

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis,  
Financial Statements  
and Supplemental Information  
June 30, 2012  
(With Independent Auditors' Report Thereon)

# SACHEM CENTRAL SCHOOL DISTRICT

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## INDEPENDENT AUDITORS' REPORT

The Board of Education  
Sachem Central School District  
Lake Ronkonkoma, New York:

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Sachem Central 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 management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the Sachem Central 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 October 3, 2012 on our consideration of the Sachem Central School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3 through 16 and 52 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Toski & Co., CPAs, P.C.

Williamsville, New York  
October 3, 2012

## SACHEM CENTRAL SCHOOL DISTRICT

### Management's Discussion and Analysis

June 30, 2012

The following is a discussion and analysis of the Sachem Central School District's (the District) financial performance for the fiscal year ended June 30, 2012. This section is a summary of the school 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 was able to appropriate \$17.6 million to reduce 2012-2013 taxes. The District was able to do this by under-spending the budget and utilizing reserves.

On March 11, 2008, the community approved an EXCEL project for \$33.1 million to improve and repair almost every building in the District. As of June 30, 2012, we are 99% complete and under budget approximately \$2.8 million due to bid pricing that was lower than anticipated, and savings associated with hiring District employees to perform work at costs lower than hiring outside contractors.

The Board of Education and community continue to be updated monthly on District finances by providing monthly analysis of expenditures and encumbrances. This information can also be found on the District website [www.sachem.edu](http://www.sachem.edu). We are one of the few school districts which put the external audit and management letter on the website.

The \$16 million Energy Performance contract was awarded to Johnson Controls. We are upgrading all buildings with the new Building Management System, lighting upgrades, and solar panels at no cost to the community. This project is 97% complete.

Due to continued maintenance of the District's AA+ credit rating we were able to borrow to meet our cash flow needs at very favorable rates. However, Standard & Poor's has put Sachem Schools on credit watch due to the use of reserves to lower 2011-2012 and 2012-2013 taxes.

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

**OVERVIEW OF THE FINANCIAL STATEMENTS**

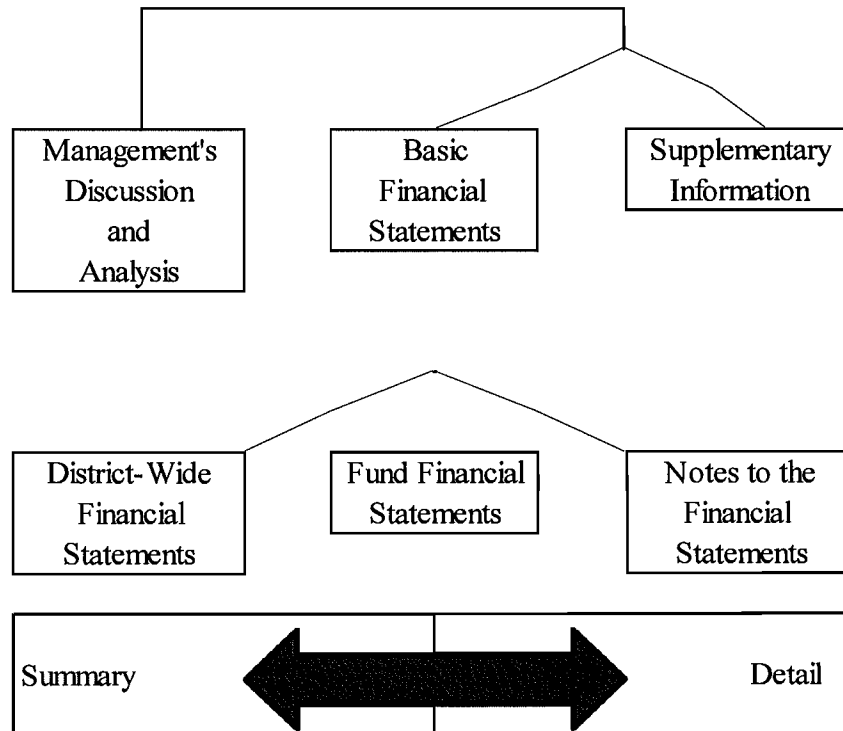
This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- 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 operations in more detail than the District-wide statements.
- The governmental fund statements tell how basic services such as instruction and support functions were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of District.

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

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

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





**SACHEM CENTRAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis, Continued**

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

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

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

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

(a) District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets (deficit) 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 statements report the District's net assets and how they have changed. Net assets, the difference between the assets and liabilities, is one way to measure the financial health or position of the District.

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

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

District-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the statement of net assets:

- Capitalize current outlays for capital assets;
- Report long-term debt as a liability;
- Depreciate capital assets and allocate the depreciation to the proper program/activities;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting; and

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

(a) District-wide Statements, Continued

- Allocate net asset balances as follows:
  - Investment in capital assets, net of related debt;
  - Restricted net assets are those with constraints placed on the use by external sources (creditors, grantors, contributors or laws or regulations of governments) or approved by law through constitutional provisions or enabling legislation such as debt service;
  - Unrestricted net assets are net assets that do not meet any of the above restrictions.

(b) Fund Financial Statements

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

The District has two kinds of funds:

- Governmental funds: Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship (or differences) between them. In summary, the government fund statements focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general fund, special revenue funds, debt service fund and capital projects fund. Required statements are the balance sheet and the statement of revenue, expenditures, and changes in fund balance.
- Fiduciary funds: The District is the trustee or fiduciary for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net assets and changes in net assets. This report should be used to support the District's own programs and is developed using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans.

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

(a) Net Assets (Deficit)

The District's net assets (deficit) increased \$35,625,492 in the fiscal year ended June 30, 2012 from \$(23,142,491) to \$(58,767,983) primarily due to an increase in other postemployment benefits and retirement system liabilities.

Table A-3 - Condensed Statement of Net Assets (Deficit) - Governmental Activities

	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	Increase (Decrease)	Percentage Change
Current assets and other assets	\$ 51,943,492	74,078,543	(22,135,051)	-30%
Capital assets, net	<u>235,921,529</u>	<u>237,370,315</u>	<u>(1,448,786)</u>	-1%
Total assets	\$ <u>287,865,021</u>	<u>311,448,858</u>	<u>(23,583,837)</u>	-8%
Current liabilities	48,556,512	58,327,583	(9,771,071)	-17%
Long-term liabilities	<u>298,076,492</u>	<u>276,263,766</u>	<u>21,812,726</u>	8%
Total liabilities	<u>346,633,004</u>	<u>334,591,349</u>	<u>12,041,655</u>	4%
Net assets (deficit):				
Investment in capital assets, net of related debt,	22,201,276	22,695,653	(494,337)	-2%
Restricted	6,093,298	8,579,777	(2,486,479)	-29%
Unrestricted	<u>(87,062,557)</u>	<u>(54,417,921)</u>	<u>(32,644,636)</u>	60%
Total net assets (deficit)	<u>(58,767,983)</u>	<u>(23,142,491)</u>	<u>(35,625,492)</u>	154%
Total liabilities and net assets (deficit)	\$ <u>287,865,021</u>	<u>311,448,858</u>	<u>(23,583,837)</u>	-8%

Investments in capital assets, net of related debt, relates to the investment in capital assets at cost such as land, construction in progress, buildings and improvements, and furniture and equipment, net of depreciation and related debt. This amount decreased from the prior year by \$494,337 primarily due to depreciation exceeding new capital asset additions.

Current assets and other assets decreased \$22,135,051 from 2011 to 2012 primarily due to a decrease in the cash balance. Capital assets (net of depreciation) decreased by \$1,448,786. This was attributable to current year additions, offset by current year depreciation. Current liabilities decreased by \$9,771,071. This was primarily due to a decrease in accounts payable and decrease in BAN due to obtaining permanent financing. Long-term liabilities increased by \$21,812,726 primarily due to the increase in other postemployment benefits. Net assets overall decreased by \$35,625,492.

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

(b) Changes in Net Assets (Deficit)

The results of operations as a whole are reported in the statement of activities. A summary of this statement for the years ended June 30, 2012 and 2011 are as follows:

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

	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	Increase (Decrease)	Percentage Change
Revenue:				
Program revenue:				
Charges for services	\$ 5,674,268	6,153,652	(479,384)	-8%
Operating grants	10,575,771	14,945,897	(4,370,126)	-29%
General revenue:				
Property taxes	153,845,141	147,506,470	6,338,671	4%
State and federal aid	103,798,978	109,663,884	(5,864,906)	-5%
Other	<u>5,915,169</u>	<u>5,218,708</u>	<u>696,461</u>	13%
Total revenue	<u>279,809,327</u>	<u>283,488,611</u>	<u>(3,679,284)</u>	-1%
Expenses:				
General support	36,497,673	35,530,647	967,026	3%
Instruction	235,142,144	222,216,656	12,925,488	6%
Pupil transportation	20,233,064	19,184,331	1,048,733	5%
Community service	1,606,611	1,688,787	(82,176)	-5%
Debt service - interest	9,550,947	9,358,072	192,875	2%
Food service program	5,167,372	5,093,049	74,323	1%
Depreciation	<u>7,237,008</u>	<u>6,152,694</u>	<u>1,084,314</u>	18%
Total expenses	<u>315,434,819</u>	<u>299,224,236</u>	<u>16,210,583</u>	5%
Change in net assets (deficit)	\$ <u>(35,625,492)</u>	<u>(15,735,625)</u>	<u>(19,889,867)</u>	126%

The District's fiscal year 2012 revenue totaled \$279,809,327 (See Table A-4). Property taxes and state and federal aid accounted for most of the District's revenue by contributing 55 cents and 37 cents, respectively of every dollar raised (See table A-5). The remainder came from fees charged for services, operating grants, investment earnings, and other miscellaneous sources.

The total cost of all programs and services totaled \$315,434,819 for fiscal year 2012. These expenses are predominantly related to general instruction and transporting students, which account for 80% of District expenses (See table A-6). The District's general support activities accounted for 12% of total costs.

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

Table A-5: Revenue for the year ended June 30, 2012. (See Table 4)

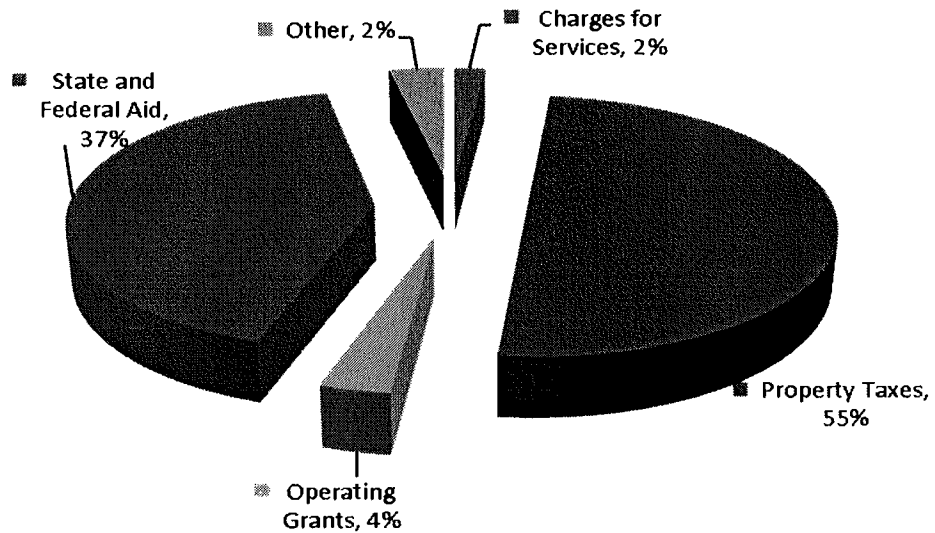
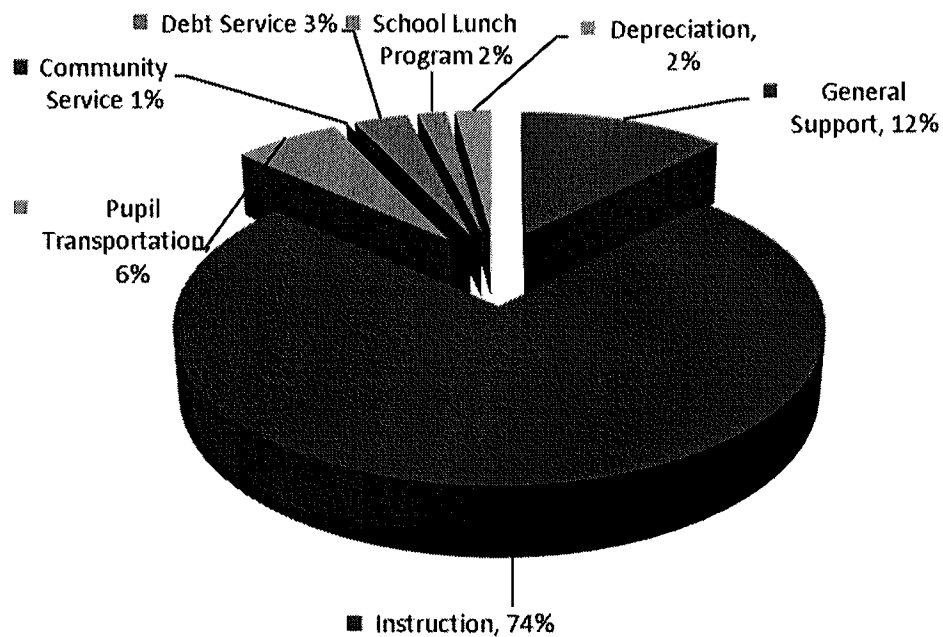


Table A-6: Expenditures for the year ended June 30, 2012. (See Tables A-4 and A-7)



SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

(c) Governmental Activities

Revenue for the District's governmental activities totaled \$279,809,327 while total expenses equaled \$315,434,819.

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

Table A-7: Net Cost of District Activities

<u>Category</u>	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>Fiscal Year 2012</u>	<u>Fiscal Year 2011</u>	<u>Fiscal Year 2012</u>	<u>Fiscal Year 2011</u>
General support	\$ 36,497,673	35,530,647	36,497,673	35,530,647
Instruction	235,142,144	222,216,656	224,064,022	206,346,619
Pupil transportation	20,233,064	19,184,331	20,233,064	19,184,331
Community service	1,606,611	1,688,787	1,606,611	1,688,787
Debt service - interest	9,550,947	9,358,072	9,550,947	9,358,072
School lunch program	5,167,372	5,093,049	(4,545)	(136,463)
Depreciation unallocated	<u>7,237,008</u>	<u>6,152,694</u>	<u>7,237,008</u>	<u>6,152,694</u>
Total	\$ <u>315,434,819</u>	<u>299,224,236</u>	<u>299,184,780</u>	<u>278,124,687</u>

- The cost of all governmental activities this year was \$315,434,819 (Statement of activities and changes in net assets, expenses column).
- The users of the District's programs financed \$5,674,268 of the cost (Statement of activities and changes in net assets, charges for services column).
- The federal and state governments subsidized certain programs with grants of \$10,575,771 (Statement of activities and changes in net assets, operating grants column).
- Most of the District's net costs \$299,184,780 were financed by District taxpayers and state aid (Statements of Activities and Changes in Net Assets (Deficit), Net (Expense) Revenue and Changes in Net Assets column).

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

**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 include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt.

As of June 30, 2012, the District's combined governmental funds reported a total fund balance of \$29,538,368 which is a decrease of \$9,451,447 over the prior year. This decrease is primarily due to the use of reserves and fund balance to finance the fiscal year 2012 budget.

A summary of the change in fund balance for all funds is as follows:

	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	Increase (Decrease)	Total Percentage Change
General Fund:				
Restricted for workers' compensation	\$ 1,622,263	3,593,871	(1,971,608)	(55%)
Restricted for employee benefit accrued liability	4,350,662	4,514,994	(164,332)	(4%)
Assigned-designated for subsequent year's expenditures	17,600,000	26,410,000	(8,810,000)	(33%)
Assigned-encumbrances	250,000	-	250,000	100%
Unassigned	<u>572,330</u>	<u>2,241,363</u>	<u>(1,669,033)</u>	(74%)
Total fund balance - general fund	\$ <u>24,395,255</u>	<u>36,760,228</u>	<u>(12,364,973)</u>	(34%)
School Food Service:				
Nonspendable for inventory	120,373	113,138	7,235	6%
Assigned for school food service fund	<u>1,473,915</u>	<u>1,699,455</u>	<u>(225,540)</u>	(13%)
Total fund balance - school food service fund	\$ <u>1,594,288</u>	<u>1,812,593</u>	<u>(218,305)</u>	(12%)
Debt Service Fund:				
Restricted for debt service	\$ _____ -	<u>357,774</u>	<u>(357,774)</u>	(100%)
Total fund balance - debt service fund	\$ _____ -	<u>357,774</u>	<u>(357,774)</u>	(100%)
Capital Projects Fund:				
Assigned for capital projects	\$ <u>3,548,825</u>	<u>59,220</u>	<u>3,489,605</u>	5983%
Total fund balance - capital projects fund	\$ <u>3,548,825</u>	<u>59,220</u>	<u>3,489,605</u>	5983%
Total fund balance - all funds	\$ <u>29,538,368</u>	<u>38,989,815</u>	<u>(9,451,447)</u>	(24%)



SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

**GENERAL FUND BUDGETARY HIGHLIGHTS**

(a) 2011 - 2012 Budget

The District's original general fund budget for the year ended June 30, 2012 was \$287,834,125. The majority of the funding was property taxes and STAR revenue of \$151,669,897.

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

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

Opening, Unassigned Fund Balance	\$ 2,241,363
Revenues over original budget	4,789,918
Expenditures and encumbrances under budget	9,005,109
Decrease in Restricted for Workers' Compensation	2,000,000
Decrease in Restricted for Employee Benefit Accrued Liability	200,000
Increase in reserves for interest allocation	(64,060)
Designated for subsequent year's budget	(17,600,000)
Closing, Unassigned Fund Balance	\$ <u>572,330</u>

The unassigned fund balance represents the fund balance retained by the District that is not reserved or designated for subsequent year's taxes. This amount should not exceed 4% of the 2012 - 2013 budget.

The expenditures and encumbrances under budget in the amount of \$9,005,109 was primarily attributable to instruction and employee benefits (see supplemental schedule 1 for detail).

The District allocated interest to the various reserve accounts in the amount of \$64,060.

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

(a) Capital Assets

During fiscal year 2012, the District paid for equipment and various building additions and renovations. A summary of the District's capital assets net of depreciation are as follows:

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

<u>Category</u>	<u>Fiscal Year 2012</u>	<u>Fiscal Year 2011</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Land	\$ 1,210,049	1,210,049	-	0.00%
Construction in progress	8,926,098	41,115,945	(32,189,847)	-78.29%
Buildings and improvements	312,221,523	276,727,313	35,494,210	12.82%
Furniture and equipment	<u>11,446,051</u>	<u>8,962,192</u>	<u>2,483,859</u>	27.71%
	333,803,721	328,015,499	5,788,222	1.76%
Less accumulated depreciation	<u>97,882,192</u>	<u>90,645,184</u>	<u>7,237,008</u>	7.98%
Total net capital assets	<u>\$ 235,921,529</u>	<u>237,370,315</u>	<u>(1,448,786)</u>	.61%

The District's capital projects fund spent \$7,345,217 on building improvements and certain repairs during the year and has \$3,548,825 available for various projects.

(b) Long-Term Debt

At June 30, 2012, the District had total bonds payable of \$194,630,000. The bonds were issued for District-wide projects. The increase in outstanding debt is the result of the issuance debt less principal payments. A summary of outstanding debt at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Advance refunding bonds	\$ 146,095,000	146,710,000	(615,000)
Serial bonds	48,535,000	47,630,000	905,000
Energy performance debt	<u>16,574,003</u>	<u>17,579,662</u>	<u>(1,005,659)</u>
Total	<u>\$ 211,204,003</u>	<u>211,919,662</u>	<u>(715,659)</u>

**SACHEM CENTRAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis, Continued**

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The District issued \$57,000,000 in tax anticipation notes with a rate of .3379% on August 28, 2012 and maturing June 20, 2013.

On September 6, 2012 the District sold \$11,100,000 in refunding bonds with an average interest rate of 1.05%. The refunded principal is \$11,125,000. The bonds were originally issued in 2004. Final maturity is July 15, 2018.

The general fund budget for the 2012 - 2013 school year was approved by the voters in the amount of \$291,358,344 on May 15, 2012. This is an increase of \$3,524,219 or 1.22% from the previous year's modified budget. The increase was primarily due to contractual salary increases and benefit increases.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

Sachem Central School District  
Mr. Bruce Singer  
Associate Superintendent for Business  
51 School Street  
Lake Ronkonkoma, New York 11779  
(631) 471-1321

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Net Assets (Deficit) - Governmental Activities  
As of June 30, 2012

Assets:	
Cash - unrestricted	\$ 38,733,606
Receivables:	
State and federal aid	9,534,132
Due from other governments	3,484,884
Other	66,424
Inventories	120,373
Prepaid expenditures	4,073
Capital assets, net	<u>235,921,529</u>
Total assets	<u>\$ 287,865,021</u>
Liabilities:	
Payables:	
Accounts payable	1,855,140
Accrued liabilities	1,019,948
Bond interest payable	2,286,994
Due to other governments	301,099
Due to teachers' retirement system	15,215,525
Due to employees' retirement system	809,510
Due to fiduciary funds	3,755
Deferred revenue	220,983
Long-term liabilities:	
Due and payable within one year:	
Due to employees' retirement system	100,969
Bonds payable	10,065,000
Net unamortized bond premiums and deferred interest	238,750
Energy performance contracts	1,456,799
Claims payable	1,239,616
Compensated absences payable	184,164
Other postemployment benefits obligation	13,558,260
Due and payable after one year:	
Due to employees' retirement system	1,097,311
Other debt teachers' retirement system	3,759,536
Bonds payable	184,565,000
Net unamortized bond premiums and deferred interest	2,277,500
Energy performance contracts	15,117,204
Claims payable	6,850,722
Compensated absences payable	8,473,360
Other postemployment benefits obligation	<u>75,935,859</u>
Total liabilities	<u>346,633,004</u>
Net assets (deficit):	
Investment in capital assets, net of related debt	22,201,276
Restricted	6,093,298
Unrestricted	<u>(87,062,557)</u>
Total net assets (deficit)	<u>(58,767,983)</u>
Total liabilities and net assets (deficit)	<u>\$ 287,865,021</u>

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Activities and Changes in Net Assets (Deficit)  
Governmental Activities  
For the year ended June 30, 2012

		<u>Program Revenues</u>		Net (Expense)
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants</u>	<u>Changes in</u>
				<u>Net Assets</u>
Functions/programs:				
General support	\$ 36,497,673	-	-	(36,497,673)
Instruction	235,142,144	2,005,728	9,072,394	(224,064,022)
Pupil transportation	20,233,064	-	-	(20,233,064)
Community services	1,606,611	-	-	(1,606,611)
Debt service - interest	9,550,947	-	-	(9,550,947)
Food service program	5,167,372	3,668,540	1,503,377	4,545
Depreciation (unallocated)	7,237,008	-	-	(7,237,008)
Total functions and programs	<u>\$ 315,434,819</u>	<u>5,674,268</u>	<u>10,575,771</u>	<u>(299,184,780)</u>
General revenue:				
Real property taxes				132,293,450
Other tax items - including STAR reimbursement				21,551,691
Use of money and property				854,505
Forfeitures				3,000
Sale of property and compensation for loss				1,853,212
Miscellaneous				3,204,452
State sources				103,795,719
Federal sources				3,259
Total general revenue				<u>263,559,288</u>
Change in net assets				(35,625,492)
Total net assets (deficit) at beginning of year				<u>(23,142,491)</u>
Total net assets (deficit) at end of year				<u>\$ (58,767,983)</u>

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Balance Sheet - Governmental Funds  
As of June 30, 2012

<u>Assets</u>	<u>General</u>	<u>Special Aid</u>	<u>School Food Service</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Cash - unrestricted	\$ 34,428,065	459,343	1,490,931	-	2,355,267	38,733,606
Receivables:						
State and federal aid	4,701,593	4,793,209	39,330	-	-	9,534,132
Due from other governments	689,884	-	-	-	-	689,884
Due from other funds	5,229,876	-	78,663	-	1,200,000	6,508,539
Accounts receivable	47,030	-	19,394	-	-	66,424
Inventories	-	-	120,373	-	-	120,373
Prepaid expenses	4,073	-	-	-	-	4,073
Total assets	<u>\$ 45,100,521</u>	<u>5,252,552</u>	<u>1,748,691</u>	<u>-</u>	<u>3,555,267</u>	<u>55,657,031</u>
<u>Liabilities and Fund Balance</u>						
Payables:						
Accounts payable	1,819,588	7,220	21,890	-	6,442	1,855,140
Accrued liabilities	960,259	13,464	46,225	-	-	1,019,948
Due to other governments	296,965	-	4,134	-	-	301,099
Due to other funds	1,282,418	5,229,876	-	-	-	6,512,294
Due to teachers' retirement system	15,215,525	-	-	-	-	15,215,525
Due to employees' retirement system	809,510	-	-	-	-	809,510
Compensated absences	184,164	-	-	-	-	184,164
Deferred revenue	136,837	1,992	82,154	-	-	220,983
Total liabilities	<u>20,705,266</u>	<u>5,252,552</u>	<u>154,403</u>	<u>-</u>	<u>6,442</u>	<u>26,118,663</u>
<u>Fund Balance</u>						
Nonspendable	-	-	120,373	-	-	120,373
Restricted	5,972,925	-	-	-	-	5,972,925
Assigned	17,850,000	-	1,473,915	-	3,548,825	22,872,740
Unassigned	572,330	-	-	-	-	572,330
Total fund balance	<u>24,395,255</u>	<u>-</u>	<u>1,594,288</u>	<u>-</u>	<u>3,548,825</u>	<u>29,538,368</u>
Total liabilities and fund balance	<u>\$ 45,100,521</u>	<u>5,252,552</u>	<u>1,748,691</u>	<u>-</u>	<u>3,555,267</u>	<u>55,657,031</u>

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Reconciliation of Governmental Funds  
Balance Sheet to Statement of Net Assets (Deficit)  
As of June 30, 2012

Total governmental fund balance	\$ 29,538,368
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Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

The costs of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets (deficit) includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.

Original cost of capital assets	\$ 333,803,721	
Accumulated depreciation	<u>(97,882,192)</u>	235,921,529

Due from other governments (library bonds payable) is not included on the fund level balance sheet.	2,795,000
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Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Due to employees' retirement system	(1,198,280)	
Due to teachers' retirement system	(3,759,536)	
Bonds payable	(194,630,000)	
Net unamortized bond premiums and deferred interest	(2,516,250)	
Accrued interest on bonds payable	(2,286,994)	
Energy performance contract	(16,574,003)	
Claims payable	(8,090,338)	
Other postemployment benefits obligation	(89,494,119)	
Compensated absences	<u>(8,473,360)</u>	(327,022,880)

Total net assets (deficit)	\$ <u>(58,767,983)</u>
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See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds  
For the year ended June 30, 2012

	<u>General</u>	<u>Special Aid</u>	<u>School Food Service</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenue:						
Real property taxes	\$ 132,293,450	-	-	-	-	132,293,450
Other tax items - including STAR reimbursement	21,551,691	-	-	-	-	21,551,691
Charges for services	2,425,728	-	-	-	-	2,425,728
Use of money and property	530,754	-	2,278	82,723	-	615,755
Forfeitures	3,000	-	-	-	-	3,000
Sale of property and compensation for loss	653,212	-	-	-	1,200,000	1,853,212
Miscellaneous	3,119,044	10,536	74,872	-	-	3,204,452
Interfund revenue	17,093	-	-	-	-	17,093
State sources	101,761,843	3,741,468	101,618	-	2,033,876	107,638,805
Federal sources	3,259	5,330,926	1,249,691	-	-	6,583,876
Surplus food	-	-	152,068	-	-	152,068
Sales - food services	-	-	3,668,540	-	-	3,668,540
Total revenue	<u>262,359,074</u>	<u>9,082,930</u>	<u>5,249,067</u>	<u>82,723</u>	<u>3,233,876</u>	<u>280,007,670</u>
Expenditures:						
General support	25,955,875	17,093	-	-	1,556,995	27,529,963
Instruction	151,608,884	8,469,155	-	-	-	160,078,039
Pupil transportation	18,677,057	596,682	-	-	-	19,273,739
Community service	1,060,399	-	-	-	-	1,060,399
Employee benefits	60,533,288	-	-	-	-	60,533,288
Debt service - principal	11,019,581	-	-	-	-	11,019,581
Debt service - interest	9,008,514	-	-	-	-	9,008,514
Cost of sales	-	-	5,167,372	-	-	5,167,372
Capital outlay	-	-	-	-	5,788,222	5,788,222
Total expenditures	<u>277,863,598</u>	<u>9,082,930</u>	<u>5,167,372</u>	<u>-</u>	<u>7,345,217</u>	<u>299,459,117</u>
Excess (deficiency) of revenue over expenditures	<u>(15,504,524)</u>	<u>-</u>	<u>81,695</u>	<u>82,723</u>	<u>(4,111,341)</u>	<u>(19,451,447)</u>
Other financing sources and (uses):						
Proceeds from long-term debt	-	-	-	-	9,845,000	9,845,000
Bond anticipation notes redeemed from appropriations	-	-	-	-	155,000	155,000
Operating transfers in	3,854,969	-	-	1,708,318	1,015,418	6,578,705
Operating transfers (out)	<u>(715,418)</u>	<u>-</u>	<u>(300,000)</u>	<u>(2,148,815)</u>	<u>(3,414,472)</u>	<u>(6,578,705)</u>
Total other financing sources (uses)	<u>3,139,551</u>	<u>-</u>	<u>(300,000)</u>	<u>(440,497)</u>	<u>7,600,946</u>	<u>10,000,000</u>
Net change in fund balance	<u>(12,364,973)</u>	<u>-</u>	<u>(218,305)</u>	<u>(357,774)</u>	<u>3,489,605</u>	<u>(9,451,447)</u>
Fund balance at beginning of year	<u>36,760,228</u>	<u>-</u>	<u>1,812,593</u>	<u>357,774</u>	<u>59,220</u>	<u>38,989,815</u>
Fund balance at end of year	<u>\$ 24,395,255</u>	<u>-</u>	<u>1,594,288</u>	<u>-</u>	<u>3,548,825</u>	<u>29,538,368</u>

See accompanying notes to financial statements.



SACHEM CENTRAL SCHOOL DISTRICT  
Reconciliation of Governmental Funds Statement of Revenue, Expenditures  
and Changes in Fund Balance to the Statement of Activities  
For the year ended June 30, 2012

Net change in fund balance

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

\$ (9,451,447)

Long-term revenue and expense differences:

In the statement of activities, certain operating expenses are measured by  
the amounts earned during the year. In the governmental funds, however,  
expenditures for these items are measured by the amount of financial  
resources used (essentially, the amounts actually paid).

Increase in:

Employee retirement system liability	(1,198,280)
Teachers' retirement system liability	(3,759,536)
Compensated absences liability	(383,286)
Other postemployment benefits obligation	(18,971,959)
Claims payable	(404,174)

Long-term debt transactions:

Bond proceeds are treated as revenue in the governmental funds, but  
increase long-term liabilities in the statement of net assets (deficit)  
and do not affect the statement of activities.

(9,845,000)

Increase in energy performance contract due to refinancing

(303,922)

Repayment of bond principal and energy performance debt principal is  
an expenditure in the governmental funds, less the library portion, but  
reduce long-term liabilities in the statement of net assets and do  
not affect the statement of activities.

10,444,581

Interest on long-term debt in the statement of activities differs from the  
amounts reported in the governmental funds because interest is recorded  
as an expenditure in the funds when it is due and requires the use of  
current financial resources. In the statement of activities, however, interest  
expense is recognized as the interest accrues regardless of when it is due.

Accrued interest from June 30, 2011 to June 30, 2012 increased by:

(542,433)

Premium recognized

238,750

(Continued)

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Reconciliation of Governmental Funds Statement of Revenue, Expenditures  
and Changes in Fund Balance to the Statement of Activities, Continued

Capital related items:

When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense as summarized below:

Capital outlays	\$ 5,788,222	
Depreciation expense	<u>(7,237,008)</u>	<u>\$ (1,448,786)</u>
Changes in net assets of governmental activities		<u>\$ (35,625,492)</u>

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
As of June 30, 2012

	Private Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
Assets:		
Cash	\$ 177,704	1,233,442
Due from other funds	-	3,755
Due from other governments	-	-
Total assets	<u>\$ 177,704</u>	<u>1,237,197</u>
Liabilities:		
Extraclassroom activity balance	-	554,341
Due to other funds	-	-
Other liabilities	-	682,856
Total liabilities	<u>\$ -</u>	<u>1,237,197</u>
Net assets - reserved for scholarships	<u>\$ 177,704</u>	

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the year ended June 30, 2012

	<u>Private Purpose Trust Fund</u>
Additions:	
Gifts and contributions	\$ 19,022
Interest and earnings	<u>761</u>
Total additions	19,783
Deductions - scholarships and awards	<u>17,150</u>
Change in net assets	2,633
Net assets at beginning of year	<u>175,071</u>
Net assets at end of year	<u><u>\$ 177,704</u></u>

See accompanying notes to financial statements.

## SACHEM CENTRAL SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2012

#### (1) Summary of Certain Significant Accounting Policies

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

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

##### (a) Reporting Entity

The District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education (the Board) consisting of 9 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 No. 14 - "The Financial Reporting Entity," and by GASB Statement No. 39 - "Determining Whether Certain Organizations are Component Units." The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District, its component units and other organizational entities determined to be includable in the District's financial reporting entity. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District's reporting entity.

##### (i) Extraclassroom Activity Funds

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the extraclassroom activity funds can be found at the District's business office. The District accounts for assets held as an agent for various student organizations in an agency fund.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(b) Joint Venture

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

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

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

During the year, the District was billed \$17,670,101 for BOCES administrative and program costs.

The District's share of BOCES aid amounted to \$3,148,889.

Financial statements for the BOCES are available from the BOCES' administrative office:

Eastern Suffolk Board of Cooperative Educational Service  
James Hines Administration Center  
201 Sunrise Highway  
Patchogue, New York 11772

(c) Basis of Presentation

(i) District-wide Statements

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

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(c) Basis of Presentation, Continued

(i) District-Wide Statements, Continued

The statement of activities presents a comparison between program expenses and revenue 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 revenue includes 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. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue.

(ii) Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

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

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

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

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

## SACHEM CENTRAL SCHOOL DISTRICT

### Notes to Financial Statements, Continued

#### (1) Summary of Certain Significant Accounting Policies, Continued

##### (c) Basis of Presentation, Continued

###### (ii) Fund Financial Statements, Continued

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. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include 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 statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenue is collected within one year 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 are levied annually by the Board of Education no later than November 1, and become a lien on December 1. Taxes are collected by the Towns of Brookhaven, Smithtown and Islip beginning November 1. Uncollected taxes become a lien on December 1. Uncollected real property taxes are transmitted to the County of Suffolk for enforcement. Uncollected taxes are paid by the County to the District no later than the forthcoming April 1.



SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(f) Restricted Resources

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

(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. The interfund receivables and payables in the governmental funds are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenue to provide financing or other services.

In the District-wide statements, the amounts reported on the statement of net assets (deficit) 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 11 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenue 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, other postemployment benefits, workers' compensation claims liability, potential contingent liabilities and useful lives of long-lived assets.

(i) Subsequent Events

The District has evaluated events after June 30, 2012, and through October 3, 2012, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(j) Cash and Equivalents

The District's cash and cash equivalents consist of cash on hand and demand deposits. New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and districts.

(k) Accounts Receivable

Accounts receivable are reflected 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.

(l) Inventories and Prepaid Items

Inventories of food in the school food service 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 assets (deficit) or balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

(m) Capital Assets

An appraisal of the District's capital assets was conducted during the fiscal year ended June 30, 2011 by independent third-party professionals. The appraisal included the implementation of the \$5,000 threshold as well as utilizing revised useful life tables. The resulting changes are considered a change in accounting estimate and are shown as a reclassification. The District's capital assets are reported at estimated historical costs.

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 statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building and improvements	\$ 5,000	Straight-line	20-50 years
Furniture and equipment	5,000	Straight-line	5-20 years
Land improvements	5,000	Straight-line	20 years

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(n) Deferred Revenue

Deferred revenue is reported when revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when the District receives resources before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred revenue is removed and revenue is 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 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 funds statements only the amount of matured liabilities is accrued within the general fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

(p) Other Benefits

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

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

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(g) Short-Term Debt

The District may issue Revenue Anticipation Notes (RAN) and Tax Anticipation Notes (TAN), in anticipation of the receipt of revenue. 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 provision or no provision made in the annual budget. The budget note must be repaid no later than the close of second fiscal year succeeding the year in which the note was issued.

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

(r) Accrued Liabilities and Long-Term Obligations

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

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

(s) Equity Classifications

District-wide Statements

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

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

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

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(s) Equity Classifications, Continued

District-wide Statements, Continued

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

Funds Statements

There are five classifications of fund balance as detailed below; however, in the Fund Financial Statements there are four classifications of fund balance presented:

- (1) Non-spendable fund balance - Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the Food Service Fund of \$120,373.
- (2) Restricted fund balance - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Currently, New York State laws still use the terminology "reserves" and Districts are only allowed to use reserves authorized by law. The District has classified the following reserves as restricted:

<u>Restricted for:</u>	<u>General</u>
Workers' Compensation	\$ 1,622,263
Employee Benefit Accrued Liability	<u>4,350,662</u>
Total	\$ <u>5,972,925</u>

Workers' Compensation Reserve

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

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(s) Equity Classifications, Continued

Unemployment Insurance Reserve

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

Reserve for Employee Benefit Accrued Liability

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

Insurance Reserve

Insurance reserve is used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, 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. The reserve is accounted for in the general fund.

Reserve for Debt Service

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

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(s) Equity Classifications, Continued

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 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.

- (3) Committed fund balance - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority (i.e., Board of Education). The District has no committed fund balances as of June 30, 2012.
- (4) Assigned fund balance - Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances are classified as Assigned Fund Balance. Encumbrances reported in the General Fund amount to \$250,000.

	<u>General</u>	<u>School Food Service</u>	<u>Capital Projects</u>	<u>Total</u>
Designated for subsequent year's budget	\$ 17,600,000	-	-	17,600,000
Encumbrances	250,000	-	-	250,000
School Food Service	-	1,473,915	-	1,473,915
Capital Projects	-	-	3,548,825	3,548,825
Total	<u>\$ 17,850,000</u>	<u>1,473,915</u>	<u>3,548,825</u>	<u>22,872,740</u>

- (5) Unassigned - Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the School District.

(2) Explanation of Certain Differences Between Fund Statements and District-wide Statements

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

(a) Total Fund Balances of Governmental Funds vs. Net Assets of Governmental Activities

Total fund balances of the District's governmental funds differ from net assets (deficit) of governmental activities reported in the statement of net assets (deficit). The difference primarily results from additional long-term economic focus of the statement of net assets (deficit) versus the solely current financial resources focus of the governmental fund balance sheets.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(2) Explanation of Certain Differences Between Fund Statements and District-wide Statements, Continued

(b) Statement of Revenue, Expenditures and Changes in Fund Balance vs. Statement of Activities

Differences between the governmental funds' statement of revenue, expenditures and changes in fund balance vs. statement of activities fall into one of three broad categories. The amounts shown below represent:

(i) Long-term revenue differences

Long-term revenue differences arise because governmental funds report revenue only when they are considered available, whereas the statement of activities reports revenue 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.

(ii) Capital related differences

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

(iii) Long-term debt transaction differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund statements, whereas interest expense is recorded in the statement of activities as incurred, and principal payments are recorded as a reduction of liabilities in the statement of net assets (deficit).

(3) Stewardship, Compliance and Accountability

(a) Budgets

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

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

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



SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(3) Stewardship, Compliance and Accountability, Continued

(a) Budgets, Continued

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

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

(b) Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as assigned 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 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.

Deposits at year-end were entirely covered by Federal depository insurance; secured by irrevocable stand-by Letters of Credit issued by the Federal Home Loan Bank of New York; or, collateralized with securities held by the pledging financial institution in the District's name.

<u>Fund</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Governmental activities	\$ 38,733,606	41,732,346
Fiduciary funds	\$ <u>1,411,146</u>	<u>1,290,659</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(5) State and Federal Aid Receivable

State and federal aid receivable at June 30, 2012 consists of the following:

General Fund:	
Excess cost aid	\$ 2,926,225
BOCES aid	1,430,803
General aid	<u>344,565</u>
	<u>4,701,593</u>
Special Aid Fund:	
Federal aid	1,403,590
State aid	<u>3,389,619</u>
	<u>4,793,209</u>
School Food Service Fund:	
Breakfast - state aid	4,478
Lunch - state aid	<u>34,852</u>
	<u>39,330</u>
Total	\$ <u>9,534,132</u>

(6) Due From Other Governments

The District provided construction financing to the Sachem Public Library (the Library) in 1998. The District has an understanding that the Library will annually budget and provide funding to the District in an amount equally to the amount required to service this debt. In 2009, the original debt was defeased with the proceeds of a refunding bond to reduce the amount of future debt service. This reduced future debt service also reduced the amount due from the Library.

The amount due from other governments consists of the following at June 30, 2012:

General Fund:	
Medicare Part D	\$ 142,364
Services to other districts	193,934
Payments in lieu of taxes	<u>353,586</u>
Total	689,884
Governmental Activities - Library bond	<u>2,795,000</u>
Total governmental activities	\$ <u>3,484,884</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(7) 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>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets that are not being depreciated:				
Land	\$ 1,210,049	-	-	1,210,049
Construction in progress	<u>41,115,945</u>	<u>1,280,069</u>	<u>(33,469,916)</u>	<u>8,926,098</u>
Total capital assets that are not being depreciated	<u>42,325,994</u>	<u>1,280,069</u>	<u>(33,469,916)</u>	<u>10,136,147</u>
Capital assets that are being depreciated:				
Building and improvements	276,727,313	35,494,210	-	312,221,523
Furniture and equipment	<u>8,962,192</u>	<u>2,483,859</u>	<u>-</u>	<u>11,446,051</u>
Total capital assets that are being depreciated	<u>285,689,505</u>	<u>37,978,069</u>	<u>-</u>	<u>323,667,574</u>
Less accumulated depreciation:				
Building and improvements	83,691,456	6,538,145	-	90,229,601
Furniture and equipment	<u>6,953,728</u>	<u>698,863</u>	<u>-</u>	<u>7,652,591</u>
Total accumulated depreciation	<u>90,645,184</u>	<u>7,237,008</u>	<u>-</u>	<u>97,882,192</u>
Total capital assets that are being depreciated, net	<u>195,044,321</u>	<u>30,741,061</u>	<u>-</u>	<u>225,785,382</u>
Governmental activities - capital assets, net	<u>\$ 237,370,315</u>	<u>32,021,130</u>	<u>(33,469,916)</u>	<u>235,921,529</u>
Depreciation expense (unallocated)			\$ <u>7,237,008</u>	

(8) Short-Term Debt

During the year ended June 30, 2012, the District issued and redeemed \$50,000,000 in total short-term debt (TAN), which was used for interim financing of general fund operations. The District redeemed its BAN outstanding at June 30, 2011 through the issuance of long-term debt and budget appropriations. Transactions in short-term debt for the year are summarized below:

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
TAN	6/21/12	0.31%	\$ -	50,000,000	50,000,000	-
BAN	8/26/11	0.40%	<u>10,000,000</u>	<u>-</u>	<u>10,000,000</u>	<u>-</u>
Total			<u>\$ 10,000,000</u>	<u>50,000,000</u>	<u>60,000,000</u>	<u>-</u>

Interest on short-term debt was \$328,608 for the year ended June 30, 2012.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(9) Long-Term Debt Obligations

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government activities:					
Bonds payable:					
General obligation debt:					
Refunding Bonds	\$ 143,495,000	-	195,000	143,300,000	2,205,000
Construction Serial Bonds	47,630,000	9,845,000	8,940,000	48,535,000	7,450,000
Library Refunding Bonds	<u>3,215,000</u>	<u>-</u>	<u>420,000</u>	<u>2,795,000</u>	<u>410,000</u>
Total bonds payable	<u>\$ 194,340,000</u>	<u>9,845,000</u>	<u>9,555,000</u>	<u>194,630,000</u>	<u>10,065,000</u>
Other liabilities:					
Energy Performance Contracts	17,579,662	303,922	1,309,581	16,574,003	1,456,799
Due to Employees Retirement	-	1,198,280	-	1,198,280	100,969
Due to Teachers' Retirement System	-	4,699,420	939,884	3,759,536	-
Other postemployment benefits obligation	70,522,160	32,554,564	13,582,605	89,494,119	13,558,260
Claims payable	7,686,164	1,547,470	1,143,296	8,090,338	1,239,616
Compensated absences	8,272,591	384,933	-	8,657,524	184,164
Unamortized bond premiums (net of deferred interest)	<u>2,755,000</u>	<u>-</u>	<u>238,750</u>	<u>2,516,250</u>	<u>238,750</u>
Total other liabilities	<u>\$ 106,815,577</u>	<u>40,688,589</u>	<u>17,214,116</u>	<u>130,290,050</u>	<u>16,778,558</u>
Total	<u>\$ 301,155,577</u>	<u>50,533,589</u>	<u>26,769,116</u>	<u>324,920,050</u>	<u>26,843,558</u>

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences.

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at Year End</u>
Refunding Bond 2006B	2007	2027	4.20%	\$ 19,620,000
Refunding Bond 2006	2007	2031	4.50%	71,340,000
Construction Serial Bond	2004	2014	3.5-5.0%	4,040,000
Construction Serial Bond	2003	2013*	4.0-5.0%	2,245,000
Construction Serial Bond	2004	2019	3.125-4.0%	18,325,000
Construction Serial Bond	2009	2019	2.0-4.0%	14,080,000
Library Refunding Bond	2009	2019	2.0-4.0%	2,795,000
Refunding Bond 2010	2011	2015	1.13%	6,615,000
Refunding Bond 2011	2011	2024	2.84%	45,725,000
Construction Serial Bond	2011	2030	3.17%	<u>9,845,000</u>
				<u>\$ 194,630,000</u>

\* Partially defeased with 2011, refunding bond

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(9) Long-Term Debt Obligations, Continued

The following is a summary of debt service requirements for bonds payable:

Fiscal Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 10,065,000	8,417,079	18,482,079
2014	10,385,000	7,856,119	18,241,119
2015	10,620,000	7,457,388	18,077,388
2016	11,095,000	6,987,706	18,082,706
2017	11,560,000	6,504,150	18,064,150
2018-2022	51,070,000	24,782,653	75,852,653
2023-2027	49,645,000	14,012,334	63,657,334
2028-2031	<u>40,190,000</u>	<u>3,016,331</u>	<u>43,206,331</u>
	\$ <u>194,630,000</u>	<u>79,033,760</u>	<u>273,663,760</u>

The following is a summary of debt service requirements for energy performance debt:

Fiscal Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,456,799	457,744	1,914,543
2014	1,560,700	353,844	1,914,544
2015	1,038,515	315,172	1,353,687
2016	1,063,274	290,413	1,353,687
2017	1,088,623	265,064	1,353,687
2018-2022	5,845,010	923,427	6,768,437
2023-2026	<u>4,521,082</u>	<u>216,824</u>	<u>4,737,906</u>
	\$ <u>16,574,003</u>	<u>2,822,488</u>	<u>19,396,491</u>

On August 16, 2011, \$9,845,000 in general obligation bonds with an average interest rate of 3.17 percent were issued after a principal payment of \$155,000. Proceeds from the sale of the bonds, together with \$155,000 in available funds, were used to redeem the District's \$10,000,000 bond anticipation notes for school construction - 2010 which matured on August 26, 2011. Final maturity is in 2029.

In prior years, the District defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and the liability for the defeased bonds are not included in the District's financial statements. Outstanding bonds of \$148,665,000 are considered defeased.

On April 9, 2012 the District refinanced an Energy Performance Contract for \$15.5 million dollars. The original interest rate was 4.55% and the new interest rate is 2.37%. The final maturity remains unchanged.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(9) Long-Term Debt Obligations, Continued

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

Interest paid	\$ 8,679,906
Less interest accrued in the prior year	(1,744,561)
Plus interest accrued in the current year	<u>2,286,994</u>
Total expense	\$ <u>9,222,339</u>

(10) Pension Plans

(a) General Information

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

Chapter 57 of the Laws of 2010 of the State of New York allows local employers to amortize a portion of their retirement bill for 10 years in accordance with the following stipulations:

- For State fiscal year 2011-12, the amount in excess of the graded rate of 10.5 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.
- For subsequent State fiscal years, the graded rate will increase or decrease by up to one percent depending on the gap between the increase or decrease in the NYSERS's average rate and the previous graded rate.
- For subsequent State fiscal years in which the NYSERS's average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

This law requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the NYSERS's fiscal years when the local employer opts to participate in the program. The total unpaid liability at the end of the fiscal year was \$1,198,280.

Chapter 105 of the Laws of 2010 of the State of New York allowed NYSTRS participating employers to make available retirement incentive programs. The District's retirement incentive program had a total cost of \$4,699,420, of which \$939,884 was charged to expenditures in the governmental funds of the current fiscal year.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(10) Pension Plans, Continued

(b) Provisions and Administration

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

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. NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Governor Alfred E. Smith State Office Building, Albany, New York 12244.

(c) Funding Policies

Plan members who joined the system before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute three percent of their annual salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute three and one-half percent of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. Employers are required to contribute at an actuarially determined rate, currently 11.11% of the annual covered payroll for the fiscal year ended June 30, 2012. Rates applicable to the fiscal years ended June 30, 2011 and 2010 were respectively, 8.62% and 6.19%. During the fiscal year ended June 30, 2012 (Final Billing Dated November 1, 2011), required contributions paid to the system were \$12,656,955. This represents 100.00% of the contributions due.

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

	<u>NYSTRS</u>	<u>NYSERS</u>
2011 - 2012	\$ 12,656,955	4,044,895
2010 - 2011	8,932,446	3,123,305
2009 - 2010	10,749,718	1,726,208

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(11) Interfund Transactions - Governmental Funds

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General fund	\$ 5,229,876	1,282,418	3,854,969	715,418
Special aid fund	-	5,229,876	-	-
School Food Service fund	78,663	-	-	300,000
Debt service fund	-	-	1,708,318	2,148,815
Capital projects fund	<u>1,200,000</u>	<u>-</u>	<u>1,015,418</u>	<u>3,414,472</u>
Total governmental funds	6,508,539	6,512,294	6,578,705	6,578,705
Fiduciary agency fund	<u>3,755</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>6,512,294</u>	<u>6,512,294</u>	<u>6,578,705</u>	<u>6,578,705</u>

The District typically transfers from the general fund to the capital projects fund, to finance capital construction projects. The District typically transfers from the general fund to the special aid fund to fund the District's 20% share of summer school handicap expenses required by state law.

Balances from completed capital projects were transferred to debt service fund and general fund in the amount of \$3,414,472.

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

(12) Other Postemployment Benefits (OPEB)

The District provides medical and Medicare Part B benefits to its eligible retirees. These benefits are provided through fully insured plans that are sponsored by a regional health consortium. Most employees are required to reach age 55 and have 5 years of service to qualify for OPEB. The District pays 100% of the retiree's medical benefits and reimburses the employee for the full cost of Medicare Part B. The District contributes towards the cost of eligible spouses during the retiree's lifetime. Spouses pay 20% for coverage and receive 100% reimbursement for Medicare Part B. Surviving spouses continue medical coverage for three months after the retiree's death and receive reimbursement of the Medicare Part B premium for life.

The District implemented GASB Statement 45 - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," during the year ended June 30, 2008. This required the District to calculate and record an other postemployment benefit obligation at year-end. The other postemployment benefit obligation is essentially the cumulative difference between the actuarially required contribution and the actual contributions made.



SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(12) Other Postemployment Benefits (OPEB), Continued

Currently, 1,374 retired employees receive health benefits from the District.

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund as payments are made. For the year ended June 30, 2012, the District recognized \$13,582,605 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 postemployment benefits is \$387,597,254 (\$232,569,463 related to retirees and \$155,027,791 related to employees). The net OPEB obligation at June 30, 2012 is \$89,494,119, which is reflected in the statement of net assets (deficit).

(a) Plan Description

NYSHIP Empire Plan is a single-employer defined benefit healthcare plan administered by New York State. The Empire Plan provides medical insurance benefits to eligible retirees and their spouses. Article 37 of the Statutes of the state assigns the authority to establish and amend benefit provisions to the school district. Sachem Central School District is considered a Phase I employer and was required to comply with GASB Statement 45 no later than the first fiscal year starting after December 15, 2006.

(b) Funding Policy

The contribution requirements of plan members and the Sachem Central School District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District. For fiscal year 2012, the Sachem Central School District contributed \$13,582,605 to the plan all relating to current premiums.

(c) Annual OPEB Cost and Net OPEB Obligation

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

Annual OPEB cost and net OPEB obligation:

Annual required contribution	\$ 33,732,784
Interest on net OPEB obligation	2,820,886
Adjustment to annual required contribution	<u>(3,999,106)</u>
Annual OPEB cost (expense)	32,554,564
Contributions made	<u>(13,582,605)</u>
Increase in net OPEB obligation	18,971,959
Net OPEB obligation at beginning of year	<u>70,522,160</u>
Net OPEB obligation at end of year	\$ <u>89,494,119</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(12) Other Postemployment Benefits (OPEB), Continued

(c) Annual OPEB Cost and Net OPEB Obligation, Continued

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

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution</u>	<u>Annual OPEB Cost</u>	<u>OPEB Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 25,887,978	25,242,762	9,820,950	39%	54,041,110
6/30/2011	28,672,441	27,769,572	11,288,522	41%	70,522,160
6/30/2012	32,732,784	32,554,564	13,582,605	42%	89,494,119

(d) 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 \$387,597,254, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$387,597,254. The covered payroll (annual payroll of active employees covered by the plan) was \$148,033,106, and the ratio of the UAAL to the covered payroll was 262%. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(e) Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation prepared by an outside actuarial firm, the projected unit credit actuarial cost method was used to value the actuarial accrued liability and normal cost. 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 3.30% initially, the trend for the second year is 9% and is reduced by 1% decrements to an ultimate rate of 5.00% after 5 years. The UAAL is being amortized on an open basis. The remaining amortization period at June 30, 2012 was 26 years.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(13) Risk Management

(a) General

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

(b) Consortiums and Self Insured Plans

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unreported claims which were incurred on or before year-end but not reported (IBNR). As of June 30, 2012, the District has recorded potential workers' compensation claims of \$8,090,338. This liability was calculated by an independent actuarial firm and is presented on a discounted basis using an expected investment yield of 2%. The District has a workers' compensation reserve balance of \$1,622,263.

Claims reported for the fiscal year ended June 30:	Balance at Beginning of Year	Claims and Changes in Estimates	Claims Payments	Balance at End of Year
2012	\$7,686,164	1,547,470	1,143,296	8,090,338

The District has chosen to establish a self-funded dental benefit program for its employees. The benefit programs administrator, J.J. Stanis, is responsible for the approval, processing and payment of claims, after which they bill the District for reimbursement. The District is also responsible for a monthly administrative fee. The benefit program reports on a fiscal year ending June 30. The program is accounted for in the General Fund of the District.

(14) Commitments and Contingencies

(a) Grants

The District has received grants, which are subject to audit by agencies of the state and federal governments. Such audits may result in disallowances and a request for a return of funds. Based on prior audits, the district's administration believes disallowances, if any, will be immaterial.

(b) Operating Leases

The District is committed under various noncancelable operating leases, primarily for computers and copiers (principally in the general fund). Expenditures were \$694,140 for the year ended June 30, 2012. The following is a summary of obligations of government activities under operating leases:

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(14) Commitments and Contingencies, Continued

(b) Operating Leases, Continued

Fiscal year ended June 30,

2013	\$ 808,749
2014	756,636
2015	747,889
2016	621,473
2017	<u>121,062</u>
Total	\$ <u>3,055,809</u>

(c) Litigation

As of June 30, 2012, the District is unaware of any pending or threatened litigation or unasserted claims or assessments against the Sachem Central School District which require disclosure.

(15) Subsequent Events

- (a) The District issued \$57,000,000 in TANS on August 28, 2012 with interest at .3379% and maturing on June 20, 2013.
- (b) On May 15, 2012 the proposed 2012-2013 budget in the amount of \$291,358,344 was authorized by the District's residents.
- (c) On September 6, 2012 the District sold \$11,100,000 in refunding bonds with an average interest rate of 1.05%. The refunded principal is \$11,125,000. The bonds were originally issued in 2004. Final maturity is July 15, 2018.

(16) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 60 - "Accounting and Financial Reporting for Service Concession Arrangements" addresses how to account for and report service concession arrangements, a type of public-private partnership. This statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue and how to record any obligation of the transferor to the operator. The requirements of this statement are effective for periods beginning after December 15, 2011, which is the fiscal year beginning July 1, 2012 for the District. This statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 61 - "The Financial Reporting Entity: Omnibus" is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14 "The Financial Reporting Entity" and No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." This statement amends the criteria for including component units by only including those component units

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(16) Accounting Standards Issued But Not Yet Implemented, Continued

for which the elected officials are financially accountable or that the government determines would be misleading to exclude. This statement also amends the criteria for blending of component units to include only those component units that are so intertwined with the primary government that they are essentially the same as the primary government. The requirements of the statement are effective for periods beginning after June 15, 2012, which is the fiscal year beginning July 1, 2012 for the District. This statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB's authoritative literature the applicable guidance issued before November 30, 1989 from FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. The requirements of the statement are effective for periods beginning after December 15, 2011, which is the fiscal year beginning July 1, 2012 for the District. This statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows and inflows are the consumption and acquisition of net assets by a governmental entity that are applicable to a future reporting period. This statement amends the net asset reporting requirements in Statement No. 34 - "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement are effective for periods beginning after December 15, 2011, which is the fiscal year beginning July 1, 2012 for the District. This statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 64 - "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53" clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for periods beginning after June 15, 2011, which is the fiscal year beginning July 1, 2012 for the District. This statement is not expected to have a material effect on the financial statements of the District.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(16) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities" establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources such as changes in the determination of the major fund calculations and limiting the use of the term deferred in the financial statement presentations. The requirements of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning July 1, 2013 for the District. This statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 66 - "Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62" improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. Statements No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions" and No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The requirements of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning July 1, 2013 for the District. This statement is not expected to have a material effect on the financial statements of the District.

## REQUIRED SUPPLEMENTARY INFORMATION

SACHEM CENTRAL SCHOOL DISTRICT  
 Required Supplementary Information  
 Schedule of Revenue, Expenditures and Changes in Fund Balance -  
 Budget and Actual - General Fund  
 For the year ended June 30, 2012

	Original <u>Budget</u>	Final <u>Budget</u>	Actual (Budgetary Basis)	Final Budget Variance with Budgetary <u>Actual</u>
Revenue:				
Local sources:				
Real property taxes	\$ 131,445,397	131,669,897	132,293,450	623,553
Other real property tax items	20,900,000	20,900,000	21,551,691	651,691
Charges for services	2,158,950	2,158,950	2,425,728	266,778
Use of money and property	679,000	679,000	530,754	(148,246)
Forfeitures	-	-	3,000	3,000
Sale of property and compensation for loss	350,000	350,000	653,212	303,212
Miscellaneous	2,417,000	2,417,000	3,119,044	702,044
Interfund revenue	-	-	17,093	17,093
State sources:				
Basic formula	64,022,100	64,022,100	66,304,446	2,282,346
Excess cost aid	17,200,000	17,200,000	17,537,094	337,094
Lottery aid	12,600,000	12,600,000	12,632,108	32,108
BOCES aid	3,100,000	3,100,000	3,148,889	48,889
Tuition for students with disabilities	-	-	149,563	149,563
Textbook aid	890,000	890,000	886,158	(3,842)
Computer software aid	226,000	226,000	224,491	(1,509)
Computer hardware aid	160,000	160,000	164,286	4,286
Library A/V loan program aid	95,000	95,000	84,903	(10,097)
Other state aid	-	-	629,905	629,905
Federal sources:				
Medicaid reimbursement	-	-	3,259	3,259
Other financing sources:				
Proceeds from debt	1,420,358	1,420,358	-	(1,420,358)
Transfers from other funds	3,760,320	3,760,320	3,854,969	94,649
Total revenue and other sources	261,424,125	261,648,625	266,214,043	4,565,418
Appropriated fund balance	26,410,000	26,185,000		
Total revenue and appropriated fund balance	\$ 287,834,125	287,833,625		

Note to Required Supplementary Information

Budget Basis of Accounting

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



SACHEM CENTRAL SCHOOL DISTRICT  
 Required Supplementary Information  
 Schedule of Revenue, Expenditures and Changes in Fund Balance -  
 Budget and Actual - General Fund  
 For the year ended June 30, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance with Budgetary Actual Encumbrances
Expenditures:					
General support:					
Board of Education	\$ 127,854	139,627	119,955	-	19,672
Central administration	426,272	441,077	431,495	-	9,582
Finance	2,039,370	2,104,351	2,020,869	-	83,482
Staff	1,560,816	1,574,537	1,233,399	-	341,138
Central services	19,529,601	19,284,619	18,772,285	-	512,334
Special items	3,662,500	3,680,961	3,377,872	-	303,089
Instructional:					
Instruction, administration and improvement	10,235,481	10,561,768	10,145,951	250,000	165,817
Teaching - regular school Programs for children with handicapping conditions	75,083,277	80,139,893	78,061,493	-	2,078,400
Occupational education	42,578,839	40,282,266	39,690,894	-	591,372
Teaching special schools	2,303,000	2,368,500	2,287,915	-	80,585
Instructional media	176,825	176,825	167,252	-	9,573
Pupil services	7,107,306	7,150,988	6,940,747	-	210,241
Pupil transportation	14,773,057	14,893,939	14,314,632	-	579,307
Community services	19,045,547	19,388,277	18,677,057	-	711,220
Employee benefits	928,774	1,112,288	1,060,399	-	51,889
Debt service:	66,329,958	63,397,642	60,533,288	-	2,864,354
Debt service principal	10,924,581	11,019,581	11,019,581	-	-
Debt service interest	9,885,649	9,374,629	9,008,514	-	366,115
Total expenditures	286,718,707	287,091,768	277,863,598	250,000	8,978,170
Other financing uses - transfers to other funds	1,115,418	742,357	715,418	-	26,939
Total expenditures and other uses	<u>\$287,834,125</u>	<u>287,834,125</u>	<u>278,579,016</u>	<u>250,000</u>	<u>9,005,109</u>
Net change in fund balances			(12,364,973)		
Fund balance at beginning of year			<u>36,760,228</u>		
Fund balance at end of year			<u>24,395,255</u>		

Note to Required Supplementary Information

Budget Basis of Accounting

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

## OTHER SUPPLEMENTARY INFORMATION

SACHEM CENTRAL SCHOOL DISTRICT  
 Required Supplementary Information  
 Schedule of Funding Progress for Other Postemployment Benefits (OPEB)  
 June 30, 2012

	Actuarial					Unfunded Liability as a Percentage of
<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Covered Payroll</u>
July 1, 2008	\$ -	321,983,846	321,983,846	N/A	123,049,948	262%
July 1, 2009	-	319,908,394	319,908,394	N/A	155,301,888	206%
July 1, 2010	-	352,336,347	352,336,347	N/A	147,220,664	239%
July 1, 2011	-	387,597,254	387,597,254	N/A	148,033,106	262%

Schedule 3

SACHEM CENTRAL SCHOOL DISTRICT  
Supplementary Information  
Schedule of Change from Adopted Budget to Final Budget and  
Use of Unassigned Fund Balance - General Fund  
For the year ended June 30, 2012

Change from adopted budget to final budget:	
Adopted budget	\$ 287,834,125
Add prior year's encumbrances	<u>-</u>
Original budget	287,834,125
Budget revision	<u>-</u>
Final budget	<u>\$ 287,834,125</u>
 Next year's voter approved budget	 <u>\$ 291,358,344</u>
 Unassigned fund balance at beginning of year	 <u>\$ 2,241,363</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Schedule of Project Expenditures - Capital Projects Fund  
For the year ended June 30, 2012

Project Title	Project No.	Original Appropriation	Transfer	Revised Appropriation	Expenditures and Obligations to Date			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2012
					Prior Years	Current Year	Total		Proceeds of Obligations, net	State Aid	Local Sources	Total	
Districtwide Capital Needs	9707	\$ 48,000	-	129,731	117,510	-	117,510	12,221	-	-	117,510	117,510	-
Districtwide Skylights Replacement	9708	71,000	-	219,003	58,664	-	58,664	160,339	-	-	58,664	58,664	-
North Running Track	9711	234,303	-	345,881	233,887	-	233,887	111,994	-	-	233,887	233,887	-
RPZ Valves	* 0240	216,000	25,991	294,091	294,091	-	294,091	-	-	-	294,091	294,091	-
Gatlot Pond	0242	767	-	767	30	-	30	737	-	-	30	30	-
Fuel Tank Replacement	9710	380,000	-	380,000	314,112	-	314,112	65,888	-	-	314,112	314,112	-
Bus Purchase	9817	240,000	-	1,280,000	1,279,873	-	1,279,873	127	1,279,873	-	-	1,279,873	-
South Renovation	9812	38,244	-	38,244	-	-	-	38,244	-	-	-	-	-
Masonry Repairs	9923	80,000	-	80,000	-	-	-	80,000	-	-	-	-	-
South Computer Protection	9926	16,000	-	16,000	544	-	544	15,456	-	-	544	544	-
District Office Trailer	0030	36,900	-	36,900	-	-	-	36,900	-	-	-	-	-
Portable 2000 & 2001	0031	2,459,412	-	2,459,412	2,289,787	-	2,289,787	169,625	2,289,787	-	-	2,289,787	-
Modulars	0032	264,000	-	4,840,000	4,587,508	-	4,587,508	252,492	4,587,508	-	-	4,587,508	-
Reconfiguration Bond	0050	50,000,000	(25,991)	226,311,100	225,025,026	-	225,025,026	1,286,074	223,148,926	790,808	2,285,292	226,225,026	1,200,000
Pool Filter Pit Repair (North)	0136	40,000	-	40,000	27,000	-	27,000	13,000	-	-	27,000	27,000	-
Gym Floor Repair (Seneca & Lynwood)	0138	60,000	-	60,000	14,700	-	14,700	45,300	-	-	14,700	14,700	-
Air Conditioning at Chippewa	0139	103,876	-	103,876	-	-	-	103,876	-	-	-	-	-
Wenonah Roof Replacement	0701	902,660	-	902,660	860,292	-	860,292	42,368	-	-	860,292	860,292	-
Sagamore PA & Intercom	0702	385,000	-	385,000	189,457	-	189,457	195,543	-	-	189,457	189,457	-
Samoset Site Sanitary	0703	446,500	(7,390)	439,110	328,795	-	328,795	110,315	-	-	328,795	328,795	-
District Office RPZ	0704	23,000	7,390	30,390	20,957	-	20,957	9,433	-	-	20,957	20,957	-
Fuel Tank Replacement 07-08	0801	660,000	(48,360)	611,640	504,665	-	504,665	106,975	-	-	504,665	504,665	-
Gym Curtain 07-08	0802	52,000	(27,507)	24,493	23,104	-	23,104	1,389	-	-	23,104	23,104	-
Sequoia Track and Field Site Dev. 07-08	0803	55,000	87,116	142,116	142,179	-	142,179	(63)	-	-	142,179	142,179	-
District Office Roof Repair 07-08	0804	700,000	-	700,000	306,819	-	306,819	393,181	-	-	306,819	306,819	-
New Maintenance Building 07-08	0805	859,815	(11,249)	848,566	815,865	-	815,865	32,701	-	-	815,865	815,865	-
Press Box	5001	60,000	-	60,000	4,320	-	4,320	55,680	-	-	4,320	4,320	-
EXCEL Project	3300	33,141,716	-	33,141,716	26,895,331	3,273,025	30,168,356	2,973,360	25,000,000	5,356,868	47,399	30,404,267	235,911
East Upper Roof Repair	0051	3,500,000	(970,000)	2,530,000	2,340,118	143,829	2,483,947	46,053	-	-	3,500,000	3,500,000	46,053
East Lower Roof Repair	0052	2,230,000	970,000	3,200,000	903,100	1,726,604	2,629,704	570,296	-	-	2,230,000	2,230,000	570,296
Energy Performance Contract	1621	16,026,521	-	16,026,521	14,169,820	1,382,413	15,552,233	474,288	16,026,521	-	-	16,026,521	474,288
Samoset Bleacher and Track	1101	877,000	-	877,000	50,795	784,774	835,569	41,431	-	-	877,000	877,000	41,431
2011-12 Capital Projects	1101	1,015,418	-	1,015,418	-	34,572	34,572	980,846	-	-	1,015,418	1,015,418	980,846
Total		\$115,223,132	-	297,569,635	281,798,349	7,345,217	289,143,566	8,426,069	272,332,615	6,147,676	14,212,100	292,692,391	3,548,825

\* This project is included with the reconfiguration projects.

SACHEM CENTRAL SCHOOL DISTRICT  
Supplementary Information  
Schedule of Certain Revenue and Expenditures  
Compared to ST-3 Data  
For the year ended June 30, 2012

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
Revenue:			
Property taxes	A-1001	\$ 132,293,450	132,293,450
Non-property taxes	AT-1199	-	-
State aid	AT-3999	101,761,843	101,761,843
Federal aid	AT-4999	3,259	3,259
Total revenue	AT-5999	262,359,074	262,359,074
Expenditures:			
General support	AT-1999	25,955,825	25,955,825
Pupil transportation	AT-5999	18,677,388	18,677,388
Debt service - principal	AT-9798.6	11,019,581	11,019,581
Debt service - interest	AT-9798.7	9,008,513	9,008,513
Total expenditures	AT-9999	278,579,016	278,579,016

SACHEM CENTRAL SCHOOL DISTRICT  
 Supplementary Information  
 Investment in Capital Assets, Net of Related Debt  
 As of June 30, 2012

Capital assets, net		\$235,921,529
Deduct:		
Unamortized bond premium (net of deferred interest)	\$ 2,516,250	
Short-term portion of bonds payable	10,065,000	
Long-term portion of bonds payable	184,565,000	
Short-term portion of energy performance debt	1,456,799	
Long-term portion of energy performance debt	<u>15,117,204</u>	<u>213,720,253</u>
Investment in capital assets, net of related debt		<u>\$ 22,201,276</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Federal Grant Compliance Audit  
June 30, 2012



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

The Board of Education  
Sachem Central School District:

We have audited the financial statements of the governmental activities, each major fund, and the fiduciary funds of Sachem Central School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the Sachem Central School District's basic financial statements and have issued our report thereon dated October 3, 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

Management 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 opinions on the financial statements, but not for the purpose of expressing an opinion of 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### Compliance and Other Matters

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

We noted certain matters that we reported to management of the Sachem Central School District in a separate letter dated October 3, 2012.

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

Toski & Co., CPAs, P.C.

Williamsville, New York  
October 3, 2012

INDEPENDENT AUDITORS' 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

The Board of Education  
Sachem Central School District:

Compliance

We have audited Sachem Central 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 the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' 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 management. 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.

## Internal Control Over Compliance

Management 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 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, the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Toski & Co., CPAs, P.C.*

Williamsville, New York  
October 3, 2012

SACHEM CENTRAL SCHOOL DISTRICT  
Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2012

<u>Federal Grantor/Pass-through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Agency or pass-through number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>			
Passed-through NYS Education Department:			
Special Education Cluster:			
Special Education - Grants to States	84.027	0032-11-0880	\$ 42,377
Special Education - Grants to States	84.027	0032-12-0880	3,148,547
Special Education - Preschool Grants	84.173	0033-11-0880	5,003
Special Education - Preschool Grants	84.173	0033-12-0880	168,409
ARRA - Special Education - Grants to States 2011	84.391	5032-11-0880	346,935
ARRA - Special Education - Preschool Grants 2011	84.392	5033-11-0880	43,042
Total Special Education Cluster			<u>3,754,313</u>
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	0021-11-2975	55,225
Title I Grants to Local Educational Agencies	84.010	0021-12-2975	542,808
Title I Grants to Local Educational Agencies	84.010	011-12-2460	44,126
Total Title I, Part A Cluster			<u>642,159</u>
Education for Homeless Children and Youth	84.196	0212-11-3924	205
Fund for the Improvement of Education	84.215	Q215F110143	240,599
Special Education - State Personnel Development	84.323	1035-11-1003	323
Special Education - State Personnel Development	84.323	1035-12-1004	279
English Language Acquisition State Grants	84.365	0293-11-2975	19
English Language Acquisition State Grants	84.365	0293-12-2975	32,706
Improving Teacher Quality State Grants	84.367	0147-11-2975	7,167
Improving Teacher Quality State Grants	84.367	0147-12-2975	556,763
Education Jobs Funds	84.410	5400-12-2975	67,280
Race to the Top - District Grants	84.416	5500-12-2975	29,114
Total U.S. Department of Education			<u>5,330,927</u>
<u>U.S. Department of Agriculture</u>			
Passed-through NYS Education Department:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	170,231
National School Lunch Program	10.555	N/A	1,079,460
Total passed-through NYS Education Department			<u>1,249,691</u>
National School Lunch Program	10.555	N/A	<u>152,068</u>
Total Child Nutrition Cluster - Total U.S. Department of Agriculture			<u>1,401,759</u>
Total Expenditures of Federal Awards			<u>\$ 6,732,686</u>

See accompanying notes to the schedule of expenditures of federal awards.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to the Schedule of Expenditures of Federal Awards  
June 30, 2012

(1) Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the District, which is described in note 1 to the District's accompanying financial statements, using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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

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

The amounts reported as federal expenditures were obtained from the federal financial reports for the applicable program and periods. The amounts reported in these reports are prepared from records maintained for each program, which are reconciled with the District's financial reporting system.

(2) Subrecipients

No amounts were provided to subrecipients.

SACHEM CENTRAL SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2012

Part I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
1. Material weakness(ies) identified?	____ Yes <u> x </u> No
2. Significant deficiency(ies) identified not considered to be material weakness(es)?	____ Yes <u> x </u> None reported
3. Noncompliance material to financial statements noted?	____ Yes <u> x </u> No

Federal Awards:

Internal control over major programs:	
4. Material weakness(es) identified?	____ Yes <u> x </u> No
5. Significant deficiency(ies) identified not considered to be material weakness(es)?	____ Yes <u> x </u> None reported

Type of auditors' report issued on compliance for major programs:	Unqualified
6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))	____ Yes <u> x </u> No

7. The District's major programs audited were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Special Education Cluster	84.027/84.173 84.391/84.392
Improving Teacher Quality State Grants	84.367
8. Dollar threshold used to distinguish between Type A and Type B programs?	\$300,000
9. Auditee qualified as low-risk auditee?	<u> x </u> Yes   ____ No

Part II - FINANCIAL STATEMENT FINDINGS SECTION

No reportable findings.

Part III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No reportable findings and questioned costs.

SACHEM CENTRAL SCHOOL DISTRICT

Status of Prior Audit Findings

Year ended June 30, 2012

There were not audit findings in the prior year financial statements (June 30, 2011).