

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Central Islip Union Free School District

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the fiduciary funds information of Central Islip Union Free School District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Central Islip Union Free School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary fund information of Central Islip Union Free School District, as of June 30, 2013, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Central Islip Union Free School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 1 through 16 and 56 through 58, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Islip Union Free School District's basic financial statements. The other supplementary financial information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements.

The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013 on our consideration of Central Islip Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Islip Union Free School District's internal control over financial reporting and compliance.

R. S. Abrams & Co., LLP

R.S. Abrams & Co., LLP
Islandia, NY
October 30, 2013

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The following is a discussion and analysis of the Central Islip Union Free School District's (the "District") financial performance for the fiscal year ended June 30, 2013. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-Wide and Fund Financial Statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2013 are as follows:

- On the District-Wide Financial Statements, revenues increased 1% primarily as a result of increased property tax revenue.
- On the District-Wide Financial Statements, expenditures increased by 4% primarily as a result of an increase in instructional and general support expenses.
- On May 21, 2013, the District's residents authorized the proposed 2013-2014 budget in the amount of \$187,955,865.
- The District continued to offer all programs, without reducing services.
- The District's long-term liabilities, as reflected in the District-Wide Financial Statements, increased by \$10,586,935 primarily due to an increase in the net other post employment benefits obligation in the amount of \$13,441,449.
- The District's net position, as reflected in the District-Wide Financial Statements, decreased by \$5,322,310.
- On May 17, 2013 the District refunded previously issued serial bonds from 2003 and 2004 at a lower interest rate and will realize savings of approximately \$3,659,453 over the remaining life of the bonds.
- The District implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statement No. 14 and No. 34*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of June 30, 2013.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and optional supplementary

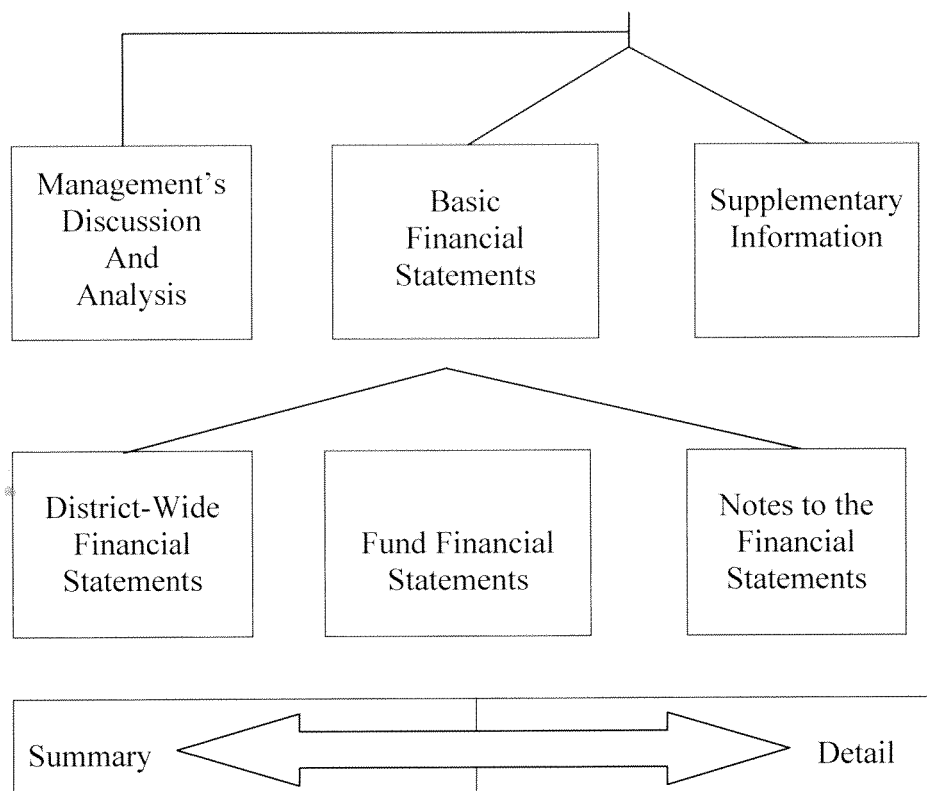
**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

information. The basic financial statements include two kinds of statements that present different views of the District:

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

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

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



**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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

	District-Wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

A) District-Wide Financial 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 Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

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

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

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

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

B) Fund Financial Statements

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

The District has two kinds of funds:

i) Governmental funds:

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

ii) Fiduciary funds:

The District is the trustee or *fiduciary* for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position. This report should be used to support the District's own programs and is developed using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain post-employment healthcare plans.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A) Net Position

The District's total net position decreased by \$5,322,310 in the fiscal year ended June 30, 2013, as detailed in Table A-3.

Table A-3: Condensed Statement of Net Position-Governmental Activities

	Fiscal Year 2013	Fiscal Year 2012	Increase/ (Decrease)	Total Percentage Change
Current assets and other assets	\$ 77,997,179	\$ 75,195,700	\$ 2,801,479	4%
Capital assets	81,460,169	79,580,899	1,879,270	2%
Total assets	<u>\$ 159,457,348</u>	<u>\$ 154,776,599</u>	<u>\$ 4,680,749</u>	<u>3%</u>
Current liabilities	\$ 36,145,841	\$ 40,313,781	\$ (4,167,940)	-10%
Long-term liabilities	159,478,983	148,892,048	10,586,935	7%
Total liabilities	<u>195,624,824</u>	<u>189,205,829</u>	<u>6,418,995</u>	<u>3%</u>
Deferred inflows of resources	3,584,064	-	3,584,064	N/A
Total liabilities and deferred inflows of resources	<u>199,208,888</u>	<u>189,205,829</u>	<u>10,003,059</u>	<u>5%</u>
Net position				
Net investment in capital assets	22,530,776	18,294,253	4,236,523	23%
Restricted	35,946,039	8,422,877	27,523,162	327%
Unrestricted (deficit)	<u>(98,228,355)</u>	<u>(61,146,360)</u>	<u>(37,081,995)</u>	<u>61%</u>
Total net position (deficit)	<u>(39,751,540)</u>	<u>(34,429,230)</u>	<u>(5,322,310)</u>	<u>15%</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 159,457,348</u>	<u>\$ 154,776,599</u>	<u>\$ 4,680,749</u>	<u>3%</u>

Reclassifications have been made to the 2012 liabilities to conform to the 2013 financial statement classification. This new classification is consistent with Governmental Accounting Standards Board (GASB) Statement No. 63 and Statement No. 65. Such reclassifications had no effect on the total net position as previously reported.

Current assets and other assets increased by \$2,801,479 from 2012 to 2013 primarily due to an increase in the District's cash balance in the general fund offset by a decrease in state and federal aid receivable. Capital assets (net of depreciation) increased by \$1,879,270. This was attributable to current year capital asset additions offset by depreciation. Current liabilities decreased by \$4,167,940. This was

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

attributable to a decrease in BAN payable and accounts payable in the capital projects fund for capital improvements offset by an increase in due to new york state teachers' and employees' retirement system and an increase in due to other governments. Long-term liabilities increased by \$10,586,935 primarily due to an increase in net OPEB obligation offset by a decrease in bonds payable and a decrease in the due to new york state teachers' retirement system for the obligation the district owes for the 2010 retirement incentive.

The net investment in capital assets, net of related debt, relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, and furniture & equipment, net of depreciation and related debt. This number increased from the prior year by \$4,236,523 primarily due to an increase in capital additions offset by a decrease in related debt.

The restricted net position in the amount of \$35,946,039 refers to the District's reserves: workers' compensation, employee benefit accrued liability, retirement contributions, capital improvement and liability. The increase of \$27,523,162 can be attributed to the interest that was allocated to the reserves of \$23,162, and funding of the employee benefit accrued liability reserve for \$5,000,000, funding of the retirement contribution reserve of \$15,000,000 and funding the capital reserve of \$7,500,000. See Section 4 of this MD&A and Note 1 to Financial Statements for further descriptions and detailed balances.

The unrestricted net deficit at June 30, 2013 is \$98,228,355 which represents the amount by which the District's liabilities excluding debt related to capital construction exceeded assets other than capital assets.

Net position overall decreased by \$5,322,310.

B) Changes in Net Position

The results of operations as a whole are reported in the Statement of Activities. A summary of this statement for the years ended June 30, 2013 and 2012 are as follows:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

	Fiscal Year 2013	Fiscal Year 2012	Increase/ (Decrease)	Percentage Change
Program revenues				
Charges for services	\$1,698,741	\$1,628,598	\$70,143	4%
Operating grants	10,083,828	9,933,076	150,752	2%
General revenues				
Property taxes (including other tax items)	89,463,019	86,740,494	2,722,525	3%
State aid	80,496,601	81,276,549	(779,948)	-1%
Use of money and property	202,714	377,627	(174,913)	-46%
Other	2,739,479	2,854,173	(114,694)	-4%
Total Revenues	<u>\$184,684,382</u>	<u>\$182,810,517</u>	<u>\$1,873,865</u>	<u>1%</u>
Expenses				
General support	\$28,824,553	\$26,940,761	\$1,883,792	7%
Instruction	146,331,179	140,988,860	5,342,319	4%
Pupil transportation	9,159,368	9,162,374	(3,006)	0%
Debt service - interest	1,670,821	2,324,827	(654,006)	-28%
Food service program	4,020,771	3,513,170	507,601	14%
Total Expenses	<u>\$190,006,692</u>	<u>\$182,929,992</u>	<u>\$7,076,700</u>	<u>4%</u>
Other changes in net position	<u>0</u>	<u>13,269,629</u>	<u>(13,269,629)</u>	<u>100%</u>
Increase (Decrease) in net position	<u>(\$5,322,310)</u>	<u>\$13,150,154</u>	<u>(\$18,472,464)</u>	<u>-140%</u>

The District's total fiscal year 2013 revenues totaled \$184,684,382 (See Table A-4). Property taxes (including other tax items) and state formula aid accounted for most of the District's revenue by contributing 47.5 cents and 44 cents, respectively of every dollar raised (See Table A-5). The remainder came from fees charged for services, operating grants, investment earnings, and other miscellaneous sources.

The total cost of all programs and services totaled \$190,006,692 for fiscal year 2013 (See Table A-4). These expenses are predominantly related to general instruction and caring for (pupil services) and transporting students, which account for 82% of District expenses (See Table A-6). The District's general support activities accounted for 15% of total costs.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Table A-5: Revenues for Fiscal Year 2013 (See Table A-4)

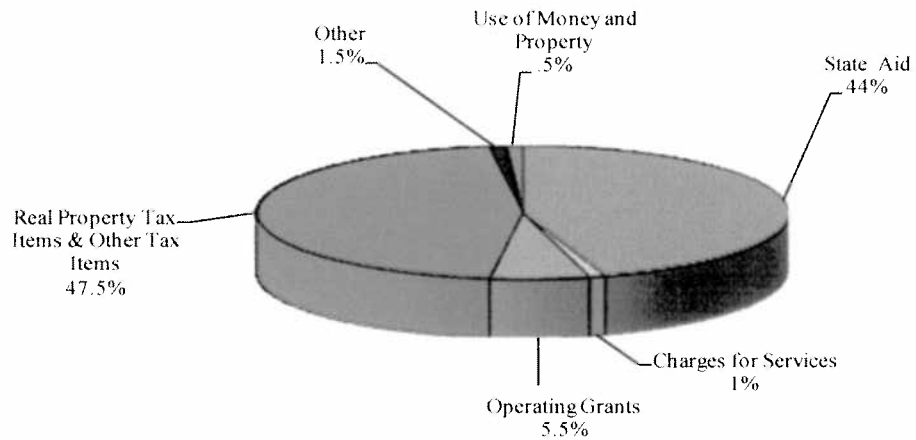
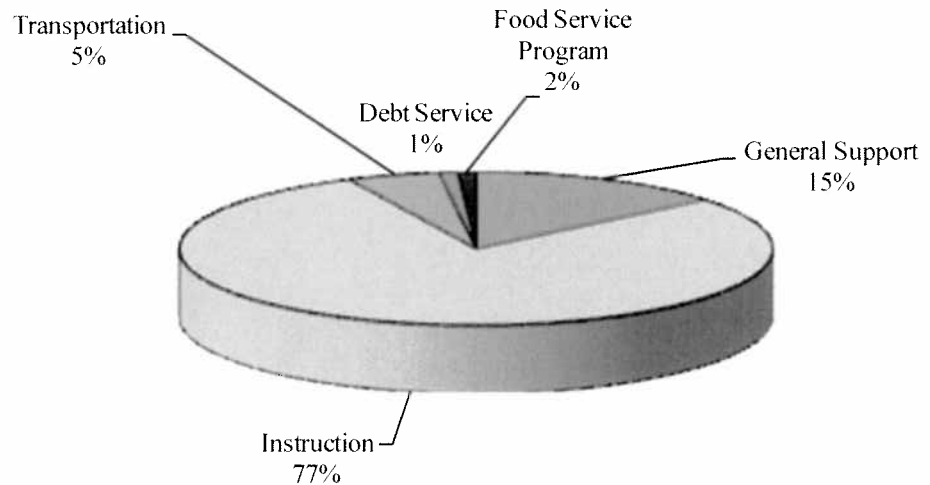


Table A-6: Expenses for Fiscal Year 2013 (See Tables A-4 and A-7)



**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

C) Governmental Activities

Revenues for the District's governmental activities totaled \$184,684,382 while total expenses equaled \$190,006,692. There was a decrease in net position of \$5,322,310 primarily due to an increase in operating expenses. The overall financial condition of the District, as a whole, can be credited to:

- Continued leadership of the District's Board and administration;
- Strategic use of services from the Eastern Suffolk BOCES; and
- Improved curriculum and community support.

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

Table A-7: Net Cost of Governmental Activities

Category	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012
General support	\$28,824,553	\$26,940,761	\$28,824,553	\$26,940,761
Instruction	146,331,179	140,988,860	138,080,484	132,168,904
Pupil transportation	9,159,368	9,162,374	9,159,368	9,162,374
Debt service - interest	1,670,821	2,324,827	1,670,821	2,324,827
Food service program	4,020,771	3,513,170	488,897	771,452
Total	<u>\$190,006,692</u>	<u>\$182,929,992</u>	<u>\$178,224,123</u>	<u>\$171,368,318</u>

- The cost of all governmental activities this year was \$190,006,692 (Statement of Activities and Changes in Net Position, Expenses column-see Exhibit 3).
- The users of the District's programs financed \$1,698,741 of the cost (Statement of Activities and Changes in Net Position, Charges for Services column-see Exhibit 3).
- The federal and state governments subsidized certain programs with grants of \$10,083,828. (Statement of Activities and Changes in Net Position, Operating Grants column-see Exhibit 3)
- Most of the District's net costs \$178,224,123 were financed by District taxpayers and state and federal aid. (Statements of Activities and Changes in Net Position, Net (Expense) Revenue and Changes in Net Position column-see Exhibit 3).

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

As of June 30, 2013, the District's combined governmental funds reported a total fund balance of \$40,508,443 which is an increase of \$6,765,281 from the prior year. This increase is primarily due to revenues in excess of expenditures in the general fund and cafeteria fund due to operations, and by the capital project fund issuing bonds offset by capital expenditures. A summary of the change in fund balance for all funds are as follows:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Fiscal Year 2013	Fiscal Year 2012	Increase (Decrease)	% Change
General Fund				
Non spendable for advances	\$1,394,357	\$1,620,529	(\$226,172)	-14%
Restricted for workers' compensation	1,815,227	1,810,249	4,978	0.3%
Restricted for employee benefit accrued liability	11,554,656	6,536,681	5,017,975	76.8%
Restricted for retirement contributions	15,000,000	0	15,000,000	N/A
Restricted for capital improvement	7,500,000	0	7,500,000	N/A
Restricted for liability	76,156	75,947	209	0.3%
Assigned-designated for subsequent year's expenditures	3,000,000	2,750,000	250,000	9%
Assigned - board of education & finance	74,770	30,399	44,371	146%
Assigned - central services	205,010	103,189	101,821	99%
Assigned - instruction	166,110	10,594	155,516	1468%
Assigned - instructional media	0	1,474	(1,474)	-100%
Assigned - pupil services	0	748	(748)	-100%
Unassigned	9,768,064	32,319,535	(22,551,471)	-70%
Total fund balance - general fund	<u>\$50,554,350</u>	<u>\$45,259,345</u>	<u>\$5,295,005</u>	<u>12%</u>
School Lunch Fund				
Non spendable for inventory	\$24,124	\$25,491	(\$1,367)	-5%
Unassigned for school lunch	(1,340,483)	(1,620,529)	280,046	17%
Total fund balance (deficit) - school lunch fund	<u>(\$1,316,359)</u>	<u>(\$1,595,038)</u>	<u>\$278,679</u>	<u>17%</u>
Capital Projects Fund				
Restricted for capital projects	\$102,577	\$2,658,964	(\$2,556,387)	-96%
Unassigned for capital projects	(8,832,125)	(12,580,109)	3,747,984	30%
Total fund balance (deficit) - capital projects fund	<u>(\$8,729,548)</u>	<u>(\$9,921,145)</u>	<u>\$1,191,597</u>	<u>12%</u>
Total fund balance - all funds	<u><u>\$40,508,443</u></u>	<u><u>\$33,743,162</u></u>	<u><u>\$6,765,281</u></u>	<u><u>20%</u></u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The general fund—the fund balance increased by \$5,295,005 as compared to the prior year due to current year operations.

The school lunch fund - fund balance increased by \$278,679 as compared to the prior year due to current year operations.

The capital projects fund – fund balance increased by \$1,191,597 as compared to the prior year due to a decrease in capital outlay and an increase in revenue from the proceeds of serial bonds.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A) 2012-2013 Budget

The District's general fund adopted budget for the year ended June 30, 2013 was \$176,266,302. This amount was increased by encumbrances carried forward from the prior year in the amount of \$146,404, which resulted in a final budget of \$176,412,706. The majority of the funding was property taxes, including other tax items and state aid of \$80,496,601.

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

The general fund 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 assignments to fund subsequent years' budgets. It is this balance that is commonly referred to as "fund balance". The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget are as follows:

Opening, Unassigned Fund Balance	\$32,319,535
Transfers to employee benefit accrued liability reserve	(5,000,000)
Transfers to new york state employees' retirement reserve	(15,000,000)
Transfers to capital reserve	(7,500,000)
Revenues over budget	286,688
Expenditures and encumbrances under budget	7,458,831
Decrease to nonspendable for advances	226,172
Decrease due to allocation of interest to reserves	(23,162)
Assigned, Designated for June 30, 2014 Budget	(3,000,000)
Closing, Unassigned Fund Balance	<u><u>\$9,768,064</u></u>

The unassigned fund balance represents the fund balance retained by the District that is not restricted or designated for subsequent year's taxes. This amount is in excess of the 4% statutory limit of the 2013-2014 budget.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The revenues over budget of \$286,688 was primarily in other real property tax items and Medicaid reimbursements. (see Supplemental Schedule #1 for detail).

The expenditures and encumbrances under budget of \$7,458,831 were primarily in instruction, employee benefits and pupil transportation (See Supplemental Schedule 1 for details).

Increases and decreases to reserves were primarily due to transfers from unassigned fund balance to restricted reserves. For further detail refer to section 4 in Management's Discussion and Analysis Section 4, Financial Analysis of the District's Funds.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A) Capital Assets

The District paid for equipment and various building additions and renovations during the fiscal year 2013. A summary of the District's capital assets, net of depreciation are as follows:

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

Category	Fiscal Year 2013	Fiscal Year 2012	Increase (Decrease)	Percentage Change
Land	\$539,650	\$539,650	\$0	0%
Construction in progress	11,667,463	19,409,029	(7,741,566)	-40%
Buildings & building improvements	100,451,444	88,758,075	11,693,369	13%
Furniture & equipment	5,924,437	6,429,394	(504,957)	-8%
Site improvements	3,035,118	3,035,118	0	0%
Subtotal	121,618,112	118,171,266	3,446,846	3%
Less: accumulated depreciation	40,157,943	38,590,367	1,567,576	4%
Total net capital assets	<u>\$81,460,169</u>	<u>\$79,580,899</u>	<u>\$1,879,270</u>	<u>2%</u>

The District spent \$4,258,403 in the capital projects fund primarily on building. The District completed work on an \$11,690,610 Energy Performance Contract.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

B) Long-Term Debt

At June 30, 2013, the District had total bonds payable of \$36,060,000 and obligation under installment purchase agreement of \$11,287,906. The decrease of \$2,645,000 was due to principal payments made in the amount of \$4,230,000 for serial bonds offset by an increase of a new serial bond of \$5,000,000 and a decrease in bonds payable due to the refunding of \$3,415,000. The decrease of \$402,704 represents the principal paid on the energy performance debt. More detailed information about the District's long-term debt is presented in the Notes to the Financial Statements.

	2013	2012	Increase (Decrease)
Serial bonds	\$36,060,000	\$38,705,000	(\$2,645,000)
Energy performance debt	11,287,906	11,690,610	(402,704)
	<u>\$47,347,906</u>	<u>\$50,395,610</u>	<u>(\$3,047,704)</u>

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

- A) On September 12, 2013 the District issued \$7,700,000 in bond anticipation notes (BANS). The bond anticipation notes mature on September 12, 2014.

	Amount	Rate	Premium
BANS	\$7,700,000	1.00%	\$52,899

- B) The general fund budget for the 2013-2014 school year was approved by the voters in the amount of \$187,955,865. This is an increase of \$11,689,563 or 6.7% from the previous year's budget. The increase was primarily due to increase in personnel and employee benefits costs.
- C) The 2013-2014 budget was negatively impacted by certain trends impacting school districts. These include significant increases in retirement contributions, health insurance costs and the NYS Legislature passage of a property tax cap. The NYS Legislature approved a property tax cap beginning in the 2012-2013 school year. This bill limits tax levy growth to the lesser of two percent or the annual increase in the CPI. Limited exemptions to exceed the levy cap are provided for taxes needed to pay for voter-approved capital expenditures, pension rate increases, court orders and torts over five percent of the prior year's levy. If the tax levy proposed to the voters is within the District's tax levy cap, then a majority vote would be required for approval. If the proposed tax levy exceeds the District's tax levy cap, the threshold required for approval

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

would be 60 percent of the vote. A school district that does not levy an amount up to the cap in any one year would be allowed to carry over unused tax levy capacity into future years.

8. CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Central Islip Union Free School District
Dr. Craig G. Carr
Superintendent of Schools
50 Wheeler Road
Central Islip, New York 11722
631-348-5112

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF NET POSITION -GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

ASSETS

Cash	
Unrestricted	\$68,672,770
Receivables	
State and federal aid	6,741,486
Due from other governments	2,481,985
Due from fiduciary funds	42,655
Accounts receivable	34,159
Inventories	24,124
Capital assets, net	
Not being depreciated	12,207,313
Being depreciated, net of accumulated depreciation	69,252,856
TOTAL ASSETS	<u>\$159,457,348</u>

LIABILITIES

Payables	
Accounts payable	\$1,374,591
Accrued liabilities	11,643,431
Retainage payable	43,135
Due to other governments	1,601,773
Due to teachers' retirement system	10,360,750
Due to employees' retirement system	1,708,784
Compensated absences payable	1,270,470
Note payable	
Bond anticipation note payable	8,100,000
Unearned credits	
Collections in advance	42,907
Long-term liabilities	
Due and payable within one year	
Accrued interest payable	428,829
Due to employees' retirement system	90,976
Energy performance debt	687,034
Bonds payable	3,440,000
Due and payable after one year	
Due to employees' retirement system	90,976
Workers compensation claims payable	2,010,812
Energy performance debt	10,600,872
Bonds payable	32,620,000
Compensated absences payable	42,608,823
Net OPEB obligation	66,900,661
TOTAL LIABILITIES	<u>195,624,824</u>

DEFERRED INFLOWS OF RESOURCES

Gain on defeasance	<u>3,584,064</u>
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TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

199,208,888

NET POSITION

Net investment in capital assets	22,530,776
Restricted	35,946,039
Unrestricted (deficit)	<u>(98,228,355)</u>

TOTAL NET POSITION

(39,751,540)

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

\$159,457,348

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

		Program Revenues		Net (Expense)
	Expenses	Charges for	Operating	Revenue and
		Services	Grants	Changes in
				Net Position
FUNCTIONS / PROGRAMS				
General support	\$28,824,553			(\$28,824,553)
Instruction	146,331,179	\$1,128,796	\$7,121,899	(138,080,484)
Pupil transportation	9,159,368			(9,159,368)
Debt service - interest	1,670,821			(1,670,821)
Food service program	4,020,771	569,945	2,961,929	(488,897)
TOTAL FUNCTIONS AND PROGRAMS	<u>\$190,006,692</u>	<u>\$1,698,741</u>	<u>\$10,083,828</u>	<u>(\$178,224,123)</u>
GENERAL REVENUES				
Real property taxes				\$77,131,656
Other tax items - including STAR reimbursement				12,331,363
Use of money & property				202,714
Sale of property & compensation for loss				740,366
Miscellaneous				1,635,979
Interfund revenue				65,112
State sources				80,496,601
Medicaid reimbursements				298,022
TOTAL GENERAL REVENUES				<u>172,901,813</u>
CHANGE IN NET POSITION				(5,322,310)
TOTAL NET POSITION - BEGINNING OF YEAR				<u>(34,429,230)</u>
TOTAL NET POSITION - END OF YEAR				<u>(\$39,751,540)</u>

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash					
Unrestricted	\$67,590,880	\$703,737	\$259,533	\$118,620	\$68,672,770
Receivables					
State and federal aid	2,619,390	3,906,570	215,526		6,741,486
Due from other governments	2,481,985				2,481,985
Due from other funds	5,808,260				5,808,260
Accounts receivable	34,140		19		34,159
Inventories			24,124		24,124
TOTAL ASSETS	<u>\$78,534,655</u>	<u>\$4,610,307</u>	<u>\$499,202</u>	<u>\$118,620</u>	<u>\$83,762,784</u>
LIABILITIES					
Payables					
Accounts payable	\$835,735	\$500,703		\$38,153	\$1,374,591
Accrued liabilities	10,860,106	524,044	\$259,281		11,643,431
Retainage Payable				43,135	43,135
Due to other governments	1,601,565		208		1,601,773
Due to other funds		3,585,560	1,554,151	625,894	5,765,605
Due to teachers' retirement system	10,360,750				10,360,750
Due to employees' retirement system	1,708,784				1,708,784
Compensated absences	1,270,470				1,270,470
Notes payable					
Bond anticipation notes payable				8,100,000	8,100,000
Unearned credits					
Collections in advance			1,921	40,986	42,907
TOTAL LIABILITIES	<u>26,637,410</u>	<u>4,610,307</u>	<u>1,815,561</u>	<u>8,848,168</u>	<u>41,911,446</u>
DEFERRED INFLOWS OF RESOURCES					
New York State Supplemental Aid	140,236				140,236
Foster Tuition	1,202,659				1,202,659
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,342,895</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,342,895</u>
FUND BALANCES					
Nonspendable	1,394,357		24,124		1,418,481
Restricted	35,946,039			102,577	36,048,616
Assigned	3,445,890				3,445,890
Unassigned	9,768,064		(1,340,483)	(8,832,125)	(404,544)
TOTAL FUND BALANCES	<u>50,554,350</u>	<u>0</u>	<u>(1,316,359)</u>	<u>(8,729,548)</u>	<u>40,508,443</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$78,534,655</u>	<u>\$4,610,307</u>	<u>\$499,202</u>	<u>\$118,620</u>	<u>\$83,762,784</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Governmental Fund Balances	\$40,508,443
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Original cost of capital assets	121,618,112	
Accumulated depreciation	<u>(40,157,943)</u>	81,460,169

Deferred inflows of resources-defeasance gain. Governmental funds may report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(3,584,064)
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Deferred inflows of resources-supplemental aid and foster tuition. The Statement of Net Position recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual.	1,342,895
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Long-term liabilities 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:

Accrued interest payable	(428,829)	
Due to employees' retirement system	(181,952)	
Workers compensation claims payable	(2,010,812)	
Energy performance debt	(11,287,906)	
Bonds payable	(36,060,000)	
Compensated absences payable	(42,608,823)	
Net OPEB obligation	<u>(66,900,661)</u>	<u>(159,478,983)</u>

Total Net Position	<u><u>(\$39,751,540)</u></u>
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CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES						
Real property taxes	\$77,131,656					\$77,131,656
Other tax items - including STAR reimbursement	12,331,363					12,331,363
Charges for services	924,658					924,658
Use of money and property	202,486		\$228			202,714
Sale of property and compensation for loss	740,366					740,366
Miscellaneous	1,612,726		23,253			1,635,979
Interfund revenues	65,112					65,112
Local sources		\$76,712				76,712
State sources	80,496,601	3,958,062	105,237			84,559,900
Medicaid reimbursements	298,022					298,022
Federal sources		3,087,125	2,656,323			5,743,448
Surplus food			200,369			200,369
Sales			569,945			569,945
TOTAL REVENUES	<u>173,802,990</u>	<u>7,121,899</u>	<u>3,555,355</u>	<u>0</u>	<u>0</u>	<u>184,480,244</u>
EXPENDITURES						
General support	19,569,090					19,569,090
Instruction	86,266,578	6,674,941				92,941,519
Pupil transportation	9,159,368					9,159,368
Employee benefits	45,231,080	667,456				45,898,536
Debt service - principal	5,082,704					5,082,704
Debt service - interest	2,228,667					2,228,667
Cost of sales			4,026,676			4,026,676
Capital outlay					4,258,403	4,258,403
TOTAL EXPENDITURES	<u>167,537,487</u>	<u>7,342,397</u>	<u>4,026,676</u>	<u>0</u>	<u>4,258,403</u>	<u>183,164,963</u>
EXCESS (DEFICIENCY)						
OF REVENUES OVER EXPENDITURES	<u>6,265,503</u>	<u>(220,498)</u>	<u>(471,321)</u>	<u>0</u>	<u>(4,258,403)</u>	<u>1,315,281</u>
OTHER FINANCING SOURCES (USES)						
Proceeds of advanced refunding bonds				29,330,000		29,330,000
Bond premium				4,304,384		4,304,384
Bond issuance costs				(201,946)		(201,946)
Payment to escrow agent (advanced refunding)				(33,432,438)		(33,432,438)
Proceeds from long term debt					5,000,000	5,000,000
Bond anticipation notes redeemed from appropriations					450,000	450,000
Operating transfers in		220,498	750,000			970,498
Operating transfers (out)	(970,498)					(970,498)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(970,498)</u>	<u>220,498</u>	<u>750,000</u>	<u>0</u>	<u>5,450,000</u>	<u>5,450,000</u>
NET INCREASE (DECREASE)	<u>5,295,005</u>	<u>0</u>	<u>278,679</u>	<u>0</u>	<u>1,191,597</u>	<u>6,765,281</u>
FUND BALANCES - BEGINNING OF YEAR	<u>45,259,345</u>	<u>0</u>	<u>(1,595,038)</u>	<u>0</u>	<u>(9,921,145)</u>	<u>33,743,162</u>
FUND BALANCES - END OF YEAR	<u>\$50,554,350</u>	<u>\$0</u>	<u>(\$1,316,359)</u>	<u>\$0</u>	<u>(\$8,729,548)</u>	<u>\$40,508,443</u>

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances \$6,765,281

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

Long-Term Revenue and Expense Differences

In the Statement of Activities, certain operating expenses-compensated absences (vacation and sick days), are measured by the amounts earned or incurred during the year. In the governmental funds, expenditures for these items are measured by the amount of financial resources used. (2,374,375)

Deferred inflows of resources - The Statement of Net Position recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual. 204,138

Workers' compensation claims payable in the Statement of Activities differs from the amounts reported in the governmental funds because the expense is recorded as an expenditure in the funds when it is due. In the Statement of Activities, the payable is recognized as it accrues regardless of when it is due. Accrued claims payable from June 30, 2012 to June 30, 2013 changed by 275,971

In the Statement of Activities, employees' retirement system expenses are measured by the amounts earned during the year. In the governmental funds, expenditures for these items are measured by the amount of financial resources used. 388,280

In the Statement of Activities recognizes long term teachers' retirement system loans as current expenses. In the governmental funds these expenses are not measured until the financial resources are used. 991,969

Long-Term Debt Transactions

Repayment of bond principal and energy performance debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities 5,082,704

Proceeds from the redemption of bond anticipation notes is an other funding source in the governmental funds, it increases a liability in the Statement of Net Position and does not affect the Statement of Activities. (450,000)

Proceeds from the issuance of long term debt is recorded as revenue in governmental funds. However, in the statement of activities, proceeds from long-term debt is not recorded as revenue. Long term debt is recorded as a liability in the Statement of Net Position. (5,000,000)

Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and this requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2012 to June 30, 2013 changed by 524,965

Increases in Net OPEB obligation reported in the Statement of Activities does not require the use of current financial resources and therefore are not reported in the governmental funds. (13,441,449)

Bond issuance costs related to the refunding of debt are expensed in the current year. The amount of bond issuance costs related to the refunding of debt for the fiscal year ended June 30, 2013 was (201,945)

Governmental funds report the premiums, discounts and similar items on the refunded debt when the debt is first issued. These amounts are deferred and amortized in the Statement of Activities. Amortization for the fiscal year ended June 30, 2013 was 32,881

Capital Related Items

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. For governmental activities, those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expense in the Statement of Activities

Capital outlays	4,457,494	
Loss on disposal of assets	(103,862)	
Depreciation expense	(2,474,362)	1,879,270

Change in Net Position of Governmental Activities (\$5,322,310)

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash	\$6,825	\$305,135
Due from trust and agency	5,252	0
Due from other agencies	0	55
TOTAL ASSETS	<u><u>\$12,077</u></u>	<u><u>\$305,190</u></u>
LIABILITIES		
Extraclassroom activity balance	\$0	\$116,794
Due to private purpose trust fund	0	5,252
Due to general fund	0	42,655
Other liabilities	0	140,489
TOTAL LIABILITIES	<u><u>\$0</u></u>	<u><u>\$305,190</u></u>
NET POSITION		
Reserved for scholarships	<u>\$12,077</u>	
TOTAL NET POSITION	<u><u>\$12,077</u></u>	

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	\$4,251
Interest and earnings	<u>6</u>
TOTAL ADDITIONS	<u>4,257</u>
DEDUCTIONS	
Scholarships and awards	0
NYS Division Unclaimed Funds	<u>605</u>
TOTAL DEDUCTIONS	<u>605</u>
CHANGE IN NET POSITION	3,652
NET POSITION - BEGINNING OF YEAR	<u>8,425</u>
NET POSITION - END OF YEAR	<u><u>\$12,077</u></u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

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

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

A) Reporting entity:

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

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, and by GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*. 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 and its component unit and other organizational entities determined to be includable in the District’s financial reporting entity. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District’s reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District’s reporting entity.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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i) Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District's business office. The District reports these assets held by its agent for the Extraclassroom organizations in the Statement of Fiduciary Net Position – Fiduciary Fund.

B) Joint venture:

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

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

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

C) Basis of presentation:

i) District-Wide Financial Statements

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

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

ii) Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

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

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

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

The District reports the following fiduciary funds:

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Private purpose trust funds: These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.

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

D) Measurement focus and basis of accounting:

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

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

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

E) Property taxes:

i) Calendar

Real property taxes are levied annually by the Board of Education no later than October 1, and become a lien on December 1. The District's tax levy is collected by the Town of Islip. Tax collections are remitted to the District and Town Comptrollers until their respective tax levies are satisfied.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

ii) Enforcement

Uncollected real property taxes are subsequently enforced by the County in which the District is located. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following July 1.

F) Restricted resources:

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

G) Interfund transactions:

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

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

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

Refer to Note 11 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

H) Estimates:

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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I) Cash and investments:

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

J) Receivables:

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

K) Inventories and prepaid items:

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount. Nonspendable fund balance for these non-liquid assets (inventories) has been recognized in the school lunch fund to signify that a portion of fund balance is not available for other subsequent expenditures. Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-Wide and Fund Financial Statements. These items are reported as assets on the statement of net assets or balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

L) Capital assets:

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Building & building improvements	\$500,000	Straight-line	50-25 years
Site Improvement	\$25,000	Straight-line	20 years
Furniture & Equipment	\$5,000	Straight-line	5-20 years

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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M) Collections in advance:

Collections in advance 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 collections in advance is removed and revenues are recorded.

N) Deferred inflows of resources:

Deferred inflows of resources are reported in governmental funds when potential revenues do not meet the availability criteria for recognition in the current period. These amounts are recorded as deferred inflows of resources. In subsequent periods, when the availability criterion is met, deferred inflows of resources are reclassified as revenues. In the District –Wide Financial Statements, deferred inflows of resources are generally treated as revenues.

O) Vested employee benefits:

Compensated absences

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

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

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.

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

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

P) Other benefits:

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

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

Q) Short-term debt:

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

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

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

R) Accrued liabilities and long-term obligations:

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

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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S) Equity Classifications:

i) District-Wide Financial Statements

In the District-Wide Financial Statements, there are three classes of net position:

Net investment in capital assets - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets, including any related deferred inflows or outflows.

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

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

ii) Fund Financial Statements

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

- (1) **Nonspendable fund balance** – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes the inventory recorded in the school lunch fund of \$24,124 and \$1,394,357 in the general fund for the cumulative deficit in the school lunch fund.
- (2) **Restricted fund balance** – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has established the following restricted fund balances:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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<u>Restricted for:</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Workers' compensation	\$1,815,227		\$1,815,227
Retirement Contribution Reserve	15,000,000		15,000,000
Employee benefit accrued liability	11,554,656		11,554,656
Liability	76,156		76,156
Capital Reserve	7,500,000		7,500,000
Capital projects		\$102,577	102,577
Total	<u>\$35,946,039</u>	<u>\$102,577</u>	<u>\$36,048,616</u>

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

Workers’ Compensation Reserve

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

Retirement Contribution Reserve

Retirement contribution reserve (GM §6-r), this must be used for financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the funds must be provided to the Board. The reserve is accounted for in the general fund restricted fund balance.

Employee Benefit Accrued Liability Reserve

Employee benefit accrued liability reserve (GM §6-p), this must be used for the payment of accrued employee benefit due an employee upon termination of the employee’s service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the general fund under restricted fund balance.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Property Loss Reserve and Liability Reserve

Property loss reserve and liability reserve (GM§1709(8)(c)), this must be used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than \$125,000. This reserve is accounted for in the general fund under restricted fund balance.

Capital Reserve

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

- (3) **Committed fund balance** – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority (i.e., Board of Education). The District has no committed fund balances as of June 30, 2013.
- (4) **Assigned fund balance** – Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District management through Board policies. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The District has classified the following as assigned in the general fund:

Assigned for:

Designated for subsequent year's budget	\$3,000,000
Finance	74,770
Central services	205,010
Instruction	166,110
Total	<u><u>\$3,445,890</u></u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Designated for Subsequent Year's Expenditures

The amount of \$3,000,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2014.

Encumbrances

Encumbrances have been assigned based upon the District's intent to be used for a specific purpose such as general support, instruction and capital projects. See Note 3 for further detail regarding accountability and Note 18 for further detail regarding significant encumbrances.

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

The District has classified the following as unassigned:

<u>Unassigned for</u>	<u>General</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total</u>
General fund	\$9,768,064			\$9,768,064
School lunch fund		(\$1,340,483)		(1,340,483)
Capital projects fund			(\$8,832,125)	(8,832,125)
Total	<u>\$9,768,064</u>	<u>(\$1,340,483)</u>	<u>(\$8,832,125)</u>	<u>(\$404,544)</u>

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a District can retain to no more than 4% of the District's budget for the general fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances included in assigned fund balance are also excluded from the 4% limitation. The District has \$9,768,064 of unassigned fund balance as of June 30, 2013, which is in excess of the 4% limitation.

Deficit fund balance

At June 30, 2013, the school lunch fund and the capital projects fund have fund balance deficits (unassigned) of \$1,340,483 and \$8,832,125, respectively. The deficit in the capital projects fund is primarily a result of the project expenses that will be financed with the proceeds of long-term debt in subsequent years. The deficit in the school lunch fund is a result of expenditures greater than revenue in prior years.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Order of Use of Fund Balance

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

T) Adoption of New Accounting Standards

The District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2013, the District implemented the following new standards issued by GASB:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* which provides improvements to existing standards with regard to reporting.

GASB Statement 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”* which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and amends the net asset reporting provisions of GASB 34 by incorporating deferred inflows and outflows into the definitions of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

U) Future Changes in Accounting Standards

GASB has issued Statement 66, *“GASB Technical Corrections – 2012 – an Amendment of Statements 10 and 62”*, effective for the year ending June 30, 2014.

GASB has issued Statement 68, *“Accounting and Reporting for Pensions – an Amendment of GASB Statement 27”*, effective for the year ending June 30, 2015.

GASB has issued Statement 69, *“Government Combinations and Disposals of Government Operations”*, effective for the year ending June 30, 2015.

GASB has issued Statement 70, *“Accounting and Financial Reporting for Nonexchange Guarantees”*, effective for the year ending June 30, 2015.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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The District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

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

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

(A) Total fund balances of governmental funds vs. net position 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 Position. The difference primarily results from additional long-term economic focus of the Statement of Position versus the solely current financial resources focus of the governmental fund Balance Sheets.

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

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

i) Long-term revenue and expense differences:

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

ii) Capital related differences:

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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iii) Long-term debt transaction differences:

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

iv) Employee benefit allocations:

Expenditures for employee benefits are not allocated to a specific function on the Statement of Revenues, Expenditures, and Changes in Fund Balance based on the requirements of New York State. These costs have been allocated based on total salary for each function in the Statement of Activities.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A) Budgets:

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

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

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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B) Encumbrances:

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

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A) Cash:

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

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB Statement No. 40 "*Deposit and Investment Risk Disclosures*", directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

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

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

B) Investments:

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

C) Investment Pool:

The District participates in a multi-municipal cooperation investment pool agreement pursuant to New York State General Municipal Law Article 5-G, Section 119-0, whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents.

Total investments of the cooperative as of year-end are \$66,785,760 which consists of \$21,109,000 in repurchase agreements, \$17,525,848 in U.S. Treasury Securities, and \$28,150,912 in collateralized bank deposits with various interest rate and due dates.

At June 30, 2013 the District held \$269,829 in investments consisting of various investments in securities issued by the United States and its agencies.

The following amounts are included as cash:

<u>Fund</u>	<u>Carrying Amount</u>
General fund	\$217,216
Capital projects fund	52,613
	<u>\$269,829</u>

The above amounts represent the cost of the investment pool shares, and are considered to approximate market value. The investment pool is exempt from NYS collateral requirements. Additional information concerning the cooperative is presented in the annual report of Cooperative Liquid Assets Securities System –New York (CLASS), 113 King Street, Armonk, New York 10504.

NYCLASS is rated AAAm by Standard and Poor's Ratings Agency. Additional information concerning the cooperative is presented in the annual report of 2010, available at: [HTTP://WWW.NEWYORK-CLASS.ORG](http://www.newyork-class.org).

NOTE 5 – PARTICIPATION IN BOCES:

During the year, the District was billed \$13,441,899 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$2,147,163. Financial statements for the BOCES are available from the BOCES administrative office at Eastern Suffolk Board of Cooperative Educational Services, James Hines Administration Center, 201 Sunrise Highway Patchogue, NY 11772.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 6 –STATE AND FEDERAL AID RECEIVABLES:

State and federal aid receivables at June 30, 2013 consisted of the following:

Description	General Fund	Special Aid Fund	School Lunch Fund	Total
State aid-general aid	\$95,036			\$95,036
State aid-excess cost	1,375,367			1,375,367
State aid-BOCES	999,659			999,659
Federal medicaid	149,328			149,328
State grants		\$2,919,681		2,919,681
Federal grants		986,889		986,889
Milk-federal			\$1,285	1,285
Snack-federal			1,226	1,226
Breakfast-federal			73,502	73,502
Lunch-federal			104,479	104,479
Breakfast - state			18,321	18,321
Lunch - state			16,713	16,713
Total	<u>\$2,619,390</u>	<u>\$3,906,570</u>	<u>\$215,526</u>	<u>\$6,741,486</u>

District management has deemed the amounts to be fully collectible.

NOTE 7 – DUE FROM OTHER GOVERNMENTS:

Due from other governments in the general fund at June 30, 2013 consisted of the following:

Foster tuition	\$1,266,289
Health services to non-resident students	75,819
Town of Islip	1,139,877
Total	<u>\$2,481,985</u>

District management has deemed these amounts to be fully collectible.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 8 – COLLECTIONS IN ADVANCE

Collections in advance at June 30, 2013 consisted of the following:

	School Lunch	Capital Projects	Total
Student pre-paid meals	\$1,921		\$1,921
Premium on BAN		\$40,986	40,986
	<u>\$1,921</u>	<u>\$40,986</u>	<u>\$42,907</u>

NOTE 9 – DEFERRED INFLOWS OF RESOURCES:

The gain on defeasance pertaining to the 2013 refunding as recorded in the District-Wide Financial Statements as deferred inflows of resources at June 30, 2013 consisted of the following:

Bond Premium	\$4,265,253
Deferred amounts on refunding	<u>(681,189)</u>
Total gain on defeasance	<u>\$3,584,064</u>

The gain on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 12 years, the time to maturity of the refunded bonds, at the point of refunding.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 10 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2013 were as follows:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities				
Land	\$539,650	\$0	\$0	\$539,650
Construction in progress	19,409,029	1,392,657	(9,134,223)	11,667,463
Total nondepreciable historical cost	<u>19,948,679</u>	<u>1,392,657</u>	<u>(9,134,223)</u>	<u>12,207,113</u>
Building & building improvement	88,758,075	2,556,387	9,136,982	100,451,444
Furniture and equipment	6,429,394	508,450	(1,013,407)	5,924,437
Land improvement	3,035,118		0	3,035,118
Total depreciable historical cost	<u>98,222,587</u>	<u>3,064,837</u>	<u>8,123,575</u>	<u>109,410,999</u>
Less accumulated depreciation:				
Building & building improvement	33,726,756	1,644,298	66,362	35,437,416
Furniture and equipment	3,335,912	706,603	(978,613)	3,063,902
Land improvement	1,527,699	123,461	5,465	1,656,625
Total accumulated depreciation	<u>38,590,367</u>	<u>2,474,362</u>	<u>(906,786)</u>	<u>40,157,943</u>
Total capital assets, net	<u>\$79,580,899</u>	<u>\$1,983,132</u>	<u>\$103,862</u>	<u>\$81,460,169</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$2,090,109
General support	368,843
Food service	<u>15,410</u>
	<u>\$2,474,362</u>

The District completed work on its \$11,690,610 energy performance contract. The cost of the project was transferred from construction in progress and added to the cost of building at the end of the fiscal year.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 11 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General fund	\$5,808,260			\$970,498
Special aid fund		\$3,585,560	\$220,498	
School lunch fund		1,554,151	750,000	
Capital projects fund		625,894		
Total government activities	5,808,260	\$5,765,605	970,498	970,498
Fiduciary agency fund		42,655	0	0
Totals	<u>\$5,808,260</u>	<u>\$5,808,260</u>	<u>\$970,498</u>	<u>\$970,498</u>

The District typically transfers from the general fund to the special aid fund to fund the District's local share of summer school handicap expenses required by New York State Law, to fund the preschool program and to fund the State Supported Section 4201 schools. Beginning in the 2011-2012 school year, the State Supported Section 4201 schools were authorized under Chapter 58 of the Laws of 2011 to bill the District at time of initial admission for the cost of the 10-month school year education. The transfer to the school lunch fund was done to fund operations.

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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 12 – DUE TO OTHER GOVERNMENTS

Due to other governments at June 30, 2013 consisted of the following:

General Fund

Due to NYS governmental agencies	\$15,087
Due to Suffolk County governmental agencies	53,088
Due to Town of Islip	97,310
Due to BOCES & local public schools	1,436,080
Total General Fund	<u>1,601,565</u>

School Lunch Fund

Due to NYS department of taxation	208
Total School Lunch Fund	<u>208</u>

Total All Funds	<u><u>\$1,601,773</u></u>
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NOTE 13 - SHORT-TERM DEBT

On December 11, 2012, the District issued Tax Anticipation Notes, in the amount of \$5,000,000. On September 14, 2012 the District retired \$13,550,000 in Bond Anticipation Notes. The bond anticipation notes were retired by issuing \$5,000,000 in serial bonds, \$8,100,000 in bans and by ban principal payment of \$450,000. The Tax Anticipation Notes were issued for interim financing of general fund operations, and the Bond Anticipation Notes were issued as interim financing for capital construction. The serial bonds were issued as long term financing for school construction. Transactions in short-term debt for the year are summarized below:

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

	Total
Interest paid	<u>\$162,346</u>
Less interest accrued in the prior year	(67,390)
Plus interest accrued in the current year	<u>31,500</u>
Total expense	<u><u>\$126,456</u></u>

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
BAN	9/14/2012	1.00%	\$13,550,000		\$13,550,000	\$0
BAN	9/12/2013	1.00%	0	\$8,100,000	0	8,100,000
TAN	6/27/2013	1.00%	0	5,000,000	5,000,000	0
			<u>\$13,550,000</u>	<u>\$13,100,000</u>	<u>\$18,550,000</u>	<u>\$8,100,000</u>

NOTE 14 – LONG-TERM LIABILITIES

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

	Beginning Balance	Issued	Redeemed	Ending Balance	Due Within One Year
Government activities:					
Bonds payable:					
General obligation debt:					
Bonds payable	<u>\$38,705,000</u>	<u>\$34,330,000</u>	<u>\$36,975,000</u>	<u>\$36,060,000</u>	<u>\$3,440,000</u>
Total bonds payable	<u>38,705,000</u>	<u>34,330,000</u>	<u>36,975,000</u>	<u>36,060,000</u>	<u>3,440,000</u>
Other liabilities:					
Energy performance debt	11,690,610		402,704	11,287,906	687,034
Due to employees' retirement system	\$570,232		388,280	181,952	90,976
Due to teachers' retirement system	991,969		991,969	0	0
Compensated absences payable	40,234,448	2,374,375		42,608,823	0
Net OPEB obligation	53,459,212	19,209,752	5,768,303	66,900,661	0
Workers' compensation claims payable	<u>2,286,783</u>	<u>8,524,493</u>	<u>8,800,464</u>	<u>2,010,812</u>	<u>0</u>
Total other liabilities	<u>109,233,254</u>	<u>30,108,620</u>	<u>16,351,720</u>	<u>122,990,154</u>	<u>778,010</u>
Total long-term liabilities	<u>\$147,938,254</u>	<u>\$64,438,620</u>	<u>\$53,326,720</u>	<u>\$159,050,154</u>	<u>\$4,218,010</u>

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

The District completed work on an energy performance contract in the amount of \$11,690,610 with Ameresco Inc.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The District completed work on an energy performance contract in the amount of \$11,690,610 with Ameresco Inc.

Refer to Note 15 for a detailed disclosure for due to employees' retirement system and due to teachers' retirement system.

Existing serial and statutory bond obligations are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Refunding--Serial Bond	5/17/2013	7/15/2023	2.0 - 5.0%	\$29,330,000
Serial Bond	9/13/2012	9/1/2028	4.20%	5,000,000
Serial Bond-non refunded portion	2/1/2004	2/15/2014	4.00%	905,000
Serial Bond	5/29/2008	6/15/2018	3.13 - 3.50%	825,000
				<u>\$36,060,000</u>

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

Fiscal Year Ended June 30	Principal	Interest	Total
2014	\$ 3,440,000	\$ 1,134,589	\$ 4,574,589
2015	3,135,000	1,339,694	4,474,694
2016	3,210,000	1,240,481	4,450,481
2017	3,345,000	1,109,875	4,454,875
2018	3,410,000	960,550	4,370,550
2019-2023	17,770,000	2,361,625	20,131,625
2024-2028	1,750,000	183,750	1,933,750
	<u>\$ 36,060,000</u>	<u>\$ 8,330,564</u>	<u>\$ 44,390,564</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

June 30,	Principal	Interest	Total
2014	\$687,034	\$339,616	\$1,026,650
2015	708,182	318,468	1,026,650
2016	729,981	296,669	1,026,650
2017	752,451	274,200	1,026,651
2018	775,612	251,038	1,026,650
2019-2023	4,251,217	882,034	5,133,251
2024-2027	3,383,429	209,847	3,593,276
	<u>\$11,287,906</u>	<u>\$2,571,872</u>	<u>\$13,859,778</u>

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

	Total
Interest paid	\$2,066,321
Less interest accrued in the prior year	(886,404)
Plus interest accrued in the current year	397,329
Less amortization of gain on defeasance	(32,881)
Total expense	<u>\$1,544,365</u>

On May 17, 2013, the District issued \$29,330,000 in general obligation bonds with an average interest rate of 3.67% to advance refund \$32,745,000 of outstanding Serial bonds with an average interest rate of 3.92%. The net proceeds of \$33,432,417 (after payment of \$201,945 in underwriting fees, insurance and other issuance costs) were used to purchase United States government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements. The District advance refunded the bonds to revise its payment schedules due to changes in New York State's Aid payment schedules. The economic gain (loss) on the transaction (the difference between the present values of the debt service payments over the old and new debt) is approximately \$3,659,453.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 15 – PENSION PLANS

A) General information:

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

B) Provisions and administration:

i) Teachers' Retirement System

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

ii) Employees' Retirement System

NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law 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, Office of the State Comptroller, 110 State Street, Albany, New York 12244.

C) Funding policies:

The Systems are noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For NYSTRS employees who joined on or after January 1, 2010 and before April 1, 2012, they are required to contribute 3.5% of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. For employees in NYSERS who joined after January 1, 2010 but

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

prior to March 31, 2013, they must contribute 3% of their salary throughout their active membership. Those joining after April 1, 2013 are required to contribute 3% and 6% dependent upon their salary, for their entire working career. 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:

	NYSERS	NYSTRS
2012 - 2013	\$4,261,894	\$8,378,084
2011 - 2012	\$2,734,150	\$7,133,777
2010 - 2011	\$2,327,765	\$6,024,897

D) Retirement Incentive:

The District is obligated for retirement incentives as follows:

	ERS
Laws of 2004	\$181,952
	<u>\$181,952</u>

NOTE 16 – POST EMPLOYMENT (HEALTH INSURANCE) BENEFITS

A) Plan Description:

The District provides primarily post-employment health insurance coverage (the Healthcare Plan) to retired employees and their spouses in accordance with the provisions of various employment contracts. Benefits are provided through the New York State Health Insurance Program Empire Plan (NYSHIP) (the "Plan"), which is a single-employer defined benefit healthcare plan administered by New York State and the United Public Service Employees' Union Benefit Plan (UPSEU) (the "Plan"), which is a fully insured, community rated plan maintained by Local 74 of the United Service Workers Union.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The Plan does not issue a stand alone, publicly available report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

B) Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013, the District contributed \$5,768,303 to the Plan. Plan members receiving benefits contributed either a fixed annual amount ranging between \$200 and \$800 or 0% - 12% of the health insurance premium.

C) Annual OPEB Cost and Net OPEB Obligation:

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

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution	\$20,162,941
Interest	2,138,368
Adjustment to Annual Required Contribution	<u>(3,091,557)</u>
Annual OPEB Cost (expense)	19,209,752
Contributions Made	<u>(5,768,303)</u>
Increase in net OPEB obligation	13,441,449
Net obligation beginning of year	<u>53,459,212</u>
Net obligation end of year	<u><u>\$66,900,661</u></u>

The District's annual OPEB Cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 and the two preceding years, was as follows:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Fiscal Year Ending	Annual OPEB Cost	OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$19,209,752	\$5,768,303	30%	\$66,900,661
June 30, 2012	\$20,379,518	\$5,795,749	28%	\$53,459,212
June 30, 2011	\$20,615,589	\$5,499,623	27%	\$38,875,443

D) Funded Status and Funding Progress:

As of July 1, 2012, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability for benefits was \$215,386,254 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$215,386,254. The covered payroll (annual payroll of active employees covered by the Plan) was \$67,373,393 and the ratio of the UAAL to the covered payroll was 320%.

Actuarial valuations of an ongoing plan 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 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.

E) Actuarial Methods and Assumptions:

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

In the July 1, 2012 actuarial valuation prepared by an outside actuarial firm, the projected unit credit actuarial cost method was used to value the actuarial accrued liability and normal cost. The actuarial assumptions included a discount rate of 4% and an annual healthcare cost trend rate of 9% initially, reduced by decrements of .5% to an ultimate rate of 5% over 8 years. The UAAL is being amortized using the level percent amortization of payroll method over an open period of 30 years.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 17 – RISK MANAGEMENT

A) General:

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

B) Consortiums and Self Insured Plans:

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported claims which were incurred on or before year-end but not paid. As of June 30, 2013, the District has incurred but unpaid claims liability in the amount of \$2,010,812 and has a restricted fund balance for workers' compensation in the amount of \$1,815,227. Claims activity is summarized below:

	<u>2013</u>	<u>2012</u>
Unpaid claims at beginning of year	\$2,286,783	\$2,141,087
Incurred claims and claim adjustment expenses	959,015	7,991,355
Claims payments	<u>(1,234,986)</u>	<u>(7,845,659)</u>
Unpaid claims at year end	<u><u>\$2,010,812</u></u>	<u><u>\$2,286,783</u></u>

NOTE 18 – COMMITMENTS AND CONTINGENCIES

A) Grants:

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

B) Litigation:

The District is involved in lawsuits arising from the normal conduct of its affairs. Some of these lawsuits seek damages which may be in excess of the District's insurance coverage. However, it is not possible to determine the District's potential exposure, if any, at this time.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

C) Operating Leases:

The District leases various equipment under non-cancelable leases. Lease expense for the fiscal year was approximately \$332,504. The following is a summary of obligations of government activities under operating lease payments:

Fiscal Year Ended June 30,	Total
2014	186,297
2015	26,689
Total Lease Payments	<u>\$212,986</u>

D) Encumbrances:

General Fund - Total encumbrances of the general fund as of June 30, 2013 and classified as assigned fund balance was \$445,890. Significant encumbrances of \$205,010 were assigned to central services, \$160,959 to teaching-regular school, \$74,770 to finance and \$5,151 to instruction.

School Lunch Fund - Total encumbrances of the school lunch fund as of June 30, 2013 was \$53,874. Significant encumbrances were assigned to equipment.

NOTE 19 – SUBSEQUENT EVENTS

- A. On September 12, 2013 the District issued \$7,700,000 in bond anticipation notes and retired \$400,000 of bond anticipation notes using general fund resources. The bond anticipation notes mature on September 12, 2014.

	Amount	Rate	Premium
BANS	\$7,700,000	1.00%	\$52,899

SUPPLEMENTARY INFORMATION

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Final Budget Variance with Budgetary Actual</u>
REVENUES				
Local Sources				
Real property taxes	\$87,336,106	\$77,126,900	\$77,131,656	\$4,756
Other real property tax items	1,200,000	12,074,206	12,331,363	257,157
Charges for services	3,620,000	824,059	924,658	100,599
Use of money & property	0	123,434	202,486	79,052
Sale of property	0			
& compensation for loss	100,000	752,000	740,366	(11,634)
Miscellaneous	0	1,575,147	1,612,726	37,579
Interfund revenues	0	20,000	65,112	45,112
State Sources				
Basic formula	80,995,196	58,039,590	57,682,033	(357,557)
Excess cost aid	0	10,083,136	10,083,136	0
Lottery grant	0	9,506,764	9,506,764	0
BOCES aid	0	2,147,163	2,147,163	0
Tuition	0	238,609	98,037	(140,572)
Textbook aid	0	409,906	409,440	(466)
Computer software aid	0	199,643	199,643	0
Library A/V loan program aid	0	41,918	41,918	0
Other state aid	0	328,467	328,467	0
Federal Sources				
Medicaid reimbursement	265,000	25,360	298,022	272,662
TOTAL REVENUES AND OTHER SOURCES	173,516,302	173,516,302	\$173,802,990	\$286,688
Appropriated Fund Balance	2,750,000	2,750,000		
Appropriated Reserves	146,404	146,404		
TOTAL REVENUES & APPROPRIATED FUND BALANCE	\$176,412,706	\$176,412,706		

Note to Required Supplementary Information

Budget Basis of accounting

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Year-End Encumbrances</u>	<u>Final Budget Variance with Budgetary Actual and Encumbrances</u>
EXPENDITURES					
General Support					
Board of education	\$113,318	\$61,682	\$61,364	\$0	\$318
Central administration	955,208	479,552	478,239	0	1,313
Finance	1,872,035	1,819,409	1,696,791	74,770	47,848
Staff	794,112	804,320	797,949	0	6,371
Central services	15,319,620	15,641,787	15,239,812	205,010	196,965
Special items	1,281,000	1,295,700	1,294,935	0	765
Instructional					
Instruction, adm. & imp.	7,157,479	5,838,190	5,757,533	5,151	75,506
Teaching - regular school	47,172,642	44,921,774	42,341,286	160,959	2,419,529
Programs for children with handicapping conditions	28,890,717	28,118,091	27,184,643	0	933,448
Occupational education	1,401,040	1,203,308	1,131,832	0	71,476
Teaching special schools	693,500	718,800	520,183	0	198,617
Instructional media	2,070,164	2,337,430	2,253,138	0	84,292
Pupil services	6,966,835	7,409,067	7,077,963	0	331,104
Pupil transportation	10,909,117	10,275,363	9,159,368	0	1,115,995
Community services	5,000	5,000	0	0	5,000
Employee benefits	42,089,652	47,050,749	45,231,080	0	1,819,669
Debt service principal	4,632,705	5,082,705	5,082,704	0	1
Debt service - interest	2,653,562	2,230,785	2,228,667	0	2,118
TOTAL EXPENDITURES	<u>174,977,706</u>	<u>175,293,712</u>	<u>167,537,487</u>	<u>445,890</u>	<u>7,310,335</u>
Other Financing Uses					
Transfers to other funds	<u>1,435,000</u>	<u>1,118,994</u>	<u>970,498</u>	<u>0</u>	<u>148,496</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$176,412,706</u>	<u>\$176,412,706</u>	<u>168,507,985</u>	<u>\$445,890</u>	<u>\$7,458,831</u>
Change in fund balances			5,295,005		
Fund balances - beginning of year			<u>45,259,345</u>		
Fund balances - end of year			<u>\$50,554,350</u>		

Note to Required Supplementary Information

Budget Basis of accounting

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)
JUNE 30, 2013**

Valuation Date	Actuarial		Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
	Value of Assets	Accrued Liability				
July 1, 2012	\$0	\$215,386,254	\$215,386,254	0%	\$67,373,393	320%
July 1, 2010	\$0	\$225,615,083	\$225,615,083	0%	\$71,768,268	314%
July 1, 2008	\$0	\$172,305,263	\$172,305,263	0%	\$77,687,732	222%

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND THE REAL PROPERTY TAX LIMIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$176,266,302
Add: Prior year's encumbrances	<u>146,404</u>
Original Budget	176,412,706
Budget revision:	<u>0</u>
Final Budget	<u>\$176,412,706</u>
Next year's voter approved budget	<u>\$187,955,865</u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2013-14 voter approved expenditure budget	
Maximum allowed (4% of the 2013-2014 budget)	<u>\$7,518,235</u>

General Fund Fund Balance Subject to Section 1318 of
Real Property Tax Law:

Unrestricted fund balance:

Assigned fund balance	3,445,890
Unassigned fund balance	<u>9,768,064</u>
Total unrestricted fund balance	<u>\$13,213,954</u>

Less:

Appropriated fund balance	3,000,000
Encumbrances included in assigned fund balance	<u>445,890</u>
Total adjustments	<u>\$3,445,890</u>

General fund fund Balance Subject to Section 1318 of Real Property Tax Law	<u>\$9,768,064</u>
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Actual percentage	5.20%
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CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
JUNE 30, 2013

Project Title	Original Appropriation	Revised Appropriation	Expenditures to Date			Unexpended Balance	Proceeds of Obligations	Methods of Financing		Total	Fund Balance June 30, 2013
			Prior Year's	Current Year	Total			State Aid	Local Sources		
Library bond proceeds	\$1,500,000	\$1,500,000	\$1,500,000	\$0	\$1,500,000	\$0	\$1,500,000	\$0	\$0	\$1,500,000	\$0
Non-aidable	511,467	511,467	408,890	0	408,890	102,577	511,467	0	0	511,467	102,577
Capital project	16,800,000	16,800,000	12,642,127	1,702,016	14,344,143	2,455,857	5,000,000	62,018	450,000	5,512,018	(8,832,125) *
Energy Performance Contract	11,690,610	11,690,610	9,134,223	2,556,387	11,690,610	0	11,690,610	0	0	11,690,610	0
TOTAL	\$30,502,077	\$30,502,077	\$23,685,240	\$4,258,403	\$27,943,643	\$2,558,434	\$18,702,077	\$62,018	\$450,000	\$19,214,095	(\$8,729,548)

* The negative fund balance is temporary due to the lack of permanent financing.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2013**

Capital assets, net		\$81,460,169
Add:		
Unspent bond proceeds		102,577
Deduct:		
Gain on defeasance	3,584,064	
Bond anticipation note payable	8,100,000	
Short-term portion of bonds payable	3,440,000	
Long-term portion of bonds payable	32,620,000	
Short term portion of energy performance debt	687,034	
Long term portion of energy performance debt	<u>10,600,872</u>	<u>59,031,970</u>
Net investment in capital assets		<u><u>\$22,530,776</u></u>

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

To the Board of Education
Central Islip Union Free School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the fiduciary funds of Central Islip Union Free School District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Central Islip Union Free School District's basic financial statements, and have issued our report thereon dated October 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Islip Union Free School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Islip Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Central Islip Union Free School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



R.S. Abrams & Co., LLP

Islandia, NY

October 30, 2013