

FARMINGDALE UNION FREE SCHOOL DISTRICT
TOWNS OF OYSTER BAY AND BABYLON, NEW YORK
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
IN CONNECTION WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2012

FARMINGDALE UNION FREE SCHOOL DISTRICT
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Nawrocki Smith LLP

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

To the Board of Education of the
Farmingdale Union Free School District
Towns of Oyster Bay and Babylon, New York:

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Farmingdale Union Free School District (the "District"), as of and for the year ended June 30, 2012, 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 administration. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the administration, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund as well as the fiduciary funds of the Farmingdale Union Free School District, as of June 30, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Nawrocki Smith LLP

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Farmingdale Union Free School District's financial statements as a whole. The accompanying supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the New York State Education Department. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplemental information and the schedule of expenditures of federal awards are the responsibility of the administration and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Melville, New York
September 6, 2012

Nawrocki Smith LLP

FARMINGDALE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The following is a discussion and analysis of the Farmingdale Union Free School District's (the "District") financial performance for the fiscal year ended June 30, 2012. This section is a summary of the District's financial activities based on currently known facts, decisions or conditions. It is also based on both the District-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District showed an operating loss in the General Fund with expenditures exceeding revenues in the amount of \$405,943.
- The District has assigned \$7,500,000 of fund balance to reduce subsequent year's expenditures.
- In connection with the implementation of GASB Statement 45 regarding post-employment benefits other than pensions, the District obtained an actuarial valuation report which resulted in an identification of an unfunded actuarial accrued liability for such benefits of approximately \$215 million. It should be noted that New York State has not authorized a reserve that would allow school districts the ability to account for this liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide financial statements.
- The *fund financial statements* tell how basic services such as regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary fund financial statements* provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The financial statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Table A-1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Table A-1: Major Features of the District-Wide and Fund Financial Statements			
	District-Wide Financial Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities and Change in Net Position 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

District-Wide Financial Statements

The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

- Generally over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are shown as *governmental activities*; most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and State formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

- **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide financial statements, reconciliations of the District-wide and governmental fund financial statements are provided which explain the relationship (or differences) between them.

- Fiduciary funds: The District is the trustee or fiduciary, for assets that belong to others, such as the scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net position decreased by 4.7% as detailed in Tables A-2 and A-3. The District maintains a strong financial position with assets exceeding liabilities by \$51,959,611.

The restricted net position balance of \$29,522,529 represents the District's reserves for capital projects, debt service, employee benefit accrued liability, unemployment insurance, workers' compensation, insurance, and retirement contribution. These assets are restricted by external sources, imposed by laws through constitutional provisions or enabling legislation.

Long-term liabilities increased by \$5,769,662 or 10.1% from the year before, which is primarily related to the increase in the other post-employment benefits obligation liability in the amount of \$8,334,038 offset by a reduction in bonds payable of \$3,420,000.

	<u>6/30/11</u>	<u>6/30/12</u>	<u>% Change</u>
Current assets	\$ 63,136,319	\$ 64,702,682	2.5
Capital assets, net	<u>62,814,808</u>	<u>64,582,951</u>	2.8
Total assets	<u>\$ 125,951,127</u>	<u>\$ 129,285,633</u>	2.6
Current liabilities	\$ 14,521,370	\$ 14,669,248	1.0
Long-term liabilities	<u>56,887,112</u>	<u>62,656,774</u>	10.1
Total liabilities	<u>\$ 71,408,482</u>	<u>\$ 77,326,022</u>	8.3
Net position:			
Net investment in capital assets	\$ 39,098,808	\$ 43,200,951	10.5
Restricted	37,355,453	29,522,529	(21.0)
Unrestricted (deficit)	<u>(21,911,616)</u>	<u>(20,763,869)</u>	(5.2)
Total net position	<u>\$ 54,542,645</u>	<u>\$ 51,959,611</u>	(4.7)

Changes in Net Position

The District's fiscal year 2012 revenues totaled \$149,907,181 (See Table A-3). Real property taxes and State sources accounted for most of the District's revenue by contributing 63% and 17% respectively, of total revenue (See Table A-4). The remainder came from other tax items, fees charged for services, operating grants, use of money and property and other miscellaneous sources.

- Revenues from operating grants decreased by 13.3% due to the reduction in the financial support provided through IDEA ARRA funds.
- Revenues from miscellaneous sources increased by 283.3% due to partial settlements of construction litigation.
- Revenues from use of money and property decreased by 10.4% due to lower interest rates.

The District's fiscal year 2012 expenses totaled \$152,490,215 (See Table A-3). Of these expenses (85 percent) are predominantly related to general instruction and caring for and transporting students (See Table A-5).

- Revenues associated with the School Lunch Fund totaled \$1,842,412.
- The School Lunch Fund is a self-sustaining program which has generated a surplus of \$39,367.
- Debt service interest decreased due to the District refunding bonds at lower interest rates.

Table A-3: Changes in Net Position from Operating Results - Governmental Activities Only

	<u>6/30/11</u>	<u>6/30/12</u>	<u>% Change</u>
Revenues			
Program revenues:			
Charges for services	\$ 1,863,688	\$ 1,740,409	(6.6)
Operating grants	5,642,106	4,888,961	(13.3)
General revenues:			
Real property taxes	92,676,395	95,144,935	2.7
Other tax items	18,572,195	19,274,489	3.8
State sources	26,220,966	26,061,070	(0.6)
Use of money and property	247,191	221,402	(10.4)
Miscellaneous	672,054	2,575,915	283.3
Total revenues	<u>145,894,595</u>	<u>149,907,181</u>	2.8
Expenses			
General support	20,547,413	20,206,642	(1.7)
Instruction	121,709,622	122,250,299	0.4
Pupil transportation	7,179,755	7,311,385	1.8
Community services	6,975	6,975	-
Debt service - interest	1,108,670	911,869	(17.8)
School lunch program	1,993,788	1,803,045	(9.6)
Total expenses	<u>152,546,223</u>	<u>152,490,215</u>	(0.0)
Decrease in net position	<u>\$ (6,651,628)</u>	<u>\$ (2,583,034)</u>	(61.2)

Table A-4: Sources of Revenues for Fiscal Year 2012

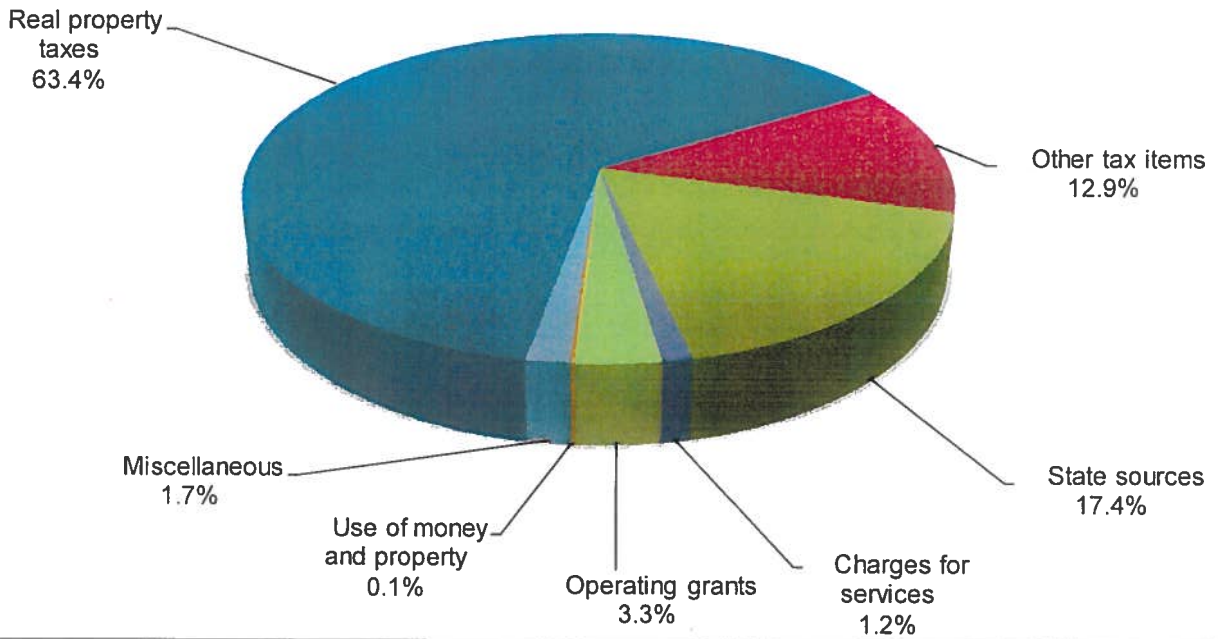
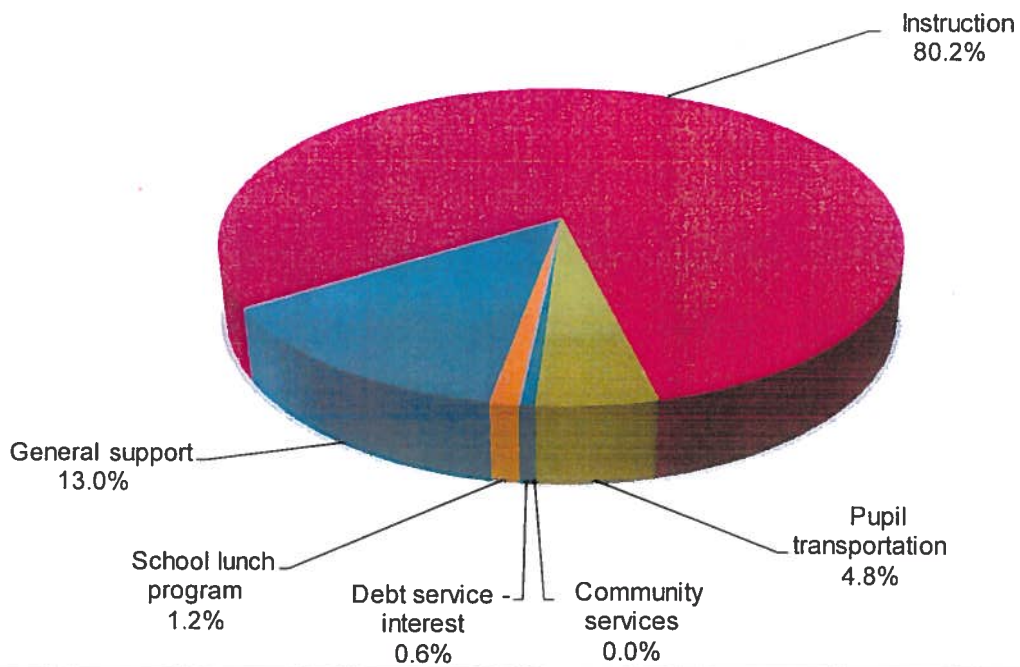


Table A-5: Expenses for Fiscal Year 2012



Governmental Activities

Revenues for the District's governmental activities totaled \$149,907,181 while total expenses were \$152,490,215. Therefore, the decrease in net position for governmental activities was \$2,583,034 in 2012. The District's financial condition can be credited largely to the implementation of GASB 45, which has proven to be so imprudent that the New York State legislature has not taken any action to actually provide a mechanism for school districts to reserve for this liability even if they chose to do so. Other factors include:

- Approval of the District's proposed annual budget;
- Federal and local economic conditions;
- Declining New York State revenue outlook; and
- Contractual and legislative mandated services.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

The District's fund financial statements show two significant variances in the General Fund. Due from other governments and other receivables increased by \$2,402,938 due to recognition of a receivable from BOCES and timing of cash receipts. Due to teachers' retirement system and employees' retirement system increased by \$1,282,720 due to current year rate increases.

No other significant variances are reflected in the governmental fund financial statements for fiscal 2012.

General Fund Budgetary Highlights

Reference is made to Supplemental Schedule 1 on page 40 which presents original and revised budget amounts, as well as actual results for the District's General Fund.

- The District proposed a budget to the community making Budget/Program adjustments to minimize program/tax impact while maintaining an adequate fund balance.
- Actual revenues were approximately \$2.8 million more than budget primarily due to higher than anticipated revenues from miscellaneous sources and State sources.
- Actual expenditures were approximately \$7.8 million less than budget primarily due to leave replacements, staff variations and related benefits and lower than anticipated debt service payments as a result of the current year bond refunding.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012, the District had invested \$64,582,951 net of depreciation, in a broad range of capital assets, including school buildings, maintenance facilities, athletic facilities, computer and audio-visual equipment, and administrative offices.

	<u>6/30/11</u>	<u>6/30/12</u>	<u>% Change</u>
Land	\$ 2,443,074	\$ 2,443,074	0.0
Construction-in-progress	711,460	4,553,173	540.0
Buildings and building improvements	56,993,568	55,059,810	(3.4)
Furniture and equipment	2,666,706	2,526,894	(5.2)
Totals	<u>\$ 62,814,808</u>	<u>\$ 64,582,951</u>	2.8

- The District is currently undergoing a District-wide window replacement project which is reflected in Construction-in-progress.

Long-Term Debt

At year-end, the District had \$65,971,331 in general obligation bonds and other long-term debt.

	<u>6/30/11</u>	<u>6/30/12</u>	<u>% Change</u>
Bonds payable	\$ 23,230,000	\$ 19,885,000	(14.4)
Bond issue premium	486,000	1,497,000	208.0
Workers' compensation claims payable	2,998,012	1,438,153	(52.0)
Other post-employment benefits	30,208,459	38,542,497	27.6
Compensated absences	4,341,487	4,608,681	6.2
Totals	<u>\$ 61,263,958</u>	<u>\$ 65,971,331</u>	7.7

FACTORS BEARING ON THE FUTURE OF DISTRICT

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The national economy continues to have a negative impact on almost all municipal budgets. New York State and local budgets have been particularly affected. That is expected to continue for a number of years.
- Contract negotiations with collective bargaining units have been favorable to the District as unions have agreed to multiyear deals which include minimal salary increases along with freezes in the step schedules.

- Health insurance rates for January 2012 increased by 2.7%, significantly less than the original projected 13% by the New York State Health Insurance Plan in early 2011.
- Significant increases in the cost of contributions to the retirement systems continue to place a greater burden on the District's finances. The New York State Comptroller has announced that the employer contribution rate for the State's Retirement System will be higher in 2013. Although contributions to the State Retirement Systems are one of the exemptions to the "Tax Levy Limitation Law", the design of the law limits exclusions for local municipalities.
- Chapter 97 of the 2001 Laws of New York will limit the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation effective for the 2012-13 fiscal year. The laws do allow for certain statutory adjustments to this cap and it will remain in effect until at least the 2015-16 fiscal year. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit however, that budget must be approved by 60% of the votes cast.
- A Nassau County Local Law was recently passed whereby the liability for a school district property tax deficiency existing or arising from a decrease in real property assessments or taxes that is due a taxpayer (tax certiorari judgments) will become that of the school district rather than Nassau County as it is currently. This legislation will take effect for the 2012-13 fiscal year enabling school districts to accrue for this liability to be paid in the 2013-14 school year however, this law is currently being challenged.
- Future budgets being approved by the voters of the District.
- GASB Statement 45 provides standards for the recognition and reporting of post-employment expenditures and liabilities in the District-wide financial statements. Currently, the District accounts for retiree health benefits on a pay-as-you-go basis. The implementation of the provisions of GASB Statement 45 has had a negative impact on the Districts' Net Position. It should be noted that New York State has not provided a reserve that would allow school districts the ability to account for this liability.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Farmingdale Union Free School District
 District Offices
 Attn: Assistant Superintendent of Business
 50 Van Cott Avenue
 Farmingdale, NY 11735
 (516) 752-6506

FARMINGDALE UNION FREE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2012

ASSETS

Current assets:	
Cash:	
Unrestricted	\$ 22,907,856
Restricted	29,584,352
Receivables:	
State and federal aid	5,853,426
Due from other governments	4,044,031
Other receivables	1,759,533
Prepaid expenditures	150,349
Other assets	360,713
Inventories	<u>42,422</u>
Total current assets	64,702,682
Noncurrent assets:	
Capital assets, net of accumulated depreciation of \$48,899,730	<u>64,582,951</u>
Total assets	<u><u>\$ 129,285,633</u></u>

LIABILITIES

Current liabilities:	
Payables:	
Accounts payable	\$ 1,891,715
Accrued interest payable	392,053
Accrued liabilities	642,715
Due to fiduciary funds	1,662
Due to other governments	2,323
Other liabilities	697,216
Long-term liabilities, due within one year:	
Bonds payable	2,355,000
Bond issue premium	172,333
Due to teachers' retirement system	6,980,885
Due to employees' retirement system	746,122
Workers' compensation claims payable	628,263
Compensated absences	<u>158,961</u>
Total current liabilities	14,669,248
Noncurrent liabilities:	
Long-term liabilities, due after one year:	
Bonds payable	17,530,000
Bond issue premium	1,324,667
Workers' compensation claims payable	809,890
Compensated absences	4,449,720
Other post-employment benefits	<u>38,542,497</u>
Total noncurrent liabilities	62,656,774
Total liabilities	<u><u>77,326,022</u></u>

NET POSITION

Net investment in capital assets	43,200,951
Restricted	29,522,529
Unrestricted (deficit)	<u>(20,763,869)</u>
Total net position	51,959,611
Total liabilities and net position	<u><u>\$ 129,285,633</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants</u>		<u>Net (Expense) Revenue and Change in Net Position</u>
Functions and programs:					
General support	\$ 20,206,642	\$ 74,270	\$ 571,597		\$ (19,560,775)
Instruction	122,250,299	449,334	3,458,167		(118,342,798)
Pupil transportation	7,311,385	26,873	206,822		(7,077,690)
Community services	6,975	-	-		(6,975)
Debt service - interest	911,869	-	-		(911,869)
School lunch program	1,803,045	1,189,932	652,375		39,262
Total functions and programs	<u>\$ 152,490,215</u>	<u>\$ 1,740,409</u>	<u>\$ 4,888,961</u>		<u>(145,860,845)</u>
General revenues:					
Real property taxes				95,144,935	
Other tax items				19,274,489	
Use of money and property				221,402	
State sources				26,061,070	
Miscellaneous				<u>2,575,915</u>	
Total general revenues				<u>143,277,811</u>	
Change in net position					(2,583,034)
Total net position, beginning of year					<u>54,542,645</u>
Total net position, end of year					<u>\$ 51,959,611</u>

The accompanying notes to financial statements are an integral part of this statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash:					
Unrestricted	\$ 19,497,832	-	\$ 862,565	\$ 2,547,459	\$ 22,907,856
Restricted	29,522,529	61,823	-	-	29,584,352
Receivables:					
State and federal aid	1,237,239	4,567,561	48,626	-	5,853,426
Due from other funds	5,023,415	-	-	4,704,344	9,727,759
Due from other governments	4,039,730	-	4,301	-	4,044,031
Other receivables	1,759,233	-	300	-	1,759,533
Prepaid expenditures	150,349	-	-	-	150,349
Other assets	360,713	-	-	-	360,713
Inventories	-	-	42,422	-	42,422
Total assets	<u>\$ 61,591,040</u>	<u>\$ 4,629,384</u>	<u>\$ 958,214</u>	<u>\$ 7,251,803</u>	<u>\$ 74,430,441</u>
LIABILITIES					
Payables:					
Accounts payable	\$ 1,196,622	\$ 200,435	\$ 10,160	\$ 484,498	\$ 1,891,715
Accrued liabilities	639,611	3,104	-	-	642,715
Due to other funds	4,704,344	4,420,051	603,364	-	9,727,759
Due to fiduciary funds	1,662	-	-	-	1,662
Due to other governments	2,323	-	-	-	2,323
Due to teachers' retirement system	6,980,885	-	-	-	6,980,885
Due to employees' retirement system	746,122	-	-	-	746,122
Deferred revenues	1,586,916	5,794	24,965	-	1,617,675
Workers' compensation claims payable	628,263	-	-	-	628,263
Compensated absences	158,961	-	-	-	158,961
Total liabilities	<u>16,645,709</u>	<u>4,629,384</u>	<u>638,489</u>	<u>484,498</u>	<u>22,398,080</u>
FUND BALANCE					
Fund balance:					
Nonspendable	150,349	-	42,422	-	192,771
Restricted	29,522,529	-	-	-	29,522,529
Assigned	9,249,767	-	277,303	6,767,305	16,294,375
Unassigned	6,022,686	-	-	-	6,022,686
Total fund balance	<u>44,945,331</u>	<u>-</u>	<u>319,725</u>	<u>6,767,305</u>	<u>52,032,361</u>
Total liabilities and fund balance	<u>\$ 61,591,040</u>	<u>\$ 4,629,384</u>	<u>\$ 958,214</u>	<u>\$ 7,251,803</u>	<u>\$ 74,430,441</u>

The accompanying notes to financial statements are an integral part of this statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2012

Total Fund Balance - Governmental Funds \$ 52,032,361

Amounts reported for governmental activities in the Statement of Net Position are different due to the following:

Capital assets less accumulated depreciation are included in the Statement of Net Position:

Capital assets:		
Non-depreciable	\$ 6,996,247	
Depreciable	106,486,434	
Accumulated depreciation	<u>(48,899,730)</u>	64,582,951

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported in the governmental fund financial statements. However, these liabilities are included in the Statement of Net Position:

Bonds payable, inclusive of premiums, net of bond issuance costs	(21,382,000)	
Workers' compensation claims payable	(809,890)	
Other post-employment benefits	(38,542,497)	
Compensated absences	<u>(4,449,720)</u>	(65,184,107)

Because some revenues will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds. 920,459

Interest payable applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported in the governmental fund financial statements. However, these liabilities are included in the Statement of Net Position. (392,053)

Net Position - Governmental Activities \$ 51,959,611

The accompanying notes to financial statements are an integral part of this statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$ 95,144,935	\$ -	-	\$ -	\$ 95,144,935
Other tax items	19,274,489	-	-	-	19,274,489
Charges for services	550,477	-	-	-	550,477
Use of money and property	221,297	-	105	-	221,402
State sources	25,140,611	1,198,091	38,660	-	26,377,362
Federal sources	-	2,836,336	613,715	-	3,450,051
Local sources	-	202,159	-	-	202,159
Sales	-	-	1,189,932	-	1,189,932
Miscellaneous	2,521,915	-	-	-	2,521,915
Total revenues	142,853,724	4,236,586	1,842,412	-	148,932,722
EXPENDITURES					
General support	15,768,670	-	-	-	15,768,670
Instruction	80,196,838	4,151,306	-	-	84,348,144
Pupil transportation	7,101,199	-	-	-	7,101,199
Community services	6,975	-	-	-	6,975
Employee benefits	31,917,217	262,531	156,814	-	32,336,562
Debt service -					
Principal	2,280,000	-	-	-	2,280,000
Interest	853,838	-	-	-	853,838
Cost of sales	-	-	1,646,231	-	1,646,231
Capital outlay	-	-	-	3,841,713	3,841,713
Total expenditures	138,124,737	4,413,837	1,803,045	3,841,713	148,183,332
Excess (deficiency) of revenues over (under) expenditures	4,728,987	(177,251)	39,367	(3,841,713)	749,390
OTHER FINANCING SOURCES (USES)					
Proceeds of refunding bonds	10,060,000	-	-	-	10,060,000
Premium on bond issuance	1,065,000	-	-	-	1,065,000
Payment to refunded bond escrow agent	(11,125,000)	-	-	-	(11,125,000)
Operating transfers in	-	177,251	-	4,957,679	5,134,930
Operating transfers out	(5,134,930)	-	-	-	(5,134,930)
Total other financing sources (uses)	(5,134,930)	177,251	-	4,957,679	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(405,943)	-	39,367	1,115,966	749,390
Fund balance, beginning of year	45,351,274	-	280,358	5,651,339	51,282,971
Fund balance, end of year	\$ 44,945,331	\$ -	\$ 319,725	\$ 6,767,305	\$ 52,032,361

The accompanying notes to financial statements are an integral part of this statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Net Change in Fund Balance - Governmental Funds \$ 749,390

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:

Capital outlay	\$ 4,186,550	
Depreciation expense	<u>(2,418,407)</u>	1,768,143

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.

Proceeds from issuance of refunding bond	(10,060,000)	
Premium on bond issuance	(1,065,000)	
Amortization of premium on issuance of bonds	54,000	
Repayment of bond principal	<u>13,405,000</u>	2,334,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Other post-employment benefits	(8,334,038)	
Workers' compensation claims payable	1,566,464	
Compensated absences	(1,529,421)	
Accrued interest costs	<u>(58,031)</u>	(8,355,026)

Revenues in the Statement of Activities that do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds:

Deferred State sources		<u>920,459</u>
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Net Change in Net Position - Governmental Activities \$ (2,583,034)

The accompanying notes to financial statements are an integral part of this statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Permanent Trust</u>	<u>Scholarship Trusts</u>	<u>Agency Funds</u>
ASSETS			
Cash:			
Unrestricted	\$ -	\$ -	\$ 180,733
Restricted	-	124,237	206,823
Investments	21,033	-	-
Due from governmental funds	-	-	1,662
Total assets	<u>\$ 21,033</u>	<u>\$ 124,237</u>	<u>\$ 389,218</u>
LIABILITIES			
Extraclassroom activity balances	\$ -	\$ -	\$ 206,823
Other liabilities	-	-	182,395
Total liabilities	<u>-</u>	<u>-</u>	<u>\$ 389,218</u>
NET POSITION			
Restricted:			
Endowment scholarships	<u>21,033</u>	<u>124,237</u>	
Total net position	<u>21,033</u>	<u>124,237</u>	
Total liabilities and net position	<u>\$ 21,033</u>	<u>\$ 124,237</u>	

The accompanying notes to financial statements are an
integral part of this statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Permanent Trust	Scholarship Trusts
ADDITIONS		
Contributions	\$ -	\$ 5,865
Unrealized gain	1,616	-
Transfer from Permanent Trust	-	1,000
Investment earnings:		
Interest	1,010	267
Total additions	<u>2,626</u>	<u>7,132</u>
DEDUCTIONS		
Scholarships and awards	-	14,850
Transfer to Scholarship Trusts	<u>1,000</u>	<u>-</u>
Total deductions	<u>1,000</u>	<u>14,850</u>
Change in net position	1,626	(7,718)
Net position, beginning of year	<u>19,407</u>	<u>131,955</u>
Net position, end of year	<u><u>\$ 21,033</u></u>	<u><u>\$ 124,237</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Farmingdale Union Free School District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the District are described below:

A. Reporting entity

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

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, The Financial Reporting Entity, as amended by GASB Statement 39, 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, the following is a brief description of certain entities included in the District's reporting entity:

1. Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found elsewhere in this report. The District accounts for assets held as an agent for various student organizations in an agency fund.

B. Joint venture

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

BOCES are organized under Section 1950 of the New York State Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section 1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (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 New York State General Municipal Law.

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

During the year, the District was billed \$10,979,350 for BOCES administrative and program costs.

The District's share of BOCES aid amounted to \$1,168,398.

Financial statements for the BOCES are available from the BOCES administrative office at Nassau BOCES 71, Clinton Road, PO Box 9195, Garden City, NY 11530.

C. Basis of presentation

1. District-wide financial statements

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

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

2. 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 funds, each displayed in a separate column.

The District reports the following major governmental funds:

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

Special Revenue Funds: These funds account for the proceeds of specific revenue sources, such as federal and State grants, that are legally restricted to expenditures for specified purposes, child nutrition and school store operations or other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

Capital Projects Funds: These funds are used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

Fiduciary Funds

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

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

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

D. Measurement focus and basis of accounting

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

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within a reasonable period of time after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

E. Property taxes

Real property taxes, for the Town of Oyster Bay residents are levied annually by the Board of Education during September and become a lien on October 1st and April 1st. This portion of the District's tax levy is collected by the Town of Oyster Bay and remitted to the District.

Uncollected real property taxes have been enforced by the County in which the District is located. Nassau County has paid an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following April 1st. With respect to assessment rolls that are finalized in April 2012 and thereafter, the District will now be responsible to pay the costs of judgments, cancellations or credits of taxes for tax revenue received by the District (see Note 11 for further details).

Real property taxes, for the Town of Babylon residents, are levied annually by the Board of Education no later than November 1st and become a lien on December 1st. This portion of the District's tax levy is collected by the Town of Babylon along with the respective Town and Suffolk County levies. These tax collections are remitted to the District and Town Comptrollers until their respective tax levies are satisfied in accordance with the Suffolk County Tax Act. All subsequent tax collections are remitted by the Town to Suffolk County which in turn is responsible for any uncollected taxes.

F. Restricted resources

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

G. Interfund transactions

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

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

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

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

H. Estimates

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

I. Cash and investments

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

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

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Investments are stated at fair value.

J. Accounts receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

K. Inventories and prepaid items

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

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

Fund balance is assigned for these non-liquid assets (inventories and prepaid items) to signify that a portion of fund balance is not available for other subsequent expenditures.

L. Other assets/restricted assets

Certain proceeds from serial bonds and bond anticipation notes, as well as resources set aside for their repayment are classified as restricted assets in the District-wide financial statements as their use is limited by applicable bond covenants.

In the District-wide financial statements, bond issuance costs are capitalized and amortized over the life of the debt issue. In the fund financial statements, these same costs are netted against bond proceeds and recognized in the period of issuance.

M. Capital assets

Capital assets are reported at actual cost for acquisitions subsequent to June 30, 1975. For assets acquired prior to June 30, 1975, estimated historical costs, based on appraisals conducted by independent third-party professionals were used. Donated assets are reported at estimated fair market value at the time received.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and building improvements	\$ 50,000	Straight line	50 years
Site improvements	\$ 25,000	Straight line	20 years
Furniture and equipment	\$ 500	Straight line	5-20 years

Certain infrastructure capital assets are accounted for using the modified approach permitted for eligible assets under GASB Statement 34. The modified approach requires that an asset management system be established which assures that an expenditure amount sufficient to preserve the assets in good condition for proper and efficient functioning is budgeted each year in lieu of depreciation. Accordingly, all expenditures made for those assets, other than additions and improvements that increase capacity or efficiency, are charged to expense in the period incurred instead of calculating depreciation. The District is required to conduct a condition assessment of these assets at least once every three years.

N. Deferred revenues

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

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

O. Vested employee benefits - compensated absences

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

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

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

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

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

P. Other benefits

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

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits to retired employees and their survivors in accordance with the provisions of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

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 RAN's and TAN's represent a liability that will be extinguished by the use of expendable, available resources of the fund.

The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which there is an insufficient or no provision made in the annual budget. The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued.

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 BAN's issued for capital purposes be converted to long-term financing within five years after the original issue date. The District did not have any short-term debt outstanding at June 30, 2012.

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, other post-employment benefits and compensated absences that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

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

S. Equity classifications

District-wide financial statements

In the District-wide financial statements there are three classes of net position:

Net investment in capital assets: 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: Consists of restricted assets reduced by liabilities and deferred items of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

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

Fund financial statements

In the fund financial statements there are five classifications of fund balance:

1. Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes the prepaid expenditures recorded in the General Fund of \$150,349 and the inventory recorded in the School Lunch Fund of \$42,422.
2. Restricted - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balance. The District has established the following restricted fund balances:

Capital

According to Education Law §3651, such amounts must be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term and the source of the funds. Expenditures 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.

Debt Service

According to General Municipal Law §6-l, the Mandatory Reserve for Debt Service must be established for the purpose of retiring the outstanding obligations upon the sale of school district property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of school district property or capital improvement.

Employee Benefit Accrued Liability

According to General Municipal Law §6-p, such amounts must be used for the payment of accrued employee benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated.

Unemployment Insurance

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

Workers' Compensation

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

Insurance

According to General Municipal Law §6-n, such amounts must be used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accidental, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action, and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval.

Retirement Contribution

According to General Municipal Law §6-r, such amounts must be used for 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.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as either assigned or restricted fund balance in all funds other than the General Fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

Restricted fund balance includes the following:

General Fund:	
Capital	\$ 3,859,050
Debt Service	1,497,000
Employee Benefit Accrued Liability	4,201,041
Unemployment Insurance	601,236
Workers' Compensation	4,043,839
Insurance	8,097,479
Retirement Contribution	<u>7,222,884</u>
Total restricted funds	<u>\$ 29,522,529</u>

3. Committed - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority, i.e., the Board of Education. The District has no committed fund balances as of June 30, 2012.

4. Assigned - Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Amounts appropriated for the subsequent year totaling \$7,500,000 and encumbrances of the General Fund totaling \$1,749,767 and in the School Lunch Fund totaling \$277,303 are classified as assigned fund balance.
5. Unassigned - Includes all other General Fund net position that do not meet the definition of the above four classifications and are deemed to be available for general use by the District.

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the school district's budget for the General Fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation.

Order of use of fund balance

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as assigned or restricted fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND FINANCIAL STATEMENTS AND DISTRICT-WIDE FINANCIAL STATEMENTS

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

A. Total fund balances of governmental funds vs. net position of governmental activities

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

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

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

1. Long-term revenue/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.

2. Capital related differences

Capital related differences include the difference between proceeds from the sale of capital assets reported on fund financial 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 financial statements and depreciation expense on those items as recorded in the Statement of Activities.

3. Long-term debt transaction differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund financial statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted:

The voters of the District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) 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 are 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:

Refunding of bonds payable	\$ 11,125,000
Planned use of specific reserves	4,920,640
Summer school tuition	55,640
Other student fees	<u>2,122</u>
	<u>\$ 16,103,402</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 fund 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.

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 assignments or restrictions 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.

4. CASH (AND CASH EQUIVALENTS), CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE AND FOREIGN CURRENCY RISKS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. While the District does not have a specific policy for custodial credit risk, New York State statutes govern the District's investment policies, as discussed previously in these Notes. The District's aggregate bank balances disclosed in the financial statements, included balances not covered by depository insurance at year-end, collateralized as follows:

Uncollateralized	\$ -
Collateralized with securities held by the pledging financial institutions, in the District's name	\$59,445,457

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes \$29,584,352 in the governmental funds and \$331,060 in the fiduciary funds.

5. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 2,443,074	\$ -	\$ -	\$ 2,443,074
Construction-in-progress	711,460	3,841,713	-	4,553,173
Total nondepreciable assets	<u>3,154,534</u>	<u>3,841,713</u>	<u>-</u>	<u>6,996,247</u>
Capital assets that are depreciated:				
Buildings and building improvements	96,687,868	-	-	96,687,868
Furniture and equipment	9,520,569	344,837	(66,840)	9,798,566
Total depreciable assets	<u>106,208,437</u>	<u>344,837</u>	<u>(66,840)</u>	<u>106,486,434</u>
Less accumulated depreciation:				
Buildings and building improvements	39,694,300	1,933,758	-	41,628,058
Furniture and equipment	6,853,863	484,649	(66,840)	7,271,672
Total accumulated depreciation	<u>46,548,163</u>	<u>2,418,407</u>	<u>(66,840)</u>	<u>48,899,730</u>
Total capital assets, net	<u>\$ 62,814,808</u>	<u>\$ 1,768,143</u>	<u>\$ -</u>	<u>\$ 64,582,951</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 253,334
Instruction	1,835,346
Pupil transportation	329,727
	<u>\$ 2,418,407</u>

6. LONG-TERM DEBT OBLIGATIONS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Bonds payable	\$ 23,230,000	\$ 10,060,000	\$ 13,405,000	\$ 19,885,000	\$ 2,355,000
Bond issue premium	486,000	1,065,000	54,000	1,497,000	172,333
Workers' compensation claims payable	2,998,012	2,153,273	3,713,132	1,438,153	628,263
Other post-employment benefits	30,208,459	15,104,138	6,770,100	38,542,497	-
Compensated absences	4,341,487	1,688,382	1,421,188	4,608,681	158,961
Total long-term liabilities	<u>\$ 61,263,958</u>	<u>\$ 30,070,793</u>	<u>\$ 25,363,420</u>	<u>\$ 65,971,331</u>	<u>\$ 3,314,557</u>

On March 15, 2012, the District refinanced its outstanding 2002 Serial Bonds of \$4,085,000 and 2003 Serial Bonds of \$7,040,000 with new 2012 Refunding Serial Bonds of \$10,060,000, issued at a range of 2.00% to 5.00%. The new bonds were issued at a premium of \$1,065,000, which is presented as bond issue premium. The premium will be amortized over the life of the 2012 Refunding Serial Bonds beginning fiscal year ending June 30, 2013.

The following is a summary of the maturity of long-term indebtedness:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding at 6/30/12
Serial bonds	9/15/2003	9/15/2020	3.50 - 4.50%	\$ 720,000
Refunding Serial bonds	4/6/2010	7/15/2020	1.50 - 5.00%	9,105,000
Refunding Serial bonds	3/15/2012	9/15/2020	2.00 - 5.00%	<u>10,060,000</u>
				<u>\$ 19,885,000</u>

The following is a summary of maturing debt service requirements:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,355,000	\$ 774,438	\$ 3,129,438
2014	2,375,000	693,725	3,068,725
2015	2,485,000	606,913	3,091,913
2016	2,595,000	502,856	3,097,856
2017	1,845,000	408,325	2,253,325
2018-2021	<u>8,230,000</u>	<u>770,825</u>	<u>9,000,825</u>
	<u>\$ 19,885,000</u>	<u>\$ 3,757,082</u>	<u>\$ 23,642,082</u>

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

Interest paid	\$ 853,838
Less interest accrued in the prior year	(334,022)
Plus interest accrued in the current year	<u>392,053</u>
Interest paid	<u>\$ 911,869</u>

7. PENSION PLANS

The District participates in the New York State Employees' Retirement System ("NYSERS") and the New York State Teachers' Retirement System ("NYSTRS"). These are cost-sharing multiple employer public employee retirement systems (collectively, the "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.

The New York State Teachers' Retirement Board administers the NYSTRS. The NYSTRS 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 NYSTRS. The report may be obtained by writing to NYSTRS, Office of the State Comptroller, 10 Corporate Woods Drive, Albany, New York 12211-2395.

The NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute, and benefits to employees. The NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Office of the State Comptroller, 110 State Street, Albany, New York 12244.

The Systems are noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in NYSERS contribute 3% of their salary throughout their active membership and those in NYSTRS contribute 3.5% throughout their active membership. For NYSERS, the New York State Comptroller certifies the rates expressed as proportions of members' payroll annually, which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

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

<u>Year</u>	<u>NYSTRS</u>	<u>NYSERS</u>
2012	\$ 6,648,772	\$ 2,715,595
2011	5,858,529	1,757,891
2010	3,805,313	1,236,399

8. INTERFUND TRANSACTIONS - GOVERNMENTAL FUNDS

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenues</u>	<u>Expenditures</u>
General Fund	\$ 5,023,415	\$ 4,706,006	\$ -	\$ 5,134,930
Special Aid Fund	-	4,420,051	177,251	-
School Lunch Fund	-	603,364	-	-
Capital Projects Fund	4,704,344	-	4,957,679	-
Fiduciary Funds	1,662	-	-	-
Totals	\$ 9,729,421	\$ 9,729,421	\$ 5,134,930	\$ 5,134,930

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Position.

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

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

9. **OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Plan description and annual OPEB cost

The District provides post-employment (health insurance, life insurance etc.) coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District's contractual agreements.

GASB Statement 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions, requires the District to calculate and record a net other post-employment benefit obligation at year-end. The net other post-employment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

Currently, 625 retired employees receive health benefits from the District. The District pays 80% to 100% coverage for retired employees in accordance with the terms of the applicable contract prior to attaining the age of retirement.

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the fund financial statements as payments are made. For the year ended June 30, 2012, the District recognized \$6,770,100 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of July 1, 2011 which indicates that the total liability for other post-employment benefits is \$214,805,100 (\$97,811,725 related to retirees and \$116,993,375 related to employees).

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

	<u>For the Year Ended June 30, 2012</u>
Annual required contribution	\$ 14,902,700
Interest on net OPEB obligation	1,208,338
Adjustment to annual required contribution	<u>(1,006,900)</u>
Annual OPEB cost	15,104,138
Contributions made	<u>6,770,100</u>
Increase in net OPEB obligation	8,334,038
Net OPEB obligation, beginning of year	<u>30,208,459</u>
Net OPEB obligation, end of year	<u><u>\$ 38,542,497</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/10	\$16,883,889	34.8%	\$22,423,788
06/30/11	\$13,940,152	44.2%	\$30,208,459
06/30/12	\$15,104,138	44.8%	\$38,542,497

Funded status and funding progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$214,805,100 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$214,805,100. The covered payroll (annual payroll of active employees covered by the plan) was \$74,407,050, and the ratio of the UAAL to the covered payroll was 288.7%. Actuarial valuations of an ongoing plan involve 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 schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions

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

In the July 1, 2011 actuarial valuation, the projected unit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10.5% initially, reduced by decrements to an ultimate rate of 5% after 75 years. Both rates included a 7.5% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was 26 years.

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

The District has chosen to establish a risk financing fund for risks associated with workers' compensation, which is accounted for in the District's General Fund and includes provisions for unexpected and unusual claims.

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

Claims activity is summarized below:

	<u>Beginning Balance</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
Incurred but not reported for the fiscal years ended June 30:				
2011	\$ 2,493,967	\$ 6,004,651	\$ 5,500,606	\$ 2,998,012
2012	2,998,012	2,153,273	3,713,132	1,438,153

There have been no significant reductions in insurance coverage as compared to the prior year, and there were no settlements in excess of coverage over the last three years.

The District has not purchased any annuity contracts.

11. CONTINGENCIES AND COMMITMENTS

Government 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 years' experience, the District's administration believes disallowances, if any, would be immaterial.

Tax certiorari

On October 29, 2010, the Nassau County Legislature repealed the "County Guarantee" provision of the Nassau County Administrative Code which required the County to pay the costs of judgments, cancellations or credits of taxes for tax revenue received by towns, special districts and school districts. The effective date of such legislature shall be with respect to assessment rolls that are finalized in April 2012 and thereafter. As such, the District will now be responsible for the costs of judgments, cancellations or credits of taxes for tax revenue. Tax certiorari proceedings shall now be reflected in the District's financial statements at such time amounts can reasonably be determined by court decisions, judgments or other variables. There were no material liabilities determined as of June 30, 2012. While the extent of the District's prospective obligation cannot be determined at this time, this legislation will have a negative impact on future operating results of the District.

Property tax cap

In June 2011, subsequent to the adoption of the 2011-2012 District budget but prior to the adoption of the 2012-2013 budget, New York State Legislature enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions. For fiscal years beginning in 2012 through at least June 15, 2016, growth in the property tax levy (the total amount to be raised through property taxes charged on a municipality's taxable assessed value of property) will be capped at 2 percent or the rate of inflation (but not less than 1 percent), whichever is less, with some exceptions. Local governments can exceed the tax levy limit by 60% vote of the governing body, or by local law.

12. NEW ACCOUNTING STANDARDS

GASB has issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- A. Financial Accounting Standards Board ("FASB") Statements and Interpretations
- B. Accounting Principles Board Opinions
- C. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures

The District adopted the provisions of this Statement during the year ended June 30, 2012.

GASB has issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District adopted the provisions of this Statement during the year ended June 30, 2012.

GASB has issued Statement No. 66, Technical Corrections (effective for periods beginning after December 15, 2012), which resolves conflicting guidance that resulted from the issuance of two recent pronouncements; GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The District is currently studying the Statement and plans on adoption when required, which will be for the June 30, 2014 financial statements.

GASB has issued Statement No. 68, Accounting and Reporting for Pension Plans, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The District is currently studying the Statement and plans on adoption when required, which will be for the June 30, 2015 financial statements.

13. SUBSEQUENT EVENTS

The District has evaluated subsequent events occurring after the Statement of Net Position through the date of September 6, 2012 which is the date the financial statements were available to be issued and no significant events were determined to be disclosed.

FARMINGDALE UNION FREE SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Adopted Budget	Final Budget	Actual	Year-end Encumbrances	Variance Favorable (Unfavorable)
REVENUES					
Local sources:					
Real property taxes	\$ 95,030,679	\$ 95,030,679	\$ 95,144,935		\$ 114,256
Other tax items	19,035,603	19,035,603	19,274,489		238,886
Charges for services	385,000	442,762	550,477		107,715
Use of money and property	365,000	365,000	221,297		(143,703)
Miscellaneous	415,000	415,000	2,521,915		2,106,915
Total local sources	115,231,282	115,289,044	117,713,113		2,424,069
State sources	24,701,429	24,701,429	25,140,611		439,182
Federal sources	25,000	25,000	-		(25,000)
Total revenues	139,957,711	140,015,473	142,853,724		2,838,251
OTHER FINANCING SOURCES					
Premium on bond issuance	-	1,065,000	1,065,000		-
Proceeds of refunding bonds	-	10,060,000	10,060,000		-
Appropriated reserves	-	880,576	-		(880,576)
Total revenues and other financing sources	139,957,711	152,021,049	153,978,724		1,957,675
EXPENDITURES					
General support:					
Board of Education	90,826	92,347	80,414	\$ -	11,933
Central administration	390,590	401,202	393,534	-	7,668
Finance	1,156,449	1,236,769	1,092,632	58,000	86,137
Staff	1,154,639	1,238,234	1,117,825	1,900	118,509
Central services	12,696,664	14,213,883	11,406,149	1,253,763	1,553,971
Special items	1,848,500	1,853,100	1,678,116	-	174,984
Total general support	17,337,668	19,035,535	15,768,670	1,313,663	1,953,202
Instruction:					
Instruction, administration and improvement	7,130,280	7,584,702	7,314,353	30,297	240,052
Teaching - regular school	43,755,618	43,883,550	41,547,773	317,484	2,018,293
Programs for children with handicapping conditions	21,150,776	21,376,416	20,797,462	-	578,954
Teaching - special school	230,686	289,674	253,412	29	36,233
Instructional media	3,247,364	4,016,350	3,640,643	87,912	287,795
Pupil services	6,872,351	6,956,820	6,643,195	382	313,243
Total instruction	82,387,075	84,107,512	80,196,838	436,104	3,474,570
Pupil transportation	7,991,400	8,000,921	7,101,199	-	899,722
Community services	8,000	8,000	6,975	-	1,025
Employee benefits	35,483,468	32,133,442	31,917,217	-	216,225
Debt service:					
Principal	2,226,000	3,345,000	2,280,000	-	1,065,000
Interest	1,094,100	1,048,600	853,838	-	194,762
Total expenditures	146,527,711	147,679,010	138,124,737	1,749,767	7,804,506
OTHER FINANCING USES					
Payment to refunded bond escrow agent	-	11,125,000	11,125,000	-	-
Operating transfers out	430,000	5,137,679	5,134,930	-	2,749
Total expenditures and other financing uses	430,000	163,941,689	154,384,667	\$ 1,749,767	7,807,255
Net change in fund balance	(7,000,000)	(11,920,640)	(405,943)		\$ 9,764,930
Fund balance, beginning of year	45,351,274	45,351,274	45,351,274		
Fund balance, end of year	\$ 38,351,274	\$ 33,430,634	\$ 44,945,331		

The accompanying notes to financial statements should be
read in conjunction with this schedule.

FARMINGDALE UNION FREE SCHOOL DISTRICT
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET
AND USE OF UNASSIGNED FUND BALANCE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Change from adopted budget to revised budget:

Adopted budget	\$ 146,957,711
Add:	
Prior year's encumbrances	880,576
Original budget	147,838,287
Budget revisions:	
Refunding of bonds payable	11,125,000
Planned use of specific reserves	4,920,640
Summer school tuition	55,640
Donations	2,122
Revised budget	\$ 163,941,689
Next year's budget is a voter-approved budget	\$ 150,567,160

Use of unassigned fund balance:

Unassigned fund balance, beginning of year	\$ 12,666,199
Less:	
Assigned fund balance used for levy of taxes - adopted budget	7,000,000
Unassigned fund balance, beginning of year	\$ 5,666,199

read in conjunction with this schedule.

FARMINGDALE UNION FREE SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES AND FINANCING SOURCES - CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2012

Project Title	Expenditures					Methods of Financing				Fund Balance June 30, 2012	
	Original Appropriation	Revised Appropriation	Prior Years	Current Year	Total	Unexpended Balance	Proceeds of Obligations	State Aid	Local Sources		Total
High School Windows	\$ 2,200,000	\$ 3,794,466	\$ 223,636	\$ 3,381,106	\$ 3,604,742	\$ 189,724	\$ -	\$ 3,875	\$ 3,790,591	\$ 3,794,466	\$ 189,724
High School Stadium Lights	305,608	306,839	-	291,497	291,497	15,342	-	-	306,839	306,839	15,342
Howitt East Window/Curtain Replacement	938,415	938,415	-	24,522	24,522	913,893	-	-	938,415	938,415	913,893
Howitt West Window/Curtain Replacement	2,397,974	2,397,974	-	64,650	64,650	2,333,324	-	-	2,397,974	2,397,974	2,333,324
Saltzman EM Window/Curtain Replacement	1,401,027	1,401,027	-	40,555	40,555	1,360,472	-	-	1,401,027	1,401,027	1,360,472
Albany Ave. Window/Curtain Replacement	1,389,577	1,389,577	-	39,383	39,383	1,350,194	-	-	1,389,577	1,389,577	1,350,194
Unassigned	-	604,356	-	-	-	604,356	-	-	604,356	604,356	604,356
Totals	\$ 8,632,601	\$ 10,832,654	\$ 223,636	\$ 3,841,713	\$ 4,065,349	\$ 6,767,305	\$ -	\$ 3,875	\$ 10,828,779	\$ 10,832,654	\$ 6,767,305

The accompanying notes to financial statements should be read in conjunction with this schedule.

FARMINGDALE UNION FREE SCHOOL DISTRICT
SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES
COMPARED TO ST-3 DATA - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Real property taxes	A-1001	\$ 95,144,935	\$ 95,144,935
Non-property taxes	AT-1199	19,274,489	19,274,489
State aid	AT-3999	25,140,611	25,140,611
Federal aid	AT-4999	-	-
Total revenues	AT-5999	153,978,724	153,978,724
EXPENDITURES			
General support	AT-1999	15,768,670	15,768,670
Pupil transportation	AT-5599	7,101,199	7,101,199
Debt service - principal	AT-9798.6	2,280,000	2,280,000
Debt service - interest	AT-9798.7	853,838	853,838
Total expenditures	AT-9999	154,384,667	154,384,667

The accompanying notes to financial statements should be
read in conjunction with this schedule.

SUPPLEMENTAL
SCHEDULE 5

FARMINGDALE UNION FREE SCHOOL DISTRICT
NET INVESTMENT IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

Capital assets, net		\$ 64,582,951
Deduct:		
Short-term portion bond issue premium	\$ 172,333	
Long-term portion bond issue premium	1,324,667	
Short-term portion of bonds payable	2,355,000	
Long-term portion of bonds payable	<u>17,530,000</u>	<u>21,382,000</u>
Net investment in capital assets		<u>\$ 43,200,951</u>

The accompanying notes to financial statements should be
read in conjunction with this schedule.

FARMINGDALE UNION FREE SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
FOR THE YEAR ENDED JUNE 30, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)- Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/08	\$ -	\$ 181,498,100	\$ 181,498,100	0%	\$ 72,347,797	250.9%
07/01/09	-	189,113,100	189,113,100	0%	76,867,900	246.0%
07/01/10	-	205,362,000	205,362,000	0%	78,970,731	260.0%
07/01/11	-	214,805,100	214,805,100	0%	74,407,050	288.7%

The accompanying notes to financial statements should be read in conjunction with this schedule.

FARMINGDALE UNION FREE SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS
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Nawrocki Smith LLP
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON EXTRACLASSROOM
ACTIVITY FUNDS FINANCIAL STATEMENTS**

To the Board of Education of the
Farmingdale Union Free School District
Towns of Oyster Bay and Babylon, New York:

We have audited the accompanying statements of cash receipts and disbursements of the Extraclassroom Activity Funds of the Farmingdale Union Free School District (the "District") for the year ended June 30, 2012. These financial statements are the responsibility of the District's administration. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements of cash receipts and disbursements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements of cash receipts and disbursements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall presentation of the statements of cash receipts and disbursements. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements have been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the statements of cash receipts and disbursements referred to above present fairly, in all material respects, the cash receipts and disbursements of the Extraclassroom Activity Funds of the Farmingdale Union Free School District for the year ended June 30, 2012, on the basis of accounting described in Note 1.

Melville, New York
September 6, 2012

Nawrocki Smith LLP

FARMINGDALE UNION FREE SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balances July 1, 2011	Receipts	Disbursements	Cash Balances June 30, 2012
High School:				
Ambassadors Club	\$ 48.31	\$ 2,389.70	\$ 2,369.56	\$ 68.45
Art Honor Society Club	633.35	262.00	227.65	667.70
Art Photo Developing Club	41.46	-	-	41.46
ASL Honor Society Club	341.42	2,156.19	2,482.26	15.35
Auto Tech Club	3,757.08	2,296.98	2,201.83	3,852.23
Bridging the Gap	3,028.25	1,357.74	2,798.20	1,587.79
Business Honor Society Club	664.82	560.00	284.74	940.08
Carpentry Club	447.45	250.00	354.43	343.02
Catering Club	5,340.79	685.00	179.39	5,846.40
Child Lab Study Program	-	6,328.00	3,996.56	2,331.44
Class of 2011	951.58	-	886.58	65.00
Class of 2012	2,906.53	31,250.00	33,944.44	212.09
Class of 2013	263.90	54,579.00	50,458.57	4,384.33
Class of 2014	287.83	640.00	755.13	172.70
Class of 2015	-	1,589.87	315.78	1,274.09
Daler Press Club	2,438.85	555.00	446.06	2,547.79
DECA	19,144.24	13,415.48	17,519.02	15,040.70
Field Trips	-	15,977.20	15,977.07	0.13
French Honor Society Club	770.68	690.00	180.00	1,280.68
Go Green Club	76.61	566.85	544.21	99.25
Green and White Shop	2,000.85	61,288.00	57,968.19	5,320.66
Hi-Life	22,717.51	62,312.80	71,488.93	13,541.38
History Club	738.15	-	231.39	506.76
Interact Club	2,012.17	1,206.83	3,006.76	212.24
Italian Honor Society Club	405.50	7,693.35	6,621.93	1,476.92
Key Club	1,282.98	5,096.59	4,515.09	1,864.48
Life Skills Club	615.79	2,270.57	793.97	2,092.39
Literary Magazine Club	1,225.50	438.00	175.66	1,487.84
MSG Varsity	-	2,000.00	-	2,000.00
Music-Band	12,328.16	49,076.00	52,561.18	8,842.98
Music-Chorus	4,798.54	727.53	765.00	4,761.07
Music-Orchestra	1,640.69	6,559.00	7,813.09	386.60
Music-Symphonic Band	442.19	2,978.00	3,063.70	356.49
Music-Tri-M	1,270.93	6,242.25	6,363.85	1,149.33
National Honor Society	2,052.84	3,942.00	2,798.01	3,196.83
Olympics of the Visual Arts	51.35	632.61	679.78	4.18
PAGE Program Club	240.33	667.53	771.07	136.79
Paper Lion	8,881.58	2,357.88	1,153.39	10,086.07
Playcrafters	10,228.71	10,690.27	7,974.81	12,944.17
SADD	216.26	270.00	377.34	108.92
Sales Tax	-	9,163.64	8,816.87	346.77
School Beautification Club	11,950.71	7,376.28	9,099.92	10,227.07
Science Club	3,363.30	-	624.13	2,739.17
Shared Decision Making	1,922.78	-	200.00	1,722.78
Spanish Honor Society Club	1,982.05	5,486.26	4,843.12	2,625.19
Student Government Association	669.99	7,002.38	4,677.48	2,994.89
Student Guidance Club	711.11	883.00	907.75	686.36
Student Sports Activity Council	10,719.86	35,088.24	34,130.51	11,677.59
Technology Honor Society Club	7,333.03	1,297.39	2,910.86	5,719.56
Varsity Leaders Club	39.67	-	-	39.67
	<u>\$ 152,985.68</u>	<u>\$ 428,295.41</u>	<u>\$ 431,255.26</u>	<u>\$ 150,025.83</u>

The accompanying note is an integral
part of this financial statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
(continued)
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balances July 1, 2011	Receipts	Disbursements	Cash Balances June 30, 2012
Middle School:				
Ambassadors Club	\$ -	\$ 224.50	\$ 146.85	\$ 77.65
American Sign Language Club	8.47	2,500.15	2,292.15	216.47
Bridging the Gap Foundation	9,683.73	9,727.83	9,315.63	10,095.93
Early Act Club	764.81	-	764.81	-
Field Trips-6th Grade	-	33,892.01	33,892.01	-
Field Trips-7th Grade	-	10,562.00	10,562.00	-
Field Trips-8th Grade	-	9,249.23	9,249.23	-
Football Booster	122.02	-	122.02	-
Friends Shared Decision Making	3,266.59	450.00	890.61	2,825.98
Home & Careers Entrep. Prog	2,427.67	8.85	2,436.52	-
Honor Society Club	-	1,658.10	1,657.10	1.00
Howitt Players Club	9,524.80	18,888.73	13,503.81	14,909.72
Junior Tech. Honor Society Club	0.10	540.00	369.45	170.65
Lions Den	408.45	5,726.50	4,347.94	1,787.01
LOTE Club	1,531.02	-	1,531.02	-
New Yorkers Club	23.00	-	23.00	-
Newsday Future Corps Club	57.30	350.00	361.66	45.64
Olympics of Visual Arts Club	-	3,763.60	3,763.60	-
Photo Club	-	658.36	658.36	-
Sales Tax	-	4,665.09	3,561.78	1,103.31
Student Government	900.43	18,389.46	17,864.26	1,425.63
Team 85 Charity Fundraiser	732.07	9,999.91	9,526.98	1,205.00
Wellness Center	2,807.16	15,702.30	14,894.50	3,614.96
Wildlife Warriors Club	583.85	1,167.60	897.86	853.59
Yearbook	-	5,500.00	3,367.23	2,132.77
	<u>\$ 32,841.47</u>	<u>\$ 153,624.22</u>	<u>\$ 146,000.38</u>	<u>\$ 40,465.31</u>

The accompanying note is an integral
part of this financial statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
(continued)
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balances July 1, 2011	Receipts	Disbursements	Cash Balances June 30, 2012
Elementary Schools:				
<u>Albany Avenue</u>				
Kindergarten	\$ -	\$ 3,033.50	\$ 2,138.50	\$ 895.00
Bridging the Gap	6,955.48	3,891.94	6,878.96	3,968.46
Grade 1	-	3,129.36	3,129.36	-
Grade 2	-	11,086.00	11,086.00	-
Grade 3	-	6,836.00	6,836.00	-
Grade 4	-	13,712.00	13,712.00	-
Grade 5	-	15,807.10	15,807.10	-
TOTAL ALBANY AVENUE	6,955.48	57,495.90	59,587.92	4,863.46
<u>Saltzman Memorial</u>				
Bridging the Gap	1,963.50	1,614.28	1,070.77	2,507.01
Field Trips	-	16,915.77	16,915.77	-
Horizons	-	2,636.28	2,636.28	-
TOTAL SALTZMAN MEMORIAL	1,963.50	21,166.33	20,622.82	2,507.01
<u>Woodward Parkway</u>				
Bridging the Gap	8,043.06	11,034.13	11,420.28	7,656.91
Student Council	14.54	1,083.81	1,098.35	-
TOTAL WOODWARD PARKWAY	8,057.60	12,117.94	12,518.63	7,656.91
<u>North Side</u>				
Field Trips	-	23,936.25	23,343.88	592.37
Bridging the Gap	1,439.97	-	728.25	711.72
TOTAL NORTH SIDE	1,439.97	23,936.25	24,072.13	1,304.09
	\$ 18,416.55	\$ 114,716.42	\$ 116,801.50	\$ 16,331.47

The accompanying note is an integral
part of this financial statement.

FARMINGDALE UNION FREE SCHOOL DISTRICT
EXTRAClassroom Activity Funds
NOTE TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The transactions of the Extraclassroom Activity Funds are considered part of the reporting entity of the Farmingdale Union Free School District.

The accounts of the Extraclassroom Activity Funds of the District are maintained on a cash basis, and the statements of cash receipts and disbursements reflect only cash received and disbursed. Therefore, receivables and payables, inventories, long-lived assets, and accrued income and expenses, which would be recognized under accounting principles generally accepted in the United State of America, and which may be material in amount, are not recognized in the accompanying financial statements.

FARMINGDALE UNION FREE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass - Through Grantor/ Program Title/Cluster Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Total Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Surplus Food	10.550	N/A	\$ 54,756
Passed - Through New York State Office of General Services			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	60,723
National School Lunch Program	10.555	N/A	<u>498,236</u>
			<u>613,715</u>
<u>U.S. Department of Education</u>			
Passed - Through New York State Department of Education			
Special Education Cluster:			
IDEA, Part B, Section 611, Special Education Grants to States	84.027A	0032-12-0471	1,300,878
IDEA, Section 611 - ARRA, Special Education Grants to States	84.391A	5032-11-0471	12,180
IDEA, Part B, Section 619, Special Education Preschool Grants	84.173A	0033-12-0471	<u>108,548</u>
			1,421,606
ESEA, Title I, Part A, Grants to Local Educational Agencies	84.010A	0021-11-1715	7,425
ESEA, Title I, Part A, Grants to Local Educational Agencies	84.010A	0021-12-1715	194,668
ESEA, Title I, School Improvement Grant	84.010	0011-12-2166	2,094
Career and Technical Education - Basic Grants to States	84.048	8000-12-0091	27,548
ESEA, Title II, Part A, Improving Teacher Quality State Grants	84.367A	0147-12-1715	187,608
English Language Acquisition Grants	84.365	0149-11-1715	15,629
ESEA, Title III, Part A, English Language Acquisition Grants	84.365A	0293-12-1715	45,381
Education Jobs Fund, ARRA	84.410	5400-12-1715	<u>934,377</u>
			<u>2,836,336</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 3,450,051</u>

The accompanying notes should be read
in conjunction with this schedule.

FARMINGDALE UNION FREE SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs administered by the Farmingdale Union Free School District (the "District"), an entity as defined in Note 1 to the District's financial statements. Federal awards received directly from federal agencies, as well as federal awards passed-through from other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. Basis of Accounting

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the financial statements.

3. Indirect Costs

Indirect costs may be included in the reported expenditures to the extent they are included in the federal financial reports used as the source of the data presented.

4. Matching Costs

Matching costs (i.e. the District's share of certain program costs) are not included in the reported expenditures.

5. Major Program Determination

The District has determined that all federal programs with expenditures of \$300,000 or more are Type A Programs for purposes of determining Major Programs.



Nawrocki Smith LLP

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S 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 of the
Farmingdale Union Free School District
Towns of Oyster Bay and Babylon, New York:

We have audited the financial statements of the governmental activities, each major fund and the fiduciary funds of the Farmingdale Union Free School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The administration of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Nawrocki Smith LLP

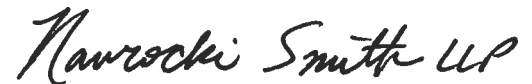
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported in the Findings and Recommendations section of this report.

This report is intended solely for the information and use of the Board of Education, Audit Committee, administration, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Melville, New York
September 6, 2012





Nawrocki Smith LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education of the
Farmingdale Union Free School District
Towns of Oyster Bay and Babylon, New York:

Compliance

We have audited the Farmingdale Union Free School District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's administration. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Nawrocki Smith LLP

Internal Control Over Compliance

The administration of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Education, Audit Committee, administration, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Melville, New York
September 6, 2012



FARMINGDALE UNION FREE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

A. Summary Of Auditor's Results:

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance were disclosed during the audit of the financial statements.
4. No significant deficiencies or material weaknesses were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs that are required to be reported in accordance with section 510(a) of OMB Circular A-133, were disclosed during the audit.
7. The programs tested as a major program included:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
	<u>U.S. Department of Agriculture-</u>
10.553	School Breakfast Program
10.555	National School Lunch Program
	<u>U.S. Department of Education-</u>
84.027A	IDEA, Part B, Section 611, Special Education Grants to States
84.173A	IDEA, Part B, Section 619, Special Education Preschool Grants
84.391A	IDEA, Section 611 - ARRA, Special Education Grants to States
84.410	Education Jobs Fund, ARRA

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Auditee was determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

None reported.

C. Findings And Questioned Costs - Major Federal Award Programs Audit

None reported.

FARMINGDALE UNION FREE SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Findings - Financial Statement Audit

None reported.

Findings And Questioned Costs - Major Federal Award Programs Audit

None reported.

FARMINGDALE UNION FREE SCHOOL DISTRICT
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012

This section presents our findings and recommendations resulting from the audit of the financial statements of the Farmingdale Union Free School District as of and for the year ended June 30, 2012, as well as the status of recommendations made in connection with prior audits of the financial statements.

CURRENT YEAR RECOMMENDATION:

1. **User Permissions - overrides**

During our review of the Finance Manager accounting system ("Finance Manager"), we noted that there were three employees with override permissions that do not have a dollar limitation threshold with respect to the cash disbursements cycle. These situations increase the risk that employees may be able to access Finance Manager and that certain transactions are being overridden without an administrator's approval.

We recommend that the District establish dollar limitation thresholds, with respect to the aforementioned three employees, on all override permissions in Finance Manager. In this manner, internal control over cash disbursements may be enhanced.

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. **Recommendation** - We recommended that the District adopt a "Whistle Blower" policy.

Status - We noted that this recommendation was implemented.

2. **Recommendation** - We recommended that the District develop policies and procedures to include the following:

- Ensuring all vendors are appropriately screened and approved before being added to the system.
- Requiring all appropriate vendor information to be captured and approved before payments may be made.
- Performing periodic reviews of the vendor database to ensure consistency and appropriateness of stored data.
- Periodically reviewing any changes or deletions to vendor data listed in the existing vendor master file.
- Limiting the amount of time a vendor can remain in an "Active" status but not be used.

Status - We noted that this recommendation was implemented.

3. **Recommendation** - We recommended that the District establish policies and procedures to ensure that employees not receiving payments are properly identified as inactive, on leave or retired within the payroll system.

Status - We noted that this recommendation has not been implemented. The District has indicated that it has adequate internal controls in place to prevent any intentional or unintentional payments to inactive employees and believes the cost outweighs the benefit of implementing this recommendation.

4. Recommendation - We recommended that the District perform a detailed review of all fund balance reserve accounts and develop policies and procedures to comply with all New York State requirements with respect to separate bank accounts, interest allocations and balances to reserve funds.

Status - We noted that this recommendation has not been implemented. The District currently tracks the balances of the reserve funds, allocates interest to them and earmarks "restricted cash" for these reserved monies and believes the cost outweighs the benefit of implementing this recommendation.

5. Recommendation - We recommended that the District properly tag all capital assets with the appropriate serial numbers to ensure that all District assets are accounted for.

Status - We noted that this recommendation has been implemented.