



**SHELTER ISLAND
UNION FREE SCHOOL DISTRICT**

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

June 30, 2010

**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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on the financial statements based on our audit.

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

As discussed in Note 2 to the financial statements, the District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB) for the year ended June 30, 2010.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2010, 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.

The management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 3 through 13 and 42 through 44, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shelter Island Union Free School District's basic financial statements. The other supplementary information on pages 45 through 48 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 5, 2010

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

The Shelter Island Union Free School District's (District) discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole. This should be read in conjunction with the financial statements, which immediately follow this section.

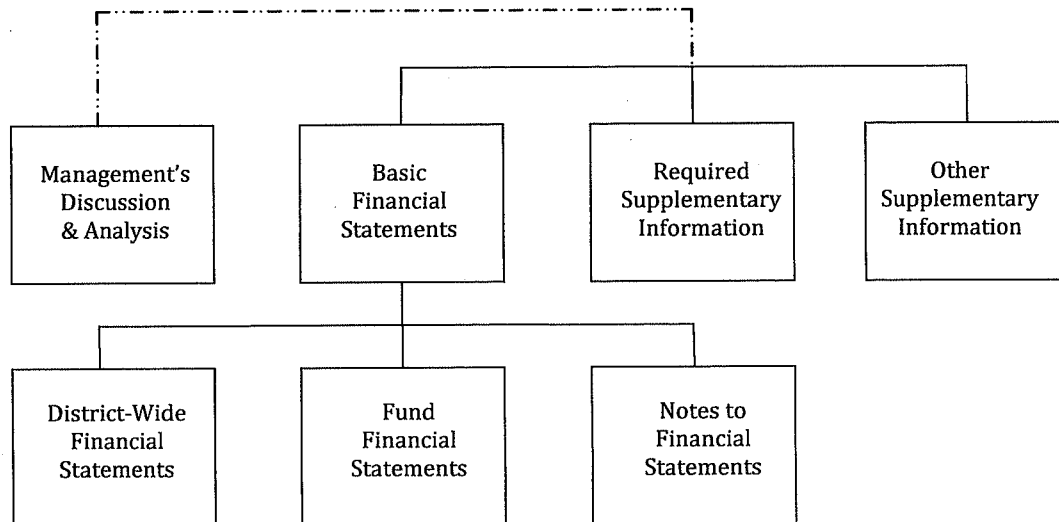
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2010 are as follows:

- The District's total net assets, as reflected in the district-wide financial statements, increased by \$487,467 (7.10%).
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$683,256 (39.42%).
- The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB) during the year. Under the accrual basis of accounting, the District is now required to record, as a current year expense, the cost of providing health retirement benefits to active and retired employees. During the year ended June 30, 2010, the District recorded an increase in the net OPEB obligation of \$291,681 relating to these benefits.
- In May 2010, the voters of the District authorized the District to expend up to \$135,800 from the capital reserve to renovate the playground.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

A. District-Wide Financial Statements

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

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

The Statement of Net Assets

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

The Statement of Activities

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

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the District are reported in the governmental funds and the fiduciary funds.

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period that they become measurable, funded through available resources and payable within a current period.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides.

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

Because the focus of governmental funds is narrower than that of district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, you may better understand the long-term impact of the District's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds: general fund, special aid fund, school lunch fund, and capital projects fund; each of which is considered to be a major fund and is presented separately in the fund financial statements.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District in its capacity as agent or trustee. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. The fiduciary activities have been excluded from the District's district-wide financial statements because the District cannot use these assets to finance its operations.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Assets

The Districts total net assets increased by \$487,467 between fiscal year 2009 and 2010. A summary of the District's Statement of Net Assets for June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Current and Other Assets	\$ 4,597,969	\$ 4,418,141	\$ 179,828	4.07 %
Capital Assets, Net	<u>4,459,724</u>	<u>4,278,826</u>	<u>180,898</u>	4.23 %
Total Assets	<u>9,057,693</u>	<u>8,696,967</u>	<u>360,726</u>	4.15 %
Current and Other Liabilities	605,783	754,238	(148,455)	(19.68)%
Long-Term Liabilities	805,702	1,075,669	(269,967)	(25.10)%
Net Other Postemployment Benefits Obligation	<u>291,681</u>	<u>291,681</u>	<u>291,681</u>	100.00 %
Total Liabilities	<u>1,703,166</u>	<u>1,829,907</u>	<u>(126,741)</u>	(6.93)%
Net Assets				
Investment in Capital Assets, Net of Related Debt	4,244,089	3,793,188	450,901	11.89 %
Restricted	1,349,487	1,624,777	(275,290)	(16.94)%
Unrestricted	<u>1,760,951</u>	<u>1,449,095</u>	<u>311,856</u>	21.52 %
Total Net Assets	<u>\$ 7,354,527</u>	<u>\$ 6,867,060</u>	<u>\$ 487,467</u>	7.10 %

Current and other assets increased by \$179,828, as compared to the prior year. The increase is primarily reflected in larger cash balances at the end of the year.

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

Capital assets, net increased by \$180,898, as compared to the prior year. This increase is due to capital outlays for building improvements and purchases of furniture and equipment. The accompanying Notes to Financial Statements, Note 8 "Capital Assets" provides additional information.

Current and other liabilities decreased by \$148,455, as compared to the prior year. This decrease is primarily in connection with a decrease in accounts payable related to tuition.

Long-term liabilities decreased by \$269,967, as compared to the prior year. This decrease is primarily the result of the repayment of the current maturity of the bond indebtedness and installment purchase debt and a decrease in the workers' compensation liability, net of an increase in the compensated absences liability.

Net OPEB obligation in the amount of \$291,681 has been included in accordance with the implementation of GASB No. 45. The accompanying Notes to Financial Statements, Note 13 "Postemployment Benefits" provides additional information.

The investment in capital assets, net of related debt, in the amount of \$4,244,089 relates to capital assets at cost less depreciation and related debt. This number increased over the prior year by \$450,901 as follows:

	Increase <u>(Decrease)</u>
Capital asset additions	\$ 416,491
Related debt principal reduction	270,003
Depreciation expense	<u>(235,593)</u>
	<u>\$ 450,901</u>

The restricted net assets in the amount of \$1,349,487 relates to the District's capital reserves. This number decreased from the prior year by \$275,290, principally due to the amount expended on capital projects, net of related interest earnings.

The unrestricted net assets in the amount of \$1,760,951 relates to the balance of the District's net assets. This number includes the District's other reserves and fund balances less unfunded liabilities such as compensated absences. This number increased over the prior year by \$311,856.

The District's total net assets increased by \$487,467 or 7.10%; \$7,354,527 at June 30, 2010, compared to \$6,867,060 at June 30, 2009.

B. Changes in Net Assets

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of these statements for the years ended June 30, 2010 and 2009 is as follows:

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

	2010	2009	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 54,606	\$ 59,957	\$ (5,351)	(8.92)%
Operating Grants	302,624	172,871	129,753	75.06 %
General Revenues				
Property Taxes and STAR	8,671,194	8,486,821	184,373	2.17 %
State Sources	511,011	793,653	(282,642)	(35.61)%
Other	102,693	81,746	20,947	25.62 %
Total Revenues	<u>9,642,128</u>	<u>9,595,048</u>	<u>47,080</u>	0.49 %
Expenses				
General Support	1,823,451	1,643,210	180,241	10.97 %
Instruction	6,793,131	7,047,922	(254,791)	(3.62)%
Pupil Transportation	326,783	371,488	(44,705)	(12.03)%
Community Service		25,811	(25,811)	100.00 %
Debt Service - Interest	29,557	65,565	(36,008)	(54.92)%
Food Service Program	181,739	197,317	(15,578)	(7.89)%
Total Expenses	<u>9,154,661</u>	<u>9,351,313</u>	<u>(196,652)</u>	(2.10)%
Increase in Net Assets	<u>\$ 487,467</u>	<u>\$ 243,735</u>	<u>\$ 243,732</u>	100.00 %

The District's net assets increased by \$487,467 and \$243,735 for the years ended June 30, 2010 and 2009, respectively.

The District's revenues increased by \$47,080 or 0.49%. Most of this increase is attributable to property taxes, STAR and operating grants. The increase of \$129,753 in operating grants includes \$106,414 of education stabilization funds provided under the federal American Recovery and Reinvestment Act of 2009 (ARRA). These increases were offset by a reduction in general state aid revenue, as the state deals with budget issues.

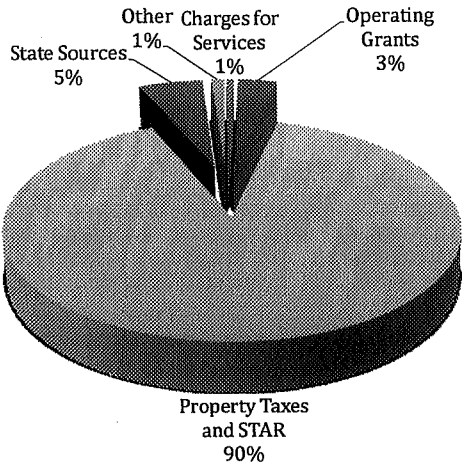
The District's expenses decreased by \$196,652 or 2.10%. The major contributing factor to this decrease was a decrease in tuition costs due to a decrease in enrollment. These decreases in instruction were offset by \$291,681 of additional OPEB costs resulting from the implementation of GASB Statement No. 45.

As indicated on the pie charts that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 90% and 88% of the total for the years 2010 and 2009, respectively). Instructional expenses is the largest category of expenses incurred (i.e., 74% and 75% of the total for the years 2010 and 2009, respectively).

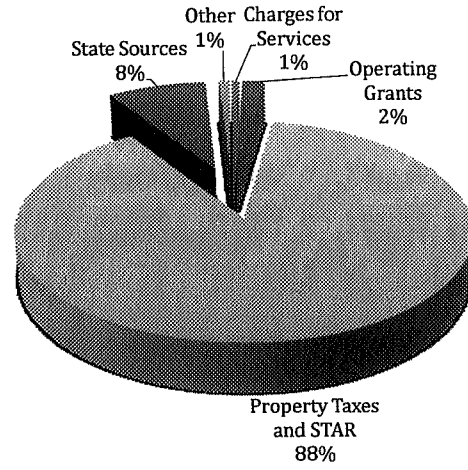
**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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

June 30, 2010

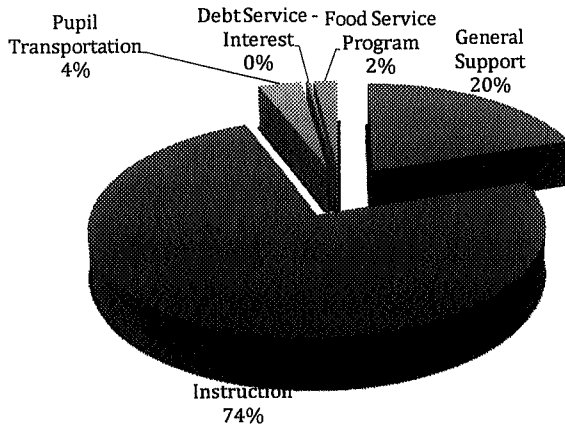


June 30, 2009

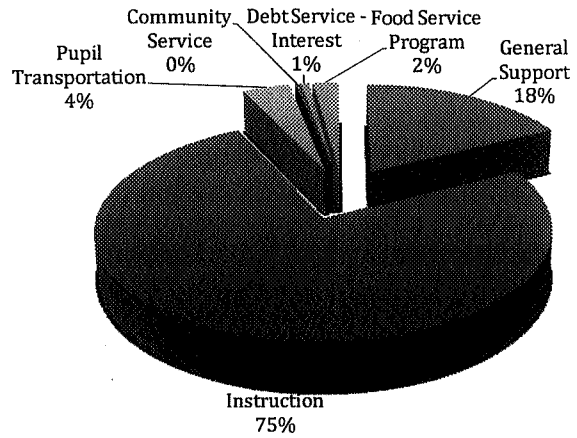


A graphic display of the distribution of expenses for the two years follows:

June 30, 2010



June 30, 2009



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

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2010, the District's governmental funds reported a combined fund balance of \$3,670,013, which is an increase of \$408,354 over the prior year. This increase is due to an excess of revenues over expenditures based upon the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2010</u>	<u>2009</u>	<u>Changes</u>
General Fund			
Reserve for:			
Encumbrances	\$ 37,417	\$ 132,796	\$ (95,379)
Unemployment Insurance	44,192	28,380	15,812
Retirement Contribution	192,000	100,000	92,000
Employee Benefit Accrued Liability	491,525	456,500	35,025
Capital	336,545	268,019	68,526
Advances	51,105	43,316	7,789
Unreserved - Designated for subsequent year's expenditures	325,000	249,523	75,477
Unreserved - Undesignated	<u>938,953</u>	<u>454,947</u>	<u>484,006</u>
	<u>2,416,737</u>	<u>1,733,481</u>	<u>683,256</u>
School Lunch Fund			
Reserve for Inventory	2,949	2,696	253
Unreserved - Undesignated (Deficit)	<u>(51,105)</u>	<u>(43,316)</u>	<u>(7,789)</u>
	<u>(48,156)</u>	<u>(40,620)</u>	<u>(7,536)</u>
Capital Projects Fund			
Reserve for encumbrances	743,854	217,499	526,355
Unreserved - Undesignated	<u>557,578</u>	<u>1,351,299</u>	<u>(793,721)</u>
	<u>1,301,432</u>	<u>1,568,798</u>	<u>(267,366)</u>
 Total Fund Balance	 <u>\$ 3,670,013</u>	 <u>\$ 3,261,659</u>	 <u>\$ 408,354</u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$683,256, as revenues and other sources of \$9,544,528 exceeded expenditures and other uses of \$8,861,272. Revenues and other sources increased by \$225,038 or 2.41% over fiscal 2009 totals primarily because of increased real property taxes and STAR (\$185,456). Expenditures and other uses decreased by \$1,872,273 or 17.44% from fiscal 2009 totals. A significant portion of this decrease (\$1,530,642 or 81.75%) was attributable to a decrease in the transfer to the capital projects fund for capital projects.

During 2009-10, the Board of Education approved appropriating \$9,362 from the unemployment reserve to fund unemployment claims. On June 14, 2010, the Board of Education resolved to transfer \$25,000 into the reserve for future claims. The reserve also earned \$174. The above represent a net increase to the reserve of \$15,812.

On June 14, 2010, the Board of Education approved transferring \$92,000 into the retirement contribution reserve.

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

During 2009-10, the Board of Education approved appropriating \$57,743 from the employee benefit accrued liability reserve to fund compensated absences payouts to retirees. On June 14, 2010, the Board of Education also approved a transfer to the reserves in the amount of \$90,000. The reserve also earned interest of \$2,769. The above represents a net increase to the reserve of \$35,025.

In May 2006, the voters of the District authorized the creation of a capital reserve for \$2,000,000 to be funded for a period of five years. During the 2009-10 fiscal year, the reserve earned interest of \$1,626 and the District transferred an additional \$50,000 into the reserve bringing the total amount paid into the reserve to \$1,767,000. For the year ended June 30, 2010, the District transferred \$135,800 from the capital reserve to the capital projects fund to fund the playground renovation project. During 2009-10, the District completed two capital projects that were funded by the capital reserve. The unspent funds of \$152,700 were transferred back into the reserve. This resulted in a net increase of \$68,526 in the reserve.

The reserve for advances is used to reserve for loans to other funds that are not expected to be repaid within a current period. The above \$51,105 represents a reservation of fund balance that is related to the deficit in the school lunch fund.

B. School Lunch Fund

The net change in the school lunch fund – fund balance was a decrease of \$7,536, which was the operating loss of the school lunch fund. The Administration is currently reviewing both the costs associated with the program and the prices charged per meal with the goal of making the food service program financially sound.

C. Capital Projects Fund

The net change in the capital projects fund-fund balance is a decrease of \$267,366, as expenditures and other financing uses (\$491,126) exceeded revenues and other financing sources (\$223,760).

Revenues resulted from EXCEL aid of \$87,960 and an interfund transfer from the general fund of \$135,800. The transfer was funded by the capital reserve for the playground renovation project.

Expenditures resulted from current outlays for capital projects and an interfund transfer of \$157,200 to the general fund for the unspent capital reserve funds from completed projects.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2009-10 Budget

The District's general fund voter-approved budget for the year ended June 30, 2010 was \$9,530,697. This amount was increased by encumbrances carried forward from the prior year in the amount of \$132,796 and budget revisions in the amount of \$220,533 for a total final budget of \$9,884,026.

The budget was funded through a combination of revenues and designated fund balance. The majority of this funding source was \$8,670,550 in property taxes and STAR.

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

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

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

Opening, Unreserved - Undesignated Fund Balance	\$ 454,947
Fund Balance Appropriated for Budget Revisions	(17,628)
Revenues Over Budget	263,354
Expenditures and Encumbrances Under Budget	985,337
Interest Transferred into Reserves	(4,568)
Transfers to Reserves	(417,489)
Appropriated for June 30, 2011 Budget	<u>(325,000)</u>
Closing, Unreserved - Undesignated Fund Balance	<u>\$ 938,953</u>

Opening, Unreserved - Undesignated Fund Balance

The \$454,947 shown in the table is the portion of the District's June 30, 2009 fund balance that was retained as undesignated.

Fund Balance Appropriated for Budget Revisions

The District revised its budget for a legal settlement of a contract dispute in the amount of \$17,628 funded by unreserved – undesignated fund balance.

Revenues Over Budget

The 2009-10 final budget for revenues was \$9,281,174. Actual revenues received for the year were \$9,544,528. The excess of actual revenue over estimated or budgeted revenue was \$263,354, which is primarily due to the District receiving \$106,414 of education stabilization funds provided under ARRA, receiving \$68,647 more in miscellaneous revenue than anticipated, and transferring unspent capital reserve appropriations from the capital projects fund to the general fund. The ARRA funds were provided to offset reductions in state aid.

Expenditures and Encumbrances Under Budget

The 2009-10 final budget for expenditures, including prior year open encumbrances (\$132,796) and budget revisions (\$220,533), was \$9,884,026. Actual expenditures as of June 30, 2010 were \$8,861,272 and outstanding encumbrances were \$37,417. Combined, the expenditures plus encumbrances for 2009-10 were \$8,898,689. The final budget was under expended by \$985,337. This under expenditure is principally within the instruction and employee benefits codes of the budget.

Interest Transferred into Reserves

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

Unemployment insurance reserve	\$ 174
Employee benefit accrued liability reserve	2,768
Capital reserve	<u>1,626</u>
	<u>\$ 4,568</u>

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

Transfers to Reserves

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

The \$417,489 shown in the above table represents transfers into the employee benefits accrued liability reserve (\$90,000), retirement contribution reserve (\$92,000), capital reserve (\$202,700), unemployment reserve (\$25,000) and reserve for advances (\$7,789).

Appropriated Fund Balance

The District has chosen to use \$325,000 of the available June 30, 2010 fund balance to partially fund the 2010-11 approved operating budget. As such, the undesignated portion of the June 30, 2010 fund balance must be reduced by this amount.

Closing, Unreserved - Undesignated Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2010-11 fiscal year with an unreserved-undesignated fund balance of \$938,953. This undesignated portion is greater than the permissible 4% statutory maximum per section §1318 of the New York State Real Property Tax Law.

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2010, the District had invested in a broad range of capital assets, as indicated in the table below. The net increase in capital assets results from capital additions in excess of depreciation for the year ended June 30, 2010. A summary of the District's capital assets, net of depreciation at June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Land	\$ 25,200	\$ 25,200	\$ -
Construction in progress	57,250		57,250
Buildings and improvements	4,008,322	3,865,408	142,914
Site improvements	60,312	67,019	(6,707)
Furniture and equipment	308,640	321,199	(12,559)
Capital assets, net	<u>\$ 4,459,724</u>	<u>\$ 4,278,826</u>	<u>\$ 180,898</u>

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

B. Debt Administration

At June 30, 2010, the District had total bonds payable of \$200,000. The bonds were issued for school building improvements. The decrease in outstanding debt represents principal payments. A summary of the outstanding debt at June 30, 2010 and 2009 is as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
1991	6.20%	<u>\$ 200,000</u>	<u>\$ 400,000</u>	<u>\$ (200,000)</u>

The District is obligated under two installment purchase debt contracts for instructional equipment. During 2010, the combined installment purchase debt decreased by \$70,003 due to principal payments to a year end balance of \$15,635.

The District's latest credit rating from Standard and Poor's is AAA. The District's total outstanding indebtedness is significantly less than the debt limit. The debt limit is 10% of the full valuation of the taxable real property within the District.

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 18, 2010, for the year ending June 30, 2011, is \$9,547,979. This is an increase of \$17,282 or 0.18% over the previous year's budget.

The District budgeted non-property tax revenues at a \$137,789 decrease from the prior year's estimate. This decrease is due to estimated decreases in State aid (\$97,789), use of money and property (\$5,000) and miscellaneous revenues (\$5,000). Additionally, the designated fund balance applied to the June 30, 2011 budget increased from \$249,523 to \$325,000 and the District has elected to apply \$118,000 from the retirement contribution and unemployment reserves to the relevant appropriations in the 2010-11 budget. As a result the property tax levy decreased by 0.79%.

By limiting the budget growth and applying more fund balance to the next year's budget the District expects to reduce unreserved-undesignated fund balance at June 30, 2011.

8. CONTACTING THE DISTRICT

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

Mr. Robert Parry
Interim Superintendent
Shelter Island Union Free School District
33 North Ferry Road
Box 2015
Shelter Island, New York 11964

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

ASSETS	
Cash	\$ 3,911,823
Receivables	
Accounts receivable	551
Due from other funds	92,033
Due from other governments	267,923
Inventories	2,949
Other assets	322,690
Capital assets not being depreciated	82,450
Capital assets being depreciated, net of accumulated depreciation	<u>4,377,274</u>
 Total Assets	 <u><u>\$ 9,057,693</u></u>
 LIABILITIES	
Payables	
Accounts payable	\$ 197,727
Accrued liabilities	25,450
Due to other governments	6,913
Due to teachers' retirement system	268,487
Due to employees' retirement system	34,832
Compensated absences payable	53,755
Deferred credits	
Deferred revenues	18,619
Long-term liabilities	
Due and payable within one year	
Bonds payable	200,000
Installment purchase debt payable	15,635
Compensated absences payable	50,000
Due and payable after one year	
Compensated absences payable	503,251
Workers' compensation liability	36,816
Net other postemployment benefits obligation	<u>291,681</u>
 Total Liabilities	 <u><u>1,703,166</u></u>
 NET ASSETS	
Investment in capital assets, net of related debt	4,244,089
Restricted for capital	1,349,487
Unrestricted	<u>1,760,951</u>
 Total Net Assets	 <u><u>7,354,527</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 9,057,693</u></u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2010

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants	
PROGRAMS/FUNCTIONS				
General support	\$ 1,823,451	\$	\$	\$ 1,823,451
Instruction	6,793,131	516	280,976	6,511,639
Pupil transportation	326,783			326,783
Debt service - interest	29,557			29,557
Food service program	181,739	54,090	21,648	106,001
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Programs/Functions	<u>\$ 9,154,661</u>	<u>\$ 54,606</u>	<u>\$ 302,624</u>	<u>8,797,431</u>
 GENERAL REVENUES				
Real property taxes				8,484,273
Other tax items				188,004
Use of money and property				12,963
Miscellaneous				88,647
State sources				<u>511,011</u>
Total General Revenues				<u>9,284,898</u>
 Change in Net Assets				487,467
 Total Net Assets - Beginning of year				<u>6,867,060</u>
 Total Net Assets - End of year				<u>\$ 7,354,527</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2010

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
ASSETS					
Cash	\$ 3,911,823	\$	\$	\$	\$ 3,911,823
Receivables					
Accounts receivable	551				551
Due from other funds	209,475			1,224,982	1,434,457
Due from other governments	99,289	79,167	1,507	87,960	267,923
Inventories			2,949		2,949
 Total Assets	<u>\$ 4,221,138</u>	<u>\$ 79,167</u>	<u>\$ 4,456</u>	<u>\$ 1,312,942</u>	<u>\$ 5,617,703</u>
LIABILITIES					
Payables					
Accounts payable	\$ 185,793	\$ 276	\$ 148	\$ 11,510	\$ 197,727
Accrued liabilities	24,933				24,933
Due to other funds	1,224,982	66,157	51,285		1,342,424
Due to other governments		6,729	184		6,913
Due to teachers' retirement system	268,487				268,487
Due to employees' retirement system	34,832				34,832
Compensated absences payable	53,755				53,755
Deferred credits					
Deferred revenues	11,619	6,005	995		18,619
 Total Liabilities	<u>1,804,401</u>	<u>79,167</u>	<u>52,612</u>	<u>11,510</u>	<u>1,947,690</u>
FUND BALANCES					
Reserved for encumbrances	37,417			743,854	781,271
Reserved for:					
Unemployment Insurance	44,192				44,192
Retirement Contribution	192,000				192,000
Employee Benefit Accrued Liability	491,525				491,525
Capital	336,545				336,545
Advances	51,105				51,105
Inventory			2,949		2,949
Unreserved - Designated for subsequent year's expenditures	325,000				325,000
Unreserved - Undesignated (Deficit)	938,953		(51,105)	557,578	1,445,426
 Total Fund Balances (Deficit)	<u>2,416,737</u>	<u>-</u>	<u>(48,156)</u>	<u>1,301,432</u>	<u>3,670,013</u>
 Total Liabilities and Fund Balances	<u>\$ 4,221,138</u>	<u>\$ 79,167</u>	<u>\$ 4,456</u>	<u>\$ 1,312,942</u>	<u>\$ 5,617,703</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2010

Total Governmental Fund Balances		\$ 3,670,013
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Cash held by third-party administrator is treated as a long-term asset and included in net assets.		322,690
<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 includes 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	\$ 8,944,443	
Accumulated depreciation	<u>(4,484,719)</u>	4,459,724
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:</p>		
Accrued interest on long-term liabilities	(517)	
Bonds payable	(200,000)	
Installment purchase debt payable	(15,635)	
Compensated absences payable	(553,251)	
Workers' compensation liabilities	(36,816)	
Net other postemployment benefits obligation	<u>(291,681)</u>	<u>(1,097,900)</u>
Total Net Assets		<u>\$ 7,354,527</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2010

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$ 8,484,273	\$	\$	\$	\$ 8,484,273
Other tax items	188,004				188,004
Charges for services	516				516
Use of money and property	12,963				12,963
Miscellaneous	88,647				88,647
State sources	511,011	16,300	1,422	87,960	616,693
Federal sources	106,414	158,262	15,370		280,046
Surplus food			4,856		4,856
Sales - school lunch			54,090		54,090
Total Revenues	9,391,828	174,562	75,738	87,960	9,730,088
EXPENDITURES					
General support	1,535,018				1,535,018
Instruction	4,628,027	178,637			4,806,664
Pupil transportation	326,783				326,783
Community services	5,276				5,276
Employee benefits	1,861,733		4,828		1,866,561
Debt service					
Principal	270,003				270,003
Interest	29,557				29,557
Cost of sales			143,446		143,446
Capital outlay				338,426	338,426
Total Expenditures	8,656,397	178,637	148,274	338,426	9,321,734
Excess (Deficiency) of Revenues Over Expenditures	735,431	(4,075)	(72,536)	(250,466)	408,354
OTHER FINANCING SOURCES AND USES					
Operating transfers in	152,700	4,075	65,000	135,800	357,575
Operating transfers (out)	(204,875)			(152,700)	(357,575)
Total Other Financing Sources and (Uses)	(52,175)	4,075	65,000	(16,900)	-
Net Change in Fund Balances	683,256	-	(7,536)	(267,366)	408,354
Fund Balances (Deficit) - Beginning of Year	1,733,481		(40,620)	1,568,798	3,261,659
Fund Balances (Deficit) - End of year	<u>\$ 2,416,737</u>	<u>\$ -</u>	<u>\$ (48,156)</u>	<u>\$ 1,301,432</u>	<u>\$ 3,670,013</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2010

Net Change in Fund Balance \$ 408,354

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

Long-Term Revenue and Expense Differences

Current revenue in the governmental funds (EXCEL aid), that was reported as revenue in the prior year when earned on the accrual basis of accounting, is not reported in the Statement of Activities in the current year. \$ (87,960)

Disbursements expended in the governmental funds are treated as long-term assets and increase net assets. 7,889

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in a reduction of the long-term liability and an increase in net assets.

Decrease in workers' compensation liabilities 4,782

In the Statement of Activities, certain operating expenses do not require the use of current financial resources and, therefore are not report as expenditures in the governmental funds.

Increase in compensated absences payable (4,818)
Increase in net other postemployment benefits obligation (291,681)

(371,788)

Capital Related Differences

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

Capital outlays 416,491
Depreciation expense (235,593)

180,898

Long-Term Debt Related Differences

Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and do not affect the Statement of Activities.

Repayment of bond principal 200,000
Repayment of installment purchase debt 70,003

270,003

Change in Net Assets of Governmental Activities \$ 487,467

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Assets -
Fiduciary Funds
June 30, 2010

	Private Purpose Trust	Agency
ASSETS		
Cash	\$ 24,561	\$ 149,133
Due from other funds	15,894	199
Total Assets	\$ 40,455	\$ 149,332
 LIABILITIES		
Extraclassroom activity balances	\$	\$ 36,698
Due to other funds		108,126
Other liabilities		4,508
Total Liabilities	-	\$ 149,332
 NET ASSETS		
Reserve for scholarships	40,455	
Total Liabilities and Net Assets	\$ 40,455	

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets -
Fiduciary Funds
For the Year Ended June 30, 2010

	<u>Private Purpose Trust</u>
ADDITIONS	
Contributions	\$ 17,239
Investment earnings	
Interest	<u>56</u>
Total Additions	<u>17,295</u>
 DEDUCTIONS	
Scholarships and awards	<u>-</u>
Change in Net Assets	17,295
Net Assets - Beginning of year	<u>23,160</u>
Net Assets - End of Year	<u><u>\$ 40,455</u></u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

Extraclassroom Activity Funds

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

B. Joint Venture

The District is a component district in the Board of Cooperative Educational Services of Eastern Suffolk (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section §1950 of the Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section §119-n(a) of the General Municipal Law. A BOCES budget is comprised of separate budgets for

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

administrative, program, and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment as defined in Education Law, Section §1950(4)(b)(7).

There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate.

C. Basis of Presentation

District-Wide Financial Statements

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

The Statement of Net Assets presents the financial position of the District at fiscal year end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants, contributions, and other revenues that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including real property taxes and state aid, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category, governmental and fiduciary, are presented. The emphasis of fund financial statements is on major governmental funds as defined by GASB, each displayed in a separate column. The District's financial statements reflect the following major fund categories:

Governmental Funds:

General Fund - is the general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund.

Special Aid Fund - is used to account for the proceeds of specific revenue sources such as federal and state grants that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed by either governments that provide the funds or outside parties.

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

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

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

Fiduciary Funds – are used to account for activities in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the district-wide financial statements, because their resources do not belong to the District, and are not available to be used. There are two classes of fiduciary funds:

Agency Funds - These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

Private Purpose Trust Funds - These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.

D. Basis of Accounting and Measurement Focus

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

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

E. Real Property Taxes

Calendar

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

Enforcement

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

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

F. Restricted Resources

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

G. Interfund Transactions

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

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

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

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

H. Use of Estimates

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

I. Cash and Cash Equivalents/Investments

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

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

J. Receivables

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

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

K. Other Assets

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

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 donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. These inventories are accounted for on the consumption method. A reserve for inventory has been recognized to indicate that this does not constitute available spendable resources.

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

M. Capital Assets

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

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

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

N. Deferred Revenues

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

O. Vested Employee Benefits – Compensated Absences

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

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

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

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

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

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

P. Other Benefits

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

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

Q. Short-Term Debt

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

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

R. Accrued Liabilities and Long-Term Obligations

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

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

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

S. Equity Classifications

District-Wide Statements

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

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

Fund Statements

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

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

Reserve for Encumbrances

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

Unemployment Insurance Reserve

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

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

sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the general fund.

Retirement Contribution Reserve

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

Employee Benefit Accrued Liability Reserve

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

Capital Reserve

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

Reserve for Advances

Reserve for advances is used to reserve for loans to other funds that are not expected to be repaid within a current period. The reserve is accounted for in the general fund.

Reserve for Inventory

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

Reserve for Scholarships

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

2. CHANGES IN ACCOUNTING PRINCIPLES

For the year ended June 30, 2010, the District implemented GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). GASB 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expenses/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

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

3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE DISTRICT-WIDE STATEMENTS

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

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

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

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

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories.

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

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

Appropriations are adopted at the program line item level.

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

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

The following supplemental appropriations occurred during the year:

Contingent expenditures funded by unemployment insurance reserve	\$ 9,362
Contingent expenditures related to a legal settlement of a contract dispute funded by appropriated fund balance	17,628
Compensated absences payouts funded by employee benefit accrued liability reserve	57,743
Voter-approved transfer to the capital projects fund funded by appropriated capital reserves	<u>135,800</u>
	<u>\$ 220,533</u>

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

B. Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as reservations of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

C. Unreserved – Undesignated Fund Balance

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

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

D. Over Expenditure of Certain Appropriations

Certain general fund appropriations were over expended. These were in the following appropriation categories of the budget: central administration, teaching special school 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 unreserved deficit fund balance of \$51,105. 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.

5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

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

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

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

Investment pool:

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

Total investments of the cooperative as of year-end are \$627,607,829, which consisted of \$327,630,555 in repurchase collateralized agreements, \$244,977,274 in U.S. Treasury Securities, and \$100,000,000 in collateralized bank deposits.

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

The following amounts are included as unrestricted and restricted cash:

Fund	Carrying Amount
General Fund	\$ 649,443

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

6. PARTICIPATION IN BOCES

During the year ended June 30, 2010, the District was billed \$404,570 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$60,971. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

7. DUE FROM OTHER GOVERNMENTS

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

General Fund	
New York State aid - excess cost aid	\$ 22,438
New York State aid - ARRA education stabilization	31,925
MTA payroll tax reimbursement	16,406
BOCES aid	27,437
Town of Shelter Island	1,083
	99,289
Special Aid Fund	
State and federal grants	79,167
School Lunch Fund	
State and federal food service program reimbursements	1,507
Capital Projects Fund	
New York State EXCEL aid	87,960
	\$ 267,923

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

8. CAPITAL ASSETS

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

	Balance <u>June 30, 2009</u>	Additions	Reductions	Balance <u>June 30, 2010</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 25,200	\$	\$	\$ 25,200
Construction in progress	-	<u>57,250</u>		<u>57,250</u>
Total capital assets not being depreciated	<u>25,200</u>	<u>57,250</u>	-	<u>82,450</u>
Capital assets being depreciated				
Buildings and improvements	7,511,645	278,046		7,789,691
Site improvements	137,724			137,724
Furniture and equipment	<u>857,091</u>	<u>81,195</u>	<u>(3,708)</u>	<u>934,578</u>
Total capital assets being depreciated	<u>8,506,460</u>	<u>359,241</u>	<u>(3,708)</u>	<u>8,861,993</u>
Less accumulated depreciation for:				
Buildings and improvements	3,646,237	135,132		3,781,369
Site improvements	70,705	6,707		77,412
Furniture and equipment	<u>535,892</u>	<u>93,754</u>	<u>(3,708)</u>	<u>625,938</u>
Total accumulated depreciation	<u>4,252,834</u>	<u>235,593</u>	<u>(3,708)</u>	<u>4,484,719</u>
Total capital assets, being depreciated, net	<u>4,253,626</u>	<u>123,648</u>	-	<u>4,377,274</u>
Capital assets, net	<u>\$ 4,278,826</u>	<u>\$ 180,898</u>	<u>\$ -</u>	<u>\$ 4,459,724</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 8,944
Instruction	<u>226,649</u>
Total depreciation expense	<u>\$ 235,593</u>

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

9. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2010, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 209,475	\$ 1,224,982	\$ 152,700	\$ 204,875
Special Aid Fund		66,157	4,075	
School Lunch Fund		51,285	65,000	
Capital Projects Fund	1,224,982		135,800	152,700
Fiduciary Fund	16,093	108,126		
Total	<u>\$ 1,450,550</u>	<u>\$ 1,450,550</u>	<u>\$ 357,575</u>	<u>\$ 357,575</u>

The District typically transfers from the general fund to the special aid, school lunch and capital projects funds in accordance with the general fund budget. The transfers from the general fund in the amount of \$204,875 were as follows: the \$4,075 to the special aid fund represents the general fund's portion of summer handicapped expenditures, the \$65,000 represents the amount budgeted to support the school lunch program, and the \$135,800 transfer to the capital projects fund was approved by the voters and the Board to fund the playground project. The transfer from the capital projects fund to the general fund was for unspent capital reserve funds on completed projects.

10. SHORT-TERM DEBT

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

	Maturity	Interest Rate	Balance June 30, 2009	Issued	Redeemed	Balance June 30, 2010
TAN	6/25/2010	0.69%	<u>\$</u>	<u>\$ 1,700,000</u>	<u>\$ (1,700,000)</u>	<u>\$</u>

Interest on short-term debt for the year was \$7,494.

11. LONG-TERM LIABILITIES

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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 400,000	\$	\$ (200,000)	\$ 200,000	\$ 200,000
Installment purchase debt	85,638		(70,003)	15,635	15,635
Other long-term liabilities:					
Compensated absences	548,433	58,573	(53,755)	553,251	50,000
Workers' compensation	41,598		(4,782)	36,816	
	<u>\$ 1,075,669</u>	<u>\$ 58,573</u>	<u>\$ (328,540)</u>	<u>\$ 805,702</u>	<u>\$ 265,635</u>

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

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

Bonds payable are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2010
Serial bonds - construction	1991	2011	6.20%	<u>\$ 200,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	<u>\$ 200,000</u>	<u>\$ 6,200</u>	<u>\$ 206,200</u>

Installment purchase debt is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2010
Computers	9/10/07	10/10/10	6.94%	<u>\$ 15,635</u>

The following is a summary of installment purchase debt requirements:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	<u>\$ 15,635</u>	<u>\$ 181</u>	<u>\$ 15,816</u>

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

Interest paid	\$ 22,063
Less interest accrued in the prior year	(517)
Plus interest accrued in the current year	<u>517</u>
Total interest expense on long-term debt	<u>\$ 22,063</u>

12. PENSION PLANS

A. General Information

The District participates in the New York State Teachers' Retirement System (NYSTRS) and the New York State and Local Employees' Retirement System (NYSERS). These are cost-sharing multiple employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

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

B. Provisions and Administration

Teachers' Retirement System

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

Employees' Retirement System

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

C. Funding Policies

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

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

<u>Year</u>	<u>NYSTRS</u>	<u>NYSERS</u>
2010	\$ 248,991	\$ 84,950
2009	288,689	54,883
2008	310,625	79,461

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

13. POSTEMPLOYMENT 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. The District implemented GASB 45 prospectively in this transition year of implementation.

B. Funding Policy

The District assumes up to 50% of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as payments are made. For the year ended June 30, 2010, the District recognized a general fund expenditure of \$338,638 for insurance premiums for 28 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the “pay as you go” method.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution (ARC)	\$ 630,319
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	630,319
Contributions made	(338,638)
Increase in net OPEB obligation	291,681
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 291,681

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 630,319	53.7%	\$ 291,681

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

D. Funded Status and Funding Progress

As of December 31, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$7,631,003 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,631,003. The covered payroll (annual payroll of active employees covered by the plan) was \$5,082,679, and the ratio of the UAAL to the covered payroll was 150.1%.

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

E. Actuarial Methods and Assumptions

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

In the December 31, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after 6 years and a 4% inflation rate. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2010, was 29 years.

14. RISK MANAGEMENT

A. General Information

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

B. Public Entity Risk Pool - Risk Retained

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

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

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

The District's liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2010, as processed by the EEWCC, is \$36,816. Claims activity is summarized as follows:

	2009	2010
Claims at beginning of year	\$ 27,822	\$ 41,598
Incurred claims and claim adjustment expenses	19,313	
Claim payments and expenses	(5,537)	(4,782)
Claim liabilities at end of year	\$ 41,598	\$ 36,816

The EEWCC is holding \$322,690 of cash on account for the District to satisfy these liabilities at June 30, 2010.

The EEWCC has issued financial statements for the year ended June 30, 2010. 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, 2010.

15. FUND BALANCES

A. Unreserved – Designated for Subsequent Year's Expenditures

The amount of \$325,000 has been designated as the amount to be appropriated to reduce taxes for the year ending June 30, 2011.

B. Appropriated Reserves

The District has also elected to apply \$118,000 from the retirement contribution and unemployment reserves to relevant appropriations in the 2010-11 budget.

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

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

B. Litigation

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

C. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$6,896.

17. SUBSEQUENT EVENT

The District issued \$1,000,000 in tax anticipation notes on November 2, 2010, which mature on June 30, 2011, and have an effective interest rate of 0.59%.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 8,482,546	\$ 8,482,546	\$ 8,484,273	\$ 1,727
Other tax items	188,004	188,004	188,004	-
Charges for services			516	516
Use of money and property	20,000	20,000	12,963	(7,037)
Miscellaneous	20,000	20,000	88,647	68,647
Total Local Sources	8,710,550	8,710,550	8,774,403	63,853
State Sources	570,624	570,624	511,011	(59,613)
Federal Sources			106,414	106,414
Total Revenues	9,281,174	9,281,174	9,391,828	110,654
OTHER SOURCES				
Operating transfers in	-		152,700	152,700
Total Revenues and Other Sources	9,281,174	9,281,174	9,544,528	\$ 263,354

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
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 35,634	\$ 28,834	\$ 19,846	\$	\$ 8,988
Central administration	192,698	194,198	283,153		(88,955)
Finance	284,704	286,404	266,707	18,475	1,222
Staff	49,245	52,845	47,314		5,531
Central services	816,141	833,770	759,722	18,942	55,106
Special items	168,633	168,633	158,276		10,357
Total General Support	1,547,055	1,564,684	1,535,018	37,417	(7,751)
Instruction					
Instruction, administration & improvement	274,015	324,947	268,956		55,991
Teaching - regular school Programs for children	3,012,041	2,994,807	2,934,673		60,134
with handicapping conditions	1,055,396	1,055,396	533,604		521,792
Occupational education	124,311	124,311	92,149		32,162
Teaching - special school	21,653	21,653	22,301		(648)
Instructional media	274,725	276,760	197,443		79,317
Pupil services	594,270	601,082	578,901		22,181
Total Instruction	5,356,411	5,398,956	4,628,027	-	770,929
Pupil Transportation	414,950	414,950	326,783		88,167
Community Services	-	15,200	5,276		9,924
Employee Benefits	2,006,477	2,015,836	1,861,733		154,103
Debt Service					
Principal	200,000	200,000	270,003		(70,003)
Interest	63,600	63,600	29,557		34,043
Total Debt Service	263,600	263,600	299,560	-	(35,960)
Total Expenditures	9,588,493	9,673,226	8,656,397	37,417	979,412
OTHER USES					
Operating transfers out	75,000	210,800	204,875		5,925
Total Expenditures and Other Uses	9,663,493	9,884,026	8,861,272	\$ 37,417	\$ 985,337
Net Change in Fund Balances	(382,319)	(602,852)	683,256		
Fund Balances - Beginning of Year	382,319	602,852	1,733,481		
Fund Balances - End of Year	\$ -	\$ -	\$ 2,416,737		

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
Schedule of Funding Progress for Other Postemployment Benefits (OPEB)
For the Year Ended June 30, 2010

Valuation Date	Actuarial		Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
Date	Value of Assets	Accrued Liability	Liability	Ratio	Payroll	Payroll
December 31, 2008	\$ -	\$ 7,631,003	\$ 7,631,003	0%	\$ 5,082,679	150.1%

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
And Use of Unreserved Fund Balance - General Fund
For the Year Ended June 30, 2010

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$	9,530,697
Additions:		
Prior year's encumbrances		132,796
Original Budget		9,663,493
Budget revision		220,533
Final Budget	\$	9,884,026
Next year's budget is a voter-approved budget of	\$	9,547,979

USE OF UNRESERVED FUND BALANCE

Unreserved Fund Balance -		
As of the beginning of the year	\$	704,470
Less:		
Designated fund balance used for the levy of taxes - Adopted budget		249,523
Undesignated Fund Balance -		
As of the beginning of the year	\$	454,947

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund
For the Year Ended June 30, 2010

PROJECT TITLE	Budget		Expenditures		Unexpended Balance	Proceeds of Obligations	Methods of Financing		Fund Balance June 30, 2010
	June 30, 2009	June 30, 2010	Prior Years	Current Year			Total	State Aid	
General Fund Appropriations									
2008/09 Project F.I.T.	\$ 300,000	\$ 300,000	\$	\$ 11,510	\$ 11,510	\$	\$	\$ 300,000	\$ 288,490
Capital Reserve/EXCEL Projects									
2007/08 Renovation of Main Floor Bathroom / Boiler Project	302,960	302,960	249,372	31,051	280,423	22,537	87,960	215,000	22,537
2008/09 Boiler/Gym/Flooring	450,000	450,000	71,830	248,007	319,837	130,163		450,000	130,163
2008/09 Roof Project	925,000	925,000		41,858	41,858	883,142		925,000	883,142
2009/10 Playground Project		135,800		6,000	6,000	129,800		135,800	129,800
Totals	<u>\$ 1,977,960</u>	<u>\$ 2,113,760</u>	<u>\$ 321,202</u>	<u>\$ 338,426</u>	<u>\$ 659,628</u>	<u>\$ 1,454,132</u>	<u>\$ 87,960</u>	<u>\$ 2,025,800</u>	<u>\$ 2,113,760</u>
								Less transfer to general fund	<u>(152,700)</u>
								Total fund balance - capital projects fund	<u>\$ 1,301,432</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Certain Revenues and Expenditures
Compared to ST-3 Data
For the Year Ended June 30, 2010

	Code	ST-3 Amount	Audited Amount
REVENUES			
Real Property Taxes	A -1001	\$ 8,484,273	\$ 8,484,273
Non-Property Taxes	AT-1199	-	-
State Aid	AT-3999	511,011	511,011
Federal Aid	AT-4999	106,414	106,414
Total Revenues	AT-5999	9,544,528	9,544,528
EXPENDITURES			
General Support	AT-1999	1,535,018	1,535,018
Pupil Transportation	AT-5599	326,783	326,783
Debt Service - Principal	AT-9798.6	270,003	270,003
Debt Service - Interest	AT-9798.7	29,557	29,557
Total Expenditures	AT-9999	8,861,272	8,861,272

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Investment in Capital Assets, Net of Related Debt
For the Year Ended June 30, 2010

Capital assets, net	<u>\$ 4,459,724</u>
Deduct:	
Short-term portion of bonds payable	(200,000)
Short-term portion of installment purchase debt payable	<u>(15,635)</u>
	<u>(215,635)</u>
Investment in capital assets, net of related debt	<u><u>\$ 4,244,089</u></u>

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

To the Board of Education
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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shelter Island Union Free School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Shelter Island Union Free School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Shelter Island Union Free School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 10-1, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 06-02 to be a significant deficiency.

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 5, 2010.

Shelter Island Union Free School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Shelter Island Union Free School District's responses and, accordingly, we express no opinion on them.

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 5, 2010

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2010

FINANCIAL STATEMENTS FINDINGS

Material Weakness

10-1. Maintenance of Accounting Records

Condition: The District currently outsources the maintenance of its accounting records, annual closing of the books and preparation of the financial statements to a third party. It was determined that the District had this control in place during the year, however, it was not operating effectively.

Criteria: In order to exercise control over the maintenance of accounting records and the preparation of the financial statements, the District should be able to record transactions and journal entries in a timely and accurate manner throughout the year. It must be able to reconcile balances within the records to independent sources, i.e. bank reconciliations.

Effect: Because the control was not operating effectively, the financial statements as originally prepared and the District's books were materially misstated and required adjustment.

Recommendation: The District should work with its accounting service to ensure the completeness of its accounting records and control over its financial statement preparation.

Management's Response: The District is in the process of evaluating the Business Office functions to ensure the completeness of its accounting records and controls over the preparation of the financial statements.

Significant Deficiencies

06-2. Cash

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

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

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

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

Management's Response: The District is in the process of segregating these duties.



CULLEN & DANOWSKI, LLP
CERTIFIED PUBLIC ACCOUNTANTS

VINCENT D. CULLEN, CPA
JAMES E. DANOWSKI, CPA
PETER F. RODRIGUEZ, CPA
JILL S. SANDERS, CPA
DONALD J. HOFFMANN, CPA
CHRISTOPHER V. REINO, CPA
ALAN YU, CPA

November 5, 2010

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

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the fiduciary funds of the Shelter Island Union Free School District as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and may not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

MATERIAL WEAKNESS

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. We consider the following deficiencies in the District's internal control to be material weakness:

Maintenance of Accounting Records

The District is required to exercise control over the maintenance of its accounting records. The maintenance of its accounting records includes the:

- recording of adjusting journal entries during the year and at year end in order to close the books, and
- the reconciliation of balances within its books throughout the year, as well as at year end, to independent sources (i.e., bank reconciliations).

During the current year's audit, we noted that the District's accounting service did not exercise control over the maintenance of its records in certain specific areas. As a result, we recommended audit adjustments that the District accepted and recorded in the form of adjusting journal entries. It was also noted that the District did not prepare the annual financial statements.

We recommend that the District should review its Business Office function to ensure the completeness of its accounting records and control over its financial statement preparation.

SIGNIFICANT DEFICIENCY

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the District's internal control to be a significant deficiency:

Segregation of Duties - Cash

Segregation of duties is an integral part of a good internal control system within the management of cash. A good system would have different individuals involved in the process.

This year, as well as last year, we have observed that the individual who received the cash receipts was also the person who deposited the money monthly within the District's designated banks and recorded the cash receipts into the general ledger.

We recommend that the District evaluate ways to better segregate duties within the Business Office.

In addition, we noted other matters involving the internal control and its operation that we have reported to the Board of Education in a separate letter dated November 5, 2010.

We would like to express our appreciation for the fine cooperation and assistance that we received from the District's administration and other employees during our audit.

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

Very truly yours,

Cullen & Danowski, LLP
Cullen & Danowski, LLP



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ALAN YU, CPA

November 5, 2010

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

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Shelter Island Union Free School District (District) as of and for the year ended June 30, 2010, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. A separate report dated November 5, 2010, contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated November 5, 2010, on the financial statements of the Shelter Island Union Free School District.

The accompanying comments and recommendations are intended solely for the use and information of the Board of Education, Audit Committee, management, others you deem appropriate within the District, and any governmental authorities you need to share this information with. It is not intended for use by anyone other than these specified parties.

Very truly yours,

Cullen & Danowski, LLP
Cullen & Danowski, LLP

Comments from Prior Year Addressed by Management

Payroll

Substitute Pay Rates

Substitutes are paid at a daily rate based on qualifications, i.e., certified or non-certified teachers, as set by the Board of Education.

During our prior years' audits, we observed that some substitutes were paid at the higher certified teacher rate, but they were not certified teachers. For the 2008-2009 school year the certified rate was \$15 higher than the non-certified rate.

During the current year's audit, we noted that the District clarified its policy where now substitute teachers with a four year degree and/or teacher certification are paid at \$110 per day and substitutes without a four year degree or teacher certification are paid at \$95 a day.

Staff Attendance Records

Staff attendance records are maintained by personnel in order to track the accumulation of time for both payroll and professional purposes. These attendance records should reflect up-to-date and accurate accruals for unused compensated absences.

During the prior year's audit, we noted instances where attendance records were changed at year end, to reflect the correct number of personal days used. The District's policy mandates that staff can use personal days in excess of what they are allotted each year, as long as they are approved by the Superintendent. However, we noted that personal days used by some employees, in excess of what they were allotted during the 2008-2009 school year, were still pending approval by the Superintendent, and that the attendance records were still being adjusted.

During the current year's audit, we noted that the District has switched to a new system to maintain its attendance records. We noted that the system prevents employees from taking days in excess of what they are allotted by docking days used in excess of their accumulated unused sick time. It was also noted that the Superintendent is approving personal days in a timely manner.

Purchasing and Claims Payments

Confirming Purchase Orders and Authorizations for Purchases

The use of purchase orders (PO) by school districts when ordering goods or services ensures that the purchasing agent properly authorizes all commitments for the expenditure of funds and that the commitment is recorded for budgetary control purposes.

During the prior years' audits, we noted instances of confirming POs. These are POs prepared and approved after the goods or services have been received.

During the current year's audit, we did not note any such instances within our test sample.

Other Matters

Extraclassroom Activity Funds - General

The extraclassroom activity funds are the depository of student money. The New York State Education Department publishes the *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*. These guidelines recommend procedures for organizing these activities, controlling receipts and disbursements, as well as recording and reporting transactions.

During prior years' audits, we noted that the District appeared to have inactive extraclassroom activities.

During the current year's audit, we noted that the District transferred balances from inactive clubs in accordance with the District's policy.

COMMENTS FROM PRIOR YEAR STILL OPEN

Fund Balance and Budgeting

Undesignated Fund Balance - General Fund

NYS Real Property Tax Law §1318, restricts the unreserved, undesignated fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.

As of June 30, 2010, the District's unreserved undesignated fund balance exceeded 4% of the 2010-11 budget.

We recommend that the District carefully monitor its financial activity with regards to fund balance in order to comply with Section 1318 of the Real Property Tax Law.

Payroll

Salary Certification – Federal Grants

Charges to federal awards for salaries and wages, whether treated as direct or indirect costs, are based on payrolls documented in accordance with cost principles established by the Federal Office of Management and Budget (OMB) within its Circular A-87. These cost principles require after the fact certifications by individual employees as to time worked within cost objectives, i.e., Special Education Cluster, general fund budget, etc.

During our audit this year, as well as last year, we observed that charges to federal awards for salaries and wages were not supported by these certifications.

We recommend that the District ensure that these certifications are done on an on-going basis.

Purchasing and Claims Payments

Segregation of Duties – Accounts Payable

Segregation of duties is an integral part of a good internal control system, which includes the accounts payable function. It is through segregation of duties that checks and balances can be implemented to ensure the integrity and efficiency of the system.

During our audit this year, as well as last year, we observed that the individual who generates payments to vendors is also the person who can add vendors to the master vendor list. The inherent problem with this procedure is that it is possible to generate payments to unauthorized vendors without the knowledge of other Business Office personnel.

We understand that the District has other mitigating controls in this area; however, we recommend that the District evaluate ways to better segregate these responsibilities within the Business Office.

School Lunch Fund

School Lunch Fund - Deficit

The school lunch fund should be operated at a break-even or a modest profit.

During the past year, the school lunch fund generated a loss of \$7,536. This loss was after an interfund transfer of \$65,000 from the general fund. The current year's loss increased the accumulated school lunch fund deficit to \$48,156.

We recommend that the District monitor the profitability of the school lunch fund. Additionally, we recommend that the District take appropriate action to eliminate the accumulated deficit.

Computer Controls

Disaster Recovery Plan

A disaster recovery plan consists of the precautions taken so that the effects of a disaster will be minimized and the organization will be able to either maintain or quickly resume mission-critical functions.

During the current and prior year's audits, we observed that the District has developed a formal Disaster Recovery Plan, but has not tested the plan, or developed procedures to test the plan.

We recommend that the District develop procedures to test and document the Disaster Recovery Plan.

CURRENT YEAR COMMENTS

Computer Controls

Accounting Software

The District utilizes a financial accounting software package, Unifund, to maintain its books and records. This software is supported directly by the vendor. The District has designated an individual(s) as its information technology (IT) administrator.

The basic applications with this software package include recording cash receipts, processing payroll, encumbering purchase orders, producing accounts payable checks and recording adjusting journal entries. These transactions are all automatically posted to the District's general and subsidiary ledgers.

During the current year's audit, we observed the following:

- Budget transfers approved and processed by the Business Official are being reported incorrectly in the system as being approved by other employees.
- Reports that include employee social security numbers are not masking the numbers (e.g., XXX-XX-1234) potentially exposing this information to fraudulent use.
- Information from the prior year such as carried forward encumbrances are accounted for in a separate fund (AZ). It was noted that expenditures were posted to this fund in an inconsistent manner with the purpose of this fund resulting in the under/over reporting of expenditures for the general fund (AO) to the Board of Education.

We recommend that the District review and contact the vendor to make modifications to the system that will correct the above to comply with New York State reporting requirements.

Cash Management

Bank Reconciliations

At the end of every month, the bank accounts should be reconciled and any necessary adjustments should be made to the books. Reconciliation of cash accounts ensures that transactions have been properly recorded on the District's books. Generally, the differences between the District's balances and those of the bank are outstanding checks, deposits in transit, and bookkeeping adjustments.

During the current year's audit, we noted instances in which District personnel did not reconcile cash balances in its books to the balances per the bank during the course of the year, and that at year end bank reconciliations did not agree with the District's general ledger. We also noted that some of the outstanding checks on the bank reconciliation are checks that had been issued over a year ago.

We recommend that the District review all outstanding checks and make the appropriate adjustments. We also recommend that the District ensure that all general ledger cash accounts are reconciled to the bank reconciliations on a monthly basis.

Payroll

Payroll Tax Returns

The District is required to file Form 941 (Employer's Quarterly Federal Tax Return) within one month after the end of the quarterly tax period. The payroll on these returns should agree with the amount recorded in the salary codes within the District's expenditure ledger.

During the current year's audit, we noted that the District prepares its quarterly Form 941 based upon payroll reports generated by its accounting software. However, neither of the Form 941 nor the quarterly payroll reports are reconciled to the District's expenditure ledgers (i.e., salary codes) on a quarterly basis.

We recommend that the District reconcile either the 941 or the quarterly payroll reports to the expenditure ledger on a quarterly basis.

Other Matters

School Lunch Sales

The District uses a point of sale system for its school lunch program. The system provides information with regards to sales, as well as charged and prepaid lunches. The point of sales system is not integrated with the District's accounting software. Since the systems are not integrated entries are required to record the sales, charged and prepaid lunches in the accounting software.

During the current year's audit, we noted that the District does not reconcile the two systems on a periodic basis to ensure that amounts recorded in the accounting software agree to those in the point of sale system.

We recommend that the District reconcile these two systems on a periodic basis.

Extraclassroom Activity Funds

The extraclassroom activity funds are the depository of student money. The New York State Education Department publishes the *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*. These guidelines recommend procedures for organizing these activities, controlling receipts and disbursements, as well as recording and reporting transactions.

During the course of our audit, we observed the following:

- Some of the cash receipts were not supported by a receipt form, signed by an authorized supervisor and lack evidence of student involvement.
- Some of the cash disbursements did not reflect student involvement in the transaction.

We recommend that the District review with all involved personnel the guidelines publish by the New York State Education Department.