**NEW ISSUE – REFUNDING SERIAL BONDS** **RATING - MOODY'S INVESTORS SERVICE: Aa2**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Matters". The Bonds will NOT be designated as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.*

# SAYVILLE UNION FREE SCHOOL DISTRICT,
## SUFFOLK COUNTY, NEW YORK
**(the "District")**

# $11,050,000 SCHOOL DISTRICT REFUNDING (SERIAL) BONDS, 2012
**[BOOK-ENTRY-ONLY BONDS]**
**(The "Bonds")**

**Dated: Date of Delivery**

**SEE BOND MATURITY SCHEDULE HEREIN**

*Security and Sources of Payment:* The Bonds will constitute general obligations of the District and will contain a pledge of its faith and credit for the punctual payment of the principal of and interest on the Bonds, and all the taxable real property within the District will be subject to the levy of ad valorem taxes to pay principal and interest, without limitation as to rate or amount. (See "New Tax Levy Limitation Law" herein.)

*Prior Redemption*: The Bonds will not be subject to redemption prior to maturity.

*Form and Denomination:* The Bonds will be issued as registered bonds, and, when issued, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, ("DTC") New York, New York, which will act as the securities depository for the Bonds. Individual purchases of the Bonds may be made only in book-entry form in denominations of $5,000 or integral multiples thereof. Bondholders will not receive certificates representing their ownership interest in the bonds purchased. See "Book-Entry-Only System" under "The Bonds," herein.

*Payment:* Payment of the principal of and interest on the Bonds to the Beneficial Owners of the Bonds will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name." Payment will be the responsibility of the DTC Participant or Indirect Participant and not of DTC or the District, subject to any statutory and regulatory requirements as may be in effect from time to time. See "Book-Entry-Only System" under "The Bonds," herein.

*The Bonds are offered when, as and if issued and received by the Underwriter and subject to the receipt of an approving legal opinion as to the validity of the Bonds of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, of New York, New York. Certain matters will be passed upon for the Underwriter by its Counsel, Trespasz & Marquardt, LLP, Syracuse, New York. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about December 11, 2012.*

THIS OFFICIAL STATEMENT IS IN A FORM "DEEMED FINAL" BY THE DISTRICT FOR THE PURPOSE OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE") EXCEPT FOR CERTAIN INFORMATION THAT WILL BE UPDATED FOLLOWING THE SALE OF THE BONDS. FOR A DESCRIPTION OF THE DISTRICT'S AGREEMENT TO PROVIDE CONTINUING DISCLOSURE FOR THE BONDS, AS DESCRIBED IN THE RULE, SEE "DISCLOSURE UNDERTAKING" HEREIN.

Dated: November 13, 2012

Jefferies

# SAYVILLE UNION FREE SCHOOL DISTRICT,
## SUFFOLIK COUNTY, NEW YORK

## $11,050,000 SCHOOL DISTRICT REFUNDING (SERIAL) BONDS, 2012

### MATURITIES, RATES AND YIELDS (OR PRICES)

**Principal Due: April 15**
**Interest Due: April 15, 2013, October 15, 2013 and semi-annually thereafter in each year until maturity**

| Year | Amount | Rate | Yield or Price | CUSIP # |
|---|---|---|---|---|
| 2013 | $2,385,000 | 2.0% | 0.350% | 805839 JX6 |
| 2014 | 2,225,000 | 2.0 | 0.480 | 805839 JY4 |
| 2015 | 2,275,000 | 3.0 | 0.700 | 805839 JZ1 |
| 2016 | 2,325,000 | 3.0 | 0.830 | 805839 KA4 |
| 2017 | 365,000 | 4.0 | 0.930 | 805839 KB2 |
| 2018 | 380,000 | 4.0 | 1.000 | 805839 KC0 |
| 2019 | 395,000 | 4.0 | 1.270 | 805839 KD8 |
| 2020 | 405,000 | 4.0 | 1.470 | 805839 KE6 |
| 2021 | 295,000 | 4.0 | 1.700 | 805839 KF3 |

# SAYVILLE UNION FREE SCHOOL DISTRICT
# IN THE TOWN OF ISLIP
# SUFFOLK COUNTY, NEW YORK

99 Greeley Avenue
Sayville, New York 11782
Telephone: 631/244-6530
Fax: 631/244-6541

**BOARD OF EDUCATION**

Raymond J. Nelson, President
John Verdone, Vice President

Thomas Cooley
Norman deVenau
Maureen Dolan

Keith Kolar
Deborah Van Essendelft

---

Walter F. Schartner, Ed.D., Superintendent of Schools
John J. Belmonte, Assistant Superintendent for Business
Maribeth Demetres, District Clerk
Eleni Costello, District Treasurer

School District Attorney

Guercio & Guercio
Farmingdale, New York

* * *

**BOND COUNSEL**

Orrick, Herrington & Sutcliffe LLP
New York, New York

* * *

**FINANCIAL ADVISOR**

MUNISTAT SERVICES, INC.

Municipal Finance Advisory Service

12 Roosevelt Avenue
Port Jefferson Station, NY 11776
(631) 331-8888

E-mail: info@munistat.com
Website: http://www.munistat.com

No dealer, broker, salesman or other person has been authorized by the District to give any information or to make any representations, other than those contained in this Official Statement and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor there any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained by the District from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor nay sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. "The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of its responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guaranty the accuracy or completeness of such information."

IN CONNECTION WITH THIS OFFERING THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING IF COMMENCED MAY BE DISCONTINUED AT ANYTIME.

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# OFFICIAL STATEMENT

# SAYVILLE UNION FREE SCHOOL DISTRICT
## SUFFOLK COUNTY, NEW YORK

# $11,050,000 SCHOOL DISTRICT REFUNDING (SERIAL) BONDS, 2012
# [BOOK-ENTRY-ONLY BONDS]

This Official Statement and appendices thereto presents certain information relating to the Sayville Union Free School District, Suffolk County, in the State of New York (the "District" and "State," respectively) in connection with the sale of $11,050,000 School District Refunding (Serial) Bonds, 2012 (the "Bonds").

All quotations from and summaries and explanations of provisions of the Constitution and laws of the State and acts and proceedings of the District contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all references to the Bonds and the proceedings of the District relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and such proceedings.

The Bonds are general obligations of the District and contain a pledge of the faith and credit of the District for the punctual payment of the principal of and interest on the Bonds, as required by the Constitution and laws of the State (State Constitution, Article VIII, Section 2; Local Finance Law 100.00). For the payment of the principal of and interest on the Bonds, the District has the power to levy ad valorem taxes on all taxable real property in the District, without limitation as to rate or amount. See “Real Property Taxes” and “New Tax Levy Limitation Law” herein.

The financial condition of the District as well as the market for the Bonds could be affected by a variety of factors, some of which are beyond the District’s control. See “Market Factors Affecting Financings of the State and Municipalities of the State” herein.

## THE BONDS

### Description of the Bonds

The Bonds will be dated date of delivery, and will mature in the principal amounts on April 15, in each of the years 2013 to 2021, inclusive, as set forth on the inside cover page.

The Bonds will be issued in fully registered form and when issued will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds may be made in book-entry form only, in denominations of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds.

Interest on the Bonds will be payable April 15, 2013, October 15, 2013 and semi-annually thereafter in each year until maturity. Principal and interest will be paid by the District to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds, as described herein. The Bonds may be transferred in the manner described on the Bonds and as referenced in certain proceedings of the District referred to therein.

The Record Date of the Bonds will be the last business day of the month preceding each interest payment date.

### Optional Redemption

The Bonds will not be subject to redemption prior to maturity.

### Book-entry-only System

DTC, will act as securities depository for the Bonds. Such DTC Bonds will be issued as fully-registered securities, in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued and deposited with DTC for each Bond bearing the same rate of interest and CUSIP number.

DTC is limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilities the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of certificates.

Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found a www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping accounts of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them or notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District on the payable date, in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee) or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District, disbursement of such payments to Direct Participants will be the responsibility of DTC), and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In the event, bond certificates will be printed and delivered to DTC.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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Source: The Depository Trust Company, New York, New York.

The information contained in the above section concerning DTC and DTC's book-entry system has been obtained from sample offering document language supplied by DTC, but the District takes no responsibility for the accuracy thereof.

THE DISTRICT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANTS, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OR ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST ON THE BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO HOLDERS; OR (IV) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

THE DISTRICT CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO DIRECT PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (I) PAYMENTS OF THE PRINCIPAL OF OR INTEREST ON THE BONDS; (II) CONFIRMATION OF THEIR OWNERSHIP INTEREST IN THE BONDS; OR (III) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO. AS NOMINEE, AS REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SO SERVE AND ACT IN THE MANNER DESCRIBED IN THE OFFICIAL STATEMENT.

## Certificated Bonds

DTC may discontinue providing its services with respect to the Bonds at any time by giving notice to the District and discharging its responsibilities with respect thereto under applicable law, or the District may terminate its participation in the system of book-entry-only transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply: the Bonds will be issued in registered form in denomination of $5,000, or integral multiples thereof, principal of and interest on the Bonds when due will be payable at the principal corporate trust office of a bank or trust company located in the State to be named by the District as the fiscal agent; certificated Bonds may be transferred or exchanged at no cost to the owner of such bonds at any time prior to maturity at the corporate trust office of the fiscal agent for bonds of the same or any other authorized denomination or denominations in the same aggregate principal amount upon the terms set forth in the certificate of President of the Board of Education authorizing the sale of the Bonds and fixing the details thereof and in accordance with the Local Finance Law.

## Authorization and Purpose

The Bonds are being issued pursuant to the Constitution and statutes of the State of New York, including among others, the Education Law and the Local Finance Law, and a refunding bond resolution duly adopted by the Board of Education on September 27, 2012 (the "Refunding Bond Resolution"), authorizing the refunding of all or a portion of the following:

School District (Serial) Bonds - Series 2002A

| Maturity Date | Amount Outstanding | Interest Rate | Date of Redemption | Call Price | CUSIP Numbers |
|---|---|---|---|---|---|
| 06/15/13 | $390,000 | 4.375% | - | - | 805839DU8 |
| 06/15/14 | 410,000 | 4.500 | 06/15/13 | 101.00 | 805839DV6 |
| 06/15/15 | 430,000 | 4.500 | 06/15/13 | 101.00 | 805839DW4 |
| 06/15/16 | 445,000 | 4.500 | 06/15/13 | 101.00 | 805839DX2 |

School District (Serial) Bonds - Series 2002B

| Maturity Date | Amount Outstanding | Interest Rate | Date of Redemption | Call Price | CUSIP Numbers |
|---|---|---|---|---|---|
| 04/15/13 | $220,000 | 4.375% | - | - | 805839EH6 |
| 04/15/14 | 230,000 | 4.500 | 04/15/13 | 101.00 | 805839EJ2 |
| 04/15/15 | 245,000 | 4.600 | 04/15/13 | 101.00 | 805839EK9 |
| 04/15/16 | 255,000 | 4.700 | 04/15/13 | 101.00 | 805839EL7 |
| 04/15/17 | 270,000 | 4.750 | 04/15/13 | 101.00 | 805839EM5 |
| 04/15/18 | 280,000 | 4.875 | 04/15/13 | 101.00 | 805839EN3 |
| 04/15/19 | 295,000 | 5.000 | 04/15/13 | 101.00 | 805839EP8 |
| 04/15/20 | 310,000 | 5.000 | 04/15/13 | 101.00 | 805839EQ6 |
| 04/15/21 | 325,000 | 5.000 | 04/15/13 | 101.00 | 805839ER4 |

School District (Serial) Bonds - Series 2002C

| Maturity Date | Amount Outstanding | Interest Rate | Date of Redemption | Call Price | CUSIP Numbers |
|---|---|---|---|---|---|
| 06/15/13 | $1,425,000 | 4.000% | - | - | 805839FC6 |
| 06/15/14 | 1,475,000 | 4.000 | 06/15/13 | 100.00 | 805839FD4 |
| 06/15/15 | 1,535,000 | 4.125 | 06/15/13 | 100.00 | 805839FE2 |
| 06/15/16 | 1,590,000 | 4.250 | 06/15/13 | 100.00 | 805839FF9 |

School District (Serial) Bonds - Series 2002D

| Maturity Date | Amount Outstanding | Interest Rate | Date of Redemption | Call Price | CUSIP Numbers |
|---|---|---|---|---|---|
| 06/15/13 | $110,000 | 4.125% | - | - | 805839FR3 |
| 06/15/14 | 115,000 | 4.250 | 06/15/13 | 100.00 | 805839FS1 |
| 06/15/15 | 115,000 | 4.250 | 06/15/13 | 100.00 | 805839FT9 |
| 06/15/16 | 120,000 | 4.250 | 06/15/13 | 100.00 | 805839FU6 |
| 06/15/17 | 125,000 | 4.300 | 06/15/13 | 100.00 | 805839FV4 |
| 06/15/18 | 130,000 | 4.400 | 06/15/13 | 100.00 | 805839FW2 |
| 06/15/19 | 135,000 | 4.500 | 06/15/13 | 100.00 | 805839FX0 |
| 06/15/20 | 140,000 | 4.600 | 06/15/13 | 100.00 | 805839FY8 |

The 2002A, 2002B, 2002C and 2002D Bonds are referred to herein as the "Refunded Bonds".

The Refunding Bond Resolution authorizes the issuance of the Bonds to provide the funds necessary to effect the refunding of the Refunded Bonds. All proceeds of the Refunded Bonds have been previously expended.

The amount of Refunded Bonds, set forth below, may be changed by the District in its sole discretion due to market or other factors considered relevant by the District at the time of pricing of the Bonds and no assurance can be given that any particular maturity thereof will be refunded.

For further information regarding bond authorizations of the District for capital purposes and other matters relating thereto see "Indebtedness of the District."

## Refunding Financial Plan

Pursuant to the District's Refunding Financial Plan, as referred to in the Bond Resolution, the Bonds are being issued to effect the refunding of the Refunded Bonds maturing on their respective principal payments dates in the years 2013-2021. The Refunding Financial Plan will permit the District to realize, as a result of the issuance of the Bonds, cumulative dollar and present-value debt service savings.

Pursuant to the Refunding Bond Resolution and the Refunding Financial Plan, the District shall enter into an escrow contract for the Bonds (the "Escrow Contract") with The Bank of New York Mellon, New York, New York (the "Escrow Holder"). The Refunding Financial Plan, as set forth in part by the terms and conditions of the Escrow Contract, requires that the proceeds of the Bonds be used to purchase Government Obligations or held in a non-interest bearing account (as defined in the Refunding Financial Plan). The Government Obligations are to be placed in an irrevocable escrow trust fund (the "Escrow Fund") with the Escrow Holder. The Government Obligations or invested cash, together with the investment earnings thereon, in accordance with applicable law and the Escrow Contract, shall be sufficient to pay all costs incurred by the District in connection with the Bonds and to pay the principal and accrued interest and redemption premium on the refunding bond issue to be called for redemption on the respective redemption date, as follows: the 2002A Bonds – June 15, 2013, the 2002B Bonds – April 15, 2013, the 2002C Bonds – June 15, 2013, and the 2002D Bonds – June 15, 2013.

The holders of the Refunded Bonds will have a first lien on all cash and securities in the Escrow Fund. Upon payment by the Escrow Holder to the fiscal agent for the Refunded Bonds of amounts from the Escrow Fund adequate for the payment, in full, of all series of Refunded Bonds to be paid from the Escrow Fund, including interest and redemption premium, if any, payable with respect thereto, and payment of all expenses incidental to the issuance of the Bonds, such Escrow Contract shall terminate.

Under the Refunding Financial Plan, the Refunded Bonds will continue to be general obligations of the District (although they may be excluded in computing the District's debt limit) and will continue to be payable from *ad valorem* taxes on all taxable real property in the District. However , inasmuch as the funds held in the Escrow Fund together with interest earnings thereon and cash held in the Escrow Fund shall be sufficient to meet all required payments of principal of, interest on the premium payable with respect to the Refunding Bonds, it is not anticipated that other sources of payment will be utilized.

## Sources and Uses of Bond Proceeds

| | |
|---|---|
| Sources: | |
| Par Amount of Bonds | $ 11,050,000.00 |
| Original Issue Premium | 642,216.90 |
| Total | $ 11,692,216.90 |
| | |
| Uses: | |
| Escrow Deposit | $ 11,571,738.65 |
| Underwriters' Discount | 46,857.89 |
| Costs of Issuance and Contingency | 73,620.36 |
| Total | $ 11,692,216.90 |

## Nature of Obligation

Each Bond when duly issued and paid for will constitute a contract between the District and the holder thereof.

Holders of any series of notes or bonds of the District may bring an action or commence a proceeding in accordance with the civil practice law and rules to enforce the rights of the holders of such series of notes or bonds.

The Bonds are general obligations of the District and contain a pledge of the faith and credit of the District for the punctual payment of the principal of and interest on the Bonds, as required by the Constitution and laws of the State (State Constitution, Article VIII, Section 2; Local Finance Law 100.00). For the payment of the principal of and interest on the Bonds, the District has the power to levy ad valorem taxes on all taxable real property in the District, without limitation as to rate or amount. See "Real Property Taxes" and "Tax Information - New Tax Levy Limitation Law" herein.

Although the State Legislature is restricted by Article VIII, Section 12 of the State Constitution from imposing limitations on the power to raise taxes to pay "interest on or principal of indebtedness theretofore contracted" prior to the effective date of any such legislation, the New York State Legislature may from time to time impose additional limitations or requirements on the ability to increase a real property tax levy or on the methodology, exclusions or other restrictions of various aspects of real property taxation (as well as on the ability to issue new indebtedness). On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor (the "New Tax Levy Limitation Law"). The New Tax Levy Limitation Law applies to local governments and school districts in the State (with certain exceptions) and imposes additional procedural requirements on the ability of municipalities and school districts to levy certain year-to-year increases in real property taxes.

Under the Constitution of the State, the District is required to pledge its faith and credit for the payment of the principal of and interest on the Bonds and is required to raise real estate taxes, and without specification, other revenues, if such levy is necessary to repay such indebtedness. While the New Tax Levy Limitation Law imposes a statutory limitation on the District's power to increase its annual tax levy with the amount of such increase limited by the formulas set forth in the New Tax Levy Limitation Law, it also provides the procedural method to surmount that limitation. See "Tax Information - New Tax Levy Limitation Law," herein.

The Constitutionally-mandated general obligation pledge of municipalities and school districts in New York State has been interpreted by the Court of Appeals, the State's highest court, in Flushing National Bank v. Municipal Assistance Corporation for the City of New York, 40 N.Y.2d 731 (1976), as follows:

> "A pledge of the city's faith and credit is both a commitment to pay and a commitment of the city's revenue generating powers to produce the funds to pay. Hence, an obligation containing a pledge of the City's "faith and credit" is secured by a promise both to pay and to use in good faith the city's general revenue powers to produce sufficient funds to pay the principal and interest of the obligation as it becomes due. That is why both words, "faith" and "credit" are used and they are not tautological. That is what the words say and this is what the courts have held they mean . . . So, too, although the Legislature is given the duty to restrict municipalities in order to prevent abuses in taxation, assessment, and in contracting of indebtedness, it may not constrict the City's power to levy taxes on real estate for the payment of interest on or principal of indebtedness previously contracted . . .. While phrased in permissive language, these provisions, when read together with the requirement of the pledge and faith and credit, express a constitutional imperative: debt obligations must be paid, even if tax limits be exceeded".

In addition, the Court of Appeals in the Flushing National Bank (1976) case has held that the payment of debt service on outstanding general obligation bonds and notes takes precedence over fiscal emergencies and the police power of political subdivisions in New York State.

The pledge has generally been understood as a promise to levy property taxes without limitation as to rate or amount to the extent necessary to cover debt service due to language in Article VIII Section 10 of the Constitution which provides an exclusion for debt service from Constitutional limitations on the amount of a real property tax levy, insuring the availability of the levy of property tax revenues to pay debt service. As the Flushing National Bank (1976) Court noted, the term "faith and credit" in its context is "not qualified in any way". Indeed, in Flushing National Bank v. Municipal Assistance Corp., 40 N.Y.2d 1088 (1977) the Court of

Appeals described the pledge as a direct constitutional mandate. In Quirk v. Municipal Assistance Corp., 41 N.Y.2d 644 (1977), the Court of Appeals stated that, while holders of general obligation debt did not have a right to particular revenues such as sales tax, "with respect to traditional real estate tax levies, the bondholders are constitutionally protected against an attempt by the State to deprive the city of those revenues to meet its obligations." According to the Court in Quirk, the State Constitution "requires the city to raise real estate taxes, and without specification other revenues, if such a levy be necessary to repay indebtedness."

In addition, the Constitution of the State requires that every county, city, town, village, and school district in the State provide annually by appropriation for the payment of all interest and principal on its serial bonds and certain other obligations, and that, if at any time the respective appropriating authorities shall fail to make such appropriation, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. In the event that an appropriating authority were to make an appropriation for debt service and then decline to expend it for that purpose, this provision would not apply. However, the Constitution of the State does also provide that the fiscal officer of any county, city, town, village, or school district may be required to set apart and apply such first revenues at the suit of any holder of any such obligations.

In Quirk v. Municipal Assistance Corp., the Court of Appeals described this as a "first lien" on revenues, but one that does not give holders a right to any particular revenues. It should thus be noted that the pledge of the faith and credit of a political subdivision in New York State is a pledge of an issuer of a general obligation bond or note to use its general revenue powers, including, but not limited to, its property tax levy to pay debt service on such obligations, but that such pledge may not be interpreted by a court of competent jurisdiction to include a constitutional or statutory lien upon any particular revenues.

While the courts in New York State have historically been protective of the rights of holders of general obligation debt of political subdivisions, it is not possible to predict what a future court might hold.

## Continuing Disclosure Undertaking

At the time of delivery of the Bonds, the District will provide an executed copy of its "Undertaking to Provide Continuing Disclosure" (the "Undertaking"). Said Undertaking will constitute a written agreement or contract of the District for the benefit of holders of and owners of beneficial interest in the Bonds, to provide, or cause to be provided to the Electronic Municipal Market Access ("EMMA") System implemented by the Municipal Securities Rulemaking Board ("MSRB") established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of such Board contemplated by the Undertaking:

(1) (i) certain annual financial information, in a form generally consistent with the information contained or cross-referenced in this Official Statement under the headings "The District", "Economic and Demographic Information", "Indebtedness of the District", "Finances of the District", "Real Property Tax Information", "Litigation" and Appendix A: Financial Information;" and a copy of the audited financial statement (prepared in accordance with generally accepted accounting principles in effect at the time of the audit) for the preceding fiscal year, if any; such information, data and audit, if any, will be so provided on or prior to the later of either the end of the sixth month of each such fiscal year or, if an audited financial statement is prepared, sixty days following receipt by the District of its audited financial statement for the preceding fiscal year, but, in no event, later than the last business day of each such fiscal year:

(2) timely notice, not in excess of ten (10) business days after the occurrence of such event, of the occurrence of any of the following events:

> (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (vii) modifications to rights of Bondholders, if material; (viii) Bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of the Issuer; (xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the

termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Event (iii) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers, dated September 19, 1995. However, event (iii) is not applicable, since no "debt service reserves" will be established for the Bonds.

With respect to event (iv) the District does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds.

The District may provide notice of the occurrence of certain other events, in addition to those listed above, if it determines that any such other event is material with respect to the Bonds; but the District does not undertake to commit to provide any such notice of the occurrence of any event except those events listed above; and

(3) in a timely manner, not in excess of ten (10) business days after the occurrence of such event, notice of a failure to provide the annual financial information by the date specified.

The District's Undertaking shall remain in full force and effect until such time as the principal of, redemption premiums, if any, and interest on the Bonds shall have been paid in full or in the event that those portions of the Rule which require the Undertaking, or such provisions, as the case may be, do not or no longer apply to the Bonds. The sole and exclusive remedy for breach or default under the Undertaking is an action to compel specific performance of the undertakings of the District, and no person or entity, including a holder of the Bonds, shall be entitled to recover monetary damages thereunder under any circumstances. Any failure by the District to comply with the Undertaking will not constitute a default with respect to the Bonds.

The District reserves the right to amend or modify the Undertaking under certain circumstances set forth therein; provided that any such amendment or modification will be done in a manner consistent with Rule 15c2-12, as amended.

The District is in compliance in all material respects with all previous undertakings made pursuant to the Rule 15c2-12 for the past five years.

## SPECIAL PROVISIONS AFFECTING REMEDIES UPON DEFAULT

### State Aid Intercept

In the event of a default in the payment of the principal of and/or interest on the Bonds, the State Comptroller is required to withhold, under certain conditions prescribed by Section 99-b of the State Finance Law, state aid and assistance to the School District and to apply the amount thereof so withheld to the payment of such defaulted principal and/or interest, which requirement constitutes a covenant by the State with the holders from time to time of the Bonds. The covenant between the State of New York and the purchasers and the holders and owners from time to time of the notes and bonds issued by the school districts in the State for school purposes provides that it will not repeal, revoke or rescind the provisions of Section 99-b, or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby.

Said section provides that in the event a holder or owner of any bond issued by a school district for school purposes shall file with the State Comptroller a verified statement describing such bond and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and to serve a copy thereof by registered mail upon the chief fiscal officer of the school district which issued the bond. Such investigation by the State Comptroller shall cover the current status with respect to the payment of principal of and interest on all outstanding bonds of such school district issued for school purposes and the statement prepared and filed by the State Comptroller shall set forth a description of all such bonds of the school district found to be in default and the amount of principal and interest thereon past due.

Upon the filing of such a certificate in the office of the State Comptroller, he shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of such State aid or assistance due to such school district such amount thereof as may be required to pay (a) the school district's contribution to the State teachers retirement system, and (b) the principal of and interest on such bonds of such school district then in default. In the event such State aid or assistance initially so withheld shall be insufficient to pay said amounts in full, the State Comptroller shall similarly deduct and withhold from each succeeding allotment, apportionment or payment of such State aid or assistance due such school district such amount or amounts thereof as may be required to cure such default. Allotments, apportionments and payments of such State aid so deducted or withheld by the State Comptroller for the payment of principal and interest on bonds shall be forwarded promptly to the paying agent or agents for the bonds in default of such school district for the sole purpose of the payment of defaulted principal of and interest on such bonds. If any of such successive allotments, apportionments or payments of such State Aid so deducted or withheld shall be less than the amount of all principal and interest on the bonds in default with respect to which the same was so deducted or withheld, then the State Comptroller shall promptly forward to each paying agent an amount in the proportion that the amount of such bonds in default payable to such paying agent bears to the total amount of the principal and interest then in default on such bonds of such school district. The State Comptroller shall promptly notify the chief fiscal officer of such school district of any payment or payments made to any paying agent or agents of defaulted bonds pursuant to said Section 99-b.

## General Municipal Law Contract Creditors' Provision

Each Bond when duly issued and paid for will constitute a contract between the District and the holder thereof. Under current law, provision is made for contract creditors of the District to enforce payments upon such contracts, if necessary, through court action. Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the District upon any judgment or accrued claim against it on an amount adjudged due to a creditor shall not exceed nine per centum per annum from the date due to the date of payment. This provision might be construed to have application to the holders of the Bonds in the event of a default in the payment of the principal of and interest on the Bonds.

## Execution/Attachment of Municipal Property

As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment, although judicial mandates have been issued to officials to appropriate and pay judgments out of certain funds or the proceeds of a tax levy. In accordance with the general rule with respect to municipalities, judgments against the District may not be enforced by levy and execution against property owned by the District.

## Authority to File For Municipal Bankruptcy

The Federal Bankruptcy Code allows public bodies, such as cities, counties, towns and villages, recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State or its emergency control board to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness. While this Local Finance Law provision does not apply to school districts, there can be no assurance that it will not be made so applicable in the future.

## State Debt Moratorium Law

There are separate State law provisions regarding debt service moratoriums enacted into law in 1975.

At the Extraordinary Session of the State Legislature held in November, 1975, legislation was enacted which purported to suspend the right to commerce or continue an action in any court to collect or enforce certain short-term obligations of The City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such City of its faith and credit for the payment of obligations.

As a result of the Court of Appeals decision in Flushing National Bank v. Municipal Assistance Corporation for the City of New York, 40 N.Y.2d 731 (1976), the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law enacted at the 1975 Extraordinary Session of the State legislature authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the District.

### Constitutional Non-Appropriation Provision

There is in the Constitution of the State, Article VIII, Section 2, the following provision relating to the annual appropriation of monies for the payment of due principal of and interest on indebtedness of every county, city, town, village and school district in the State: "If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any holder of obligations issued for any such indebtedness." This constitutes a specific non-exclusive constitutional remedy against a defaulting municipality or school district; however, it does not apply in a context in which monies have been appropriated for debt service but the appropriating authorities decline to use such monies to pay debt service. However, Article VIII, Section 2 of the Constitution of the State also provides that the fiscal officer of any county, city, town, village or school district may be required to set apart and apply such revenues at the suit of any holder of any obligations of indebtedness issued with the pledge of the faith of the credit of such political subdivision. See "General Municipal Law Contract Creditors' Provision" herein.

The Constitutional provision providing for first revenue set asides does not apply to tax anticipation notes, revenue anticipation notes or bond anticipation notes.

### Default Litigation

In prior years, certain events and legislation affecting a holder's remedies upon default have resulted in litigation. While courts of final jurisdiction have upheld and sustained the rights of bondholders, such courts might hold that future events including financial crisises as they may occur in the State and in political subdivisions of the State require the exercise by the State or its political subdivisions of emergency and police powers to assure the continuation of essential public services prior to the payment of debt service. See "Nature of Obligation" and "State Debt Moratorium Law" herein.

### No Past Due Debt

No principal of or interest on District indebtedness is past due. The District has never defaulted in the payment of the principal of and interest on any indebtedness.

## THE DISTRICT

### Description

The District is located in the southwestern portion of Suffolk County, on the south shore of Long Island approximately 55 miles from New York City. It encompasses about 6 square miles and has an estimated population of 18,580. The District encompasses most of the unincorporated areas of Sayville and West Sayville. Its southern boundary is the Great South Bay which provides opportunities for boating, fishing and swimming. The District also includes a terminus for ferry service to several communities on Fire Island.

The District is primarily residential with some commercial development, which is centered in the business districts of Sayville and West Sayville, there is also some light industrial activity located near the Long Island Railroad, which traverses the District. Rail transportation is provided by the Long Island Railroad, which has a station in the District. Major roadways include Sunrise Highway (NYS Route 27) and Montauk Highway (NYS Route 27A); passenger airline service is available at the Long Island MacArthur Airport, approximately 16 miles from the District. Water service is provided by the Suffolk County Water Authority; electricity and gas are provided by the Long Island Power Authority and Brooklyn Union Gas Corp., respectively. Police protection is provided by Suffolk County; fire protection is provided by two local volunteer fire departments.

## District Organization

The Board of Education, which is the policy-making body of the District, consists of seven members with overlapping three-year terms so that as nearly an equal number as possible is elected to the Board each year. The President and the Vice-President are selected by the Board members.

The administrative officers of the District, whose duty it is to implement the policies of the Board of Education and who are appointed by the Board, include the Superintendent of Schools, the Assistant Superintendent for Business, the District Clerk and the District Treasurer.

## Enrollment History

| Fiscal Year Ending June 30: | Enrollment |
|---|---|
| 2008-09 | 3,350 |
| 2009-10 | 3,283 |
| 2010-11 | 3,232 |
| 2011-12 | 3,204 |

## Estimated Future District Enrollment

| Fiscal Year Ending June 30: | Enrollment |
|---|---|
| 2012-13 | 3,149 |
| 2013-14 | 3,143 |

## School Facilities

| Name | Grades | Maximum Capacity | Year Built |
|---|---|---|---|
| Cherry Avenue Elementary School | K-5 | 650 | 1957, ‘60 |
| Lincoln Avenue Elementary School | K-5 | 800 | 1966 |
| Sunrise Drive Elementary School | K-5 | 825 | 1960, ‘62, ‘06 |
| Middle School | 6-8 | 1,485 | 1970,’77 |
| High School | 9-12 | 1,850 | 1957, ‘59, ‘70, ‘91,’02, ‘03 |
| Administration Building | - | | 1970 |
| Maintenance Building | - | | 1904 |
| Other Facilities | | | |
| Old Junior High School | - | 600 | 1926, ‘59 |
| Green Avenue Elementary School (Rented to BOCES) | - | 625 | 1938 |

## Storm Impact

The District received minimal direct damage from Hurricane Sandy. Management reports only one school building was damaged which was limited to a blown out cafeteria window that will need to be replaced.

## Employees

The District provides services through approximately 576 full-time and part-time employees, who are represented by the following units of organized labor:

| Approx. No. of Employees | Union | Contract Expiration Date |
|---|---|---|
| 42 | Sayville Substitute Teachers' Association | 6-30-12[a] |
| 277 | Sayville Teachers' Association | 6-30-16 |
| 12 | Sayville Administrators' Association | 6-30-16 |
| 43 | UPSEU-Clerical Unit | 6-30-11[a] |
| 56 | Custodial and Maintenance | 6-30-11[a] |
| 103 | School Related Professionals | 6-30-12[a] |
| 29 | UPSEU-Food Service | 6-30-11[a] |
| 14 | Non-Union | |

a. In negotiations.

# ECONOMIC AND DEMOGRAPHIC INFORMATION

## Population Trends

The following table sets forth population statistics for the Town of Islip, Suffolk County and New York State.

| Year | Town of Islip | Suffolk County | New York State |
|---|---|---|---|
| 1990 | 299,587 | 1,322,535 | 17,990,455 |
| 2000 | 323,504 | 1,419,369 | 18,976,457 |
| 2010 | 345,627 | 1,493,350 | 19,378,102 |

Source: U.S. Bureau of the Census.

## Income Data

| | Per Capita Money Income | | |
|---|---|---|---|
| | 1990 | 2000 | 2010[a] |
| Town of Islip | $16,778 | $23,699 | $30,388 |
| County of Suffolk | 18,481 | 26,577 | 35,411 |
| State of New York | 16,501 | 23,389 | 30,791 |

| | Median Household Income | | |
|---|---|---|---|
| | 1990 | 2000 | 2010[a] |
| Town of Islip | $50,212 | $65,359 | $81,028 |
| County of Suffolk | 49,128 | 65,288 | 84,235 |
| State of New York | 32,965 | 43,393 | 54,148 |

Source: United States Bureau of the Census

a. Note: Based on American Community Survey 3-Year Estimates (2008-2010)

## Unemployment Rate Statistics

Unemployment statistics are not available for the District as such. The smallest area for which such statistics are available (which includes the District) is the Town of Islip. The information set forth below with respect to such Town and the County is included for information purposes only. It should not be inferred from the inclusion of such data in this Official Statement that the District is necessarily representative of the Town or the County, or vice versa.

| | Town of Islip | Suffolk County | New York State |
|---|---|---|---|
| Annual Averages: | | | |
| 2008 | 5.2% | 4.9% | 5.3% |
| 2009 | 7.6 | 7.3 | 8.4 |
| 2010 | 8.0 | 7.6 | 8.6 |
| 2011 | 7.7 | 7.3 | 8.0 |
| 2012 (8 Months) | 8.3 | 8.0 | 8.8 |

Source: Department of Labor, State of New York

## Major Private Sector Employers in the Town of Islip

| Name | Type of Business | Approx. No. of Employees |
|---|---|---|
| Entenmann's Bakery | Food Products | 1,500 |
| Computer Associates | Software | 1,050 |
| Symbol Technologies | Bar Code Scanning Devices | 950 |
| Nature's Bounty, Inc. | Vitamins, Minerals & Nutrients | 760 |
| Lumex, Inc. | Medical & Surgical Equip. | 725 |
| Whitman Packaging | Packaging All Types Cosmetics | 500 |
| Creative Bath | Manufacturers of Bathroom Accessories | 410 |
| Dayton T. Brown, Inc. | Test Lab & Metal Products | 400 |
| North Atlantic Industries | Electronic Test Equip. | 365 |
| Aerospace Avionics | Electronic Test-Equipment & Aircraft Systems | 350 |
| Dorne & Margolin Inc. | Aircraft Aerospace Products | 300 |
| Mannix | Replacement Aluminum Windows | 250 |
| Majestic Molded Products | Plastic Moldings | 200 |
| Gem Electronic Mfg. Co., Inc. | Electrical Specialty Products | 180 |
| Todd Products Corp. | Electrical Equipment | 150 |

Source: Town of Islip Economic Development Division.

# INDEBTEDNESS OF THE DISTRICT

## Constitutional Requirements

The New York State Constitution limits the power of the District (and other municipalities and certain school districts of the State) to issue obligations and to otherwise contract indebtedness. Such constitutional limitations in summary form, and as generally applicable to the District and the Bonds, include the following:

**Purpose and Pledge.** Subject to certain enumerated exceptions, the District shall not give or loan any money or property to or in aid of any individual or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The District may contract indebtedness only for a District purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

**Payment and Maturity.** Except for certain short-term indebtedness contracted in anticipation of taxes or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose as determined by statute. No installment may be more than fifty per centum in excess of the smallest prior installment unless the District provides for substantially level or declining annual debt service in the manner prescribed by the State Legislature. The District is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds or such required annual installments on its notes.

**Debt Limit.** The District has the power to contract indebtedness for any District purpose so long as the principal amount thereof shall not exceed seven per centum of the average full valuation of the taxable real estate of the District and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service. The constitutional and statutory method for determining average full valuation is by taking the assessed valuation of taxable real estate for the last completed assessment roll of the District and dividing the same by the equalization rate, or the ratio which such assessed valuation bears to the full valuation, as determined by the State Office of Real Property Services. The State Legislature is required to prescribe the manner by which such ratio shall be determined. Average full valuation is determined by taking the sum of the full valuations of such last completed assessment roll and the four preceding assessment rolls and dividing such sum by five.

## Statutory Requirements and Procedure

In general, the State Legislature has, by the enactment of the Local Finance Law, authorized the powers and procedure for the District to borrow and incur indebtedness subject, of course, to the constitutional provisions set forth above. The power to spend money, however, generally derives from other law, including the Education Law and the General Municipal Law.

Pursuant to the Local Finance Law, the District authorizes the issuance of bonds by the adoption of a bond resolution, approved by at least two-thirds of the members of the District Board, the finance board of the District. Customarily, the District Board has delegated to the President of the Board of Education, as chief fiscal officer of the District, the power to authorize and sell bond anticipation notes in anticipation of authorized bonds.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

The Local Finance Law also provides that where a bond resolution is published with a statutory form of notice, the validity of the bonds authorized thereby, including bond anticipation notes issued in anticipation of the sale thereof, may be contested only if:

1) Such obligations are authorized for a purpose for which the District is not authorized to expend money, or

2) There has not been substantial compliance with the provisions of law which should have been complied with in the authorization of such obligations and an action contesting such validity is commenced within twenty days after the date of such publication,

or

3) Such obligations are authorized in violation of the provisions of the Constitution.

Except on rare occasions the District complies with this estoppels procedure. It is a procedure that is recommended by Bond Counsel, but it is not an absolute legal requirement.

Principal installments are made in reduction of the total amount of such notes outstanding, commencing no later than two years from the date of the first of such notes and provided that such renewals do not extend five years beyond the original date of borrowing. (See "Payment and Maturity" under "Constitutional Requirements" herein, and "Details of Outstanding Indebtedness" herein).

In general, the Local Finance Law contains provisions providing the District with power to issue certain other short-term general obligation indebtedness including revenue and tax anticipation notes and budget notes (see "Details of Outstanding Indebtedness" herein).

The following pages present certain details with respect to the indebtedness of the District as of the date of the Debt Statement prepared in connection with the issuance of the Bonds.

**Computation of Debt Limit and Debt Contracting Margin**
(As of November 7, 2012)

| | Assessed Valuation | State Equalization Rate | Full Valuation |
|---|---|---|---|
| 2011-2012[1] | $ 278,674,998 | 12.00% | $2,322,291,650 |

Debt Limit: 10% of Full Valuation ..... $232,229,165

**Calculation of Total Net Indebtedness**

| | |
|---|---|
| Inclusions:[2] | |
| Outstanding bonds | $34,645,000 |
| Outstanding Bond Anticipation Notes | 0 |
| Gross Indebtedness Outstanding | $34,645,000 |
| Exclusions: | |
| Estimated Building Aid | 17,634,305[3] |
| Net Indebtedness | $17,010,695[4] |

1. Represents most recent assessed valuation for which Equalization Rate has been established.
2. The State Constitution does not provide for the inclusion of tax anticipation or revenue anticipation notes in the computation of the statutory debt limit of the District.
3. Represents estimate of moneys receivable by the District from the State as an apportionment form debt service for school building purposes, based on most recent information received by the District from the State Department of Education. The amount shown is not necessarily the amount the District will ultimately receive. The District has not applied for a building aid exclusion certificate from the Commissioner of Education and therefor may not exclude such amount from its total indebtedness on the Debt Statement form required to be filed with the Office of the State Comptroller when bonds are to be issued.
4. Represents 7.59% of the Debt Limit.

**Details of Short-Term Indebtedness Outstanding**

As of the date of this Official Statement the District has no short-term indebtedness outstanding.

**Other Short-Term Indebtedness**

As of the date of this Official Statement, the District does not have any tax anticipation notes, or revenue notes outstanding, and does not anticipate the need to authorize such borrowings in the foreseeable future.

## Debt Service Requirements – Outstanding Bonds and Refunding Bonds

| Fiscal Year Ending June 30: | Outstanding Debt Service | Refunding Debt Service | Sub-Total | Less: Debt Service to be Refunded | Net After Issuance of Refunding Bonds |
|---|---|---|---|---|---|
| 2013 | $ 5,101,610 | $ 2,489,642 | $ 7,591,252 | $2,567,906 | $5,023,345 |
| 2014 | 5,040,908 | 2,481,100 | 7,522,008 | 2,622,784 | 4,899,224 |
| 2015 | 4,690,996 | 2,486,600 | 7,177,596 | 2,625,096 | 4,552,499 |
| 2016 | 4,664,120 | 2,468,350 | 7,132,470 | 2,611,270 | 4,521,200 |
| 2017 | 2,552,686 | 438,600 | 2,991,286 | 491,585 | 2,499,701 |
| 2018 | 2,505,473 | 439,000 | 2,944,473 | 488,385 | 2,456,088 |
| 2019 | 2,461,891 | 438,800 | 2,900,691 | 489,015 | 2,411,676 |
| 2020 | 2,465,090 | 433,000 | 2,898,090 | 488,190 | 2,409,900 |
| 2021 | 2,319,601 | 306,800 | 2,626,401 | 341,250 | 2,285,151 |
| 2022 | 1,926,600 | 0 | 1,926,600 | 0 | 1,926,600 |
| 2023 | 1,873,770 | 0 | 1,873,770 | 0 | 1,873,770 |
| 2024 | 1,819,043 | 0 | 1,819,043 | 0 | 1,819,043 |
| 2025 | 1,837,412 | 0 | 1,837,412 | 0 | 1,837,412 |
| 2026 | 1,627,375 | 0 | 1,627,375 | 0 | 1,627,375 |
| 2027 | 1,567,562 | 0 | 1,567,562 | 0 | 1,567,562 |
| 2028 | 1,507,750 | 0 | 1,507,750 | 0 | 1,507,750 |
| 2029 | 572,000 | 0 | 572,000 | 0 | 572,000 |
| Totals | $44,533,887 | $11,981,892 | $56,515,779 | $12,725,481 | $43,790,296 |

## Trend of District Indebtedness

| | Fiscal Year Ending June 30: | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| Bonds | $35,653,600 | $32,910,000 | $41,705,000 | $38,245,000 | $34,645,000 |

## Calculation of Estimated Overlapping and Underlying Indebtedness

| Overlapping and Underlying Units | Date of Report | Percentage Applicable | Applicable Total Indebtedness | Applicable Net Indebtedness |
|---|---|---|---|---|
| County of Suffolk | 09-04-12 | 0.95% | $15,714,197 | $ 12,675,754 |
| Town of Islip | 03-30-12 | 6.06 | 8,500,059 | 7,780,131 |
| Fire Districts (Est.) | 12-31-10 | Var. | 3,500,000 | 3,500,000 |
| Totals | | | $27,714,256 | $23,955,885 |

Sources: Annual Reports of the respective units for the most recently completed fiscal year filed with the Office of the State Comptroller, or more recently published Official Statements.

**Debt Ratios**
**(As of November 6, 2012)**

| | Amount | Per Capita[b] | Percentage Of Full Value[c] |
|---|---|---|---|
| Total Direct Debt[a] | $34,645,000 | $1,540 | 1.492% |
| Net Direct Debt | 17,634,305 | 784 | 0.759 |
| Total Direct & Applicable Total Overlapping Debt | 62,359,256 | 2,772 | 2.685 |
| Net Direct & Applicable Net Overlapping Debt | 41,590,190 | 1,848 | 1.791 |

a. Exclusive of refunded bonds.
b. The current estimated population of the district is 22,500.
c. The full valuation of taxable real property in the District for 2011-12 is $2,322,291,650.

### Authorized and Unissued Indebtedness/Anticipated Future Borrowings

As of the date of this Statement the District has authorized and unissued indebtedness in the amount of $299,483 to finance the construction of additions to and the reconstruction of various District buildings.

## FINANCES OF THE DISTRICT

### Independent Audit Procedures

The financial affairs of the District are subject to periodic compliance review by the Office of the State Comptroller to ascertain whether the District has complied with the requirements of various state and federal statutes. The financial statements of the District are audited each year by an independent public accountant. The last such audit covers the fiscal year ended June 30, 2012. A copy of such report is included herein as Appendix C.

### Investment Policy

Pursuant to State law, including Sections 10 and 11 of the GML, the District is generally permitted to deposit moneys in banks or trust companies located and authorized to do business in the State. All such deposits, including special time deposit accounts and certificates of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, are required to be secured in accordance with the provisions of and subject to the limitations of Section 10 of the GML.

The District may also temporarily invest moneys in: (1) obligations of the United States of America; (2) obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America; (3) obligations of the State of New York; (4) with the approval of the New York State Comptroller, in tax anticipation notes or revenue anticipation notes issued by any municipality, school district, or district corporation, other than those notes issued by the District, itself; (5) certificates of participation issued in connection with installment purchase agreements entered into by political subdivisions of the State pursuant to Section 109-b(10) of the GML; (6) obligations of a New York public benefit corporation which are made lawful investments for municipalities pursuant to the enabling statute of such public benefit corporation; or (7) in the case of moneys held in certain reserve funds established by the District pursuant to law, in obligations of the District.

All of the foregoing investments are required to be payable or redeemable at the option of the owner within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. Unless registered or inscribed in the name of the District, such instruments and investments must be purchased through, delivered to and held in custody of a bank or trust company in the State pursuant to a written custodial agreement as provided by Section 10 of the GML.

The Board of Education of the District has adopted an investment policy and such policy conforms with applicable laws of the State governing the deposit and investment of public moneys. All deposits and investments of the District are made in accordance with such policy.

## Fund Structure and Accounts

The General Fund is the general operating fund for the District and is used to account for substantially all revenues and expenditures of the District. The District also maintains a special aid fund and school lunch fund. In addition, a capital projects fund is used to record capital facility projects, while a trust and agency fund accounts for assets received by the District in a fiduciary capacity.

## Basis of Accounting

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

The fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

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

Source: Audited Financials of the District.

## Budget Process

The District's fiscal year begins on July 1 and ends on June 30. Starting in the fall or winter of each year, the District's financial plan and enrollment projection are reviewed and updated and the first draft of the next year's proposed budget is developed by the central office staff. During the winter and early spring, the budget is developed and refined in conjunction with school building principals and department supervisors, and by law must be submitted to voter referendum on the third Tuesday of May each year. The District's budget for fiscal year 2012-2013 was subject to the provisions of Chapter 97 of the Laws of 2011, which imposes a limitation on the amount of real property taxes that a school district may levy in a given year. See "Tax Information - The New Tax Levy Limit Law," herein. The 2012-2013 budget was approved by District voters on May 15, 2012 and a summary is included in Appendix A – Financial Information.

## Revenues

The District receives most of its revenue from a real property tax on all non-exempt real property situated within the District and State aid. A summary of such revenues for the five most recently completed fiscal years may be found in Appendix A. On June 24, 2011, Chapter 97 of the Laws of 2011 was enacted, which imposes a tax levy limitation upon the municipalities, school districts and fire districts in the State, including the District. See "Tax Information – The New Tax Levy Limit Law," herein.

*Real Property Taxes*

See "Tax Information", herein.

*State Aid*

In addition to the amount of State Aid budgeted by the District, the State is expected to make STAR payments representing tax savings provided by school districts to their taxpayers under the STAR Program (see "STAR - School Tax Exemption").

The District is dependent in significant part on financial assistance from the State in the form of State Aid for both operating and capital purposes. The District received approximately 27.93% of its total General Fund Revenue operating from State aid in 2011-2012 and expects to receive approximately 26.69% in 2012-2013. Should the District in the current fiscal year or in future fiscal years fail to receive State aid expected from the State in the amounts and at the times expected, occasioned by a delay in the payment of such monies and not by a cut in State aid, the District is authorized by the Local Finance Law to provide operating funds by borrowing in anticipation of the receipt of uncollected State aid. (see "Recent Events Affecting State Aid to New York State School Districts")

The State is not constitutionally obligated to maintain or continue State aid to the School District. There can be no assurance that the State appropriation for State aid to school districts will be continued in future years, either pursuant to existing formulas or in any form whatsoever. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget and other circumstances including State fiscal stress. State aid appropriated and apportioned to the District can be paid only if the State has such monies available there for. State budgetary restrictions, which eliminate or substantially reduce State aid could have a material adverse effect upon the School District requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures.

## Recent Events Affecting State Aid to New York School Districts

State aid to school districts in the State has declined in some recent years.

*School district fiscal year 2009-2010*: Total State aid for the 2009-2010 fiscal year was maintained at the 2008-2009 levels in part due to the use of Federal aid made available as part of the American Reinvestment and Recovery Act of 2009 ("ARRA"). During said fiscal year, the District's receipt of State aid was delayed as a result of several initiatives adopted by then Governor Paterson in response to the State's ongoing and worsening fiscal crisis. Despite such delays, the District did receive all of the State aid due to it for the fiscal year ended June 30, 2010.

*School district fiscal year 2010-2011*: The total reduction in State aid for the 2010-2011 fiscal year was approximately $2.1 billion; however, this amount was partially offset by $726,000,000 in Federal aid for education, including funding from ARRA and other federal initiatives. As a result, the net State aid reduction totaled approximately $1.4 billion.

*School district fiscal year 2011-2012:* The total reduction in State aid for the 2011-2012 fiscal year was $1.3 billion or 6.1 percent from the previous year, and all aid is expected to be received on time.

*School district fiscal year 2012-2013*: The State Legislature adopted the State budget on March 30, 2012. The budget includes an increase of $751 million in State aid for school districts.

The District cannot predict at this time whether there will be any reductions in and/or delays in the receipt of State aid during the District's 2012-2013 fiscal year. The District believes that it would mitigate the impact of any delays or the reduction in State aid by reducing expenditures, increasing revenues, appropriating other available funds on hand, and/or by any combination of the foregoing. (See also *"Market Factors Affecting Financing of the State and School Districts of the State"* herein).

The following table sets forth General Fund revenues and State aid revenues during the last five fiscal years and the amount budgeted for the fiscal years ending June 30, 2012 and 2013.

| Year Ended June 30: | Total General Fund Revenue | State Aid | State Aid To Revenues (%) |
|---|---|---|---|
| 2007 | $67,630,843 | $21,896,191 | 32.38% |
| 2008 | 70,951,292 | 23,616,893 | 33.29 |
| 2009 | 74,783,231 | 24,845,419 | 33.22 |
| 2010 | 76,245,889 | 22,473,211 | 29.47 |
| 2011 | 76,435,692 | 21,776,082 | 28.49 |
| 2012 | 80,076,963 | 22,366,899 | 27.93 |
| 2013 (Budgeted) | 85,674,961[a] | 22,867,286 | 26.69 |

a. Budgeted revenues include application of reserves and fund balance.

## Expenditures

The major categories of expenditure for the District are General Support, Instruction, Employee Benefits, Pupil Transportation and Debt Service. A summary of the expenditures for the five most recently completed fiscal years may be found in Appendix A.

## Employee Pension System

New York State Certified (teachers and administrators) are members of the New York State Teachers Retirement System ("TRS"). Payments to the TRS are generally deducted from State aid payments. All non-certified employees of the District eligible for pension or retirement benefits under the Retirement and Social Security Law of the State of New York are members of the New York State and Local Employee's Retirement System ("ERS"). Both the TRS and ERS (the "State Retirement System" or "SRS") are noncontributory with respect to members hired prior to July 1, 1976. All members of the respective systems that were hired on or after July 1, 1976 and before December 31, 2009, with less than 10 year's full-time service, contribute 3% of their gross annual salary toward the cost of retirement programs.

On December 10, 2009, then Governor Paterson signed into law a new Tier 5. The law was effective for new ERS and TRS employees hired after January 1, 2010. New Tier 5 ERS employees will now contribute 3% of their salaries and new Tier 5 TRS employees will contribute 3.5% of their salaries. There is no provision for these contributions to cease after a certain period of service.

On March 16, 2012, Governor Cuomo signed into law the new Tier 6 pension program, effective for new ERS and TRS employees hired after April 1, 2012. The Tier 6 legislation provides for increased employee contribution rates of between 3% and 6%, an increase in the retirement age from 62 years to 63 years, a readjustment of the pension multiplier, and a change in the time period for final average salary calculation from 3 years to 5 years. Tier 6 employees will vest in the system after ten years of employment and will continue to make employee contributions throughout employment.

Pension reform legislation enacted in 2003 and 2004 changed the cycle of ERS billing to match budget cycles of the District. Under the previous method, the District was unsure of how much it paid to the system until after its budget was implemented. Under the current method the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1 instead of the following April 1 so that the District will be able to more accurately include the cost of the contribution into its budget. The reform legislation also (i) required the District to make a minimum contribution of 4.5% of payroll every year, including years in which the investment performance of the fund would make a lower contribution possible and (ii) moved the annual payment date for contributions from December 15th to February 1st, effective December 15, 2004.

On September 10, 2010, Comptroller Thomas P. DiNapoli announced increases over the previous year in the 2011-2012 employer contribution rates for the New York State Common Retirement Fund (the "Fund"). The average contribution rate for ERS increased from 11.9% of salaries to 16.3% of salaries for the fiscal year 2011-2012. On August 24, 2011 the Comptroller announced the average contribution rate for the ERS will increase from 16.3% of salaries to 18.9% of salaries for fiscal year 2012-2013. The TRS rate for the 2010-2011 fiscal year was 8.62% (up from 6.9 percent in 2010). The TRS rate for the 2011-2012 fiscal year is 11.11%. The TRS recommended estimated employer contribution rate for 2012-2013 is 11.84%

While the School District is aware of the potential negative impact on its budget and will take the appropriate steps to budget accordingly for the increase, there can be no assurance that its financial position will not be negatively impacted.

Due to poor performance of the investment portfolio of the State Retirement System, New York State Comptroller Thomas DiNapoli has announced that the employer contribution rates for required pension contributions to the SRS will continue to increase. To help mitigate the impact of their ERS increases, legislation has been enacted that permits local governments and school districts to amortize a portion of such contributions. Under such legislation, local governments and school district that choose to amortize a portion of their ERS contributions will be required to set aside and reserve funds with the SRS for certain future rate increases. The District does not anticipate amortizing any pension payments.

Chapter 57 of the Laws of 2010 (Part TT) amended the Retirement and Social Security Law to authorize participating employers, if they so elect, to amortize an eligible portion of their annual required contributions to ERS when employer contribution rates rise above certain levels. The option to amortize the eligible portion began with the annual contribution due February 1, 2011. The amortizable portion of an annual required contribution is based on a "graded" rate by the State Comptroller in accordance with formulas provided in Chapter 57. Amortized contributions are to be paid in equal annual installments over a ten-year period, but may be prepaid at any time. Interest is to be charged on the unpaid amortized portion at a rate to be determined by State Comptroller, which approximates a market rate of return on taxable fixed rate securities of a comparable duration issued by comparable issuers. The interest rate is established annually for that year's amortized amount and then applies to the entire ten years of the amortization cycle of that amount. When in any fiscal year, the participating employer's graded payment eliminates all balances owed on prior amortized amounts, any remaining graded payments are to be paid into an employer contribution reserve fund established by the State Comptroller for the employer, to the extent that amortizing employer has no currently unpaid prior amortized amounts, for future such use.

The following table sets forth the ERS and TRS contributions for each fiscal year from 2009-2012.

| Fiscal Year Ending | TRS | ERS |
|---|---|---|
| 2009 | $ 2,272,806 | $ 551,520 |
| 2010 | 2,401,420 | 668,712 |
| 2011 | 2,413,346 | 1,086,469 |
| 2012 | 3,383,421 | 1,410,263 |
| 2013 (Budgeted) | 4,072,744 | 1,544,565 |

## Other Post Employment Benefits

School Districts and Boards of Cooperative Education Services, unlike other municipal units of the government in the State, have been prohibited from reducing retiree health benefits or increasing health care contributions received or paid by retires below the level of benefits or contributions afforded to or required from active employees. This protection from unilateral reduction of benefits had been extended annually by the New York State Legislature until recently when legislation was enacted to make permanent these health insurance benefit protections for retirees. Legislative attempts to provide similar protection to retirees of other local units of government in the State have not succeeded as of the date hereof. Nevertheless, many such retirees of all varieties of municipalities in the State do presently receive such benefits.

The District provides post-retirement healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. GASB Statement No. 45 ("GASB 45") of the Government Accounting Standards Board ("GASB") requires governmental entities, such as the District, to account for the cost of certain non-pension post-employment benefits as it accounts for vested pension benefits.

OPEB refers to "other post-employment benefits", meaning benefits other than pension benefits. OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Until now, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on governmental financial statements.

GASB 45 requires municipalities and school districts to account for OPEB liabilities in the same manner as they already account for pension liabilities. It requires them to adopt the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

Unlike GASB 45, based on actuarial valuation, an annual contribution ("ARC") is determined for each municipality or school district. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by the current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not provided for), using an amortization period of not more than 30 years. If a municipality or school district contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and compliance in meeting its ARC.

As of June 30, 2012, the actuarial accrued liability ("AAL"), the portion of the actuarial present value of the total future benefits based on the employees' service rendered to the measurement date, is $112.4 million. The actuarial value of the Plan's assets was $0, resulting in an unfunded actuarial accrued liability ("UAAL") of $112.4 million. The District's annual OPEB cost was $9.9 million and the ARC was $10.3 million. The District is on a pay-as-you-go funding basis and paid $3.7 million for the fiscal year ending June 30, 2012 resulting in a projected year-end Net OPEB obligation of $20.9 million.

The District's unfunded actuarial accrued OPEB liability could have a material adverse impact upon the District's finances and could force the District to reduce services, raise taxes or both. There is no authority in New York State to establish a reserve fund for the liability at this time.

Actuarial valuation will be required every 2 years for OPEB plans with more than 200 members, every 3 years if there are less than 200 members.

## TAX INFORMATION

### Real Property Taxes

The District derives its power to levy an ad valorem real property tax from the State Constitution; methods and procedures to levy, collect and enforce this tax are governed by the Real Property Tax Law. Real property assessment rolls used by the District are prepared by the Town of Islip. Assessment valuations are determined by the Town assessor and the State Board of Real Property Services, which is responsible for certain utility and railroad property. In addition, the State Board of Real Property Services annually establishes State Equalization Rates for all localities in the State, which are determined by statistical sampling of market sales/assessment studies. The equalization rates are used in the calculation and distribution of certain State aids and are used by many localities in the calculation of debt contracting and real property taxing limitations. The District is not subject to constitutional real property taxing limitations.

The following table sets forth real property taxes as a percentage of the District's General Fund revenue (excluding other financing sources) for each of the fiscal years 2007 through 2011 inclusive and for the 2011-2012 and 2012-2013 fiscal years, based upon the District's adopted budgets for such years.

| Year Ended June 30: | Total Revenue | Real Property Taxes | Real Property Taxes to Revenues (%) |
|---|---|---|---|
| 2007 | $67,630,843 | $37,613,815 | 55.62% |
| 2008 | 70,951,292 | 39,321,029 | 55.42 |
| 2009 | 74,783,231 | 40,914,425 | 54.71 |
| 2010 | 76,245,889 | 42,482,384 | 55.72 |
| 2011 | 76,435,692 | 44,513,909 | 58.24 |
| 2012 | 80,076,963 | 48,490,301 | 60.50 |
| 2013 (Budgeted) | 85,674,961[a] | 56,097,211 | 65.48 |

a. Budgeted amounts include application of reserves and fund balance.

### Tax Collection Procedure

Taxes are payable in two installments. The first installment is due December 1, payable without penalty to January 10. Penalties: after January 10 - 1%; after February 10 - 2%; after March 10 - 3%; after April 10 - 4%; May 11 - May 31 - 5%. The second installment is payable without penalty to May 31, after which date all taxes must be paid to the County Treasurer plus a penalty of 5% and interest on unpaid taxes and penalties at the rate of 1% per month or part thereof from February 1, except July 1, which shall be 5%. The County guarantees the payment to the District of its total tax levy by the end of each District fiscal year. Responsibility for collecting unpaid taxes rests with the County and the County holds annual tax sales.

### STAR - School Tax Exemption

The STAR (School Tax Relief) program provides State-funded exemptions from school property taxes to homeowners for their primary residences. School districts are reimbursed in full by the State for real property taxes exempted pursuant to the STAR program on or about the first business day of January in each year.

### Valuations, Rates, Levies and Collections

A summary of Valuations, Rates and Levies is contained in Appendix A.

**Selected Listing of Large Taxable Properties**
**2011-2012 Assessment Roll**

| Name | Type | Assessed Valuation |
|---|---|---|
| Home Properties South Bay | Apartments | $5,491,100 |
| Sayville Memlo LLC | Shopping Center | 4,104,000 |
| Sayville Plaza Development Company | Shopping Center | 2,652,800 |
| Petite Fleur | Commercial | 2,550,000 |
| LILCO | Utility | 2,014,000 |
| LIPA | Utility | 1,816,863 |
| Saddle Cove Associates LLC | Apartments | 1,339,400 |
| Cesare DeFeo & ORS | Shopping Center | 1,221,000 |
| Keyspan Gas East Corporation | Utility | 1,138,157 |
| Verizon | Utility | 1,084,532 |
| Fairfield Plaza LLC | Apartments | 945,000 |
| Lake Land Garden Associates | Apartments | 933,200 |
| Lake Land Owners Corp | Apartments | 744,600 |
| Judith Stein | Commercial | 671,000 |
| Dutch Properties | Apartments | 567,000 |
| | | $27,272,652[a] |

a. Represents 9.97% of the 2011-2012 Assessed Valuation.

## New Tax Levy Limitation Law

On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor ("Chapter 97" or the "Tax Levy Limitation Law"). The Tax Levy Limitation Law applies to all local governments, including school districts (with the exception of New York City, the counties comprising New York City and the school districts in New York City Buffalo, Rochester, Syracuse, and Yonkers, the latter four of which are affected indirectly by applicability to their respective city.)

Prior to the enactment of the Tax Levy Limitation Law, there was no statutory limitation on the amount of real property taxes that a school district could levy as part of its budget if its budget had been approved by a simple majority of its voters. In the event the budget has been defeated by the voters, the school district was required to adopt a contingency budget. Under a contingency budget, school budget increases were limited to the lesser of four percent (4%) of the prior year's budget or one hundred twenty percent (120%) of the consumer price index ("CPI").

Chapter 97 now requires that a school district submit its proposed tax levy to the voters each year beginning with the 2012-2013 fiscal year.

Chapter 97 restricts, among other things, the amount of real property taxes that may be levied by or on behalf of a school district in a particular year. It expires on June 15, 2016 unless other legislation is extended. Pursuant to the Tax Levy Limitation Law, the tax levy of a school district cannot increase by more than the lesser of (i) two percent (2%) or (ii) the annual increase in the CPI, over the amount of the prior year's tax levy. Certain adjustments would be permitted for taxable real property full valuation increases due to changes in physical or quantity growth in the real property base as defined in Section 1220 of the Real Property Tax Law. A school district could exceed the tax levy limitation for the coming fiscal year only if the voters of such school district first approve a tax levy by at least 60% affirmative vote of those voting to override such limitation for such coming fiscal year only. Tax levies that do not exceed the limitation will only require approval by a least 50% of those voting. In the event that the voters reject a tax levy and the district does not go out for a second vote, or if a second vote is likewise defeated, Chapter 97 provides that the tax levy for the new fiscal year may not exceed the tax levy for the prior fiscal year.

A school district's calculation of each fiscal year's tax levy limit is subject to review by the Commissioner of Education and the commissioner of Taxation and Finance prior to adoption of each fiscal year budget.

There are exceptions for school districts to the tax levy limitation provided in chapter 97, including expenditures made on account of certain tort settlements and certain increases in the average actuarial contribution rates of the New York State and Local Employees' Retirement System, and the Teachers' Retirement System. School districts are also permitted to carry forward a certain portion of their unused levy limitation from a prior year.

There is also an exception for school districts for "Capital Local Expenditures: subject to voter approval where required by law. This term is defined in a manner that does not include certain items for which a school district may issue debt including the payment of judgments or settled claims, including tax certiorari payments, and cashflow borrowings including tax anticipation notes, revenue anticipation notes, budget notes and deficiency notes. "Capital Local Expenditures", are defined as "the taxes associated with budgeted expenditures resulting from the financing, refinancing, acquisition, design, construction, reconstruction, rehabilitation, improvement, furnishing and equipping of or otherwise providing for school district capital facilities or school district capital equipment, including debt service and lease expenditures, and transportation capital debt service, subject to the approval of the qualified voters where required by law". The portion of the tax levy necessary to support "Capital Local Expenditures" is defined as the "Capital Tax Levy", and this is an exclusion from the tax levy limitation, which includes refinancings such as the Bonds.

## LITIGATION

In common with other School Districts, the District from time to time receives notices of claim and is party to litigation. In the opinion of the District attorney, unless otherwise set forth herein and apart from matters provided for by applicable insurance coverage, there are no significant claims or actions pending in which the District has not asserted a substantial and adequate defense, nor which, if determined against the District, would have an adverse material effect on the financial condition of the District.

There is no action, suit, proceedings or investigation, a law or in equity, before or by any court, public board or body pending or, to the best knowledge of the District, threatened against or affecting the District to restrain or enjoin the issuance, sale or delivery of the Bonds or any proceedings or authority of the District taken with respect to the authorization, issuance or sale of the Bonds or contesting the corporate existence or boundaries of the District.

## RISK FACTORS

## AND

## MARKET FACTORS AFFECTING FINANCINGS OF THE STATE AND MUNICIPALITIES OF THE STATE

There are various forms of risk associated with investing in the Bonds. The following is a discussion of certain events that could affect the risk of investing in the Bonds. In addition to the events cited herein, there are other potential risk factors that an investor must consider. In order to make an informed investment decision, an investor should be thoroughly familiar with the entire Official Statement, including its appendices, as well as all areas of potential investment risk.

The financial and economic condition of the District as well as the market for the Bonds could be affected by a variety of factors, some of which are beyond the District's control. There can be no assurance that adverse events in the State and in other jurisdictions, including, for example, the seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Bonds. If a significant default or other financial crisis should occur in the affairs of the State or another jurisdiction or any of its agencies or political subdivisions thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the District to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the Bonds could be adversely affected.

The District is dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes and revenues in order to pay State aid to municipalities and school districts in the State, including the District, in any year, the District may be affected by a delay, until sufficient taxes have been received by the State to make State aid payments to the District. In some years, the District has received delayed payments of State aid which resulted from the State's delay in adopting its budget and appropriating State aid to municipalities and school districts, and consequent delay in State borrowing to finance such appropriations. (See also "State Aid").

There are a number of general factors which could have a detrimental effect on the ability of the District to continue to generate revenues, particularly property taxes. For instance, the termination of a major commercial enterprise or an unexpected increase in tax certiorari proceedings could result in a significant reduction in the assessed valuation of taxable real property in the District. Unforeseen developments could also result in substantial increases in District expenditures, thus placing strain on the District's financial condition. These factors may have an effect on the market price of the Bonds.

If a holder elects to sell his investment prior to its scheduled maturity date, market access or price risk may be incurred. If and when a holder of any of the Bonds should elect to sell a Bond prior to its maturity, there can be no assurance that a market shall have been established, maintained and be in existence for the purchase and sale of any of the Bonds. Recent global financial crises have included limited periods of significant disruption. In addition, the price and principal value of the Bonds is dependent on the prevailing level of interest rates; if interest rates rise, the price of a bond or note will decline, causing the bondholder or noteholder to incur a potential capital loss if such bond or note is sold prior to its maturity.

Amendments to U.S. Internal Revenue Code could reduce or eliminate the favorable tax treatment granted to municipal debt, including the Bonds and other debt issued by the District. Any such future legislation would have an adverse effect on the market value of the Bonds (See "Tax Exemption" herein).

The New Tax Levy Limitation Law, which imposes a tax levy limitation upon municipalities, school districts and fire districts in the State, including the District and continuing technical and constitutional issues raised by its enactment and implementation could have an impact upon the finances and operations of the District and hence upon the market price of the Bonds. See "TAX INFORMATION" – New Tax Levy Limitation Law" herein.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has covenanted to comply with certain restrictions designed to insure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants will result in interest on the Bonds being included in gross income for federal income tax purposes as well as for purposes of personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained or referred to the in the Arbitrage Certificate, and other relevant documents may be changed and certain actions (including, without limitation, economic defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from income taxes imposed by the State of New York or political subdivision thereof (including The City of New York), the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Owners or the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration announced a legislative proposal which for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have also been made in recent months. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds, Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

## LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Bond Counsel's opinion will be in substantially the form attached hereto as Appendix B.

## RATING

Moody's Investors Service ("Moody's") has assigned a rating of "Aa2" to the Bonds. The rating will reflects only the view of Moody's, and any desired explanation of the significance of such rating should be obtained from such rating agency. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigation, studies and assumptions by the rating agency. There is no assurance that a particular rating will apply for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any downward revision or withdrawal of such ratings could have an adverse affect on the market price of the Bonds or the availability of a secondary market for such Bonds. Such ratings should not be taken as a recommendation to put or hold the Bonds.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations (a) regarding the adequacy of the maturing principal of and interest earned on the Government Obligations together with the uninvested cash, to pay, when due, the principal of and interest on and redemption premium, if any, with regard to the Refunded Bonds on the applicable payment dates and (b) relating to the determination by Bond Counsel of compliance with the regulations and rulings promulgated under Section 148 of the Code, as amended, will be verified by Causey Demgen & Moore Inc. Such verification of the accuracy of the mathematical computations will be based, in part, upon factual information supplied by the District and the Underwriter (as defined below).

## UNDERWRITING

Jefferies & Company, Inc. (the "Underwriter'") has agreed, subject to certain conditions, to purchase the Bonds from the District. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all the Bonds if any of the Bonds are delivered at a purchase price of $11,645,359.01 which represents the aggregate par amount of the Bonds, plus an original premium of $642,216.90, less an underwriting discount of $46,857.89. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into unit investment trusts) at prices lower than the public offering prices as set forth on the inside cover page hereof. The initial public offering prices may be changed from time to time by the Underwriter.

## FINANCIAL ADVISOR

Munistat Services, Inc. has acted as the financial advisor to the District in connection with the sale of the Bonds.

## OTHER MATTERS

The statutory authority for the power to spend money for the objects or purposes, or to accomplish the objects or purposes, for which the Bonds are to be issued is the Local Finance Law.

The procedure for the validation of the Bonds provided in Title 6 of Article 2 of the Local Finance Law has been complied with.

There is no bond or note principal or interest past due.

The fiscal year of the District is July 1 to June 30.

This Official Statement does not include the financial data of any political subdivision of the State of New York having power to levy taxes within the District, except as expressed in the "Calculation of Estimated Overlapping and Underlying Indebtedness."

## ADDITIONAL INFORMATION

Additional information may be obtained from the office of the Assistant Superintendent for Business, John J. Belmonte, Sayville Union Free School District, 99 Greeley Avenue, Sayville, New York 11782, telephone number 631/244-6530, email: belmontej@sayville.k12.ny.us, or from Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776, telephone number 631/331-8888.

Munistat Services, Inc. may place a copy of this Official Statement on its website at www.munistat.com. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Munistat Services, Inc. has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and neither the District nor Munistat Services, Inc. assumes any liability or responsibility for errors or omissions on such website. Further, Munistat Services, Inc. and the District disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Munistat Services, Inc. and the District also assumes no liability or responsibility for any errors or omissions for any unauthorized edits or for any updates to dated website information.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing with regard to the Bonds is to be construed as a contract with the holders of the Notes.

Orrick, Herrington & Sutcliffe LLP expresses no opinion as to the accuracy or completeness of any documents prepared by or on behalf of the District for use in connection with the offer and sale of the Bonds, including but not limited to, the financial or statistical information in this Official Statement.

The preparation and distribution of this Official Statement have been approved by the President of the Board of Education of the District pursuant to the power delegated to him by the authorizing tax anticipation resolution to sell and deliver the Bonds.

This Official Statement has been duly executed and delivered by the President of the Board of Education of the Sayville Union Free School District.

By: s/s _____

President of the Board of Education
Sayville Union Free School District

Dated: November 13, 2012

# APPENDIX A

# FINANCIAL INFORMATION

## FINANCIAL INFORMATION

### Valuations, Tax Levies and Tax Rates

| | Fiscal Year Ending June 30: | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| Assessed Valuation | $ 279,962,650 | $ 279,629,783 | $ 279,284,536 | $ 279,230,961 | $ 278,674,998 |
| Equalization Rate | 9.64% | 9.64% | 10.30% | 11.65% | 12.00% |
| Full Valuation | 2,904,176,867 | 2,900,723,890 | 2,711,500,350 | 2,396,832,283 | 2,322,291,650 |
| Tax Levy | 39,321,029 | 44,288,000 | 45,792,000 | 50,689,726 | 54,821,434 |
| Tax Rate per $100 of Assessed Valuation | | | | | |
| Homestead | 14.190 | 15.729 | 15.672 | 16.239 | 17.304 |
| Non-Homestead | 21.679 | 23.356 | 24.167 | 27.009 | 30.641 |

**Balance Sheet - General Fund**

Fiscal Years Ending June 30:

| | 2011 | 2012 |
|---|---|---|
| ASSETS: | | |
| Unrestricted Cash | $ 24,346,804 | $ 28,387,196 |
| Restricted Cash | 1,009,953 | 1,075,634 |
| Due from Other Funds | 1,490,048 | 1,607,742 |
| State and Federal Receivable Aid Receivable | 1,218,423 | 1,277,887 |
| Accounts Receivable | 73,778 | 28,580 |
| Total Assets | $ 28,139,006 | $ 32,377,039 |
| LIABILITIES: | | |
| Accounts Payable and Accrued Liabilities | $ 1,293,941 | $ 1,283,568 |
| Bonds Interest and Matured Bonds | 40,480 | 40,480 |
| Due to Other Funds | 0 | 55,066 |
| Due to Teachers' Retirement System | 3,032,257 | 3,622,301 |
| Due to Employees' Retirement System | 368,718 | 433,713 |
| Compensated Absences | 156,887 | 452,471 |
| Deferred Revenue | 99,168 | 56,882 |
| Total Liabilities | 4,991,451 | 5,944,481 |
| FUND EQUITY | | |
| Fund Balance | | |
| Reserved for Worker's Compensation | 843,923 | 1,856,631 |
| Reserved for Unemployment | 388,200 | 825,403 |
| Reserved for Employee Accrued Benefit Liabilities | 8,433,042 | 7,967,029 |
| Reserved for Debt | 98,489 | 9,675 |
| Reserved for Retirement Contributions | 1,033,522 | 5,415,154 |
| Asigned | | |
| Appropriated Fund Balance | 2,500,000 | 4,000,000 |
| Unappropraited Fund Balance | 2,421,020 | 2,934,643 |
| Unassigned | 7,429,359 | 3,424,023 |
| Total Fund Balances | 23,147,555 | 26,432,558 |
| Total Liabilities and Fund Equity | $ 28,139,006 | $ 32,377,039 |

Source: Audited Annual Financial Reports of the District (2011-2012)

NOTE: This Schedule NOT audited.

**Statement of Revenues, Expenditures and Fund Balances**
**General Fund**

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Real Property Taxes | 39,321,029 | 40,914,425 | 42,482,384 | 44,513,909 | 48,490,301 |
| Real Property Tax Items | 6,066,832 | 5,720,293 | 5,527,671 | 6,113,292 | 6,335,203 |
| Charges for Services | 436,517 | 513,317 | 570,698 | 449,053 | 506,408 |
| Use of Money and Property | 1,328,920 | 2,378,636 | 1,779,676 | 1,726,168 | 1,719,898 |
| Sale of Property & Compensation for Loss | 26,032 | 43,715 | 47,172 | 112,183 | 58,469 |
| Miscellaneous | 119,083 | 327,484 | 596,377 | 468,097 | 550,501 |
| State and Local Sources | 23,616,893 | 24,845,419 | 22,473,211 | 21,776,082 | 22,366,899 |
| Medicaid Reimbursement | 35,986 | 39,942 | 49,521 | 215,571 | 49,284 |
| Federal Sources | 0 | 0 | 2,719,179 | 1,061,337 | 0 |
| Total Revenues | 70,951,292 | 74,783,231 | 76,245,889 | 76,435,692 | 80,076,963 |
| Expenditures: | | | | | |
| General Support | 8,765,206 | 8,875,273 | 9,327,031 | 9,619,695 | 9,196,223 |
| Instruction | 39,978,724 | 40,946,562 | 42,901,026 | 40,983,112 | 42,565,518 |
| Pupil Transportation | 2,799,925 | 2,868,184 | 3,092,598 | 3,082,283 | 3,246,130 |
| Community Service | 90,644 | 108,540 | 110,617 | 101,547 | 104,120 |
| Employee Benefits | 15,646,155 | 14,560,435 | 14,377,502 | 15,003,234 | 16,427,596 |
| Debt Service | 3,256,359 | 4,523,934 | 4,550,520 | 5,117,007 | 5,132,153 |
| Total Expenditures | 70,537,013 | 71,882,928 | 74,359,294 | 73,906,878 | 76,671,740 |
| Other Sources and Uses: | | | | | |
| Operating Transfers In | 0 | 408,614 | | 5,323 | |
| Operating Transfers Out | (355,925) | (180,196) | (1,207,360) | (117,143) | (120,220) |
| Total Other Sources (Uses) | (355,925) | 228,418 | (1,207,360) | (111,820) | (120,220) |
| Excess (Deficit) Revenues & Other Sources Over Expenditures & Other Uses | 58,354 | 3,128,721 | 679,235 | 2,416,994 | 3,285,003 |
| Fund Equity Begining of Fiscal Year | 16,864,251 | 16,922,605 | 20,051,326 | 20,730,561 | 23,147,555 |
| Fund Balances End of Fiscal Year. | 16,922,605 | 20,051,326 | 20,730,561 | 23,147,555 | 26,432,558 |

Source: Audited Annual Financial Reports of the District (2008-2012)

NOTE: This Schedule NOT audited.

**Budget Summaries**

Fiscal Year Ending June 30:

| | | 2012 (a) | | 2013 (b) |
|---|---|---|---|---|
| Revenues: | | | | |
| Real Property Taxes (Including STAR) | $ | 54,435,720 | $ | 56,097,211 |
| Charges for Services | | 393,078 | | 393,078 |
| Use of Money and Property | | 1,830,180 | | 1,809,848 |
| Sale of Property & Compensation for Loss | | 2,100 | | 2,100 |
| Miscellaneous | | 130,000 | | 130,000 |
| Medicaid Reimbursement | | 150,000 | | 150,000 |
| State and Local Sources | | 21,766,197 | | 22,867,286 |
| Appropriated Fund Balance | | 3,072,125 | | 4,225,438 |
| Total Revenues | | 81,779,400 | | 85,674,961 |
| Expenditures: | | | | |
| General Support | $ | 10,020,109 | $ | 9,941,928 |
| Instruction | | 43,659,441 | | 45,251,936 |
| Pupil Transportation | | 3,274,399 | | 3,414,904 |
| Community Service | | 114,101 | | 114,237 |
| Employee Benefits | | 19,109,196 | | 20,247,233 |
| Interfund Transfers | | 150,000 | | 650,000 |
| Debt Service | | 5,452,154 | | 6,054,723 |
| Total Expenditures | $ | 81,779,400 | $ | 85,674,961 |

(a) The budget for the 2011-12 fiscal year was approved by voters of the District on May 17, 2011.
(b) The budget for the 2012-13 fiscal year was approved by voters of the District on May 15, 2012.

Source: Adopted annual budgets of the Sayville Union Free School District

# APPENDIX B

# FORM OF BOND COUNSEL'S OPINION

**DRAFT**

October , 2012

Sayville Union Free School District
County of Suffolk,
State of New York

Re: Sayville Union Free School District, Suffolk County, New York
$11,105,000 School District Refunding (Serial) Bonds, 2012

Ladies and Gentlemen:

We have been requested to render our opinion as to the validity of an issue of $11,105,000 School District Refunding (Serial) Bonds, 2012 (the "Obligation"), of the Sayville Union Free School District, Suffolk County, New York (the "Obligor"), dated the date of delivery, initially issued in registered form in denominations such that one bond shall be issued for each maturity of bonds in such amounts as hereinafter set forth, bearing interest at the rate of _____ and _____ hundredths per centum (_____ %) per annum as to bonds maturing in each of the years 20_____ to 20_____, both inclusive, and at the rate of _____ per centum (_____ %) per annum as to bonds maturing in each of the years 20_____ to 20_____, both inclusive, payable on April 15, 2013 and semi-annually thereafter in each year until maturity in the amounts of $2,375,000 on April 15, 2013, $2,240,000 on April 15, 2014, $2,290,000 on April 15, 2015; $2,345,000 on April 15, 2016, $370,000 on April 15, 2017, $380,000 on April 15, 2018, $395,000 on April 15, 2019, $415,000 on April 15, 2020, $295,000 on April 15, 2021.

We have examined:

(1) the Constitution and statutes of the State of New York;

(2) the Internal Revenue Code of 1986, including particularly Sections 103 and 141 through 150 thereof, and the applicable regulations of the United States Treasury Department promulgated thereunder (collectively, the "Code");

(3) an arbitrage certificate executed on behalf of the Obligor which includes, among other things, covenants, relating to compliance with the Code, with the owners of the Obligation that the Obligor will, among other things, (i) take all actions on its part necessary to cause interest on the Obligation not to be includable in the gross income of the owners thereof for Federal income tax purposes, including, without limitation, restricting, to the extent necessary, the yield on investments made with the proceeds of the Obligation and investment earnings thereon, making required payments to the Federal government, if any, and maintaining books and records in a specified manner, where appropriate, and (ii) refrain from taking any action which would cause interest on the Obligation to be includable in the gross income of the owners thereof for Federal income tax purposes, including, without limitation, refraining from spending the proceeds of the Obligation and investment earnings thereon on certain specified purposes (the "Arbitrage Certificate"); and

(4) a certificate executed on behalf of the Obligor which includes, among other things, a statement that compliance with such covenants is not prohibited by, or violative of, any provision of local or special law, regulation or resolution applicable to the Obligor.

We also have examined a certified copy of proceedings of the finance board of the Obligor and other proofs authorizing and relating to the issuance of the Obligations, including the form of the Obligations. In rendering the opinions expressed herein we have assumed the accuracy and truthfulness of all public records, documents and proceedings, including factual information, expectations and statements contained therein, examined by us which have been executed or certified by public officials acting within the scope of their official capacities, and have not verified the accuracy or truthfulness thereof. We also have assumed the genuineness of the signatures appearing upon such public records, documents and proceedings and the certifications thereof.

In our opinion:

(a) The Obligation has been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitutes a valid and legally binding general obligation of the Obligor, all the taxable real property within which is subject to the levy of ad valorem taxes to pay the Obligation and interest thereon, without limitation as to rate or amount limitations; provided, however, that the enforceability (but not the validity) of the Obligation: (i) may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said State or the Federal government affecting the enforcement of creditors' rights, and (ii) may be subject to the exercise of judicial discretion in appropriate cases.

(b) The Obligor has the power to comply with its covenants with respect to compliance with the Code as such covenants relate to the Obligation; provided, however, that the enforceability (but not the validity) of such covenants may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said State or the Federal government affecting the enforcement of creditors' rights.

(c) Interest on the Obligations is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). Interest on the Obligations is not a specific preference

item for purposes of the federal individual or corporate alternative minimum taxes, although it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Obligations.

Certain agreements, requirements and procedures contained or referred to in the Arbitrage Certificate and other relevant documents may be changed and certain actions (including, without limitation, economic defeasance of the Obligations) may be taken or omitted.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Obligations has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Arbitrage Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Obligations to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Obligations and the Arbitrage Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations such as the Obligor in the State of New York. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, or waiver provisions contained in the foregoing documents.

The scope of our engagement in relation to the issuance of the Obligations has extended solely to the examination of the facts and law incident to rendering the opinions expressed herein. Such opinions are not intended and should not be construed to express or imply any conclusion that the amount of revenues or moneys of the Obligor legally available will be sufficient to enable the Obligor to pay the principal of or interest on the Obligations as the same respectively become due and payable. Reference should be made to the Official Statement prepared by the Obligor in relation to the Obligations for factual information which, in the judgment of the Obligor, could materially affect the ability of the Obligor to pay such principal and interest. While we have participated in the preparation of such Official Statement, we have not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, we express no opinion as to whether the Obligor, in connection with the sale of the Obligations, has made any untrue statement of a material fact or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

Very truly yours,

## APPENDIX C

## AUDITED FINANCIAL STATEMENTS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE: SUCH FINANCIAL REPORT AND OPINIONS WERE PREPARED AS OF THE DATE THEREOF AND HAVE NOT BEEN REVIEWED AND/OR UPDATED IN CONNECTION WITH THE PREPARATION AND DISSEMINATION OF THIS OFFICIAL STATEMENT

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Pappas & Company
CERTIFIED PUBLIC ACCOUNTANTS

3 Rensselaer Drive • Commack, NY 11725 (631) 462-0660 • Fax (631) 462-8664

# INDEPENDENT AUDITORS' REPORT

*The Board of Education*
*Sayville Union Free School District*
*Sayville, New York*

*We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Sayville Union Free School District, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's 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 the 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, 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 as well as the fiduciary funds of the Sayville Union Free School District as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.*

*In accordance with Government Auditing Standards, we have also issued a report dated October 9, 2012, on our consideration of the Sayville Union Free School District's internal control over financial reporting and our test 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, issued by the Comptroller General of the United States, and should be considered in assessing the results of our audit.*

*Management's Discussion and Analysis and other required supplementary as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.*

*Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Sayville Union Free School District's basic financial statements. The other supplementary financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.*

Pappas & Company

*October 9, 2012*
*Commack, New York*

# SAYVILLE UNION FREE SCHOOL DISTRICT

## *MANAGEMENT DISCUSSION AND ANALYSIS*

Management offers readers of the Sayville Union Free School District financial statements this narrative overview and analysis of the financial activities and the District's performance during the fiscal year ending June 30, 2012. We would encourage readers to consider the information presented in conjunction with the District's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

- District-wide net assets at June 30, 2012 were $20,476,643. (For details please refer to Exhibit 1 in the Financial Statement section).

- Overall general revenues for all funds were $83,209,206, which were less than expenditures by $2,212,782 thus decreasing the District's net assets. (See Exhibit 2 of the Financial Statements section. Overall revenue is the sum of general revenues, charges for services and operating grants).

- The ending fund balance of the District's General fund as of June 30, 2012 was $26,432,558. Of this amount, $3,424,023 is available for spending at the government's discretion (unassigned).

- $3,600,000 of principal was paid down on serial bond debt during the fiscal year.

- The District continues to offer all programs.

- The proposed 2012-2013 budget in the amount of $85,674,961 was approved by the District's residents.

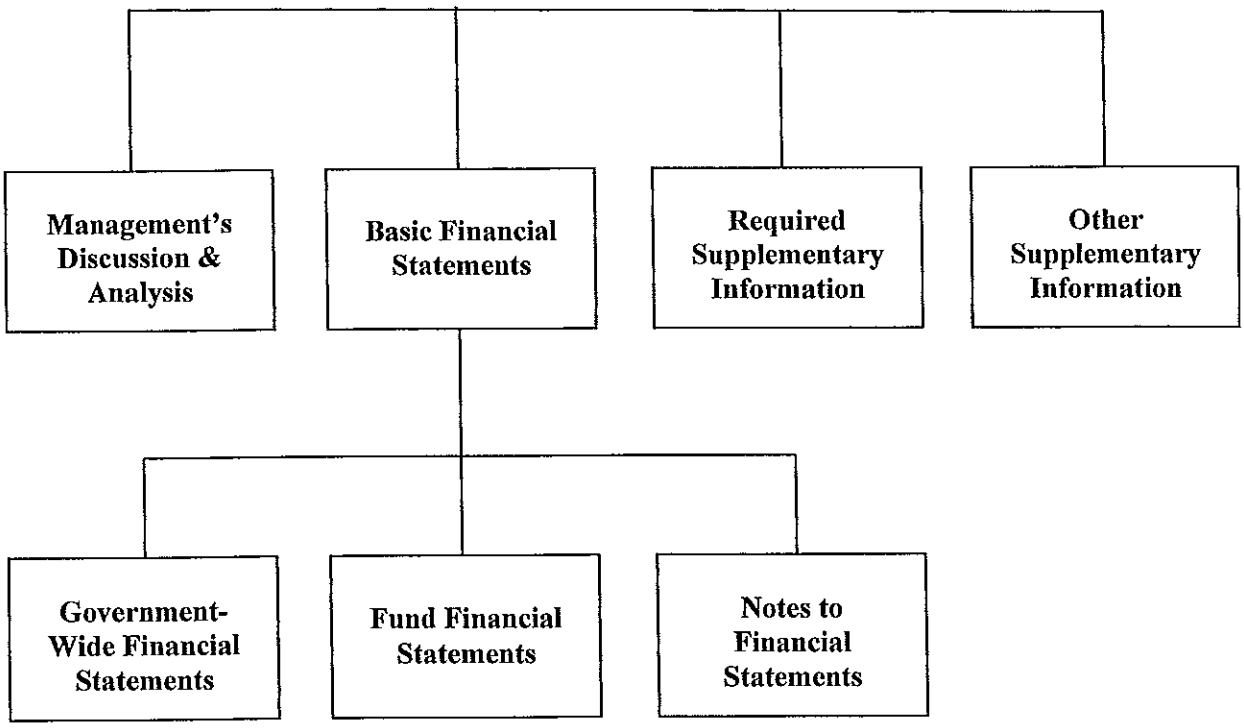
## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required 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 District's operations in more detail than the district-wide statements. Government Fund statements tell how basic services were financed in the short term and what remains for future spending.

- Fiduciary Funds statements provide financial information where the District acts as a trustee or agent for the benefit of others.



Following is a chart that further describes the major features of the District-Wide Statements and the Fund Financial Statements:

***TABLE A-2***

| | District-wide Statements | Fund Financial Statements | |
|---|---|---|---|
| | | Governmental Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | • Statement of net assets<br>• Statement of activities | • Balance Sheet<br>• Statement of revenues, expenditures, and changes in fund balances | • Statement of fiduciary net assets<br>• Statement of changes In fiduciary net assets |
| Accounting Basis and measurement focus | Accrual accounting and Economic resources focus | Modified accrual accounting and current financial focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid |

*District-wide 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 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 District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the net assets are an indicator of whether the financial position is improving or deteriorating, respectively.

- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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 expanded 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;

- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting;

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

***Fund Financial Statements***

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the district uses to keep track of specific sources of funding and spending on particular programs. 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 District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is found in the two Exhibits that provide a reconciliation to explain 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 funds, capital project funds and permanent funds. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Equity.

- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the 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 district-wide financial statements because it cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net assets

The District's net assets were less on June 30, 2012, than they were the year before, decreasing 9.75% to $20,476,643. (See Table A-3)

**Table A-3**
**Condensed Statement of Net Assets (in thousands of dollars)**

| | Governmental Activities | | Total Percentage Change |
|---|---|---|---|
| | 2012 | 2011 | |
| Current and Other Assets | $ 35,470 | $ 32,156 | |
| Capital Assets | 60,909 | 55,616 | |
| Total Assets | 96,379 | 87,772 | 9.81% |
| Current Liabilities | 10,287 | 8,844 | |
| Non-Current Liabilities | 65,615 | 56,239 | |
| Total Liabilities | 75,902 | 65,083 | 16.62% |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 21,371 | 20,235 | |
| Restricted | 16,074 | 13,661 | |
| Unrestricted | (16,968) | (11,207) | |
| Total Net Assets | $ 20,477 | $ 22,689 | -9.75% |

In 2012, Current and Other Assets showed an increase in Cash.

Capital assets increased by various school district improvement projects detailed in the supplementary schedule (SS 4).

Current Liabilities increased by amounts due to the Teachers' and Employees' retirement system as well as and increase in accrued interest payable and compensated absences.

Non-current liabilities within the grouping had a decrease in serial bonds, but the postemployment benefit obligations and new Energy Performance Contract impacted the increase in non-current liabilities.

- Capital assets valued here are net of depreciation.
- Liabilities include all school district debt and long-term compensated absences as well as other postemployment benefit obligations.

- Net assets invested in capital assets, net of related debt, relates to the investment in capital assets at cost such as land, buildings and improvements, and furniture and equipment, etc. and subtracting accumulated depreciation and related bond debt.

- Unrestricted net assets reflect the net value after all capitalized assets are depreciated, all current and long-term liabilities are valued, and all restricted funds are deducted.

## Changes in net assets

**Table A-4**
**Changes In Net Assets From Operating Results (in thousands of dollars)**

| | Governmental Activities | | Total Percentage Change |
|---|---|---|---|
| | 2012 | 2011 | |
| **Revenues** | | | |
| Program Revenues | | | |
| Charges for Services | $ 1,414 | $ 1,364 | |
| Operating Grants | 2,198 | 3,456 | |
| General Revenues | | | |
| Property Taxes and Tax Items | 54,826 | 50,627 | |
| State Formula Aid | 22,367 | 21,776 | |
| Other | 2,404 | 2,602 | |
| **Total Revenues** | $ 83,209 | $ 79,825 | 4.24% |
| **Expenses** | | | |
| General Support | 12,302 | 12,590 | |
| Instruction | 66,636 | 63,706 | |
| Pupil Transportation | 3,435 | 3,284 | |
| Community Service | 163 | 156 | |
| Debt Interest | 1,738 | 1,660 | |
| School Lunch Program | 1,148 | 1,131 | |
| **Total Expenses** | 85,422 | 82,527 | 3.51% |
| **Decrease In Net Assets:** | $ (2,213) | $ (2,702) | |

### *Revenues*

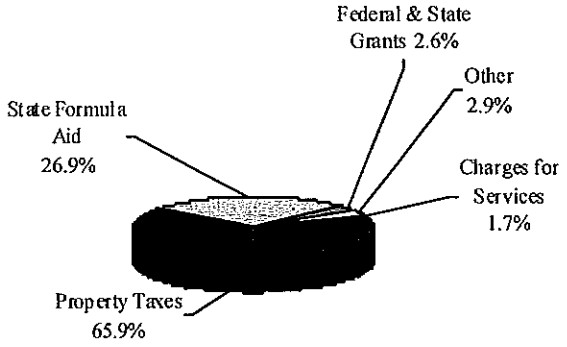
- Property taxes and state aid contributed most of the revenue.

- Charges for Services include tuition, fees and related services.

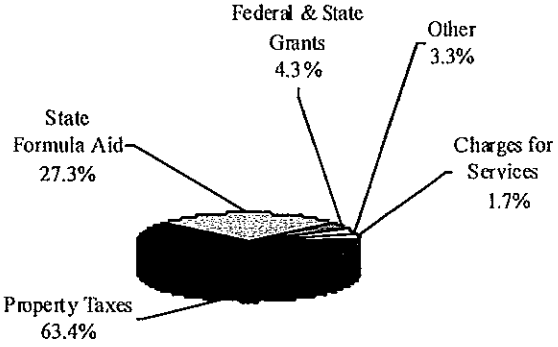
- Operating Grants are state and federal funds received for school lunch reimbursement and special aid instruction. During the year, additional funds were received as a grant as a result of the American Recovery and Reinvestment Act (ARRA). Within guidelines, these funds were used for salaries and employee benefits.

**Table A-5**
**Source of Revenues for Governmental Activities Fiscal Year**

**2012**



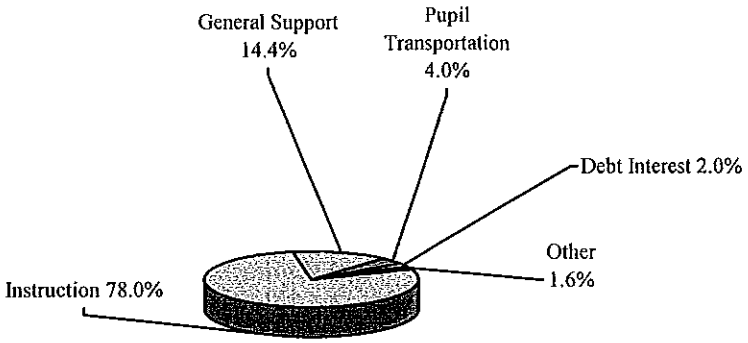

**2011**



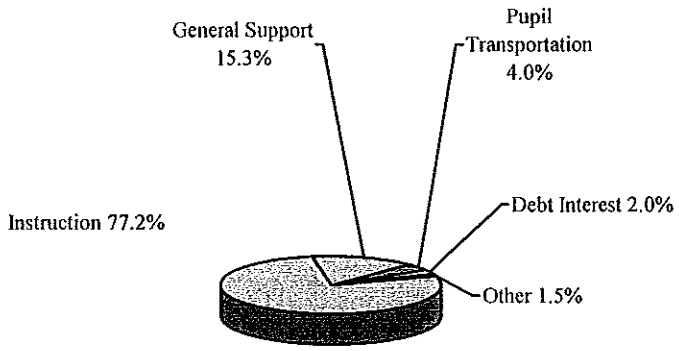

## *Expenses*

The District's expenses are predominantly related to general instruction, pupil services and transporting students. The District's general support activities accounted for 14.4 percent of expenses. On the charts, "Other" includes community service and the school lunch program.

**Table A-6**
**Expenses for Fiscal Year 2012**



**Expenses for Fiscal Year 2011**




## *Governmental Activities*

The continued good health of the District's finances can be credited:

- Leadership of the District's Board of Education.
- Board of Education and Administration's oversight of District's finances.
- The District's Policy review process that has resulted in Policies and Procedures being updated in a timely manner.
- Continued assessment, implementation and improvement of financial internal control structure.
- The constructive recommendations provided by External, Internal, and Claims Audit processes.
- Positive financial performance due to conservative financial management and careful expenditure control.
- Approval of the annual budget and support of community.
- Long-range fiscal strategies that have effectively utilized the District's available resources; and the use of reserve and surplus funds.

Table A-7 shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

**Table A-7**
**Net Cost of Governmental Activities (in thousands of dollars)**

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Total Cost | Net Cost | Total Cost | Net Cost |
| General Support | $ 12,302 | $ 12,302 | $ 12,590 | $ 12,590 |
| Instruction | 66,636 | 64,153 | 63,706 | 60,001 |
| Pupil Transportation | 3,435 | 3,435 | 3,284 | 3,284 |
| Debt Interest | 1,738 | 1,738 | 1,660 | 1,660 |
| Community Service | 163 | 163 | 156 | 156 |
| School Lunch | 1,148 | 19 | 1,131 | 17 |
| Total | $ 85,422 | $ 81,810 | $ 82,527 | $ 77,708 |

- Most of the net costs of $81,810,085 were financed by District's taxpayers and government aid.

- The total costs of all government activities this year was $85,421,988.

- The users of the District's programs funded $1,413,929 of the cost by "charges for services". Operating grants of $2,197,974 received for instruction and the school lunch program also reduced the total costs to the District.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2012, the District's governmental funds reported a combined fund balance of $29,421,520, which is an increase of $2,422,311 over the prior year. This increase is due to an excess of expenditures over revenues offset by other financing through an energy performance contract. A summary of the change in fund balance by fund presented in accordance with GASB 54 classifications is as follows.:

| | 2012 | 2011 | Increase (Decrease) |
|---|---|---|---|
| **General Fund** | | | |
| Restricted for: | | | |
| Bonded debt | $ 9,675 | $ 98,489 | $ (88,814) |
| Employee benefit accrued liability | 7,967,029 | 8,433,042 | (466,013) |
| Retirement contribution | 5,415,154 | 1,033,522 | 4,381,632 |
| Workers' compensation | 1,856,631 | 843,923 | 1,012,708 |
| Unemployment insurance | 825,403 | 388,200 | 437,203 |
| Subtotal-Restricted | 16,073,892 | 10,797,176 | 5,276,716 |
| Assigned: | | | |
| Designated fund balance for subsequent year's budget | 4,000,000 | 2,500,000 | 1,500,000 |
| General Government expenditures | 2,934,643 | 2,421,020 | 513,623 |
| Unassigned | 3,424,023 | 7,429,359 | (4,005,336) |
| | 26,432,558 | 23,147,555 | 3,285,003 |
| **School Lunch Fund** | | | |
| Nonspendable: Inventory | 20,538 | 16,099 | 4,439 |
| Unassigned | (20,538) | (16,099) | (4,439) |
| | - | - | - |
| **Capital Projects Fund** | | | |
| Restricted for bonded/EPC projects | 2,273,660 | 2,864,010 | (590,350) |
| Assigned: | | | |
| Unappropriated fund balance | 715,302 | 987,644 | (272,342) |
| | 2,988,962 | 3,851,654 | (862,692) |
| | $ 29,421,520 | $ 26,999,209 | $ 2,422,311 |

A. General Fund

The net change in the general fund – fund balance is an increase of $3,285,003 as revenues of $80,076,963 exceeded expenditures of $76,791,960.

B. School Lunch Fund

The school lunch fund had no fund balance. Both revenue and expenditures were equal with no beginning fund balance.

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of $862,692 as work continues on the District's various capital projects.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Many factors and variables occur during the daily business operations of the school district. The District actively manages the revenue budget to maximize all state aid claims and miscellaneous receipts.

Simultaneously, budgetary savings were achieved through competitive purchasing efforts and reduced spending. Other significant factors include:

### (A) 2011-2012 Budget

The District's general fund adopted budget for the year ended June 30, 2012 was $81,779,400. This amount was increased by encumbrances carried forward from the prior year in the amount of $2,421,020 for a final budget of $84,200,420.

The actual results for the year show an excess of revenues over expenditures of $3,285,003.

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

The general fund's unassigned fund balance is a component to 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 the 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:

### Unassigned Fund Balance

| | |
|---|---|
| Opening, Unassigned Fund Balance | $ 7,429,359 |
| Revenues Over Budget | 1,369,688 |
| Restricted Reserves Appropriated | (572,125) |
| Expenditures and Encumbrances under budget | 4,473,817 |
| Changes in Restricted Fund Balance | (5,276,716) |
| Assigned, Designated for June 30, 2013 budget | (4,000,000) |
| Closing, Unassigned Fund Balance | $ 3,424,023 |

The unassigned fund balance represents the fund balance retained by the District that is not restricted or assigned for subsequent year's budget. This amount is limited to 4% of the 2012-2013 budget.

Expenditures and encumbrances under budget were primarily in instruction ($1,184,504), general support ($550,294) and employee benefits ($2,556,332).

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### *Capital Assets*

By June 30, 2012, the District had invested $60,908,836 net of accumulated depreciation in a broad range of capital assets, including land, buildings and improvements, furniture, machinery and equipment and vehicles. This includes $701,428 of grants and resources of the Sayville Library, contributed towards construction of the District owned building. Total depreciation expense for the year was $2,886,741 and additions to building improvements and machinery and equipment amounted to $8,179,347.

**Table A-8**
**Capital Assets (net of depreciation, in thousands of dollars)**

| | Governmental Activities | |
|---|---|---|
| | 2012 | 2011 |
| Land | $ 318 | $ 318 |
| Construction in Progress | 9,693 | 10,340 |
| Buildings | 48,601 | 42,643 |
| Site Improvements | 156 | 13 |
| Machinery/Equipment/Vehicles | 2,141 | 2,302 |
| Total | $ 60,909 | $ 55,616 |

More detailed information can be found in Note 5 and Note 6 to the Financial Statements.

At year-end, the District had $30,935,000 (non-current portion) of general obligation bonds in addition to other long-term debt outstanding. More detailed information is presented in Note 8 to the Financial Statements. Information on the Net Other Postemployment Benefits is shown separately in Note 11.

**Table A-9**
**Outstanding Long-Term Debt (in thousands of dollars)**

| | Fiscal Year | |
|---|---|---|
| | 2012 | 2011 |
| Serial Bonds | $ 30,935 | $ 34,645 |
| Energy Performance Contact | 6,931 | - |
| Compensated Absences | 6,853 | 6,882 |
| Net OPEB Obligation | 20,896 | 14,712 |
| **Total** | $ 65,615 | $ 56,239 |

## FACTORS BEARING ON THE DISTRICT'S FUTURE

Through the support of the Board of Education, the District has implemented a long-term fiscal plan that continues to enhance the fiscal health of the School District. This is evidenced by past and current year audited financial statements. Sayville School District is committed to providing quality instructional programs and educational opportunities for our students. The current fiscal plan provides the necessary foundation to support our exemplary programs – currently and into the future.

However, at the time these financial statements were prepared, the District was aware of several circumstances that could impact the future:

- Beginning with the 2012-13 school year, school districts are faced with new Legislation that imposes a 2% tax levy cap at a time when New York State has been reducing State aid revenues to districts. This will result in significant challenges for districts to preserve educational opportunities for students.

- Continued fiscal burden for local school districts to fund additional Federal, State, and local **unfunded mandates**.

- New York State's **continuing** fiscal deficit.

- New York State's lack of commitment to fund the current State aid formula.

- New York State's ability to provide mandate relief in order to reduce the fiscal burden to local taxpayers.

- New York State's ability to provide the necessary Legislation to allow public schools to begin funding Other Postemployment Benefits (OPEB) in accordance with GASB 45 disclosure and reporting requirements.

- New York State's ability to create Legislation that would allow public schools to establish a Teacher Retirement reserve (TRS) to help offset rising retirement costs.

- The limited financial markets and the continued consolidation of financial institutions, thus limiting available resources.

- The effect of rising interest rates on the District's Tax Anticipation Notes (Tan's), Bond Anticipation Notes (BAN's) and future Bond borrowings.

- The continued downturn in financial investment markets and the effect of continued increases on New York State Employee and Teacher Retirement Systems and contribution rates.

While the District is aware of the potential fiscal effects of the above circumstances, its aggressive fiscal management Practices and Policies will continue to provide the oversight to maintain and grow the fiscal resources necessary to support our current programs and instructional opportunities in the future.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the district's finances and to demonstrate the District's accountability for the money it receives. If you have questions about the report or need additional financial information, contact Mr. John J. Belmonte, Assistant Superintendent for Business, Sayville Union Free School District, 99 Greeley Avenue, Sayville, New York 11782.

Exhibit 1

SAYVILLE UNION FREE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

| | | |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ | 30,438,661 |
| Restricted Cash | | 2,299,099 |
| Accounts Receivable | | 30,015 |
| State and Federal Aid Receivable | | 2,681,557 |
| Due from Fiduciary Fund | | 27 |
| Inventories | | 20,538 |
| Total Current Assets | | 35,469,897 |
| Non-Current Assets: | | |
| Capital Assets-Not Being Depreciated | | 10,011,037 |
| Capital Assets Being Depreciated, Net of Accumulated Depreciation | | 50,897,799 |
| Total Assets | $ | 96,378,733 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities | $ | 1,421,848 |
| Bond Interest and Matured Bonds | | 40,480 |
| Accrued Interest Payable-Bonds | | 292,674 |
| Due to Other Governments | | 433 |
| Serial Bonds Payable - Due Within One Year | | 3,710,000 |
| Energy Performance Contract - Due Within One Year | | 235,661 |
| Due To Teachers' Retirement System | | 3,622,301 |
| Due To Employees' Retirement System | | 433,713 |
| Compensated Absences Payable-Due Within One Year | | 452,471 |
| Deferred Revenues | | 77,131 |
| Total Current Liabilities and Deferred Revenues | | 10,286,712 |
| Non-Current Liabilities: | | |
| Serial Bonds Payable | | 30,935,000 |
| Energy Performance Contract | | 6,931,183 |
| Net OPEB Obligation | | 20,895,744 |
| Compensated Absences Payable | | 6,853,451 |
| Total Non-Current Liabilities | | 65,615,378 |
| Total Liabilities and Deferred Revenues | | 75,902,090 |
| **NET ASSETS** | | |
| Investment in Capital Assets, Net of Related Debt | | 21,370,652 |
| Restricted | | 16,073,892 |
| Unrestricted (Deficit) | | (16,967,901) |
| Total Net Assets | $ | 20,476,643 |

See Accompanying Notes to the Basic Financial Statements.

Exhibit 2

SAYVILLE UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2012

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants | Net (expense) Revenue and Changes in Net Assets |
|---|---|---|---|---|
| **FUNCTIONS/PROGRAMS** | | | | |
| General Support | $ 12,302,146 | $ - | $ - | $ (12,302,146) |
| Instruction | 66,636,155 | 506,408 | 1,976,710 | (64,153,037) |
| Pupil Transportation | 3,435,224 | - | - | (3,435,224) |
| Community Service | 162,910 | - | - | (162,910) |
| Debt Interest Expense | 1,737,862 | - | - | (1,737,862) |
| School Lunch Program | 1,147,691 | 907,521 | 221,264 | (18,906) |
| Total Functions and Programs | $ 85,421,988 | $ 1,413,929 | $ 2,197,974 | (81,810,085) |

| | |
|---|---|
| **GENERAL REVENUES** | |
| Real Property Taxes | 48,490,301 |
| Other Tax Items Including STAR Reimbursement | 6,335,203 |
| Use of Money and Property | 1,719,983 |
| Sale of Property and Compensation for Loss | 58,469 |
| Miscellaneous | 577,164 |
| Medicaid Reimbursement | 49,284 |
| State Aid-General | 22,366,899 |
| Total General Revenues | 79,597,303 |
| Change in Net Assets | (2,212,782) |
| Total Net Assets - Beginning of Year | 22,689,425 |
| Total Net Assets - End of Year | $ 20,476,643 |

See Accompanying Notes to the Basic Financial Statements.

Exhibit 3

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

| | General | Special Aid | School Lunch | Capital Projects | Governmental Funds Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash | $ 28,387,196 | $ 259,313 | $ 33,544 | $ 1,758,608 | $ 30,438,661 |
| Restricted Cash | 1,075,634 | - | - | 1,223,465 | 2,299,099 |
| State and Federal Aid Receivable | 1,277,887 | 1,388,947 | 14,723 | | 2,681,557 |
| Due From Other Funds | 1,607,742 | - | - | 55,066 | 1,662,808 |
| Accounts Receivable | 28,580 | - | 1,435 | - | 30,015 |
| Inventories | - | - | 20,538 | - | 20,538 |
| Total Assets | $ 32,377,039 | $ 1,648,260 | $ 70,240 | $ 3,037,139 | $ 37,132,678 |
| LIABILITIES | | | | | |
| Accounts Payable and Accrued Liabilities | $ 1,283,568 | $ 111,251 | $ 27,029 | $ - | $ 1,421,848 |
| Bond Interest and Matured Bonds | 40,480 | - | - | - | 40,480 |
| Due To Other Funds | 55,066 | 1,533,573 | 25,965 | 48,177 | 1,662,781 |
| Due To Other Governments | - | - | 433 | - | 433 |
| Due To Teachers' Retirement System | 3,622,301 | - | - | - | 3,622,301 |
| Due To Employees' Retirement System | 433,713 | - | - | - | 433,713 |
| Compensated Absences Payable | 452,471 | - | - | - | 452,471 |
| Deferred Revenues | 56,882 | 3,436 | 16,813 | - | 77,131 |
| Total Liabilities and Deferred Revenues | 5,944,481 | 1,648,260 | 70,240 | 48,177 | 7,711,158 |
| Fund Balances: | | | | | |
| Nonspendable | | | | | |
| Inventory | - | - | 20,538 | - | 20,538 |
| Restricted | | | | | |
| Bonded or EPC Projects-unspent proceeds | - | - | - | 2,273,660 | 2,273,660 |
| Bonded Debt | 9,675 | - | - | - | 9,675 |
| Employee Benefit Accrued Liability | 7,967,029 | - | - | - | 7,967,029 |
| Retirement Contribution | 5,415,154 | - | - | - | 5,415,154 |
| Workers' Compensation | 1,856,631 | - | - | - | 1,856,631 |
| Unemployment Insurance | 825,403 | - | - | - | 825,403 |
| Assigned: | | | | | |
| Appropriated Fund Balance: | | | | | |
| Designated for subsequent year's budget | 4,000,000 | - | - | - | 4,000,000 |
| Other | 2,934,643 | - | - | 715,302 | 3,649,945 |
| Unassigned | 3,424,023 | - | (20,538) | - | 3,403,485 |
| Total Fund Balances | 26,432,558 | - | - | 2,988,962 | 29,421,520 |
| Total Liabilities and Fund Balances | $ 32,377,039 | $ 1,648,260 | $ 70,240 | $ 3,037,139 | $ 37,132,678 |

See Accompanying Notes to the Basic Financial Statements.

Exhibit 4

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

| | | |
|---|---|---|
| Total Governmental Fund Balances | | $ 29,421,520 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| The cost of building and acquiring capital assets (land, building, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the Statement of Net Assets includes those capital assets of the District as a whole, and their original costs are expensed annually over their useful lives. | | |
| Original cost of capital assets | $ 101,768,114 | |
| Accumulated depreciation | (40,859,278) | 60,908,836 |
| 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: | | |
| Bonds payable | 34,645,000 | |
| Energy Performance Contract | 7,166,844 | |
| Accrued interest on bonds payable | 292,674 | |
| Compensated absences | 6,853,451 | |
| Net OPEB obligation | 20,895,744 | (69,853,713) |
| Total Net Assets | | $ 20,476,643 |

See Accompanying Notes to the Basic Financial Statements.

Exhibit 5

SAYVILLE UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR YEAR ENDED JUNE 30, 2012

| | Governmental Fund Types | | | | Governmental Funds |
|---|---|---|---|---|---|
| | General | Special Aid | School Lunch | Capital Projects | Total |
| **Revenues:** | | | | | |
| Real Property Taxes | $ 48,490,301 | $ - | $ - | $ - | $ 48,490,301 |
| Real Property Tax Items (Including STAR Reimbursement) | 6,335,203 | - | - | - | 6,335,203 |
| Charges for Services | 506,408 | - | - | - | 506,408 |
| Use of Money and Property | 1,719,898 | - | 85 | - | 1,719,983 |
| Sale of Property and Compensation for Loss | 58,469 | - | - | - | 58,469 |
| Miscellaneous | 550,501 | - | 15,778 | 10,885 | 577,164 |
| State and Local Sources | 22,366,899 | 488,355 | 15,256 | - | 22,870,510 |
| Medicaid Reimbursement | 49,284 | - | - | - | 49,284 |
| Federal Sources | - | 1,488,355 | 158,181 | - | 1,646,536 |
| Surplus Food | - | - | 47,827 | - | 47,827 |
| Sales-School Breakfast and Lunch Program | - | - | 907,521 | - | 907,521 |
| Total Revenues | 80,076,963 | 1,976,710 | 1,144,648 | 10,885 | 83,209,206 |
| **Expenditures:** | | | | | |
| Current: | | | | | |
| General Support | 9,196,223 | | - | - | 9,196,223 |
| Instruction | 42,565,518 | 1,937,231 | - | - | 44,502,749 |
| Pupil Transportation | 3,246,130 | 159,699 | - | - | 3,405,829 |
| Community Services | 104,120 | - | - | - | 104,120 |
| Employee Benefits | 16,427,596 | - | 81,502 | - | 16,509,098 |
| Cost of Sales | - | - | 1,063,146 | - | 1,063,146 |
| Debt Service: | | | | | |
| Principal | 3,600,000 | - | - | - | 3,600,000 |
| Interest | 1,532,153 | - | | | 1,532,153 |
| Capital Outlay | - | - | - | 8,040,421 | 8,040,421 |
| Total Expenditures | 76,671,740 | 2,096,930 | 1,144,648 | 8,040,421 | 87,953,739 |
| Excess (Deficiency) of Revenues Over Expenditures | 3,405,223 | (120,220) | - | (8,029,536) | (4,744,533) |
| **Other Sources and (Uses):** | | | | | |
| Energy Performance Contract | - | - | - | 7,166,844 | 7,166,844 |
| Operating Transfers In | - | 120,220 | - | - | 120,220 |
| Operating Transfers Out | (120,220) | - | - | - | (120,220) |
| Total Other Sources (Uses) | (120,220) | 120,220 | - | 7,166,844 | 7,166,844 |
| Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other (Uses) | 3,285,003 | - | - | (862,692) | 2,422,311 |
| Fund Balance Beginning of Year | 23,147,555 | - | - | 3,851,654 | 26,999,209 |
| Fund Balance End of Year | $ 26,432,558 | $ - | $ - | $ 2,988,962 | $ 29,421,520 |

See Accompanying Notes to the Basic Financial Statements.

Exhibit 6

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

| | | |
|---|---|---|
| Excess of Revenues and Other Sources Over Expenditures and Other (Uses) | | $ 2,422,311 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| **Capital Related Differences:** Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However for governmental activities, those costs are capitalized and shown in the Statement of Net Assets and allocated over their useful lives as annual depreciation expense in the Statement of Activities. | | |
| Capital outlays | $ 8,179,347 | |
| Depreciation expense | (2,886,741) | 5,292,606 |
| **Long-Tern Debt Transaction Differences** | | |
| Financing of Energy Performance Contract | | (7,166,844) |
| Repayment of bond principal is an expenditure in the government funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. | | 3,600,000 |
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the government funds because interest is recorded as an expenditure in funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is due. | | |
| Accrued interest for June 30, 2011 to June 30, 2012 increased by | | (205,709) |
| **Long-Term Expense Differences** In the Statement of Activities, certain operating expenses are measured by the amounts earned or incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. | | |
| Decrease in estimated Compensated Absences | 28,611 | |
| Increase in Postemployment benefits (Net OPEB Obligation) | (6,183,757) | (6,155,146) |
| Changes in Net Assets of Governmental Activities | | $ (2,212,782) |

See Accompanying Notes to the Basic Financial Statements.

Exhibit 7

SAYVILLE UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

| | Private Purpose Fund | Agency Fund |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 546,543 | $ 548,315 |
| Total Assets | 546,543 | 548,315 |
| **LIABILITIES** | | |
| Extraclassroom Activity Balances | - | 196,203 |
| Group Insurance and Benefits | - | 223,565 |
| Due to Other Funds | - | 27 |
| Library Escrow on Sales Contact | - | 56,000 |
| Other Liabilities | - | 72,520 |
| Total Liabilities | - | $ 548,315 |
| **NET ASSETS** | | |
| Held in Trust For: | | |
| Endowment Scholarships | 546,543 | |
| Total Net Assets | $ 546,543 | |

See Accompanying Notes to the Basic Financial Statements.

Exhibit 8

SAYVILLE UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

| | | Private Purpose Fund |
|---|---|---|
| **ADDITIONS** | | |
| Gifts and Donations | $ | 33,566 |
| Interest | | 660 |
| Total Additions | | 34,226 |
| **DEDUCTIONS** | | |
| Scholarship Expenses | | 21,223 |
| Total Deductions | | 21,223 |
| Change in Net Assets | | 13,003 |
| Net Assets Beginning | | 533,540 |
| Net Assets Ending | $ | 546,543 |

See Accompanying Notes to the Basic Financial Statements.

## Note 1 – Summary of certain significant accounting policies:

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies 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 President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to, public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

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

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

#### Extraclassroom Activity Funds:

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. The District reports these assets held by it as agent for the Extraclassroom organizations in the Statement of Net Assets – Fiduciary Fund. 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.

## B) Joint venture:

The District is a component district in the Board of Cooperative Educational Services of Suffolk County (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 ended June 30, 2012, the District was billed $6,037,712 for administrative and program costs. Financial statements for BOCES are available from the BOCES Administrative Offices.

## C) Basis of presentation:

### i) District-wide financial statements:

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by

the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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:

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

Capital Projects Funds: This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

**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:

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

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

## D) Measurement focus and basis of accounting:

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

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

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

## F) Cash and investments:

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Investments are stated at fair value.

## G) 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 were collected by the Town(s) and remitted to the District. Uncollected real property taxes are subsequently enforced by Suffolk County.

## H) Accounts Receivable:

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

## I) Inventories and prepaid items:

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount. Prepaid items represent payments made by the District for which benefits extend beyond year-end.

## J) Due to/from other funds:

The amounts reported on the Statement of Net Assets for due to and due from other funds represents amounts due between different fund types (governmental activities, and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these Notes.

## K) Capital assets:

Capital assets are reported at actual cost where available. In certain cases, historical costs have been estimated based on appraisals conducted by an independent appraisal company. Donated assets are reported at estimated fair market value at the time received.

The District's capitalization policy is as follows:

There is a threshold in place of $1,000, which indicates the dollar value at and above which an acquisition is added to the capital assets report. However, all costs, regardless of the amount, are included for Land. No depreciation is calculated on Construction-in-progress until completion.

| | Depreciation Method | Estimated Useful Life |
|---|---|---|
| Buildings/Building Improvements | Straight Line | 15-50 years |
| Site Improvements | Straight Line | 20 years |
| Equipment and Vehicles | Straight Line | 5-20 years |

**L) Vested employee benefits – Compensated absences:**

The 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.

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Sick leave use is based on a last-in first-out (LIFO) basis.

Upon retirement, resignation or death, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

Consistent with GASB Statement 16, Accounting for Compensated Absences, an accrual for accumulated sick leave is included in the compensated absences liability at year-end. The compensated absences liability is calculated based on the pay rates in effect at year-end.

**M) Other benefits:**

Eligible 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 health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between

the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the General Fund. In the District-wide statements, postemployment costs are measured and disclosed using the accrual basis of accounting in accordance with GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

## N) Equity Classifications:

Government-wide statements

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

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

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

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

Fund Statements

The District implemented GASB 54 in fiscal 2010-2011. The intention of the GASB was to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balance, nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of a permanent fund. The District has inventories that are considered nonspendable.

In addition to nonspendable fund balance GASB 54 has provided a hierarchy of four spendable fund balances, based on a hierarchy of spending constraints that impact the District.

- Restricted:

  Fund balances that are constrained by external parties, constitutional provisions or enabling legislation. A discussion of the Restricted amount follows:

  **Reserve for Retirement Contribution**

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

  **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.

  **Reserve for Debt Service**

  Mandatory reserve for debt service (GML§6-l) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvement. Unexpended balances of proceeds of borrowings for capital projects; interest and earnings from investing proceeds of obligations, and premium and accrued interest are recorded in the reserve for debt and held until appropriated for debt payments. The reserve is accounted for in the 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 benefit due to an employee upon the 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. This reserve is accounted for in the General Fund.

**Reserve for Unemployment Insurance**

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 be either transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to covert 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.

**Restricted-Unspent bond/EPC proceeds**

Unspent debt or energy performance contract proceeds are recorded as restricted fund balances because they are subject to external constraints in the agreement. These restricted funds are accounted for in the Capital Projects Fund.

- Committed:

  Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority are committed. The District has no funds classified as committed.

- Assigned:

  Fund balances that contain self-imposed constraints of the government to be used for a particular purpose are assigned. This will include an amount

appropriated to partially fund the subsequent year's budget as well as encumbrances, not otherwise classified as restricted.

- Unassigned:

  Fund balance of the general fund that is not constrained for a particular purpose is unassigned.

  Any portion of fund balance may be applied or transferred for a specific purpose either by voter approval if required by law or by formal action of the Board of Education if voter approval is not required. Amendments or modifications to the applied or transferred fund balance must also be approved by formal action of the Board of Education.

  The Board of Education shall delegate the authority to assign fund balance, for encumbrance purposes, to the Assistant Superintendent for Business and/or the person(s) to whom it has delegated the authority to sign purchase orders.

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

## O) Budgetary procedures and budgetary accounting:

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

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

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. 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.

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

Special Revenue Funds have not been included in the comparison because they do not have legally authorized (appropriated) budgets.

**P) Encumbrances:**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriation, is employed as a control in preventing over expenditure of established appropriations. Open encumbrances are reported as appropriated fund balance since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year. Refer to Note 14 for additional information.

**Q) Deferred revenue:**

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

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.

Deferred revenues recorded in governmental funds are not recorded in the District-wide statements, and comprise part of the reconciliation.

**R) Use of estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. 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, potential contingent liabilities and useful lives of long-lived assets.

**S) Short-term debt:**

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

The District may issue Bond Anticipation Notes (BAN), in anticipation of proceeds from subsequent sale of bonds. The 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 purpose be converted to long-term financing within in five years after the original issue date.

**T) Long-term liabilities:**

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.

## Note 2 – Explanation of Certain Differences Between the Governmental Fund Statements and District-wide Statements:

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

## A) Total fund balances of governmental fund vs. net assets of governmental activities:

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

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

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

i) Long-Term Revenue and Expense Differences

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modification 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 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 the issuance of long-term debt provides current financial resources to governmental funds, but is recorded as a liability in the Statement of Net Assets. In additions, both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

## Note 3 – Stewardship and Compliance:

The District's unreserved-undesignated fund balance was in excess of the New York State Real Property Tax Law (1318) limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year.

## Note 4 – Custodial Credit, Concentration of Credit, Interest Rate and Foreign Currency:

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 previously discussed in these Notes. Governmental Accounting Standards Board Statement #40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. During the fiscal year 2012, the District has invested in deposits within the above-described parameters.

In order to give an indication of the level of risk assumed by the District, bank balances are classified by the following categories:

(1) Insured or collateralized with securities held by the District or by its agent in the District's name.

(2) Collateralized with securities held by the pledging financial institution's trust department or Agent in the District's name.

(3) Uncollateralized (This includes any balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.)

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

The District does not typically purchase investments for a long enough duration to cause it to believe that it is exposed to any material interest rate risk.

The District does not typically purchase investments dominated in foreign currency, and is not exposed to foreign currency risk.

Cash shown as Restricted is either held by an escrow agent or held in a separate account for Retirement Contributions.

## Note 5 – Capital assets:

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

| | Beginning Balance | Additions | Retirements/ Reclass. | Ending Balance |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital Assets That Are Not Depreciated: | | | | |
| Land | $ 318,490 | $ - | $ - | $ 318,490 |
| Construction in Progress | 10,340,241 | 6,341,704 | (6,989,398) | 9,692,547 |
| Total Nondepreciable Cost | $ 10,658,731 | $ 6,341,704 | $ (6,989,398) | $ 10,011,037 |
| Capital Assets That Are Depreciated: | | | | |
| Buildings/Building Improvements | $ 77,948,260 | $ 8,542,615 | $ - | $ 86,490,875 |
| Site Improvements | 566,392 | 145,500 | - | 711,892 |
| Machinery and Equipment | 3,833,694 | 80,447 | - | 3,914,141 |
| Vehicles | 641,853 | 58,479 | (60,163) | 640,169 |
| Total Depreciable Cost | 82,990,199 | 8,827,041 | (60,163) | 91,757,077 |
| **Less:** | | | | |
| Accumulated Depreciation: | | | | |
| Buildings/Building Improvements | 35,304,891 | 2,585,540 | - | 37,890,431 |
| Site Improvements | 553,898 | 1,634 | - | 555,532 |
| Machinery and Equipment | 1,666,798 | 261,615 | - | 1,928,413 |
| Vehicles | 507,113 | 37,952 | (60,163) | 484,902 |
| Total Accumulated Depreciation | 38,032,700 | 2,886,741 | (60,163) | 40,859,278 |
| Total Depreciable-Net | $ 44,957,499 | $ 5,940,300 | $ - | $ 50,897,799 |
| Grand Total | $ 55,616,230 | $ 12,282,004 | $ (6,989,398) | $ 60,908,836 |

Depreciation has been allocated to governmental functions as follows:

| | |
|---|---|
| General Support | $ 189,601 |
| School Lunch Program | 7,218 |
| Instruction | 2,689,922 |
| Total Depreciation Expense | $ 2,886,741 |

## Note 6 – Construction and Lease of Library Building:

On November 1, 2006 the voters of the Sayville Union Free School District approved the construction of a Library. This building will be constructed by the Library in accordance with the proposition. The School District will lease the Library Building to the Library and the Library will rent and lease such interest under the terms of an Agreement dated January 10, 2008.

Custody of the Bond Proceeds shall be held in the name of the School District. The "Rent" for the School District's leasehold interest is directly related to the reimbursement for principal and interest on the outstanding bonds. The Library bond issue dated March 1, 2008 is in the amount of $12,988,600. The aggregate amount expended on the construction project by bond proceeds and other revenue was $12,540,660 at June 30, 2012. This amount is included in Capital Assets.

## Note 7 – Short-term debt:

The District may issue Tax Anticipation Notes (TANs) prior to the receipt of tax revenue. In addition, Bond Anticipation Notes (BANs) may be issued to finance certain capital projects. While such notes are payable one year after issuance, Bond Anticipation Notes may be refinanced over a five-year period through note renewals and principal reductions. There was no short term financing during the year

## Note 8– Long-term debt:

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Government Activities: | | | | | |
| Bonds Payable/Contracts: | | | | | |
| Serial Construction Bonds | $ 38,245,000 | $ - | $ 3,600,000 | $ 34,645,000 | $ 3,710,000 |
| Energy Performance Contract | - | 7,166,844 | - | 7,166,844 | 235,661 |
| Total Bonds Payable/Contracts | 38,245,000 | 7,166,844 | 3,600,000 | 41,811,844 | 3,945,661 |
| Other Liabilities: | | | | | |
| Compensated Absences | 7,038,949 | 423,860 | 156,887 | 7,305,922 | 452,471 |
| Total Long-Term Liabilities | $ 45,283,949 | $ 7,590,704 | $ 3,756,887 | $ 49,117,766 | $ 4,398,132 |

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

**Serial Bonds:**

| Bond Issue | Year of Maturity | Interest Rate % | Outstanding June 30, 2012 | Current |
|---|---|---|---|---|
| 1994 | 2014 | 5.350-5.500 | $ 650,000 | $ 325,000 |
| 2002-A | 2016 | 4.200-4.500 | 1,675,000 | 390,000 |
| 2002-B | 2021 | 4.375-5.000 | 2,430,000 | 220,000 |
| 2002-C | 2016 | 3.625-4.250 | 6,025,000 | 1,425,000 |
| 2002-D | 2020 | 4.125-4.600 | 990,000 | 110,000 |
| 2005 | 2025 | 3.750-4.250 | 1,500,000 | 90,000 |
| 2208 | 2028 | 3.125-4.500 | 10,800,000 | 600,000 |
| 2011 | 2029 | 2.000-4.000 | 10,575,000 | 550,000 |
| | | | $ 34,645,000 | $ 3,710,000 |

Serial bonds outstanding will mature in installments, including interest as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 3,710,000 | $ 1,391,609 | $ 5,101,609 |
| 2014 | 3,795,000 | 1,245,909 | 5,040,909 |
| 2015 | 3,595,000 | 1,095,996 | 4,690,996 |
| 2016 | 3,710,000 | 954,120 | 4,664,120 |
| 2017 | 1,750,000 | 802,685 | 2,552,685 |
| 2018-2022 | 8,715,000 | 2,963,652 | 11,678,652 |
| 2023-2027 | 7,395,000 | 1,330,163 | 8,725,163 |
| 2028-2029 | 1,975,000 | 104,750 | 2,079,750 |
| | $ 34,645,000 | $ 9,888,884 | $ 44,533,884 |

**Energy Performance Contract:**

Financing is provided @3.240% for a 15 year energy performance contract provided by Johnson Controls (Equipment).

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 235,661 | $ 397,452 | $ 633,113 |
| 2014 | 416,726 | 221,222 | 637,948 |
| 2015 | 430,338 | 207,611 | 637,949 |
| 2016 | 444,394 | 193,555 | 637,949 |
| 2017 | 458,909 | 179,040 | 637,949 |
| 2018-2027 | 5,180,816 | 879,692 | 6,060,508 |
| | $ 7,166,844 | $ 2,078,572 | $ 9,245,416 |

Interest on long-term debt, after adjustment for accruals, amounted to $1,737,862.

**Note 9 – Interfund balances and activity:**

| | Interfund | | Interfund | |
|---|---|---|---|---|
| | Receivable | Payable | Revenues | Expenditures |
| General Fund | $ 1,607,742 | $ 55,066 | $ | $ 120,220 |
| School Lunch Fund | - | 25,965 | | |
| Special Aid Fund | - | 1,533,573 | 120,220 | |
| Capital Projects Fund | 55,066 | 48,177 | - | |
| Total Governmental Activities | $ 1,662,808 | $ 1,662,781 | $ 120,220 | $ 120,220 |
| Agency Fund | - | 27 | - | - |
| Grand Totals | $ 1,662,808 | $ 1,662,808 | $ 120,220 | $ 120,220 |

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Assets. Interfund transfers are also eliminated. The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year

**Note 10– Pension plans:**

**General information**

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

**Provisions and administration**

Teacher's Retirement System

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

Employee's Retirement System

NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law govern obligations of employers and employees to contribute, and benefits to employees. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Governor Alfred E. Smith State Office Building, 15th Floor Billing Unit, Albany, New York 12244.

**Funding Policies**

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

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

| | NYSTRS | NYSERS |
|---|---|---|
| 2009 - 2010 | $ 2,401,420 | $ 668,712 |
| 2010 - 2011 | 2,413,346 | 1,086,469 |
| 2011 - 2012 | 3,383,421 | 1,410,263 |

As of January 1, 2010, a new tier (Tier 5) had been added to NYSTRS and ERS. The most outstanding difference from prior tiers is that the employee contribution percentage of payment will be paid throughout active membership. For this new tier, the NYSTRS rate is 3.5% and the ERS rate is 3.0%. In April 2012 a new tier (Tier 6) was added. The percentage of payment by the employee will be paid throughout active membership and on April 1, 2013, the contribution rate will be based on annual earnings.

**Note 11- Postemployment Benefits:**

The District provides postemployment health insurance coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels and employee contributions are governed by the District's contractual agreements. An outside actuarial firm determined information for the Sayville UFSD as of December 31, 2011.

Plan Description

The Sayville Union Free School District obtains health plan coverage for its eligible employees and retirees from the Suffolk School Employees Health Plan (SSEHP). The SSEHP was determined to be an agent multiple-employer defined benefit plan. The Plan is on a calendar basis. Authority to establish and amend benefit provisions of the Plan resides with the Trustees.

The District pays an annual premium to the pool for its health insurance coverage. The Plan obtained stop-loss insurance to reduce its exposure to excessive losses resulting from large covered claims. The Plan permits the assessment of additional contributions from the participating District in the form of supplemental assessments in the event of a shortfall in any fiscal year.

Funding Policy

The School Districts that participate determine through negotiations the amount that each participant in its respective district will contribute towards their health coverage. Retiree contributions depend on group classification and type of coverage. The required contribution is based on pay-as-you-go financing.

Employer contribution requirements to the SSEHP are set annually by the Trustees of the Plan effective from July 1 to June 30. The contribution requirements are based on projected incurred costs developed on a pooled basis for the plan as a whole. The rules under which contribution requirements are set are expressed in the Plan's trust agreement.

The OPEB cost (expense) is based on the annual required contribution of the employer (ARC) which 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) of the plan over a period not to exceed thirty years.

**Annual OPEB Cost and Net OPEB Obligation (NOO)**

| | | |
|---|---|---|
| Annual Required Contribution (ARC): | | |
| Normal Cost | $ | 3,332,732 |
| Amortization of UAAL | | 6,918,812 |
| Total ARC | | 10,251,544 |
| Interest on NOO | | 588,479 |
| Adjustment to ARC | | (905,522) |
| Annual OPEB cost | | 9,934,501 |
| Contributions made | | (3,750,744) |
| Increase in OPEB obligation | | 6,183,757 |
| Net OPEB obligaton-beginning of year | | 14,711,987 |
| Net OPEB obligaton-end of year | $ | 20,895,744 |
| Annual OPEB cost | $ | 9,934,501 |
| Percentage of annual OPEB cost contributed | | 37.8% |
| Net OPEB obligation-end of year | $ | 20,895,744 |
| **Funded Status** | | |
| Actuarial Accrued Liability (AAL) | $ | 112,409,679 |
| Actuarial value of assets | | 0 |
| Unfunded Actuarial Accrued Liability | $ | 112,409,679 |
| Funded Ratio (Assets as a percentage of AAL) | | 0% |
| Annual covered payroll | $ | 37,382,708 |
| UAAL as a percentage of covered payroll | | 300.7% |

## Funded Status and Funding Progress

As of June 30, 2012, the plan was 0 percent funded. The actuarial accrued liability for benefits was $112,409,679, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $112,409,679. The covered payroll (annual payroll of active employees covered by the plan) was $37,382,708 and the ratio of the UAAL to the covered payroll was 300.7%.

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 presented as required supplementary information 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.

**Actuarial Methods and Assumptions**

The outside actuarial firm used the Projected Unit Credit cost method to prepare its valuation. The actuarial assumptions included a 4% investment rate of return and the mortality rate based on the RP-2000 Combined Healthy Mortality Table, retirement rates and turnover rates. The UAAL uses level dollar amortization (closed) based on 30 years. At June 30, 2012, the remaining period was 25 years.

Projections of benefits are based on the plan as understood by the employer and plan members and include benefits in force at the valuation date. Retirement contributions are based on job classification, type of coverage and date of retirement.

**Health Care Cost Trend Rates**

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The following rates are "net" and are applied to the net per capita costs. The trend shown for a particular plan year is the rate that must be applied to that year's cost to yield the next year's projected cost.

| Year Ending December 31, | Medical | Prescription Drugs |
|---|---|---|
| 2012 | 8.0% | 7.0% |
| 2013 | 7.5% | 6.5% |
| 2014 | 7.0% | 6.0% |
| 2015 | 6.5% | 5.5% |
| 2016 | 6.0% | 5.0% |
| 2017 | 5.5% | 5.0% |

Subsequent years also indicate a decline to a flat 5.0% for medical and a flat 5.0% for prescription drugs in year 2018 and later.

## Note 12 – Risk Management:

General Information

The Sayville Union Free School District is exposed to various risks of loss. These risks are covered by commercial insurance purchased from independent third parties.

Suffolk School Employees Health Plan

The Sayville Union Free School District is self insured for health benefits. The plan, entitled *Suffolk School Employees Health Plan* (the "Plan"), consists of four contributing school districts in Suffolk County, New York. It is subject to the provisions of Article 44 of the New York State Insurance Law. The Plan provides health benefits (medical, hospital, surgical, major medical, and prescriptions) covering employees (and their beneficiaries and covered dependents) with a regular schedule of twenty (20) hours or more a week, in a job category, as defined by the Plan or as modified by the School District. Each school district makes contributions to the Plan determined annually by the Plan's Board of Trustees.

## Note 13– Operating Leases

The District leases equipment under various operating leases. Total rental expenditures on such leases for the fiscal year ended June 30, 2012 were approximately $426,088. The maximum future operating lease payments are as follows:

| Fiscal Year Ending June 30 | Amount |
|---|---|
| 2013 | $ 291,004 |
| 2014 | 141,584 |
| 2015 | 120,353 |
| 2016 | 97,530 |
| 2017 | 0 |
| | $ 650,471 |

## Note 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) Encumbrances

Assigned: Unappropriated Fund Balance – General Fund

| | |
|---|---|
| General Support | $ 900,860 |
| Instruction | 1,992,236 |
| Pupil Transportation | 7,352 |
| Employee Benefits | 34,196 |
| TOTAL | $ 2,934,644 |

### (C) Litigation

Counsel for the District reports that the District was sued by a General Contractor that performed construction work in the District. The amount Kenstar sued for was approximately $2,500,000. "The District aggressively defended this claim, and filed a motion to dismiss Kenstar's complaint in lieu of answering the complaint.....The District recently learned in the Courts that Kenstar's complaint against the District was dismissed.

## Note 15 – Subsequent Events

Events and transactions are evaluated through the date of the financial report, which is the date the financial statements were available for issuance, for possible disclosure and recognition in the financial statements.

On August 27, 2012 the District closed on the sale of building/land previously used by the Library. After certain deductions, the net proceeds of $1,323,850 will be set up in a Reserve for Tax Reduction in accordance with Education Law. The District is permitted to retain the proceeds for a period not to exceed 10 years and to use them during that period for tax reduction. This Reserve is accounted for in the General Fund.

# SAYVILLE UNION FREE SCHOOL DISTRICT
## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND
JUNE 30, 2012

| REVENUES | Original Budget | Final Budget | Actual Revenues | Over (Under) Budget |
|---|---|---|---|---|
| Local Sources | | | | |
| Real Property Taxes | $ 48,323,715 | $ 48,323,715 | $ 48,490,301 | $ 166,586 |
| Real Property Tax Items (Including STAR Reimbursement) | 6,112,005 | 6,112,005 | 6,335,203 | 223,198 |
| Charges for Services | 449,078 | 449,078 | 506,408 | 57,330 |
| Use of Money and Property | 1,830,180 | 1,830,180 | 1,719,898 | (110,282) |
| Sale of Property and Compensation for Loss | 6,100 | 6,100 | 58,469 | 52,369 |
| Miscellaneous | 359,559 | 359,559 | 550,501 | 190,942 |
| Total Local Sources | 57,080,637 | 57,080,637 | 57,660,780 | 580,143 |
| State Sources | 21,626,638 | 21,626,638 | 22,366,899 | 740,261 |
| Federal Aid | - | - | 49,284 | 49,284 |
| Total Revenues | 78,707,275 | 78,707,275 | $ 80,076,963 | $ 1,369,688 |
| Prior year's encumbrances | 2,421,020 | 2,421,020 | | |
| Appropriated Fund Balance($2,500,000) and Reserves ($572,125) | 3,072,125 | 3,072,125 | | |
| Total Revenues and Appropriated Fund Balance | $ 84,200,420 | $ 84,200,420 | | |

| EXPENDITURES | Original Budget | Final Budget | Actual Expenditures | Encumbrances | Unencumbered Balance |
|---|---|---|---|---|---|
| General Support: | | | | | |
| Board of Education | $ 62,640 | $ 62,690 | $ 53,424 | $ 1,226 | $ 8,040 |
| Central Administration | 313,117 | 322,109 | 320,481 | 180 | 1,448 |
| Finance | 1,035,198 | 1,043,175 | 915,397 | 65,477 | 62,301 |
| Staff | 713,691 | 925,113 | 833,999 | 30,612 | 60,502 |
| Central Services | 7,401,796 | 7,322,767 | 6,189,768 | 784,754 | 348,245 |
| Special Items | 974,523 | 971,523 | 883,154 | 18,611 | 69,758 |
| Total General Support | 10,500,965 | 10,647,377 | 9,196,223 | 900,860 | 550,294 |
| Instruction: | | | | | |
| Instruction, Administration and Improvement | 3,402,215 | 3,305,608 | 3,068,201 | 39,202 | 198,205 |
| Teaching - Regular School | 22,843,753 | 23,503,630 | 23,159,056 | 209,568 | 135,006 |
| Programs for Children with Handicapping Conditions | 10,622,584 | 10,635,032 | 8,917,529 | 1,246,904 | 470,599 |
| Occupational Education | 696,000 | 696,000 | 634,728 | 61,272 | - |
| Teaching - Special Schools | 207,333 | 297,526 | 176,270 | - | 121,256 |
| Instructional Media | 3,101,409 | 3,426,279 | 2,818,634 | 432,171 | 175,474 |
| Pupil Services | 3,804,189 | 3,878,183 | 3,791,100 | 3,119 | 83,964 |
| Total Instruction | 44,677,483 | 45,742,258 | 42,565,518 | 1,992,236 | 1,184,504 |
| Pupil Transportation | 3,325,261 | 3,332,304 | 3,246,130 | 7,352 | 78,822 |
| Community Services | 114,101 | 114,101 | 104,120 | - | 9,981 |
| Employee Benefits | 19,980,456 | 19,018,123 | 16,427,596 | 34,195 | 2,556,332 |
| Debt Service | | | | | |
| Principal | 3,600,000 | 3,600,000 | 3,600,000 | - | - |
| Interest | 1,852,154 | 1,596,257 | 1,532,153 | - | 64,104 |
| Subtotal | 5,452,154 | 5,196,257 | 5,132,153 | - | 64,104 |
| Interfund Transfers | 150,000 | 150,000 | 120,220 | - | 29,780 |
| Total Expenditures | $ 84,200,420 | $ 84,200,420 | 76,791,960 | $ 2,934,643 | $ 4,473,817 |
| Excess Revenues / Expenditures | | | $ 3,285,003 | | |

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

See paragraph on supplementary schedules included in auditors' report.

SAYVILLE UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND USE OF UNRESERVED FUND BALANCE-GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

| | | |
|---|---|---|
| Adopted Budget | $ | 81,779,400 |
| Add: Prior years encumbrances | | 2,421,020 |
| Original Budget | | 84,200,420 |
| Budget Amendments | | - |
| Final Budget | $ | 84,200,420 |
| Next year's voter approved budget | $ | 85,674,961 |

**USE OF ASSIGNED: APPROPRIATED AND UNASSIGNED FUND BALANCE**

| | | |
|---|---|---|
| Assigned: Appropriated and Unassigned Fund Balance | | |
| As of the beginning of the year | $ | 9,929,359 |
| Less: Designated fund balance used for | | |
| the levy of taxes - Adopted Budget | | 2,500,000 |
| Unassigned Fund Balance - As of the beginning of the year | $ | 7,429,359 |

See paragraph on supplementary schedules included in auditors' report.

SAYVILLE UNION FREE SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS-POSTEMPLOYMENT BENEFITS PLAN
JUNE 30, 2012

| Actuarial Valuation Date | Actuarial Accrued Liability | Actuarial Value of Plan Assets | Unfunded Actuarial Accrued Liability | Funded Ratio | Covered Payroll | Unfunded Liability as a % of Payroll |
|---|---|---|---|---|---|---|
| 12/31/2007 | $ 68,287,017 | $ - | $ 68,287,017 | $ - | $ 36,714,601 | 186.0% |
| 12/31/2009 | 106,852,152 | - | 106,852,152 | - | 37,821,235 | 282.5% |
| 12/31/2009 | 106,852,152 | - | 106,852,152 | - | 36,440,730 | 293.2% |
| 12/31/2011 | 112,409,679 | - | 112,409,679 | - | 37,382,708 | 300.7% |

See paragraph on supplementary schedules included in auditors' report

SAYVILLE UNION FREE SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
JUNE 30, 2012

| PROJECT TITLE | Appropriation | | Expenditures to Date | | | Unexpended |
|---|---|---|---|---|---|---|
| | Original | Revised | Prior Year's | Current Year | Total | Balance |
| Energy Performance Contract | $ 7,166,844 | $ 7,166,844 | $ - | $ 5,944,552 | $ 5,944,552 | $ 1,222,292 |
| Garfield Avenue Maintenance Facility | 1,108,000 | 1,108,000 | 120,356 | 272,342 | 392,698 | 715,302 |
| Library Bond Project | 12,988,600 | 13,055,707 | 11,758,440 | 782,220 | 12,540,660 | 515,047 |
| 2007 Bond Projects - School District Improvements | 12,940,517 | 12,941,402 | 11,363,774 | 1,041,307 | 12,405,081 | 536,321 |
| Total | $ 34,203,961 | $ 34,271,953 | $ 23,242,570 | $ 8,040,421 | $ 31,282,991 | $ 2,988,962 |

See paragraph on supplementary schedules included in auditors' report

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

| | Account Code | ST-3 Amount | Audited Amount |
|---|---|---|---|
| REVENUES | | | |
| Property Taxes | A - 1001 | $ 48,490,301 | $ 48,490,301 |
| Non-property Taxes | AT - 1199 | - | - |
| State Aid | AT - 3999 | 22,366,899 | 22,366,899 |
| Federal Aid | AT - 4999 | 49,284 | 49,284 |
| Total Revenues | AT - 5999 | 80,076,963 | 80,076,963 |
| EXPENDITURES | | | |
| General Support | AT - 1999 | 9,196,223 | 9,196,223 |
| Pupil Transportation | AT - 5599 | 3,246,130 | 3,246,130 |
| Debt Service - Principal | AT - 9798.6 | 3,600,000 | 3,600,000 |
| Debt Service - Interest | AT - 9798.7 | 1,532,153 | 1,532,153 |
| Total Expenditures | AT - 9999 | 76,791,960 | 76,791,960 |

See paragraph on supplementary schedules included in auditors' report.

SAYVILLE UNION FREE SCHOOL DISTRICT
SCHEDULE OF INVESTMENT IN CAPITAL ASSETS, NET OR RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2012

| | | |
|---|---|---|
| Capital Assets, Net | | $ 60,908,836 |
| Deduct: | | |
| Short-term Portion of Bonds Payable | $ 3,710,000 | |
| Long-term Portion of Bond Payable | 30,935,000 | |
| Short-term Portion of Energy Performance Contract | 235,661 | |
| Long-term Portion of Energy Performance Contract | 6,931,183 | (41,811,844) |
| | | 19,096,992 |
| Add: | | |
| Unspent Bond Proceeds/Energy Performance Contract | | 2,273,660 |
| Investment in Capital Assets, Net of Related Debt | | $ 21,370,652 |

See paragraph on supplementary schedules included in auditors' report.

Pappas & Company
CERTIFIED PUBLIC ACCOUNTANTS

3 Rensselaer Drive • Commack, NY 11725 (631) 462-0660 • Fax (631) 462-8664

**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*
*Sayville Union Free School District*
*Sayville, New York*

*We have audited the financial statements of the governmental activities, each major fund and the fiduciary funds of the Sayville Union Free School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.*

***Internal Control over Financial Reporting***

*In planning and performing our audit, we considered Sayville Union Free School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.*

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

***Compliance and Other Matters***

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

*We noted certain matters that we reported to management of the Sayville Union Free School District in a separate letter dated October 9, 2012.*

*This report is intended solely for the information of the Board of Education, District's management, legislative or regulatory bodies, federal awarding agencies and, if applicable, pass-through entities, and should not be used by anyone other than these specified parties.*

Pappas & Company

*October 9, 2012*
*Commack, New York*