,215,100	0%	14,624,000	357.1%

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
and Use of Assigned: Appropriated and Unassigned Fund Balance - General Fund
For The Year Ended June 30, 2012

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 37,354,521
Additions:	
Prior year's encumbrances	<u>34,020</u>
Original Budget	37,388,541
Budget revision	<u>-</u>
Final Budget	<u><u>\$ 37,388,541</u></u>

Next year's budget is a voter-approved budget of	<u><u>\$ 38,076,500</u></u>
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USE OF ASSIGNED: APPROPRIATED AND UNASSIGNED FUND BALANCE

Assigned: Appropriated and Unassigned Fund Balance - As of the beginning of the year	\$ 1,486,667
Less:	
Appropriated fund balance used for the levy of taxes - Original budget	<u>-</u>
Unassigned Fund Balance - As of the beginning of the year	<u><u>\$ 1,486,667</u></u>

PROJECT TITLE

- 43 -

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedule of Certain Revenues and Expenditures
Compared to ST-3 Data
For The Year Ended June 30, 2012

	<u>Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Real Property Taxes	A -1001	\$ 30,246,149	\$ 30,246,149
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	2,814,181	2,814,181
Federal Aid - Medicaid Reimbursement	AT-4999	30,118	30,118
Total Revenues	AT-5999	36,976,721	36,976,721
EXPENDITURES			
General Support	AT-1999	4,514,312	4,514,312
Pupil Transportation	AT-5599	1,988,673	1,988,673
Debt Service - Principal	AT-9798.6	1,075,000	1,075,000
Debt Service - Interest	AT-9798.7	372,081	372,081
Total Expenditures	AT-9999	35,972,733	35,972,733

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Investment in Capital Assets, Net of Related Debt
For The Year Ended June 30, 2012

Capital assets, net	<u>\$ 17,047,684</u>
Deduct:	
Short-term portion of bonds payable	1,100,000
Long-term portion of bonds payable	<u>7,140,000</u>
	<u>8,240,000</u>
Investment in capital assets, net of related debt	<u>\$ 8,807,684</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
Port Jefferson Union Free School District

We have audited the financial statements of the governmental activities, each major fund, and the fiduciary funds of the Port Jefferson Union Free School District as of and for the year ended June 30, 2012, which collectively comprise the Port Jefferson Union Free School District's basic financial statements and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port Jefferson 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 Port Jefferson Union Free School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port Jefferson 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 over financial reporting 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 Port Jefferson 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 reported to management of the Port Jefferson Union Free School District in a separate letter dated September 27, 2012.

This report is intended solely for the information and use of the Board of Education, the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

R. S. Abrams & Co., LLP

R.S. Abrams & Co. LLP
September 27, 2012