



**SHELTER ISLAND
UNION FREE SCHOOL DISTRICT**

FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES WITH
INDEPENDENT AUDITOR'S REPORTS

June 30, 2011

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S 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 (District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on the financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the Shelter Island Union Free School District, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011, 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 financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedule of funding progress - other postemployment benefits on pages 3 through 16 and 49 through 51, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shelter Island Union Free School District's basic financial statements. The other supplementary information on pages 52 through 55 is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Cullen & Danowski, LLP

November 9, 2011

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The following is a discussion and analysis of the Shelter Island Union Free School District's (the "District") financial performance for the fiscal year ended June 30, 2011. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-Wide and Fund Financial Statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2011 are as follows:

- The District's total net assets, as reflected in the District-Wide Financial Statements, decreased by \$572,725. This is primarily attributed to the increase in net OPEB obligation at June 30, 2011 of \$916,911, pursuant to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*.
- The District's expenses for the year, as reflected in the District-Wide Financial Statements, totaled \$10,021,122. Of this amount, \$298,604 was offset by program revenues, which include charges for services of \$53,833 and operating grants of \$244,771. General revenues of \$9,149,793 amount to 97% of total revenues, and not were adequate to cover the balance of program expenses.
- The general fund's total fund balance, including nonspendable, restricted, assigned and unassigned balances, increased by \$8,149.
- On the District-Wide and Fund Financial Statements, the District has adopted Governmental Accounting Standards Board ("GASB") Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* to provide clearer fund balance classifications that can be more consistently applied and to clarify the existing governmental fund type definitions.
- In May 2011, the proposed to 2011-2012 budget in the amount of \$9,640,614 was authorized by the District's residents. The voters of the District authorized the District to borrow up to \$2,237,000 for building improvements and borrow up to \$600,000 for a new generator and related lighting system improvements. The voters also authorized the District to establish a capital reserve for project F.I.T.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

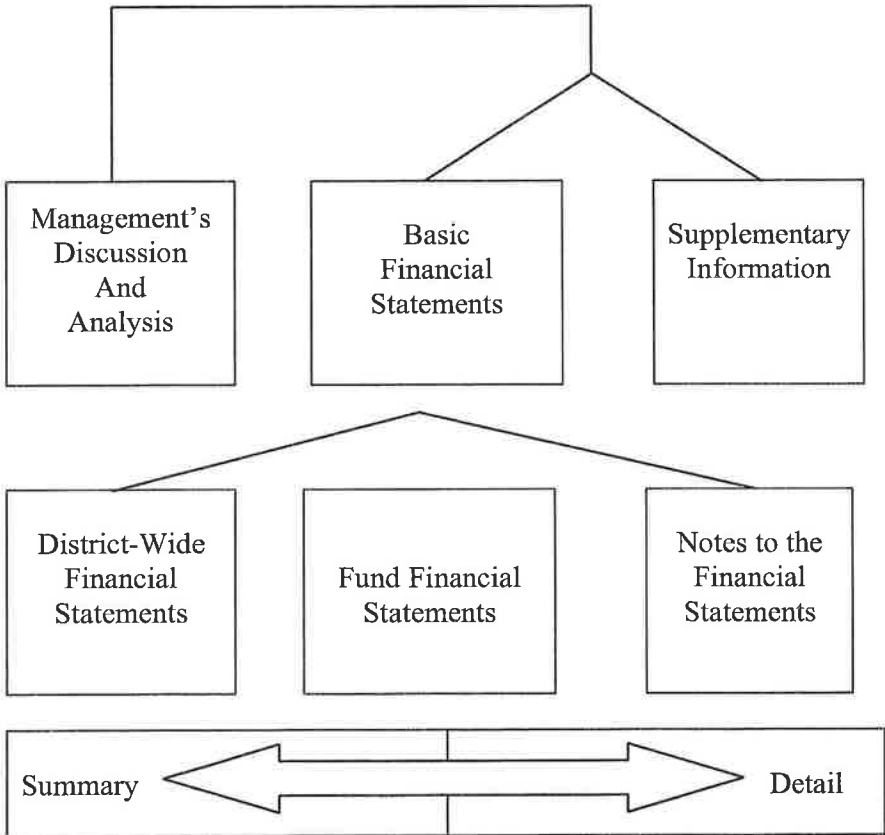
This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and optional supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- The first two statements are *District-Wide Financial Statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-Wide Statements.
- The *Governmental Fund Statements* tell how basic services such as instruction and support functions were financed in the *short term* as well as what remains for future spending.
- *Fiduciary Funds Financial Statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of District.

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Table A-1 shows how the various parts of this annual report are arranged and related to one another.

Table A-1: Organization of the District’s Annual Financial Report



**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Table A-2: Major Features of the District-Wide Financial Statements and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
	District	Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All financial assets and liabilities, short-term and long-term
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

A) District-Wide Statements

The District-Wide Financial Statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-Wide Financial Statements report the District's net assets and how they have changed. Net assets, the difference between the assets and liabilities, is one way to measure the financial health or position of the District.

- Over time, increases and decreases in net assets is an indicator of whether the financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the District, additional non-financial factors such as changes in the District's property tax base and the condition of buildings and other facilities should be considered.

Net assets of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated if it does not provide or reduce current financial resources. Finally, capital assets and long-term debt are both accounted for in account groups and do not affect the fund balances.

District-Wide Financial Statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the Statement of Net Assets:

- Capitalize current outlays for capital assets;
- Report long-term debt as a liability;
- Depreciate capital assets and allocate the depreciation to the proper program/activities;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting; and
- Allocate net asset balances as follows:
 - *Net assets* invested in capital assets, net of related debt;
 - *Restricted net assets* are those with constraints placed on the use by external sources (creditors, grantors, contributors or laws or regulations of governments) or approved by law through constitutional provisions or enabling legislation such as:
 - *Unrestricted net assets* are net assets that do not meet any of the above restrictions.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

B) Fund Financial Statements

The Fund Financial Statements provide more detailed information about the District's funds. Funds are accounting devices that the District uses to keep track of specific revenue sources and spending on particular programs. The funds have been established by the laws of the State of New York.

The District has two kinds of funds:

- *Governmental funds:* Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-Wide Financial Statements, reconciliations are provided to facilitate the relationship between governmental funds and governmental activities. In summary, the government fund statements focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general fund, special revenue funds, debt service fund and capital projects fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance.

- *Fiduciary funds:* The District is the trustee or *fiduciary* for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net assets and changes in net assets. This report is developed using the economic resources measurement focus and the accrual basis of accounting.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A) Net Assets

The District's net assets decreased by \$572,725 in the fiscal year ended June 30, 2011 as detailed in Table A-3.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Table A-3 – Condensed Statement of Net Assets-Governmental Activities

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)	Total Percentage Change
Current assets and other assets	\$4,177,147	\$4,597,969	(\$420,822)	-9.15%
Capital assets, net	5,314,820	4,459,724	855,096	19.17%
Total assets	<u>\$9,491,967</u>	<u>\$9,057,693</u>	<u>\$434,274</u>	<u>4.79%</u>
Current liabilities	\$901,942	\$605,783	\$296,159	48.89%
Long-term liabilities	599,631	805,702	(206,071)	-25.58%
Net other postemployment benefits obligation	1,208,592	291,681	916,911	314.35%
Total liabilities	<u>\$2,710,165</u>	<u>\$1,703,166</u>	<u>\$1,006,999</u>	<u>59.13%</u>
Net assets				
Investment in capital assets, net of related debt	\$5,314,820	\$4,244,089	\$1,070,731	25.23%
Restricted	1,289,928	2,077,204	(787,276)	-37.90%
Unrestricted	177,054	1,033,234	(856,180)	-82.86%
Total net assets	<u>\$6,781,802</u>	<u>\$7,354,527</u>	<u>(\$572,725)</u>	<u>-7.79%</u>
Total liabilities and net assets	<u>\$9,491,967</u>	<u>\$9,057,693</u>	<u>\$434,274</u>	<u>4.79%</u>

Reclassifications have been made to the 2010 restricted and unrestricted net assets to conform to the 2011 financial statement classification. This new classification is consistent to restricted fund balance per Governmental Accounting Standards Board (GASB) Statement No. 54. Such reclassification had no effect on the total net assets as previously reported.

Current assets and other assets decreased by \$420,822 from 2010 to 2011 primarily due to a decrease in the cash balance and due from other government receivables, offset by an increase in state and federal aid receivable. Capital assets (net of depreciation) increased by \$855,096. This was primarily attributable to increased capital expenses for capital assets offset by depreciation.

Current liabilities increased by \$296,159. This was primarily attributable to an increase in accounts payable and due to teachers' retirement system offset by a decrease in interest payable and compensated absences. Long-term liabilities decreased by \$206,071 primarily due to a decrease in bonds payable and installment purchase debt payable. The increase in net other postemployment benefits obligation reflects current and cumulative changes in actuarial estimates and assumptions from prior years.

The net assets investment in capital assets, net of related debt, relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, and machinery & equipment, net of depreciation and related debt. This number increased over the prior year by

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

\$1,070,731 due to district-wide capital improvements offset by a decrease in bonds payable. The restricted net assets decreased by \$787,276 primarily due to capital project expenditures and use of the reserves offset by transfers to fund reserves. The unrestricted net assets decreased by \$856,180 or 82.86% and aggregated \$177,054 at June 30, 2011, compared to \$1,033,234 at June 30, 2010.

B) Changes in Net Assets

The results of operations as a whole are reported in the Statement of Activities. A summary of this statement for the years ended June 30, 2011 and 2010 is as follows:

Table A-4: Change in Net Assets from Operating Results
Governmental Activities Only

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)	Total Percentage Change
Revenues				
Program revenues				
Charges for services	\$53,833	\$54,606	(\$773)	-1.42%
Operating grants	244,771	302,624	(57,853)	-19.12%
General revenues				
Property taxes and STAR	8,600,123	8,671,194	(71,071)	-0.82%
State sources	461,568	511,011	(49,443)	-9.68%
Other	88,102	102,693	(14,591)	-14.21%
Total revenues	<u>\$9,448,397</u>	<u>\$9,642,128</u>	<u>(\$193,731)</u>	<u>-2.01%</u>
Expenses				
General support	2,163,325	1,823,451	339,874	18.64%
Instruction	7,375,080	6,793,131	581,949	8.57%
Pupil transportation	311,705	326,783	(15,078)	-4.61%
Community services	11,143	0	11,143	100.00%
Debt service - interest	9,766	29,557	(19,791)	-66.96%
Food service program	150,103	181,739	(31,636)	-17.41%
Total expenses	<u>\$10,021,122</u>	<u>\$9,154,661</u>	<u>\$866,461</u>	<u>9.46%</u>
Increase (decrease) in net assets	<u>(\$572,725)</u>	<u>\$487,467</u>	<u>(\$1,060,192)</u>	<u>-217%</u>

The District's total fiscal year 2011 revenues totaled \$9,448,397. (See Table A-4). Property taxes and STAR and state sources accounted for most of the District's revenue by contributing 91 cents and 5 cents, respectively of every dollar raised. (See Table A-5). The remainder came from fees charged for services, operating grants, investment earnings, and other miscellaneous sources.

The total cost of all programs and services totaled \$10,021,122 during fiscal year 2011. These expenses are predominantly related to general instruction and transporting students, which account for 77% of District expenses. (See Table A-6). The District's general support activities accounted for 22% of total costs.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Table A-5: Revenues for Fiscal Year 2011 (See Table A-4)

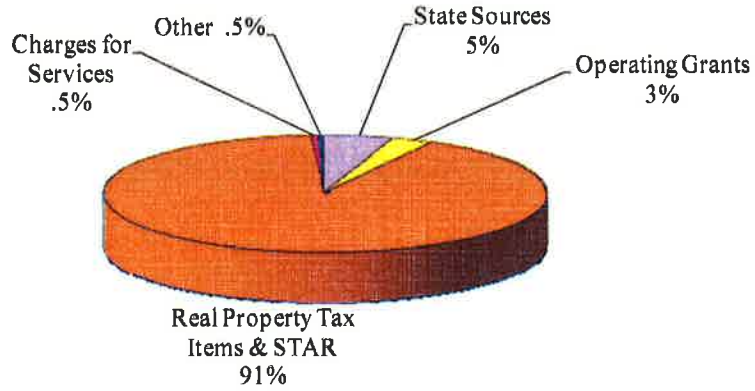
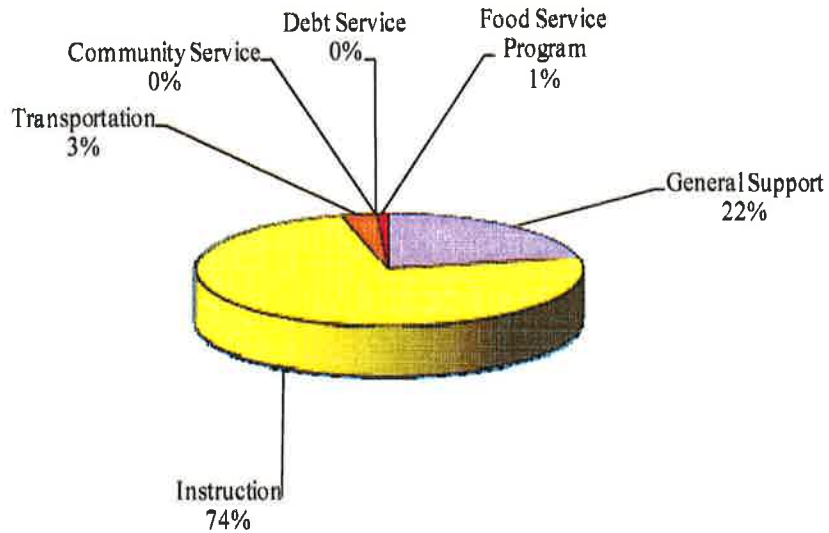


Table A-6: Expenses for Fiscal Year 2011 (See Tables A-4 and A-7)



**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

C) Governmental Activities

Revenues for the District's governmental activities totaled \$9,448,397 while total expenses equaled \$10,021,122. Although actual expenses exceeded actual revenues, this was primarily due to the the long-term liabilities for net other postemployment benefits obligation. The overall good financial condition of the District, as a whole, can be credited to:

- Continued leadership of the District's Board and administration;
- Approval of the District's proposed annual budget;
- Strong tax base;
- Strategic use of services from the Eastern Suffolk Board of Cooperative Educational Services (BOCES);
- Community support.

Table A-7 presents the cost of five major District activities: instruction, general support, pupil transportation, debt service and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Table A-7: Net Cost of Governmental Activities

Category	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2010
General support	\$2,163,325	\$1,823,451	\$2,163,325	\$1,823,451
Instruction	7,375,080	6,793,131	7,150,641	6,511,639
Pupil transportation	311,705	326,783	311,705	326,783
Community service	11,143	0	11,143	0
Debt service - interest	9,766	29,557	9,766	29,557
Food service program	150,103	181,739	75,938	106,001
Total	<u>\$10,021,122</u>	<u>\$9,154,661</u>	<u>\$9,722,518</u>	<u>\$8,797,431</u>

- The cost of all governmental activities this year was \$10,021,122. (Statement of Activities and Changes in Net Assets, Expenses column-see Exhibit 3)
- The users of the District's programs financed \$53,833 of the cost. (Statement of Activities and Changes in Net Assets, Charges For Services column-see Exhibit 3)
- The federal and state governments subsidized certain programs with grants of \$244,771. (Statement of Activities and Changes in Net Assets, Operating Grants column – see Exhibit 3)

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- Most of the District's net costs of \$9,722,518 were financed by District taxpayers and state and federal aid. (Statements of Activities and Changes in Net Assets, Net (Expense) Revenue and Changes in Net Assets column-see Exhibit 3)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Variations between years for the governmental fund financial statements are not the same as variations between years for the District-Wide Financial Statements. The District's governmental funds are presented on the **current financial resources measurement focus** and the **modified accrual basis of accounting**. Based on this presentation, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt.

As of June 30, 2011, the District's combined governmental funds reported a total fund balance of \$2,949,839, which is a decrease of \$720,174 from the prior year. This decrease is due to a decrease in fund balance in the capital projects fund.

A summary of the changes in fund balance for all funds are as follows:

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)	Total Percentage Change
General Fund				
Nonspendable for advances	\$14,618	\$51,105	(\$36,487)	-71.40%
Restricted for unemployment insurance	69,355	44,192	25,163	56.94%
Restricted for retirement contributions	199,707	192,000	7,707	4.01%
Restricted for employee benefit accrued liability	493,911	491,525	2,386	0.49%
Restricted for capital	337,889	336,545	1,344	0.40%
Assigned for subsequent year's expenditures	325,000	325,000	0	0.00%
Assigned for general support	43,992	37,417	6,575	17.57%
Assigned for instruction	572	0	572	100.00%
Unassigned	939,842	938,953	889	0.09%
Total fund balance - general fund	<u>\$2,424,886</u>	<u>\$2,416,737</u>	<u>\$8,149</u>	<u>0.34%</u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
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	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)	Total Percentage Change
School Lunch Fund				
Nonspendable	\$2,174	\$2,949	(\$775)	-26.28%
Unassigned	(14,618)	(51,105)	36,487	-71.40%
Total fund balance - school lunch fund	<u>(\$12,444)</u>	<u>(\$48,156)</u>	<u>\$35,712</u>	<u>-74.16%</u>
Capital Projects Fund				
Restricted	\$189,066	\$1,012,942	(\$823,876)	-81.33%
Assigned	348,331	288,490	59,841	20.74%
Total fund balance - capital projects fund	<u>\$537,397</u>	<u>\$1,301,432</u>	<u>(\$764,035)</u>	<u>-58.71%</u>
Total fund balance - all funds	<u><u>\$2,949,839</u></u>	<u><u>\$3,670,013</u></u>	<u><u>(\$720,174)</u></u>	<u><u>-19.62%</u></u>

Reclassifications have been made to the 2010 fund balances to conform to the 2011 financial statement classification. This new classification is consistent to restricted fund balance per Governmental Accounting Standards Board (GASB) Statement No. 54. Such reclassification had no effect on the total fund balance as previously reported.

A) General Fund

The District can attribute changes to fund balances and restricted primarily due to operating results, Board approved transfers, and allocation of interest earnings. The net change in the general fund – fund balance of \$8,149, was due to revenues and other sources of \$9,197,251 exceeding expenditures and other uses of \$9,189,102.

B) School Lunch Fund

The District can attribute changes to the school lunch fund – fund balance due to an operating loss of \$74,444 offset by a transfer from the general fund of \$110,156 for a net increase of \$35,712.

C) Capital Projects Fund

The District can attribute changes to the capital projects fund – fund balance of \$764,035 primarily to capital project expenditures of \$974,931, a transfer to the general fund of \$4,104 and a reduction in prior year state aid of \$4,000, offset by a transfer from the general fund of \$219,000.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A) 2010-2011 Budget

The District's general fund original budget for the year ended June 30, 2011 was \$9,547,979. This amount was increased by encumbrances carried forward from the prior year in the amount of \$37,417 and budget revisions in the amount of \$348,835 which resulted in a final budget of \$9,934,231. The majority of the funding was property taxes and STAR revenue of \$8,602,144.

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

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

Opening, unassigned fund balance	\$938,953
Fund balance appropriated for budget revisions	(338,580)
Revenues over budget	82,017
Expenditures and encumbrances under budget	700,565
Interest transferred into reserves	(3,919)
Transfers to reserves	(218,104)
Transfers from reserves	103,910
Appropriated for June 30, 2012 budget	<u>(325,000)</u>
Closing, unassigned fund balance	<u>\$939,842</u>

Based upon the summary changes shown in the above table, the District will begin the 2011-12 fiscal year with an unassigned fund balance of \$939,842. This unassigned portion is greater than the permissible 4% statutory maximum per section §1318 of the New York State Real Property Tax Law.

The revenues over budget in the amount of \$82,017 were primarily due to the following revenue sources: federal sources and miscellaneous (see Supplemental Schedule #1 for detail).

The expenditures and encumbrances under budget in the amount of \$700,565 were primarily attributable to the following expenditures: instruction, administration & improvement, teaching – regular school and pupil transportation (see Supplemental Schedule #1 for detail).

The changes in fund balance are discussed further in Management Discussion and Analysis Section 4, Financial Analysis of the District's Funds.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A) Capital Assets

The District paid for equipment and various building additions and renovations during the fiscal year 2011. A summary of the District's capital assets, net of depreciation is as follows:

Table A-8: Capital Assets (Net of Depreciation)

Category	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)	Percentage Change
Land	\$25,200	\$25,200	\$0	0.0%
Construction in progress	900,485	57,250	843,235	1472.9%
Buildings and building improvements	7,786,770	7,789,691	(2,921)	0.0%
Site improvements	269,420	137,724	131,696	95.6%
Furniture and equipment	1,029,960	934,578	95,382	10.2%
Subtotal	<u>10,011,835</u>	<u>8,944,443</u>	<u>1,067,392</u>	<u>11.9%</u>
Less: accumulated depreciation	<u>4,697,015</u>	<u>4,484,719</u>	<u>212,296</u>	<u>4.7%</u>
Total net capital assets	<u><u>\$5,314,820</u></u>	<u><u>\$4,459,724</u></u>	<u><u>\$855,096</u></u>	<u><u>19.2%</u></u>

The District spent \$1,093,508 on building improvements, additions and equipment purchases during the year and has \$537,397 in the capital projects fund available for various projects.

As part of the 2011-12 school year budget, the voters approved the creation of two new capital projects and funding by bond issuances. One project relates to fundamental structure repairs at the school, and the other relates to the installation of a new generator and related equipment.

B) Long-Term Debt

At June 30, 2011, the District had total debt payable of \$0. The bonds were issued for school building improvements. The decrease in outstanding debt represents principal payments.

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

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Issue Date</u>	<u>Interest Rate</u>	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
1991	6.20%	\$0	\$200,000	(\$200,000)

In April 2011, the voters approved the 2011-12 school year budget, which includes new debt issuance related to the two new capital projects. Two bonds were authorized in the amount of \$2,237,000 and \$600,000, with maturity dates expected in twenty and ten years respectively. These bonds were not issued prior to June 30, 2011.

7. FACTORS BEARING ON THE DISTRICT’S FUTURE

- The general fund budget for the 2011-2012 school year was approved by the voters in the amount of \$9,640,614. This is an increase of \$92,635 or 1% over the previous year’s budget. The increase was primarily due to increases in personnel costs and employee benefits.
- The 2011-2012 budget was negatively impacted by certain trends impacting school districts, including significant increases in retirement contributions and health insurance costs.
- Chapter 97 of the 2011 Laws of New York will limit the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation effective for the 2012-13 fiscal year. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast.

8. CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

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

Shelter Island Union Free School District
Michael Hynes
Superintendent
33 North Ferry Road
Box 2015
Shelter Island, New York 11964
(631) 749-0302

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
STATEMENT OF NET ASSETS-GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

ASSETS	
Cash	\$3,632,421
Receivables	
State and federal aid	174,209
Due from other governments	33,528
Due from fiduciary funds	9,345
Accounts receivable	104
Inventories	2,174
Other assets	325,366
Capital assets not being depreciation	925,685
Capital assets being depreciated, net of accumulated depreciation	<u>4,389,135</u>
TOTAL ASSETS	<u><u>\$9,491,967</u></u>
LIABILITIES	
Payables	
Accounts payable	\$307,334
Accrued liabilities	11,093
Retainage payable	6,055
Due to other governments	18,639
Due to teachers' retirement system	477,687
Due to employees' retirement system	47,394
Compensated absences	13,424
Deferred credits	
Deferred revenue	20,316
Long-term liabilities	
Due and payable within one year	
Compensated absences payable	50,000
Due and payable after one year	
Workers' compensation claims payable	43,043
Compensated absences payable	506,588
Net other postemployment benefits obligation payable	<u>1,208,592</u>
TOTAL LIABILITIES	<u><u>2,710,165</u></u>
NET ASSETS	
Investment in capital assets, net of related debt	5,314,820
Restricted	1,289,928
Unrestricted	<u>177,054</u>
TOTAL NET ASSETS	<u><u>6,781,802</u></u>
TOTAL NET ASSETS AND LIABILITIES	<u><u>\$9,491,967</u></u>

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

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS / PROGRAMS				
General support	\$2,163,325			(\$2,163,325)
Instruction	7,375,080	\$450	\$223,989	(7,150,641)
Pupil transportation	311,705			(311,705)
Community services	11,143			(11,143)
Debt service- interest	9,766			(9,766)
Food Service program	150,103	53,383	20,782	(75,938)
TOTAL FUNCTIONS AND PROGRAMS	<u>\$10,021,122</u>	<u>\$53,833</u>	<u>\$244,771</u>	<u>(9,722,518)</u>
 GENERAL REVENUES				
Real property taxes				8,418,403
Other tax items - including STAR reimbursement				183,163
Use of money & property				9,329
Sale of property & compensation for loss				979
Miscellaneous				76,351
State sources				461,568
TOTAL GENERAL REVENUES				<u>9,149,793</u>
 CHANGE IN NET ASSETS				(572,725)
 TOTAL NET ASSETS - BEGINNING OF YEAR				<u>7,354,527</u>
 TOTAL NET ASSETS - END OF YEAR				<u>\$6,781,802</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash	\$3,565,787	\$27,730		\$38,904	\$3,632,421
Receivables					
State and federal aid	72,620	100,383	\$1,206		174,209
Due from other governments	33,528				33,528
Due from other funds	140,064			581,118	721,182
Accounts receivable			104		104
Inventories			2,174		2,174
TOTAL ASSETS	<u>\$3,811,999</u>	<u>\$128,113</u>	<u>\$3,484</u>	<u>\$620,022</u>	<u>\$4,563,618</u>
LIABILITIES AND FUND BALANCE					
Payables					
Accounts payable	\$229,355	\$1,325	\$84	\$76,570	\$307,334
Accrued liabilities	10,143		950		11,093
Retainage payable				6,055	6,055
Due to other governments	11,671	6,729	239		18,639
Due to other funds	581,118	117,549	13,170		711,837
Due to teachers' retirement system	477,687				477,687
Due to employees' retirement system	47,394				47,394
Compensated absences	13,424				13,424
Deferred credits					
Deferred revenue	16,321	2,510	1,485		20,316
TOTAL LIABILITIES	<u>1,387,113</u>	<u>128,113</u>	<u>15,928</u>	<u>82,625</u>	<u>1,613,779</u>
FUND BALANCE					
Non-spendable	14,618		2,174		16,792
Restricted	1,100,862			189,066	1,289,928
Assigned	369,564			348,331	717,895
Unassigned (Deficit)	939,842		(14,618)		925,224
TOTAL FUND BALANCE (Deficit)	<u>2,424,886</u>	<u>0</u>	<u>(12,444)</u>	<u>537,397</u>	<u>2,949,839</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$3,811,999</u>	<u>\$128,113</u>	<u>\$3,484</u>	<u>\$620,022</u>	<u>\$4,563,618</u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Governmental Fund Balances		\$2,949,839
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Cash held by third-party administrator is treated as a long-term asset and included in net assets.</p>		
		325,366
<p>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 include those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.</p>		
Original cost of capital assets	\$10,011,835	
Accumulated depreciation	<u>(4,697,015)</u>	5,314,820
<p>Long-term liabilities are reported in the Statement of Net Assets, but not in the governmental funds, because they are not due and payable in the current period. Balances at year-end were:</p>		
Workers' compensation claims payable	(43,043)	
Net other postemployment benefits obligations payable	(1,208,592)	
Compensated absences payable	<u>(556,588)</u>	<u>(1,808,223)</u>
Total Net Assets		<u><u>\$6,781,802</u></u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$8,418,403				\$8,418,403
Other tax items - including STAR reimbursement	183,163				183,163
Charges for services	450				450
Use of money and property	9,329				9,329
Sale of property and compensation for loss	979				979
Miscellaneous	76,351				76,351
State sources	465,568	\$1,935	\$1,306	(\$4,000)	464,809
Federal sources	38,904	183,150	15,313		237,367
Surplus food			4,163		4,163
Sales - food services			53,383		53,383
TOTAL REVENUES	<u>9,193,147</u>	<u>185,085</u>	<u>74,165</u>	<u>(4,000)</u>	<u>9,448,397</u>
EXPENDITURES					
General support	1,598,071				1,598,071
Instruction	4,564,717	188,776			4,753,493
Pupil transportation	311,705				311,705
Community service	11,143				11,143
Employee benefits	2,144,701		6,987		2,151,688
Debt service - principal	215,635				215,635
Debt service - interest	10,283				10,283
Cost of sales			141,622		141,622
Capital outlay				974,931	974,931
TOTAL EXPENDITURES	<u>8,856,255</u>	<u>188,776</u>	<u>148,609</u>	<u>974,931</u>	<u>10,168,571</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>336,892</u>	<u>(3,691)</u>	<u>(74,444)</u>	<u>(978,931)</u>	<u>(720,174)</u>
OTHER FINANCING SOURCES AND USES					
Operating transfers in	4,104	3,691	110,156	219,000	336,951
Operating transfers (out)	(332,847)			(4,104)	(336,951)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(328,743)</u>	<u>3,691</u>	<u>110,156</u>	<u>214,896</u>	<u>0</u>
CHANGE IN FUND BALANCE	8,149	0	35,712	(764,035)	(720,174)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	2,416,737	0	(48,156)	1,301,432	3,670,013
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$2,424,886</u>	<u>\$0</u>	<u>(\$12,444)</u>	<u>\$537,397</u>	<u>\$2,949,839</u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balance		(\$720,174)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Long-Term Revenue and Expense Differences		
In the Statement of Activities, certain operating expenses-compensated absences (vacation and sick days), are measured by the amounts earned or incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.		(3,337)
Workers' Compensation claims payable in the Statement of Activities differs from the amounts reported in the governmental funds because the expense is recorded as an expenditure in the funds when it is due. In the Statement of Activities, however the payable is recognized as it accrues regardless of when it is due. Accrued claims payable from June 30, 2010 to June 30, 2011 changed by		(6,227)
Net other post employment benefits obligation in the Statement of Activities are measured by the amounts earned or incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.		(916,911)
Disbursements expended in the governmental funds are treated as long-term assets and increase net assets		2,676
Long-Term Debt Transactions		
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities		200,000
Repayment of installment purchase debt principal is an expenditure in the governmental fund, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities		15,635
Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and this requires the use of current financials resources. In the Statements of Activities, however, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2010 to June 30, 2011 decreased by		517
Capital Related Items		
When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense as summarized below:		
Capital outlays	1,093,508	
Depreciation expense	<u>(238,412)</u>	<u>855,096</u>
Changes in Net Assets of Governmental Activities		<u>(\$572,725)</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$32,249	\$68,321
Due from other funds	13,507	
TOTAL ASSETS	<u>\$45,756</u>	<u>\$68,321</u>
LIABILITIES		
Extraclassroom activity balance		\$44,819
Due to other funds		22,852
Other liabilities		650
TOTAL LIABILITIES	<u>\$0</u>	<u>\$68,321</u>
NET ASSETS		
Reserved for scholarships	\$45,756	
TOTAL NET ASSETS	<u>\$45,756</u>	

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

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	\$23,081
Interest and earnings	<u>37</u>
TOTAL ADDITIONS	<u>23,118</u>
DEDUCTIONS	
Scholarships and awards	<u>17,701</u>
TOTAL DEDUCTIONS	<u>17,701</u>
CHANGE IN NET ASSETS	5,417
NET ASSETS - BEGINNING OF YEAR	<u>40,339</u>
NET ASSETS - END OF YEAR	<u><u>\$45,756</u></u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Shelter Island Union Free School District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Certain significant accounting principles and policies utilized by the District are described below:

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 reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, and GASB Statement 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, any component units and other organizational entities determined to be includable in the District’s financial reporting entity. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District’s reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no other entities which would be included in the District’s reporting entity as a component unit. However, the following is included in the District’s financial statements:

i) Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District’s business office. The District reports these assets held as an agent for

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

the Extraclassroom organizations in the Statement of Fiduciary Net Assets – Fiduciary Fund.

B) Joint Venture:

The District is a component district in the Eastern Suffolk Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs, which provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

BOCES are organized under §1950 of the New York State Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (§1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n(a) of the New York State General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

C) Basis of Presentation:

i) District-Wide Financial Statements:

The Statement of Net Assets and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

ii) Fund Financial Statements:

The Fund Financial Statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of Fund Financial Statements is on major governmental funds, each displayed in a separate column.

The District reports the following major governmental funds:

General Fund: This fund is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Special Aid Fund: This fund accounts for the proceeds of specific revenue sources, such as Federal and State grants, that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

School Lunch Fund: This fund is used to account for the activities of the District's food service operations.

Capital Projects Fund: This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

Fiduciary Fund: These funds are used to account for fiduciary activities. Fiduciary activities are those 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:

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.

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.

D) Measurement Focus and Basis of Accounting:

The District-Wide Financial Statements and Fiduciary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly,

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from 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.

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

E) Property Taxes:

i) 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.

ii) Enforcement

Uncollected real property taxes are subsequently enforced by Suffolk County (the "County"). The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following 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.

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 to be repaid within one year. Permanent transfers of funds include the transfer of expenditure and revenues to provide financing or other services.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be 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.

Refer to Note 8 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

H) 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. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, other postemployment benefits, workers' compensation claims liability, potential contingent liabilities and useful lives of long-lived assets.

I) Cash and Cash Equivalents:

The District's cash and cash equivalents consist of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

J) Accounts Receivable:

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. 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.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

L) Inventories:

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market. Purchases of inventorable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

A non-spendable fund balance for these non-liquid assets (inventories) has been recognized in the school lunch fund to signify that a portion of fund balance is not available for other subsequent expenditures.

M) Capital Assets:

Capital assets are reported at actual cost for acquisitions subsequent to 20 years. For assets acquired prior to 20 years, estimated historical costs, based on appraisals conducted by independent third-party professionals are used. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-Wide Financial Statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building & building improvements	\$10,000	Straight-line	50 years
Site improvements	\$10,000	Straight-line	50 years
Furniture & equipment	\$500	Straight-line	5-20 years

N) Deferred Revenue:

Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has legal claim to them, as when grant monies are received prior to the incidence 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 recorded.

O) Vested Employee Benefits:

Compensated absences consist of unpaid accumulated annual sick leave, vacation, and sabbatical time:

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

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District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting termination method and an accrual for that liability is included in the District-Wide Financial Statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

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

P) Other Benefits:

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

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits for retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become 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 District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the year paid.

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 dated.

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 funds financial statements only to the extent that they are due

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
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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:

i) District-Wide Financial Statements:

In the District-Wide Financial 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, construction or improvement of those assets.

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

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

ii) Funds Financial Statements:

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

(1) **Non-spendable** fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The District has classified the following as non-spendable.

<u>Non-spendable for:</u>	<u>General Fund</u>	<u>School Lunch Fund</u>	<u>Total</u>
Advances	\$14,618		\$14,618
Inventory		\$2,174	2,174
Total	<u>\$14,618</u>	<u>\$2,174</u>	<u>\$16,792</u>

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NOTES TO FINANCIAL STATEMENTS
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Beginning fund balances for the District’s governmental funds and the governmental activities have been reclassified to reflect the above classifications.

Advances

Advances is used to designate for loans to other funds that are not expected to be repaid within a current period.

Inventory

Inventory is used to restrict that portion of fund balance, which is not available for appropriation.

- (2) **Restricted** fund balance – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has classified the following as restricted:

<u>Restricted for:</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Employee Benefit			
Accrued Liability	\$493,911		\$493,911
Retirement Contributions	199,707		199,707
Unemployment Insurance	69,355		69,355
Capital Projects	337,889	\$189,066	526,955
Total	<u>\$1,100,862</u>	<u>\$189,066</u>	<u>\$1,289,928</u>

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

Currently, New York State laws still use the terminology “reserves” and Districts are only allowed to use reserves authorized by law. The general fund restricted fund balance is comprised of the following reserves:

Employee Benefit Accrued Liability Reserve

According to General Municipal Law §6-p, must be used 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.

Retirement Contribution Reserve

According to General Municipal Law §6-r, must be used for financing retirement contributions. The reserve must be accounted for separate and apart from all

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
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other funds, and a detailed report of the operation and condition of the fund must be provided to the Board. The reserve is accounted for in the general fund.

Unemployment Insurance Reserve

According to General Municipal Law §6-m, must be 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. The reserve is accounted for in the general fund.

Capital Reserve

According to Education Law §3651, must be 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. The reserve is accounted for in the general fund.

- (3) **Committed** fund balance – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority (i.e., Board of Education). The District has no committed fund balances as of June 30, 2011.
- (4) **Assigned** fund balance – Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District management through Board policies. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The District has classified the following as assigned:

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<u>Assigned for:</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Designated for Subsequent Year's Expenditures	\$325,000		\$325,000
General support	43,992		43,992
Instruction	572		572
Capital projects		\$348,331	348,331
Total	<u>\$369,564</u>	<u>\$348,331</u>	<u>\$717,895</u>

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

Designated for Subsequent Year's Expenditures

The amount of \$325,000 has been estimated to be appropriated to reduce taxes for the year ending June 30, 2012.

Encumbrances

Encumbrances have been assigned based upon the District's intent to be used for a specific purpose such as general support, instruction and capital projects. See Note 3 for further detail regarding accountability and Note 16 for further detail regarding significant encumbrances.

- (5) **Unassigned** fund balance –Includes the residual fund balance for the general fund and includes residual fund balance deficits of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. Assignments of fund balance cannot cause a negative unassigned fund balance.

<u>Unassigned for:</u>	<u>General Fund</u>	<u>School lunch Fund</u>	<u>Total</u>
General	\$939,842		\$939,842
School lunch		(14,618)	(14,618)
Total	<u>\$939,842</u>	<u>(\$14,618)</u>	<u>\$925,224</u>

NYS Real Property Tax Law §1318 limits the amount of unexpended surplus funds a District can retain to no more than 4% of the District's budget for the general fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances included in assigned fund balance are also excluded from the 4% limitation. Currently, the District is not in compliance with NYS Real Property Tax Law §1318 and fund balance exceeds the 4% requirement.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Order of Use of Fund Balance

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or Board approved budget revision and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balances shall be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

T) Adopted Change in Accounting Standards:

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

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND FINANCIAL STATEMENTS AND DISTRICT-WIDE FINANCIAL STATEMENTS:

Due to the differences in the measurement focus and basis of accounting used in the Fund Financial Statements and the District-Wide Financial 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 focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

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

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

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

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities fall into one of three broad categories. The amounts shown below represent:

i) Long-term revenue and expense differences:

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

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
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ii) Capital related differences:

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

iii) Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the Fund Financial Statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

A) Budgets:

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted. The voters of the District approved the proposed appropriation budget for the general fund. Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. The following supplemental appropriations occurred during the year:

Gift and donations	\$10,255
Use of employee benefit accrued liability reserve	63,424
Voter-approved transfer to the capital projects fund funded by appropriated fund balance	215,000
Transfer to school lunch fund	48,156
Replacement of fence	12,000
Total Budget Revisions	<u>\$348,835</u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward.

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) Unassigned Fund Balance:

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

D) Over Expenditures of Certain Appropriations:

Certain general fund appropriations were over expended. These were in the following appropriation categories of the budget: central administration, finance, staff, employee benefits, and debt service-principal. The general fund budget in total was not over expended.

E) School Lunch Fund Deficit:

The school lunch fund shows an unassigned deficit fund balance of \$14,618. The Administration continues to review all costs associated with the lunch program. Additionally, 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 for the goal of eliminating the deficit.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A) Cash:

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States 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 the state and its municipalities and districts.

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 Statement 40, *Deposit and Investment Risk Disclosures*, 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 with securities held by the pledging financial institution in the District's name; or
- C) Collateralized with 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.

B) Investments:

The District does not typically purchase investments for long enough duration to cause it to believe that it is exposed to any material interest rate risk. The District also does not typically purchase investments denominated in a foreign currency, and is not exposed to foreign currency risk.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 5 – PARTICIPATION IN BOCES:

During the year, the District was billed \$311,648 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$71,299. Financial statements for the BOCES are available from the BOCES administrative office at 201 Sunrise Highway, Patchogue, New York 11772.

NOTE 6 – STATE AND FEDERAL AID RECEIVABLE:

State and federal aid receivable at June 30, 2011 consists of the following:

	<u>General Fund</u>	<u>Special Aid Fund</u>	<u>School Lunch Fund</u>	<u>Total</u>
Excess cost aid	\$42,788			\$42,788
ARRA ESF	11,672			11,672
Medicare part D	11,609			11,609
MTA tax refund	6,551			6,551
Federal aid		\$61,520	\$1,119	62,639
State aid		38,863	87	38,950
Total	<u>\$72,620</u>	<u>\$100,383</u>	<u>\$1,206</u>	<u>\$174,209</u>

District management has deemed these amounts to be fully collectible.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 7 - CAPITAL ASSETS:

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

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$25,200			\$25,200
Construction in progress	57,250	\$849,235	(\$6,000)	900,485
Total nondepreciable historical cost	<u>82,450</u>	<u>849,235</u>	<u>(6,000)</u>	<u>925,685</u>
Capital assets that are depreciated:				
Building & building improvements	7,789,691		(2,921)	7,786,770
Site improvements	137,724	131,696		269,420
Furniture and equipment	934,578	118,577	(23,195)	1,029,960
Total depreciable historical cost	<u>8,861,993</u>	<u>250,273</u>	<u>(26,116)</u>	<u>9,086,150</u>
Less accumulated depreciation:				
Building & building improvements	3,781,369	137,526	(2,921)	3,915,974
Site improvements	77,412	6,707		84,119
Furniture and equipment	625,938	94,179	(23,195)	696,922
Total accumulated depreciation	<u>4,484,719</u>	<u>238,412</u>	<u>(26,116)</u>	<u>4,697,015</u>
Total historical cost, net	<u>\$4,459,724</u>	<u>\$861,096</u>	<u>(\$6,000)</u>	<u>\$5,314,820</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$6,912
Instruction	229,939
School lunch	1,561
Total depreciation expense	<u>\$238,412</u>

NOTE 8 - INTERFUND TRANSACTIONS - GOVERNMENTAL FUNDS:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General fund	\$140,064	\$581,118	\$4,104	\$332,847
Special aid fund		117,549	3,691	
School lunch fund		13,170	110,156	
Capital projects fund	581,118		219,000	4,104
Total government activities	<u>721,182</u>	<u>711,837</u>	<u>336,951</u>	<u>336,951</u>
Fiduciary agency fund	13,507	22,852		
Totals	<u>\$734,689</u>	<u>\$734,689</u>	<u>\$336,951</u>	<u>336,951</u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
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The District typically transfers from the general fund to the special aid fund to fund the District's 20% share of summer school handicap expenses required by State Law. The District transferred from the general fund to the school lunch fund to help subsidize the school lunch deficit. The transfer to the capital projects fund was pursuant to voter authorization.

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

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

NOTE 9 - SHORT-TERM DEBT:

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

	Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	6/30/2011	0.59%	\$0	\$1,000,000	\$1,000,000	\$0
Total			\$0	\$1,000,000	\$1,000,000	\$0

Interest expense on short term debt for the year was \$3,901.

This debt was issued for interim financing of general fund operations.

NOTE 10 – LONG-TERM DEBT OBLIGATIONS:

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

	Beginning Balance	Reclassified/ Issued	Reclassified/ Redeemed	Ending Balance	Due Within One Year
Government activities:					
Long-term debt:					
Bonds Payable	\$200,000		\$200,000	\$0	\$0
Total bonds & notes payable	200,000	0	200,000	0	0
Other liabilities:					
Installment purchase debt	15,635		15,635	0	0
Workers' compensation claims payable	36,816	11,026	4,799	43,043	0
Compensated absences payable	553,251	66,761	63,424	556,588	50,000
Total other liabilities	605,702	77,787	83,858	599,631	50,000
Total long-term liabilities	\$805,702	\$77,787	\$283,858	\$599,631	\$50,000

The general fund has typically been used to liquidate long-term liabilities such as workers' compensation payable, and compensated absences.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Interest on long-term debt for the year was composed of:

	Total
Interest paid	\$6,382
Less interest accrued in the prior year	(517)
Plus interest accrued in the current year	0
Total expense	\$5,865

NOTE 11 – PENSION PLANS:

A) General Information:

The District participates in the New York State Employees’ Retirement System (NYSERS) (the “System”) and the New York State Teachers’ Retirement System (NYSTRS) (the “System”). 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:

i) Teachers’ Retirement System

The New York State Teachers’ Retirement Board administers NYSTRS. The System provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

ii) Employees’ Retirement System

NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute, and benefits to employees. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Governor Alfred E. Smith State Office Building, Albany, New York 12244.

C) Funding Policies:

The Systems are noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1,

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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2010, employees in NYSERS contribute 3% of their salary throughout their active membership and those in NYSTRS contribute 3.5% throughout their active membership. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

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

	NYSTRS	NYSERS
2011	\$453,158	\$119,678
2010	\$248,991	\$84,950
2009	\$288,689	\$54,883

NOTE 12 – POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS:

A) Plan Description

The District effectively provides medical, Medicare part B reimbursement, and dental and vision coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the New York State Health Insurance Program – Empire Plan.

B) Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District. For fiscal year 2011, the District contributed \$534,784 to the plan, including \$534,784 for current premiums and an additional \$0 to prefund benefits. Plan members contributed through their required contribution of 0% to 50% for retiree and spouse coverage based upon the terms and agreement of each District's bargaining unit agreement.

C) Annual OPEB Cost and Net OPEB Obligation

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

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District net OPEB obligation based on new actuarial valuation:

Annual OPEB Cost and Net OPEB Obligation	
Annual required contribution	\$1,457,386
Interest on net OPEB obligation	11,667
Adjustment to Annual Required Contribution	<u>(17,358)</u>
Annual OPEB cost (expense)	1,451,695
Contributions made	<u>(534,784)</u>
Increase in net OPEB obligation	916,911
Net OPEB obligation-beginning of year	<u>291,681</u>
Net OPEB obligation-end of year	<u><u>\$1,208,592</u></u>

The District's annual OPEB cost, contributions made, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the fiscal year ended June 30, 2011 and the preceding year are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>OPEB Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$630,319	\$338,638	54%	\$291,681
June 30, 2011	\$1,451,695	\$534,784	37%	\$1,208,592

D) Funded Status and Funding Progress

As of December 31, 2010, the actuarial valuation date, the plan was 0% percent funded. The actuarial accrued liability for benefits was \$16,319,228, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,319,228. The covered payroll (annual payroll of active employees covered by the plan) was \$4,742,584, and the ratio of the UAAL to the covered payroll was 344%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

E) Actuarial Methods and Assumptions

In the December 31, 2010 actuarial valuation prepared by an outside actuarial firm, the projected unit credit cost method is used. The actuarial assumptions included a discount rate of 4% and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 6% after 6 years. The UAAL uses level dollar amortization over 30 years. The remaining amortization period at June 30, 2011 was 26.5 years.

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

NOTE 13 – RISK MANAGEMENT:

A) General:

The District is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. These risks are covered by a combination of self insurance 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) Public Entity Risk Pool – Risk Retained

The District participates in a risk pool, the East End Workers' Compensation Consortium (EEWCC), to insure worker's 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 liability 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The District's liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2011, as processed by the EEWCC, is \$43,043. Claims activity is summarized as follows:

	2010	2011
Unpaid claims, beginning of year	\$41,598	\$36,816
Incurred claims and claim adjustment expenses		11,026
Claim payments	(4,782)	(4,799)
Unpaid claims, end of year	\$36,816	\$43,043

The EEWCC is holding \$325,366 of cash on account for the District to satisfy these liabilities at June 30, 2011.

The EEWCC has issued financial statements for the year ended June 30, 2011. Copies of these statements can be obtained from the District's administrative office.

C) Public Entity Risk Pool – Risk Sharing

The District participates in a public entity risk-sharing pool that provides a health benefit program for its employees through the East End Health Plan, a consortium of school districts from the east end of Long Island. The benefit program's administrator is responsible for the approval, processing and payment of claims. This is billed to the District at an established rate based on the number of participants. The District is responsible for contributions to cover their share of the benefits and administrative costs. The trust for the plan reports on a calendar year end. In the event the plan experiences a shortfall, a special assessment against participating districts may be imposed. The District is not aware of any additional assessments related to claims incurred through June 30, 2011.

NOTE 14 – RESTRICTED FUND BALANCE – APPROPRIATED RESERVES

The District has appropriated \$120,000 from the retirement contribution and unemployment insurance reserves, which is reported in the June 30, 2011 restricted fund balances, to fund the budget and reduce taxes for the year ending June 30, 2012.

NOTE 15 – ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$325,000 has been appropriated to reduce taxes for the year ending June 30, 2012.

NOTE 16 – 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

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

of funds. Based on prior audits, the District's administration believes disallowances, if any, will be immaterial.

B) Litigation:

The District is involved in lawsuits arising from the normal conduct of its affairs. Management believes that the outcome of any matters will not have a material effect on these financial statements.

C) Encumbrances:

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

- i) **General Fund** - Total encumbrances of the general fund as of June 30, 2011 were \$44,564. Significant encumbrances of \$42,437 were assigned to accounting and auditing services.
- ii) **Capital Projects Fund** - Total encumbrances of the capital projects fund as of June 30, 2011 were \$364,635. All encumbrances were assigned to the capital project F.I.T.
- iii) **Special Aid Fund** - Total encumbrances of the special aid fund as of June 30, 2011 were \$2,132. No significant encumbrances were identified.

NOTE 17 – SUBSEQUENT EVENT

The District issued \$1,400,000 in tax anticipation notes on October 19, 2011 which mature on June 28, 2012, and have an effective interest rate of .57%.

SUPPLEMENTARY INFORMATION

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Final Budget Variance with Budgetary Actual</u>
REVENUES				
Local Sources				
Real Property Taxes	\$8,418,403	\$8,418,403	\$8,418,403	\$0
Other Real Property Tax Items	183,741	183,741	183,163	(578)
Charges for Services			450	450
Use of Money & Property	10,000	10,000	9,329	(671)
Sale of Property & Compensation for Loss			979	979
Miscellaneous	20,000	30,255	76,351	46,096
State Sources				
Basic Formula	405,500	405,500	234,901	(170,599)
Excess Cost Aid			135,752	135,752
Lottery Aid			14,715	14,715
BOCES Aid	56,235	56,235	71,299	15,064
Textbook Aid	11,100	11,100	6,401	(4,699)
Computer Software Aid			1,500	1,500
Library A/V Loan Program Aid			1,000	1,000
Federal Sources				
			38,904	38,904
Other Financing Sources				
Transfers from Other Funds			4,104	4,104
TOTAL REVENUES AND OTHER SOURCES	<u>9,104,979</u>	<u>9,115,234</u>	<u>\$9,197,251</u>	<u>\$82,017</u>
Assigned - Designated for for Subsequent year's expenditures				
	325,000	325,000		
Appropriated Reserves				
	<u>155,417</u>	<u>493,997</u>		
TOTAL REVENUES & APPROPRIATED FUND BALANCE	<u>\$9,585,396</u>	<u>\$9,934,231</u>		

Note to Required Supplementary Information

Budget Basis of accounting

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

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

EXPENDITURES	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Year-End Encumbrances</u>	<u>Final Budget Variance with Budgetary Actual and Encumbrances</u>
General Support					
Board of Education	\$36,575	\$46,600	\$41,058		\$5,542
Central Administration	197,858	341,283	359,996		(18,713)
Finance	274,314	270,685	256,668	\$42,437	(28,420)
Staff	49,415	53,043	72,565		(19,522)
Central Services	707,920	719,920	710,135	1,555	8,230
Special Items	167,604	167,604	157,649		9,955
Instructional					
Instruction, Adm. & Imp.	216,385	126,360	15,631		110,729
Teaching - Regular School	3,105,911	3,112,306	2,880,393		231,913
Programs for Children with Handicapping Conditions	925,716	926,223	844,545		81,678
Occupational Education	150,579	146,738	81,081		65,657
Teaching Special Schools	18,613	22,454	17,710	421	4,323
Instructional Media	248,846	251,499	223,522		27,977
Pupil Services	552,089	552,089	501,835	151	50,103
Pupil Transportation	474,635	474,635	311,705		162,930
Community Services	16,700	17,400	11,143		6,257
Employee Benefits	2,125,206	2,125,206	2,144,701		(19,495)
Debt Service Principal	200,000	200,000	215,635		(15,635)
Debt Service - Interest	42,200	42,200	10,283		31,917
TOTAL EXPENDITURES	<u>9,510,566</u>	<u>9,596,245</u>	<u>8,856,255</u>	<u>44,564</u>	<u>695,426</u>
Other Financing Uses					
Transfers to Other Funds	74,830	337,986	332,847		5,139
TOTAL EXPENDITURES AND OTHER USES	<u>\$9,585,396</u>	<u>\$9,934,231</u>	<u>9,189,102</u>	<u>\$44,564</u>	<u>\$700,565</u>
Change in fund balance			8,149		
Fund balance - beginning			<u>2,416,737</u>		
Fund balance - ending			<u>\$2,424,886</u>		

Note to Required Supplementary Information

Budget Basis of accounting

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

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
December 31, 2008	\$0	\$7,631,003	\$7,631,003	0%	\$5,082,679	150%
December 31, 2010	\$0	\$16,319,228	\$16,319,228	0%	\$4,742,584	344%

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
 AND USE OF ASSIGNED - APPROPRIATED AND UNASSIGNED FUND BALANCE- GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$9,547,979
Add: Prior year's encumbrances	<u>37,417</u>
Original Budget	9,585,396
Budget Revisions	<u>348,835</u>
Final Budget	<u>\$9,934,231</u>
Next year's voter approved budget	<u><u>\$9,640,614</u></u>

USE OF ASSIGNED - APPROPRIATED AND UNASSIGNED FUND BALANCE

Assigned - Appropriated and Unassigned Fund Balance - As of the beginning of the year	\$1,263,953
Less:	
Appropriated fund balance used for the levy of taxes - Adopted Budget	<u>325,000</u>
Unassigned Fund Balance - As of the beginning of the year	<u><u>\$938,953</u></u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES
COMPARED TO ST-3 DATA FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Property Taxes	A-1001	\$8,418,403	\$8,418,403
Non-Property Taxes	AT-1199	0	0
State Aid	AT-3999	465,568	465,568
Federal Aid	AT-4999	38,904	38,904
TOTAL REVENUES	AT-5999	\$9,197,251	\$9,197,251
EXPENDITURES			
General Support	AT-1999	\$1,598,071	\$1,598,071
Pupil Transportation	AT-5999	311,705	311,705
Debt Service-Principal	AT-9798.6	215,635	215,635
Debt Service-Interest	AT-9798.7	10,283	10,283
TOTAL EXPENDITURES	AT-9999	\$9,189,102	\$9,189,102

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Capital assets, net	<u>\$5,314,820</u>
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Investment in capital assets, net of related debt	<u><u>\$5,314,820</u></u>
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**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 (District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Shelter Island Union Free School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 9, 2011.

This report is intended solely for the use and information of the Board of Education, Audit Committee, management, others you deem appropriate within the District, and any governmental authorities you need to share this information with and is not intended to be and should not be used by anyone other than these specified parties.

Cullen & Danowski, LLP

November 9, 2011

