



**SHELTER ISLAND
UNION FREE SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES WITH
INDEPENDENT AUDITORS' REPORTS**

June 30, 2008

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Shelter Island Union Free School District
Shelter Island, New York

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Shelter Island Union Free School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on the financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of each major fund as well as the fiduciary funds of the Shelter Island Union Free School District as of June 30, 2008, 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 November 12, 2008, on our consideration of the Shelter Island 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 the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 37, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The other supplementary information on pages 38 through 41 is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the other supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shelter Island Union Free School District's basic financial statements. The accompanying summary schedule of prior findings and corrective action plan are presented for purposes of additional analysis as required by *Government Auditing Standards* and are not a required part of the basic financial statements of the Shelter Island Union Free School District. The summary schedule of prior findings and corrective action plan have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Coughlin Foundatos Cullen Demowski, LLP

November 12, 2008

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Shelter Island 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, 2008. 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.

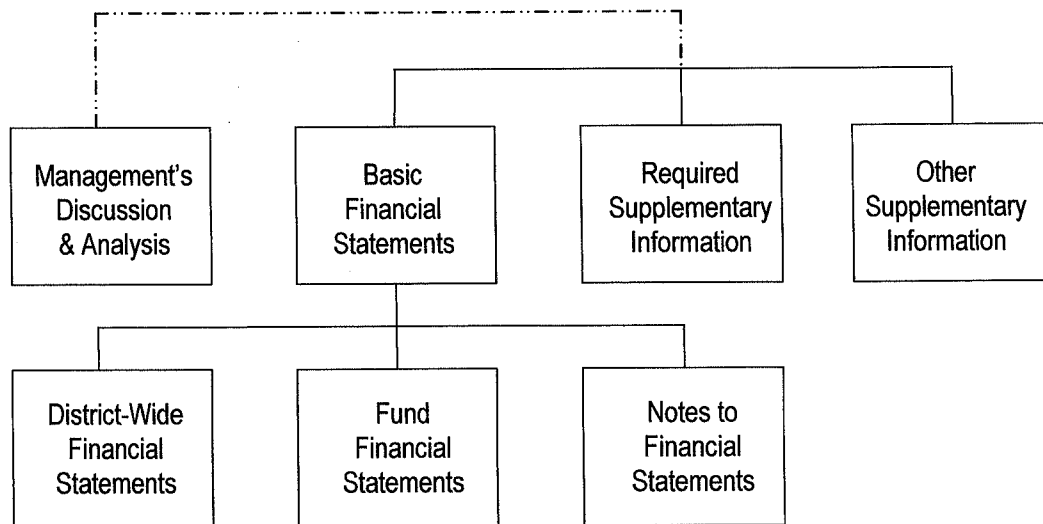
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2008 are as follows:

- The District's total net assets, as reflected in the district-wide financial statements, increased by \$671,446 (11.28%). The 2007 capital assets have been restated to reflect the values of a new physical inventory. The restatement reduced the 2007 balance by \$253,740.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$190,655 (6.44%). The 2007 unreserved – undesignated fund balance has been restated to include the activity of the physical fitness facility (FIT center). This restatement increased the general fund and decreased the special aid fund fund balances by \$187,864.

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:



SHELTER ISLAND 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.

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.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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 increased by \$671,446 between fiscal year 2007 and 2008. A summary of the District's Statement of Net Assets for June 30, 2008 and 2007 is as follows:

	2008	Restated 2007	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 3,954,848	\$ 3,472,888	\$ 481,960	13.88 %
Capital Assets	4,403,534	4,208,898	194,636	4.62 %
Total Assets	8,358,382	7,681,786	676,596	8.81 %
Long-Term Liabilities Outstanding	1,269,721	1,288,983	(19,262)	(1.49)%
Other Liabilities	465,336	440,924	24,412	5.54 %
Total Liabilities	1,735,057	1,729,907	5,150	0.30 %
Net Assets				
Investment in Capital Assets, Net of Related Debt	3,623,095	3,552,015	71,080	2.00 %
Restricted	1,645,245	1,802,053	(156,808)	(8.70)%
Unrestricted	1,354,985	597,811	757,174	126.66 %
Total Net Assets	\$ 6,623,325	\$ 5,951,879	\$ 671,446	11.28 %

Current and other assets increased by \$671,446, as compared to the prior year. The increase is primarily reflected in the increased cash.

Capital assets increased by \$194,636, as compared to the prior year because equipment purchases and construction in progress exceeded depreciation expense. The 2007 balance was restated to reflect a prior period adjustment of \$(253,740) as a result of an update to the capital assets inventory report completed during the year ended June 30, 2008. The accompanying Notes to Financial Statements, Note 7 "Capital Assets/Prior Period Adjustment" provides additional information.

Long-term liabilities decreased by \$19,262, as compared to the prior year. This decrease is primarily the result of increases in installment purchase debt, workers' compensation and compensated absences liabilities, net of the repayment of the current maturity of the bond indebtedness and installment debt.

Other liabilities increased by \$24,412, as compared to the prior year. This increase is primarily in connection with the District's liability to the teachers' retirement system for the current year's contribution at an increased contribution rate.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The investment in capital assets, net of related debt, in the amount of \$3,623,095 relates to capital assets at cost less depreciation and related debt. This number increased over the prior year by \$71,080 as follows:

	Increase (Decrease)
Capital asset additions	\$ 415,747
Issuance of related debt	(170,900)
Related debt principal reduction	301,084
Depreciation expense	(221,111)
Prior period adjustment	(253,740)
	\$ 71,080

The restricted net assets in the amount of \$1,645,245 relates to the District's debt service and capital reserves and the capital projects fund fund balance. This number decreased from the prior year by \$156,808, principally due to the amount expended on capital projects, net of related interest earnings.

The unrestricted net assets in the amount of \$1,354,985 relates to the balance of the District's net assets. This number includes the District's other reserves and fund balances less unfunded liabilities such as compensated absences. This number increased over the prior year by \$751,174.

The District's total net assets increased by \$671,446 or 11.28%; \$6,623,325 at June 30, 2008, compared to \$5,951,879 at June 30, 2007.

B. Changes in Net Assets

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of these statements for the years ended June 30, 2008 and 2007 is as follows:

	2008	2007	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 65,971	\$ 68,711	\$ (2,740)	(3.99)%
Operating Grants	192,962	144,810	48,152	33.25 %
General Revenues				
Property Taxes and STAR	7,956,826	7,675,578	281,248	3.66 %
State Sources	799,957	443,212	356,745	80.49 %
Other	173,368	250,943	(77,575)	(30.91)%
Total Revenues	9,189,084	8,583,254	605,830	7.06 %
Expenses				
General Support	1,498,711	1,487,350	11,361	0.76 %
Instruction	6,392,143	6,110,227	281,916	4.61 %
Pupil Transportation	405,655	342,484	63,171	18.44 %
Community Service		2,104	(2,104)	100.00 %
Debt Service - Interest	86,076	92,987	(6,911)	(7.43)%
Food Service Program	135,053	123,942	11,111	8.96 %
Total Expenses	8,517,638	8,159,094	358,544	4.39 %
Increase in Net Assets	\$ 671,446	\$ 424,160	\$ 247,286	58.30 %

The District's net assets increased by \$671,446 and \$424,160 for the years ended June 30, 2008 and 2007, respectively.

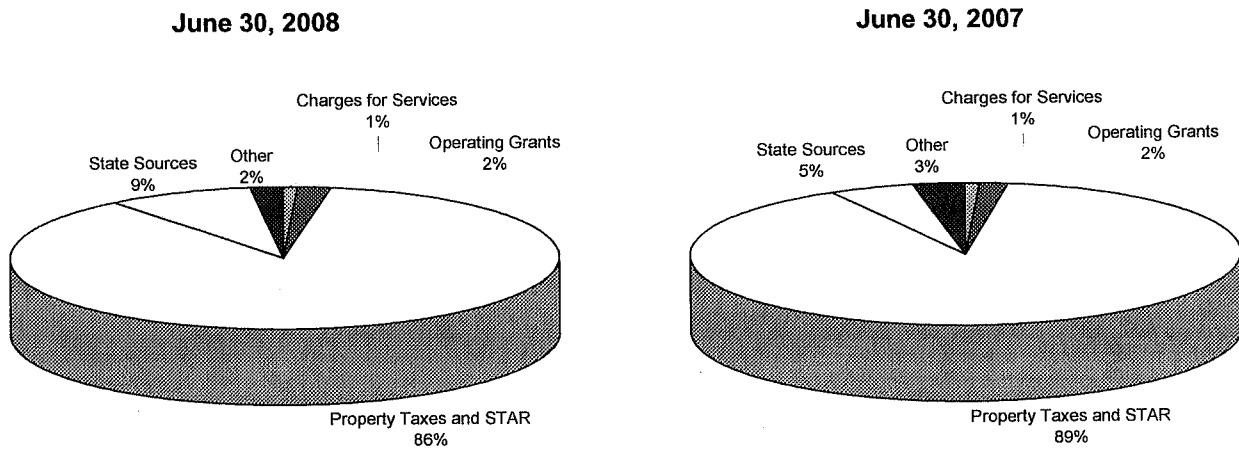
SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The District's revenues increased by \$605,830 or 7.06%. Most of this increase is attributable to property taxes and STAR. The District also received additional state aid during the current year.

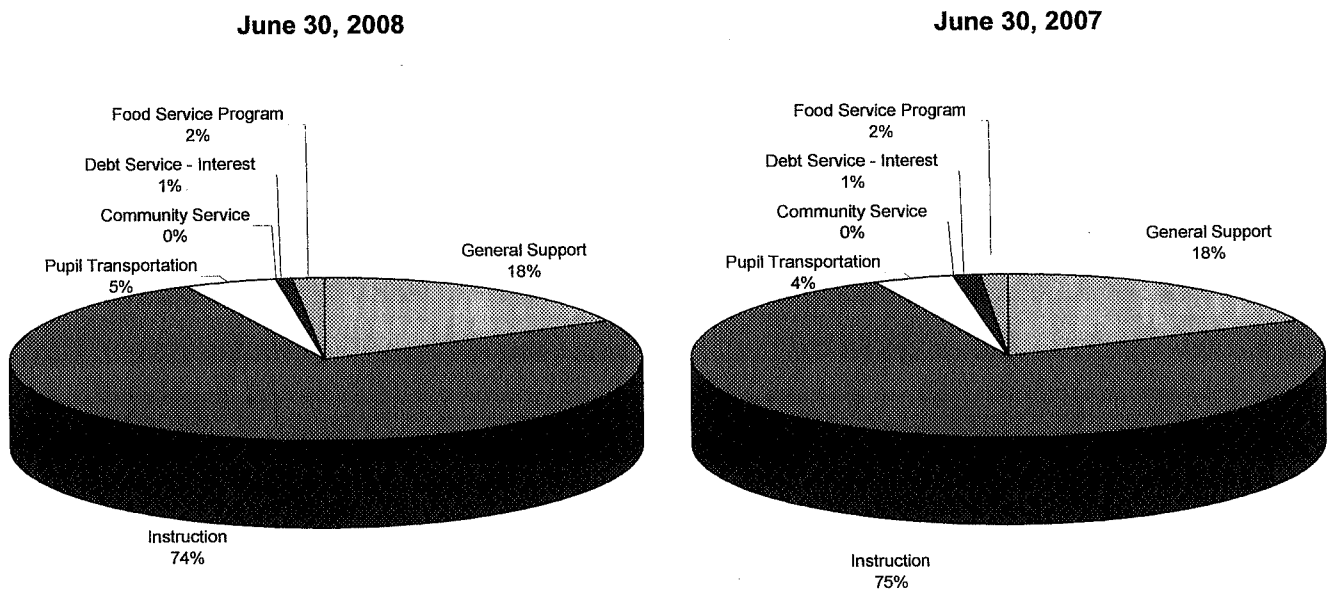
The District's expenses increased by \$358,544 or 4.39%. The major contributing factor to this increase was the additional costs required for instructional purposes.

As indicated on the pie charts that follow, real property taxes are the largest component of revenues recognized (i.e., 86% and 89% of the total for the years 2008 and 2007, respectively). Instructional expenses are the largest category of expenses incurred (i.e., 74% and 75% of the total for the years 2008 and 2007, respectively).

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



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



SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2008, the District's governmental funds reported a combined fund balance of \$3,180,656 which is an increase of \$146,561 over the prior year. This increase is due to an excess of revenues over expenditures based upon the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	2008	2007	Changes Due to	
			Operations	Prior Period Adjustment
General Fund				
Reserve for:				
Encumbrances	\$ 145,537	\$ 20,389	\$ 125,148	\$
Unemployment Insurance	25,659	25,113	546	
Employee Benefit Accrued Liability	417,902	404,436	13,466	
Capital	1,597,261	1,721,793	(124,532)	
Unreserved - Designated for subsequent year's expenditures	225,000	225,000	-	
Unreserved - Undesignated	736,177	372,286	176,027	187,864
	<u>3,147,536</u>	<u>2,769,017</u>	<u>190,655</u>	<u>187,864</u>
Special Aid Fund				
Unreserved - Undesignated	-	187,864	-	(187,864)
School Lunch Fund				
Reserve for Inventory	2,745	3,228	(483)	
Unreserved - Undesignated	(17,609)	(6,274)	(11,335)	
	<u>(14,864)</u>	<u>(3,046)</u>	<u>(11,818)</u>	<u>-</u>
Debt Service Fund				
Reserve for Debt	6,972	14,102	(7,130)	
Capital Projects Fund				
Reserve for encumbrances	31,960		31,960	
Unreserved - Undesignated	9,052	66,158	(57,106)	
	<u>41,012</u>	<u>66,158</u>	<u>(25,146)</u>	<u>-</u>
 Total Fund Balance	 <u>\$ 3,180,656</u>	 <u>\$ 3,034,095</u>	 <u>\$ 146,561</u>	 <u>\$</u>

A. General Fund

The 2007 unreserved – undesignated fund balance was restated to include the activity of the physical fitness facility, the FIT Center. This activity was previously reported in the special aid fund. The District runs the FIT center in a cooperative effort with the Town of Shelter Island. The District is expected to maintain as well as improve the FIT center and related assets.

The net change in the general fund – fund balance is an increase of \$190,655, as revenues and other sources of \$8,938,032 exceeded expenditures and other uses of \$8,747,377. Revenues and other sources increased by \$561,540 or 6.67% over fiscal 2007 totals primarily because of increased real property taxes and STAR (\$281,247), and state aid (\$356,745). Expenditures and other uses increased by \$658,358 or 8.13% over fiscal 2007 totals. A significant portion of this increase (\$213,657 or 37.45%) was attributable to increased instructional costs. Another significant portion of the increase (\$207,205 or 31.47%) was attributable to the transfer to the capital projects fund for the main floor bathroom renovation project. The general fund's other expenditures in total experienced a nominal increase over fiscal 2007.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

In May 2006, the voters of the District authorized the creation of a capital reserve for \$2,000,000 to be funded for a period of five years. During the 2007-08 school year, the reserve earned interest of \$51,468 and the District transferred an additional \$25,000 into the reserve. In May 2007, the voters approved a capital project to renovate the main floor bathrooms in the amount of \$225,000 to be funded by the capital reserve. For the year ended June 30, 2008, the District transferred \$201,000 to the capital projects fund from the capital reserve.

B. Special Aid Fund

In prior years, the fund balance in the special aid fund related to the District's operation of a physical fitness facility, the FIT center, in a cooperative effort with the town of Shelter Island. It was determined that the FIT center activity is part of the general fund's operations. A prior period adjustment of \$187,864 was made to reclassify the FIT center from the special aid fund to the general fund.

C. School Lunch Fund

The net change in the school lunch fund – fund balance was a decrease of \$11,818, which was the operating loss of the school lunch fund. The administration is currently reviewing both the costs associated with the program and the prices charged per meal.

D. Debt Service Fund

The net change in the debt service fund – reserve for debt was a decrease of \$7,130. This decrease was directly attributable to a \$10,000 operating transfer from the debt service fund to the general fund. The District made a similar transfer in fiscal 2007 in the amount of \$40,000. These transfers become funding sources for the general fund operating budget.

E. Capital Projects Fund

The fund balance in the capital projects fund decreased by \$25,146. This decrease is related to current capital project expenditures. The District renovated the main floor bathrooms for handicap access and updated an air conditioning unit. These projects were primarily funded by the capital reserve. The fund also expended \$170,900 for the purchase of computer equipment. The purchase was financed through an installment purchase contract.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2007-08 Budget

The District's general fund voter-approved budget for the year ended June 30, 2008 was \$8,926,765. This amount was increased by encumbrances carried forward from the prior year in the amount of \$20,389 and a budget revision in the amount of \$201,000 for a total final budget of \$9,148,154.

The budget was funded through a combination of revenues and designated fund balance. The majority of this funding source was \$7,956,765 in property taxes and STAR.

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

The general fund's unreserved – undesignated 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 designations 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:

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Opening, Unreserved - Undesignated Fund Balance	\$	372,286
Prior Period Adjustment		187,864
Revenues Over Budget		236,267
Expenditures and Encumbrances Under Budget		255,240
Interest Transferred into Reserves		(65,480)
Transfers to Reserves		(25,000)
Appropriated for June 30, 2009 Budget		<u>(225,000)</u>
Closing, Unreserved - Undesignated Fund Balance	\$	<u><u>736,177</u></u>

Opening, Unreserved - Undesignated Fund Balance

The \$560,150 shown in the table is the portion of the District's June 30, 2007 fund balance, as restated, that was retained as undesignated.

Prior Period Adjustment

A prior period adjustment of \$187,864 was made to reclassify the physical fitness facility (FIT center) from the special aid fund to the general fund. It was determined that the FIT center activity is part of the general fund operations and should not be reflected as a discrete activity.

Revenues Over Budget

The 2007-08 final budget for revenues was \$8,701,765. Actual revenues received for the year were \$8,938,032. The excess of actual revenue over estimated or budgeted revenue was \$236,267, which is primarily due to the District earning approximately \$50,000 more interest than anticipated and receiving approximately \$125,000 more than anticipated in state aid.

Expenditures and Encumbrances under Budget

The 2007-08 final budget for expenditures, including prior year open encumbrances (\$20,389) as of June 30, 2007, and a budget revision (\$201,000) was \$9,148,154. Actual expenditures as of June 30, 2008 were \$8,747,377 and outstanding encumbrances were \$145,537. Combined, the expenditures plus encumbrances for 2007-08 were \$8,892,914. The final budget was under expended by \$255,240. This under expenditure is principally within the general support and instruction codes of the budget.

Interest Transferred into Reserves

This amount represents interest earned on the reserves during the year as follows:

Unemployment insurance reserve	\$	546
Employee benefit accrued liability reserve		13,466
Capital reserve		<u>51,468</u>
	\$	<u><u>65,480</u></u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Transfers to Reserves

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

The \$(25,000) shown in the above table represents the transfer into the capital reserve.

Appropriated Fund Balance

The District has chosen to use \$225,000 of the available June 30, 2008 fund balance to partially fund the 2008-09 approved operating budget. As such, the undesignated portion of the June 30, 2008 fund balance must be reduced by this amount.

Closing, Unreserved - Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2008-09 fiscal year with an undesignated fund balance of \$736,177. This undesignated portion is greater than the permissible 4% statutory maximum per section 1318 of the New York State Real Property Tax Law as recently amended. The District is in the process of formulating a plan to reduce the undesignated fund balance to permissible limits.

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2008, the District had invested in a broad range of capital assets, including land, buildings and improvements and equipment. The net decrease in capital assets results from depreciation in excess of capital additions for the year ended June 30, 2008. A summary of the District's capital assets, net of depreciation at June 30, 2008 and 2007 is as follows:

	2008	Restated 2007	Increase (Decrease)
Land	\$ 25,200	\$ 25,200	\$ -
Construction in progress	200,146		200,146
Buildings and improvements	3,786,911	3,884,876	(97,965)
Site improvements	3,410	4,181	(771)
Furniture and equipment	387,867	294,641	93,226
Capital assets, net	<u>\$ 4,403,534</u>	<u>\$ 4,208,898</u>	<u>\$ 194,636</u>

The District's capital assets inventory report was updated during the year ended June 30, 2008. The 2007 balances have been restated to reflect the updated report.

B. Debt Administration

At June 30, 2008, the District had total bonds payable of \$600,000. The bonds were issued for school building improvements. The decrease in outstanding debt represents principal payments. A summary of the outstanding debt at June 30, 2008 and 2007 is as follows:

Issue Date	Interest Rate	2008	2007	Increase (Decrease)
1991	6.20%	\$ 600,000	\$ 825,000	<u>\$ (225,000)</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

On September 25, 2006, the District entered into an installment purchase debt contract in the amount of \$111,860 relating to instructional equipment. On July 19, 2007, the District entered into another installment purchase debt contract in the amount of \$170,900 relating to the purchase of instructional laptop computers. During the year, the combined installment purchase debt decreased by \$76,084 to a total of \$180,439.

The District's latest credit rating from Standard and Poor's is AAA. The District's total outstanding indebtedness is significantly less than the debt limit. The debt limit 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 June 17, 2008, for the year ending June 30, 2009, is \$9,499,918. This is an increase of \$573,153 or 6.42% over the previous year's budget. The increase is principally in the instructional programs (\$420,910) and employee benefits (\$161,269) functions of the budget.

The District budgeted non-property tax revenues at a \$43,352 increase over the prior year's estimate. This increase is principally due to an estimated increase in miscellaneous revenues. Additionally, the designated fund balance applied to the June 30, 2009 budget remained at \$225,000. A property tax increase of 6.65% was needed to meet the revenue shortfall and cover the increase in projected expenditures.

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:

Ms. Sharon Clifford
Superintendent
Shelter Island Union Free School District
33 North Ferry Road
Box 2015
Shelter Island, New York 11964

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

ASSETS

Cash	\$	3,413,724
Receivables		
Accounts receivable		1,318
Due from other funds		63,512
Due from other governments		163,143
Inventories		2,745
Other assets		310,406
Capital assets not being depreciated		225,346
Capital assets being depreciated, net of accumulated depreciation		<u>4,178,188</u>
 Total Assets	 \$	 <u><u>8,358,382</u></u>

LIABILITIES

Payables	\$	71,989
Accounts payable		21,068
Accrued liabilities		7,316
Due to other governments		341,164
Due to teachers' retirement system		23,318
Due to employees' retirement system		
Deferred credits		
Deferred revenues		481
Long-term liabilities		
Due and payable within one year		
Bonds payable		200,000
Installment purchase debt payable		94,801
Compensated absences payable		31,591
Due and payable after one year		
Bonds payable		400,000
Installment purchase debt payable		85,638
Compensated absences payable		429,869
Workers' compensation liability		<u>27,822</u>
 Total Liabilities		 <u>1,735,057</u>

NET ASSETS

Investment in capital assets, net of related debt		3,623,095
Restricted for capital		1,638,273
Restricted for debt service		6,972
Unrestricted		<u>1,354,985</u>
 Total Net Assets		 <u>6,623,325</u>
 Total Liabilities and Net Assets	 \$	 <u><u>8,358,382</u></u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2008

	Program Revenues		Net (Expense)
Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Assets
PROGRAMS/FUNCTIONS			
General support	\$ (1,498,711)	\$	\$ (1,498,711)
Instruction	(6,392,143)	751	(6,216,445)
Pupil transportation	(405,655)		(405,655)
Debt service - interest	(86,076)		(86,076)
School lunch program	(135,053)	65,220	(51,818)
	\$ (8,517,638)	\$ 65,971	\$ 192,962
Total Programs/Functions	\$ (8,517,638)	\$ 65,971	\$ 192,962
GENERAL REVENUES			
Real property taxes			7,738,816
Other tax items			218,010
Use of money and property			97,875
Sale of property and compensation for loss			2,995
Miscellaneous			72,498
State sources			799,957
			8,930,151
Total General Revenues			8,930,151
Change in Net Assets			671,446
Total Net Assets - Beginning of year, as restated			5,951,879
Total Net Assets - End of year			\$ 6,623,325

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2008

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash	\$ 3,349,724	\$ 7,547	\$ 8,465	\$	\$ 47,988	\$ 3,413,724
Receivables						
Accounts receivable	1,287		31			1,318
Due from other funds	173,327			6,972		180,299
Due from other governments	75,556	84,561	3,026			163,143
Inventories			2,745			2,745
Total Assets	<u>\$ 3,599,894</u>	<u>\$ 92,108</u>	<u>\$ 14,267</u>	<u>\$ 6,972</u>	<u>\$ 47,988</u>	<u>\$ 3,761,229</u>
LIABILITIES						
Payables						
Accounts payable	\$ 71,550		\$ 439			\$ 71,989
Accrued liabilities	16,326		3,192			19,518
Due to other funds		84,811	25,000		6,976	116,787
Due to other governments		6,816	500			7,316
Due to teachers' retirement system	341,164					341,164
Due to employees' retirement system	23,318					23,318
Deferred credits						
Deferred revenues		481				481
Total Liabilities	<u>452,358</u>	<u>92,108</u>	<u>29,131</u>	<u>-</u>	<u>6,976</u>	<u>580,573</u>
FUND BALANCES						
Reserved for encumbrances	145,537				31,960	177,497
Reserved for:						
Unemployment Reserve	25,659					25,659
Employee Benefit Accrued Liability	417,902					417,902
Capital	1,597,261					1,597,261
Inventory			2,745			2,745
Debt Service				6,972		6,972
Unreserved - Designated for subsequent year's expenditures	225,000					225,000
Unreserved - Undesignated	736,177		(17,609)		9,052	727,620
Total Fund Balances	<u>3,147,536</u>	<u>-</u>	<u>(14,864)</u>	<u>6,972</u>	<u>41,012</u>	<u>3,180,656</u>
Total Liabilities and Fund Balances	<u>\$ 3,599,894</u>	<u>\$ 92,108</u>	<u>\$ 14,267</u>	<u>\$ 6,972</u>	<u>\$ 47,988</u>	<u>\$ 3,761,229</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2008

Total Governmental Fund Balances	<u>\$ 3,180,656</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Cash held by third-party administrator is treated as a long-term asset and included in net assets.	<u>310,406</u>
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	8,464,897
Accumulated depreciation	<u>(4,061,363)</u>
	<u>4,403,534</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Accrued interest on long-term liabilities	(1,550)
Bonds payable	(600,000)
Installment purchase debt payable	(180,439)
Compensated absences	(461,460)
Workers' compensation liabilities	<u>(27,822)</u>
	<u>(1,271,271)</u>
Total Net Assets	<u>\$ 6,623,325</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2008

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 7,738,816	\$	\$	\$	\$	\$ 7,738,816
Other tax items	218,010					218,010
Charges for services	751					751
Use of money and property	95,005			2,870		97,875
Sale of property and compensation for loss	2,995					2,995
Miscellaneous	72,498					72,498
State sources	799,957	38,517	1,696			840,170
Federal sources		136,430	12,959			149,389
Surplus food			3,360			3,360
Sales - school lunch			65,220			65,220
Total Revenues	8,928,032	174,947	83,235	2,870	-	9,189,084
EXPENDITURES						
General support	1,275,632					1,275,632
Instruction	4,676,935	168,008				4,844,943
Pupil transportation	389,087	16,568				405,655
Employee benefits	1,767,353					1,767,353
Debt service						
Principal	301,084					301,084
Interest	86,657					86,657
Cost of sales			135,053			135,053
Capital outlay					397,046	397,046
Total Expenditures	8,496,748	184,576	135,053	-	397,046	9,213,423
Excess (Deficiency) of Revenues Over Expenditures	431,284	(9,629)	(51,818)	2,870	(397,046)	(24,339)
OTHER FINANCING SOURCES AND USES						
Proceeds from debt					170,900	170,900
Operating transfers in	10,000	9,629	40,000		201,000	260,629
Operating transfers (out)	(250,629)			(10,000)		(260,629)
Total Other Financing Sources and (Uses)	(240,629)	9,629	40,000	(10,000)	371,900	170,900
Net Change in Fund Balances	190,655	-	(11,818)	(7,130)	(25,146)	146,561
Fund Balances - Beginning of Year	2,769,017	187,864	(3,046)	14,102	66,158	3,034,095
Prior Period Adjustment	187,864	(187,864)				-
Fund Balances - End of year	\$ 3,147,536	\$ -	\$ (14,864)	\$ 6,972	\$ 41,012	\$ 3,180,656

SHELTER ISLAND 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, 2008

Net Change in Fund Balance	\$	146,561
Amounts reported for governmental activities in the Statement of Activities are different because:		
<u>Long-Term Revenue and Expense Differences</u>		
Disbursements previously expended in the governmental funds are treated as long-term assets and increase net assets.	\$	310,406
In the Statement of Activities, certain operating expenses do not require the use of current financial resources and, therefore are not report as expenditures in the governmental funds.		
Increase in compensated absences payable	(83,100)	
Increase in workers' compensation liabilities	<u>(27,822)</u>	199,484
<u>Capital Related Differences</u>		
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 capital outlays exceed depreciation in the period.		
Capital outlays	415,747	
Depreciation expense	<u>(221,111)</u>	194,636
<u>Long-Term Debt Related Differences</u>		
Proceeds from the issuance of installment purchase debt is an other funding source in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	(170,900)	
Repayment of bond principal and installment purchase debt are expenditures in the governmental funds, but they reduce long-term liabilities in the Statement of Net Assets and do not affect the Statement of Activities.	301,084	
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, 2007 to June 30, 2008.	<u>581</u>	<u>130,765</u>
Change in Net Assets of Governmental Activities	\$	<u><u>671,446</u></u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Assets -
Fiduciary Funds
June 30, 2008

	Private Purpose Trust	Agency
ASSETS		
Cash	\$ 24,246	\$ 131,848
Due from other funds	200	
	\$ 24,446	\$ 131,848
Total Assets		
LIABILITIES		
Extraclassroom activity balances	\$	\$ 44,087
Due to other funds		63,712
Other liabilities		24,049
	-	\$ 131,848
Total Liabilities		
NET ASSETS		
Reserve for scholarships	24,446	
Total Liabilities and Net Assets	\$ 24,446	

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets -
Fiduciary Funds
For The Year Ended June 30, 2008

	Private Purpose Trust
ADDITIONS	
Contributions	\$ 805
Investment earnings	
Interest	502
Total Additions	1,307
DEDUCTIONS	
Scholarships and awards	2,125
Change in Net Assets	(818)
Net Assets - Beginning of year	25,264
Net Assets - End of Year	\$ 24,446

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Shelter Island 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.

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 one of 51 component school districts in the Board of Cooperative Educational Services of Eastern Suffolk, (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that 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 §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.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 property 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.

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.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Non-exchange 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, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

E. Real Property Taxes

Calendar

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

Enforcement

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

F. Restricted Resources

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

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.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 computation of encumbrances, compensated absences, 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. Accounts Receivable

Accounts receivable are shown gross. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

K. Other Assets

Other assets represent amounts on deposit that are being held by a third-party administrator for workers' compensation claims.

L. 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.

M. 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.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

	Capitalization Threshold	Estimated Useful Life
Buildings and improvements	\$ 10,000	50 years
Site improvements	10,000	50 years
Furniture and equipment	500	5-20 years

N. Deferred Revenue

Deferred revenue arises 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.

Statute provides the authority for the District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

O. 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.

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.

P. 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 post-employment 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 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.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

In June of 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEBs)*. OPEBs include benefits such as health insurance, as well as other benefits. Prior to adopting GASB 45, governments reported their current outlays for OPEBs as expenditures in the year paid. GASB 45 will require governments to report information about their long-term financial obligations and commitments for OPEBs as incurred. The theory behind this reporting is that the traditional pay as you go public disclosures may be incomplete regarding the true cost of public services as well as not reflecting the true financial position and long-term health of the government. The effective date for GASB 45 will depend on the size of the government. The District will have to address GASB 45 for its fiscal year ending June 30, 2010 with regard to its OPEB obligation. Although the full impact of GASB 45 will be material, it cannot be determined at this time.

Q. 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.

R. 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.

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

S. Equity Classifications

District-Wide Statements

In the district-wide statements there are three classes of net assets:

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Statements

Unreserved fund balance consists of two classifications. A designation of unreserved fund balance indicates the planned use of these resources in the subsequent year's budget. The undesignated portion reports remaining fund balance that has not been designated or reserved. NYS Real Property Tax Law 1318, restricts the unreserved, undesignated fund balance of the general fund to an amount not greater than 4% of the 2008-09 budget for June 30, 2008.

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

Reserve for Encumbrances

Reserve for encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year. The reserve is accounted for in the general and capital projects funds.

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.

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.

Capital Reserve

Capital Reserve (Education Law §3651) is used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the general fund.

Reserve for Inventory

Reserve for inventory is used to restrict that portion of fund balance, which is not available for appropriation. The reserve is accounted for in the school lunch fund.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Reserve for Debt Service

Mandatory reserve for debt service (GML §6-1) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvement. 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 reserve for debt and held until appropriated for debt payments. The reserve is accounted for in the debt service fund.

Reserve for Scholarships

Reserve for scholarships is used to account for monies donated for scholarship purposes, net of earnings and awards. The reserve is accounted for in the permanent and private purpose trust funds.

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 v s. 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 Sheets.

B. Statement of Revenues, Expenditures and Changes in Fund Balance v s. 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.

Capital Related Differences

Capital related differences include the difference between proceeds for 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.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Appropriations were increased by \$201,000 for the transfer to the capital projects fund. This transfer was funded by the capital reserve as approved by the voters of the District.

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.

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 reservations of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

C. Unreserved – Undesignated Fund Balance

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

D. Over Expenditure of Certain Appropriations

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

E. School Lunch Fund Deficit

The school lunch fund shows an unreserved deficit fund balance of \$17,609. Administration is currently reviewing all costs associated with the lunch program. The District is considering increasing both the Interfund transfer from the general fund, as well as increasing the price per meal for both students and faculty.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 either:

- 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.

Investment pool:

The District participates in a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article 5-G, §119-O, whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents.

Total investments of the cooperative as of year-end are \$1,078,382,509, which consisted of \$280,249,107 in repurchase agreements, \$565,127,788 in U. S. Treasury Securities, \$8,005,614 in U.S. Government Guaranteed Securities and \$225,000,000 in collateralized bank deposits, with various interest rate and due dates.

The following amounts are included as unrestricted and restricted cash:

Fund	Carrying Amount
General Fund	\$ 1,970,693
Special Aid Fund	154,420
Capital Projects Fund	44,238
	\$ 2,169,351

The above amounts represent the cost of the investment pool shares, and are considered to approximate market value. The investment pool is categorically exempt from the New York State collateral requirements. Additional information concerning the cooperative is presented in the annual report of New York Class – Board of Cooperative Educational Services Putnam/Northern Westchester, 200 BOCES Drive, Yorktown Heights, New York 10596-4399.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2008, the District was billed \$478,612 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$63,655. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2008 consisted of:

General Fund	
New York State aid - general aid	\$ 14,190
New York State aid - excess cost aid	15,444
BOCES aid	36,851
Town of Shelter Island	9,071
	<u>75,556</u>
Special Aid Fund	
State and federal grants	84,561
School Lunch Fund	
State and federal food service program reimbursements	3,026
	<u>\$ 163,143</u>

7. CAPITAL ASSETS / PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2008, the District had a third-party vendor perform a physical inventory of the District's capital assets. As a result of the June 30, 2008 physical inventory, it was necessary for the District to adjust the June 30, 2007 capital assets and accumulated depreciation balances as follows:

	<u>As Reported June 30, 2007</u>	<u>As Restated June 30, 2007</u>	<u>Increase (Decrease)</u>
Governmental activities			
Capital assets not being depreciated			
Land	\$ 25,200	\$ 25,200	\$ -
Total capital assets not being depreciated	<u>25,200</u>	<u>25,200</u>	<u>-</u>
Capital assets being depreciated			
Buildings and improvements	7,519,402	7,282,578	(236,824)
Site improvements	102,064	51,032	(51,032)
Furniture and equipment	956,364	877,566	(78,798)
Total capital assets being depreciated	<u>8,577,830</u>	<u>8,211,176</u>	<u>(366,654)</u>
Less accumulated depreciation for:			
Buildings and improvements	3,462,589	3,397,702	(64,887)
Site improvements	49,915	46,851	(3,064)
Furniture and equipment	627,888	582,925	(44,963)
Total accumulated depreciation	<u>4,140,392</u>	<u>4,027,478</u>	<u>(112,914)</u>
Total capital assets being depreciated, net	<u>4,437,438</u>	<u>4,183,698</u>	<u>(253,740)</u>
Capital assets, net	<u>\$ 4,462,638</u>	<u>\$ 4,208,898</u>	<u>\$ (253,740)</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capital asset balances and activity for the year ended June 30, 2008 were as follows:

	Restated Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008
Governmental activities				
Capital assets not being depreciated				
Land	\$ 25,200	\$	\$	\$ 25,200
Construction in progress		200,146		200,146
Total capital assets not being depreciated	<u>25,200</u>	<u>200,146</u>	<u>-</u>	<u>225,346</u>
Capital assets being depreciated				
Buildings and improvements	7,282,578	26,000		7,308,578
Site improvements	51,032			51,032
Furniture and equipment	877,566	189,601	(187,226)	879,941
Total capital assets being depreciated	<u>8,211,176</u>	<u>215,601</u>	<u>(187,226)</u>	<u>8,239,551</u>
Less accumulated depreciation for:				
Buildings and improvements	3,397,702	123,965		3,521,667
Site improvements	46,851	771		47,622
Furniture and equipment	582,925	96,375	(187,226)	492,074
Total accumulated depreciation	<u>4,027,478</u>	<u>221,111</u>	<u>(187,226)</u>	<u>4,061,363</u>
Total capital assets, being depreciated, net	<u>4,183,698</u>	<u>(5,510)</u>		<u>4,178,188</u>
Capital assets, net	<u>\$ 4,208,898</u>	<u>\$ 194,636</u>	<u>\$ -</u>	<u>\$ 4,403,534</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 22,111
Instruction	<u>199,000</u>
Total depreciation expense	<u>\$ 221,111</u>

8. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2008, are as follows:

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	\$ 173,327	\$	\$ 10,000	\$ 250,629
Special Aid Fund		84,811	9,629	
School Lunch Fund		25,000	40,000	
Debt Service Fund	6,972			10,000
Capital Fund		6,976	201,000	
Fiduciary Fund	200	63,712		
Total	<u>\$ 180,499</u>	<u>\$ 180,499</u>	<u>\$ 260,629</u>	<u>\$ 260,629</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The District typically transfers from the general fund to the special aid, school lunch and capital projects in accordance with the general fund budget. The \$10,000 transfer from the debt service fund to the general fund was budgeted in the 2007-08 general fund budget and represents the District's utilization of available resources. The transfers from the general fund in the amount of \$250,629 were as follows: \$9,629 to the special aid fund represents the general fund's portion of summer handicapped expenditures, the \$40,000 represents the amount budgeted to support the school lunch program, and the \$201,000 transfer to the capital projects fund was approved by the voters to fund the bathroom renovation project.

9. SHORT-TERM DEBT

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

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Balance June 30, 2007</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2008</u>
TAN	6/26/2008	3.28%	\$	\$ 1,600,000	\$ (1,600,000)	\$

Interest on short-term debt for the year was \$30,322.

10. LONG-TERM LIABILITIES

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

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
Long-term debt:					
Bonds payable	\$ 825,000	\$	\$ (225,000)	\$ 600,000	\$ 200,000
Installment purchase debt	85,623	170,900	(76,084)	180,439	94,801
Other long-term liabilities:					
Compensated absences	378,360	83,100		461,460	31,591
Workers' compensation		27,822		27,822	
	<u>\$ 1,288,983</u>	<u>\$ 281,822</u>	<u>\$ (301,084)</u>	<u>\$ 1,269,721</u>	<u>\$ 326,392</u>

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

Bonds payable are comprised of the following:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2008</u>
Serial bonds - construction	1991	2011	6.20%	<u>\$ 600,000</u>

The following is a summary of debt service requirements:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 200,000	\$ 31,000	\$ 231,000
2010	200,000	18,600	218,600
2011	200,000	6,200	206,200
Total	<u>\$ 600,000</u>	<u>\$ 55,800</u>	<u>\$ 655,800</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Installment purchase debt is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2008
Computers	9/25/06	9/25/09	6.04%	\$ 48,997
Computers	9/10/07	10/10/10	6.94%	131,442
				<u>\$ 180,439</u>

The following is a summary of installment purchase debt requirements:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 94,801	\$ 9,260	\$ 104,061
2010	70,003	3,462	73,465
2011	15,635	181	15,816
Total	<u>\$ 180,439</u>	<u>\$ 12,903</u>	<u>\$ 193,342</u>

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

Interest paid	\$ 56,335
Less interest accrued in the prior year	(2,131)
Plus interest accrued in the current year	<u>1,550</u>
Total interest expense on long-term debt	<u>\$ 55,754</u>

11. 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.

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, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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:

Year	NYSTRS	NYSERS
2008	\$ 310,625	\$ 79,461
2007	290,711	64,064
2006	240,621	63,953

12. POST-EMPLOYMENT BENEFITS

The District provides post-employment health insurance coverage to retired employees in accordance with the provisions of various employment contracts.

The District recognizes the cost of providing health insurance annually as expenditures in the general fund of the fund financial statements as payments are made. Post-employment benefits paid during the year aggregated approximately \$305,800 for 27 former employees.

13. 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. Workers' Compensation Pool Risk Retained

Workers' Compensation Pool Risk Retained

The District participates in a risk pool, the East End Workers' Compensation Consortium (EEWCC), to insure workers' compensation claims. This public entity risk pool was created under Article 5 of Workers' Compensation Law, to evaluate, process, administer, and pay workers' compensation claims. The District retains the risk of loss.

The District pays an annual assessment to the pool for its workers' compensation claims coverage and related expenses. The EEWCC has obtained an excess compensation insurance policy to buffer the effect that a single large claim may have on the District's loss experience. The EEWCC established a non-discounted liability for both reported and unreported insured events, which includes estimates of both future payments or losses and related claim adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The District's liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2008, as processed by the EEWCC, is \$27,822. Claims activity is summarized as follows:

	2007	2008
Claims at beginning of year	\$ 47,910	\$ 38,738
Incurred claims and claim adjustment expenses	(3,332)	(5,453)
Claim payments and expenses	(5,840)	(5,463)
Claim liabilities at end of year	\$ 38,738	\$ 27,822

The EEWCC is holding \$310,406 of cash on account for the District to satisfy these liabilities at June 30, 2008.

The EEWCC has issued financial statements for the year ended June 30, 2008. Copies of these statements can be obtained from the District's administrative office.

14. FUND BALANCES

A. Unreserved – Designated for Subsequent Year's Expenditures

The amount of \$225,000 has been designated as the amount to be appropriated to reduce taxes for the year ending June 30, 2009.

B. Prior Period Adjustment

A prior period adjustment of \$187,864 was made to reclassify the physical fitness facility (FIT center) from the special aid fund to the general fund. It was determined that the FIT center activity is part of the general fund operations and should not be reflected as a discrete activity. Notwithstanding, if the current year activity, i.e., the cash receipts and cash disbursements were added to the opening balance of \$187,864, the closing balance would be \$206,405.

15. COMMITMENTS AND CONTINGENCIES

A. 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.

B. Litigation

Within the course of operations, the District may become involved in lawsuits. Some of these lawsuits may seek damages which may be in excess of the District's insurance coverage. However, at this time pending legal actions have a remote possibility of impacting the District's financial statements.

C. Operating Leases

The District leases various equipment under non-cancelable operating leases, which expired at June 30, 2008. Rental expense for the year was \$27,514.

Fiscal Year Ending June 30,	Amount
2009	\$ 21,548
2010	6,896
	\$ 28,444

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2008

	Original Budget	Final Budget	Actual		Final Budget Variance with Actual
REVENUES					
Local Sources					
Real property taxes	\$ 7,956,765	\$ 7,738,755	\$ 7,738,816		\$ 61
Other tax items		218,010	218,010		-
Charges for services			751		751
Use of money and property	45,000	45,000	95,005		50,005
Sale of property and compensation for loss			2,995		2,995
Miscellaneous	15,000	15,000	72,498		57,498
Total Local Sources	8,016,765	8,016,765	8,128,075		111,310
State Sources	675,000	675,000	799,957		124,957
Total Revenues	8,691,765	8,691,765	8,928,032		236,267
OTHER SOURCES					
Operating transfers in	10,000	10,000	10,000		-
Total Revenues and Other Sources	8,701,765	8,701,765	8,938,032		\$ 236,267
Year End Encumbrances					
EXPENDITURES					
General Support					
Board of education	20,575	31,750	28,888	\$ 2,686	\$ 176
Central administration	169,554	173,183	172,861	305	17
Finance	235,424	251,475	218,533	32,885	57
Staff	53,300	49,689	44,966		4,723
Central services	678,726	721,070	669,120	31,101	20,849
Special items	145,972	141,576	141,264		312
Total General Support	1,303,551	1,368,743	1,275,632	66,977	26,134
Instruction					
Instruction, administration & improvement	243,584	243,806	230,974	666	12,166
Teaching - regular school	3,042,461	2,969,229	2,934,931	50	34,248
Programs for children with handicapping conditions	807,906	861,498	770,411	57,027	34,060
Occupational education	22,236	3,183	2,430		753
Teaching - special school	15,600	15,600	13,997		1,603
Instructional media	275,310	195,469	173,271	524	21,674
Pupil services	546,544	573,797	550,921	4,898	17,978
Total Instruction	4,953,641	4,862,582	4,676,935	63,165	122,482
Pupil Transportation	438,337	442,366	389,087	15,395	37,884
Employee Benefits	1,867,450	1,820,366	1,767,353		53,013
Debt Service					
Principal	225,000	296,598	301,084		(4,486)
Interest	89,175	86,499	86,657		(158)
Total Debt Service	314,175	383,097	387,741	-	(4,644)
Total Expenditures	8,877,154	8,877,154	8,496,748	145,537	234,869
OTHER USES					
Operating transfers out	70,000	271,000	250,629		20,371
Total Expenditures and Other Uses	8,947,154	9,148,154	8,747,377	\$ 145,537	\$ 255,240
Net Change in Fund Balances	(245,389)	(446,389)	190,655		
Fund Balances - Beginning of Year	245,389	446,389	2,769,017		
Prior Period Adjustment			187,864		
Fund Balances - End of Year	\$ -	\$ -	\$ 3,147,536		

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.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
And Use of Unreserved Fund Balance - General Fund
For The Year Ended June 30, 2008

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$	8,926,765
Additions:		
Prior year's encumbrances		20,389
Original Budget		8,947,154
Budget revision		201,000
Final Budget	\$	9,148,154
Next year's budget is a voter-approved budget of	\$	9,499,918

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance - As of the beginning of the year	\$	597,286
Less:		
Designated fund balance used for the levy of taxes - Adopted budget		225,000
Undesignated Fund Balance - As of the beginning of the year	\$	372,286

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund
For The Year Ended June 30, 2008

PROJECT TITLE	Budget		Expenditures		Unexpended Balance	Methods of Financing			Proceeds of Obligations	Total	Fund Balance June 30, 2008
	June 30, 2007	June 30, 2008	Prior Years	Current Year		Total	State Aid	Local Sources			
Preventive Maintenance	\$ 98,684	\$ 70,138	\$ 52,090	\$	\$ 52,090	\$	\$ 70,138	\$ 70,138	\$	\$ 70,138	\$ 18,048
2004/05 General Fund Appropriations Repairs and Replacements	145,000	145,000	125,436		125,436	19,564	145,000	145,000		145,000	19,564
2007/08 Renovation of Main Floor Bathroom / Boiler Project		201,000		200,146	200,146	854	201,000	201,000		201,000	854
2007/08 Auditorium Air Conditioning Repair & Maint.		28,546		26,000	26,000	2,546	28,546	28,546		28,546	2,546
Installment debt Purchase of laptop computers		170,900		170,900	170,900	-	-	-	170,900	170,900	-
Totals	\$ 243,684	\$ 615,584	\$ 177,526	\$ 397,046	\$ 574,572	\$ 41,012	\$ 444,684	\$ 615,584	\$ 170,900	\$ 615,584	\$ 41,012

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Certain Revenues and Expenditures
Compared to ST-3 Data
For The Year Ended June 30, 2008

	Audited Code	ST-3 Amount	Audited Amount
REVENUES			
Real Property Taxes	A -1001	\$ 7,738,816	\$ 7,738,816
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	799,957	799,957
Federal Aid - Medicaid Reimbursements	AT-4999	-	-
Total Revenues	AT-5999	8,938,032	8,938,032
EXPENDITURES			
General Support	AT-1999	1,275,632	1,275,632
Pupil Transportation	AT-5599	389,087	389,087
Debt Service - Principal	AT-9798.6	301,084	301,084
Debt Service - Interest	AT-9798.7	86,657	86,657
Total Expenditures	AT-9999	8,747,377	8,747,377

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Investment in Capital Assets, Net of Related Debt
For The Year Ended June 30, 2008

Capital assets, net	<u>\$ 4,403,534</u>
Deduct:	
Short-term portion of bonds payable	(200,000)
Long-term portion of bonds payable	(400,000)
Short-term portion of installment purchase debt payable	(94,801)
Long-term portion of installment purchase debt payable	<u>(85,638)</u>
	<u>(780,439)</u>
Investment in capital assets, net of related debt	<u>\$ 3,623,095</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
Shelter Island Union Free School District
Shelter Island, New York

We have audited the financial statements of the governmental activities, each major fund and the fiduciary funds of the Shelter Island Union Free School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2008. 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 Shelter Island 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 Shelter Island Union Free School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Shelter Island Union Free School District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings as items 06-1, 06-2 and 06-3 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Shelter Island Union Free School District in a separate letter dated November 12, 2008.

This report is intended solely for the use and information of the Board of Education, Audit Committee and management of the Shelter Island Union Free School District, and is not intended to be and should not be used by anyone other than these specified parties.

Coughlin, Fournabotes, Cullen, Demowski, LLP

November 12, 2008

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR FINDINGS
For the Year Ended June 30, 2008

Reportable Conditions

07-1. Wire Transfers

Condition: The District makes wire transfers without any oversight.

Recommendation: The superintendent should be assigned the responsibility for the approval of all wire transfers.

Status: The Superintendent now approves all wire transfers.

06-1. Adjusting Journal Entries

Condition: Adjusting journal entries to the District's general ledger are not reviewed and approved by management.

Recommendation: Procedures should be implemented requiring written approval of all adjusting journal entries by the District's Business Official.

Current Status: Adjusting journal entries to the District's general ledger are still not reviewed and approved by management.

06-2. Cash

Condition: Cash is received, deposited and entered into the District's books by the same individual who also signs checks and reconciles the books to the bank.

Recommendation: Procedures should be implemented requiring segregation of duties within the cash receipts, cash disbursement and cash reconciliation functions.

Current Status: Cash continues to be received, deposited and entered into the District's books by the same individual, but checks are signed and the bank reconciliations are done by another individual.

06-3. Payroll

Condition: Changes to permanent payroll files (e.g., adding an employee to payroll or changing someone's salary) can be done by the same individual who processes payroll.

Recommendation: Procedures should be implemented requiring segregation of duties within the Personnel/Payroll functions.

Current Status: Changes to permanent payroll files are still done by the same individual who processes payroll.

06-4. Capital Assets

Condition: The District's capital assets record has not been updated and/or validated since 2003.

Recommendation: The District should update its capital assets inventory for purchases and disposals since the capital assets appraisal company performed the physical inventory.

Current Status: The District has completed a capital assets inventory for the year ended June 30, 2008.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2008

FINANCIAL STATEMENTS FINDINGS

Significant Deficiencies

06-1. Adjusting Journal Entries

Condition: Adjusting journal entries to the District's general ledger are not reviewed and approved by management.

Criteria: Internal controls should be in place that provide reasonable assurance that general ledgers are adjusted only after proper management approval.

Effect: Because of the failure to require approval from the proper level of management, general ledgers can be adjusted without the approval or knowledge of management.

Recommendation: Procedures should be implemented requiring written approval of all adjusting journal entries by the District's Business Official.

06-2. Cash

Condition: Cash is received, deposited and entered into the District's books by the same individual.

Criteria: Internal controls should be in place that provide reasonable assurance that no one individual can receive, deposit and enter cash receipts into the District's books.

Effect: Because of lack of segregation of duties, cash could be diverted without the knowledge of management.

Recommendation: Procedures should be implemented requiring segregation of duties within the cash receipts, cash disbursement and cash reconciliation functions.

06-3. Payroll

Condition: Changes to permanent payroll files (e.g., adding an employee to payroll or changing someone's salary) can be done by the same individual who processes payroll.

Criteria: Internal controls should be in place that provide reasonable assurance that no one individual can add a person to the payroll and/or change someone's salary and then process the check.

Effect: Because of lack of segregation of duties, an individual could be improperly paid without the knowledge of management.

Recommendation: Procedures should be implemented requiring segregation of duties within the Personnel/Payroll functions.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2008

The District's corrective action plan for the year ended June 30, 2008, is under separate cover.

