

**HERRICKS UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

HERRICKS UNION FREE SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Herricks 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 Herricks Union Free School District, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Herricks 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 Herricks Union Free School District, as of June 30, 2014, and the respective changes in financial position for

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the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

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 17 and 53 through 55, 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 Herricks 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 10, 2014 on our consideration of Herricks 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 Herricks Union Free School District's internal control over financial reporting and compliance.

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The following is a discussion and analysis of the Herricks Union Free School District's (the "District") financial performance for the fiscal year ended June 30, 2014. 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 Financial Statements 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

- On the District-Wide Financial Statements, revenues increased by 2.87% as a result of increased property taxes and additional state sources.
- The District continued to offer all programs, without reducing services.
- On May 20, 2014, the proposed 2014-2015 budget in the amount of \$107,594,911 was authorized by the District's residents. This budget was under the NYS property tax cap.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

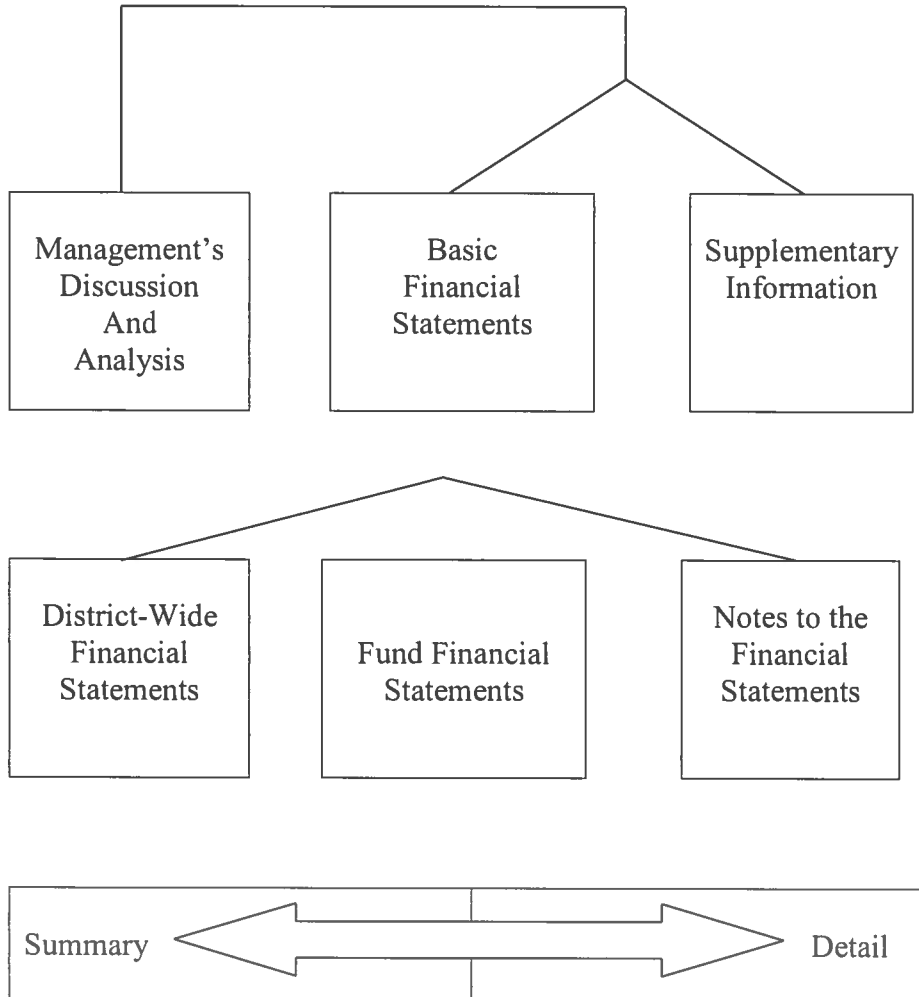
This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and optional supplementary information. The basic financial statements include two kinds of statements that present different views of the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

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

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

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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



**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources measurement 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 or available 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

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

A) District-Wide Statements

The District-Wide Financial Statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, 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 it has changed. Net position, the difference between the 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 assets is an indicator of whether the financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the District, additional non-financial factors such as changes in the District's property tax base and the condition of buildings and other facilities should be considered.

Net 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* is net position that does not meet any of the above restrictions.

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 Financial 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 aid fund, school lunch fund, debt service fund and capital projects fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

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.

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A) Net Position

The District's total net deficit increased by \$5,492,252 in the fiscal year ended June 30, 2014 as detailed in Table A-3.

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

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)	Total Percentage Change
Current assets and other assets	\$30,955,167	\$26,201,175	\$4,753,992	18.14%
Capital assets	45,148,457	47,480,318	(2,331,861)	-4.91%
Total assets	<u>\$76,103,624</u>	<u>\$73,681,493</u>	<u>\$2,422,131</u>	<u>3.29%</u>
Other liabilities	\$13,078,508	\$16,121,853	(\$3,043,345)	-18.88%
Long-term liabilities	73,134,376	62,415,245	10,719,131	17.17%
Total liabilities	<u>86,212,884</u>	<u>78,537,098</u>	<u>7,675,786</u>	<u>9.77%</u>
Deferred Inflows of Resources	238,597		238,597	0.00%
Total liabilities and deferred inflows of resources	<u>86,451,481</u>	<u>78,537,098</u>	<u>7,914,383</u>	<u>10.08%</u>
Net Position				
Net investment in capital assets	24,502,852	25,055,734	(552,882)	-2.21%
Restricted	10,588,289	9,120,778	1,467,511	16.09%
Unrestricted	(45,438,998)	(39,032,117)	(6,406,881)	-16.41%
Total net position (deficit)	<u>(10,347,857)</u>	<u>(4,855,605)</u>	<u>(5,492,252)</u>	<u>113.11%</u>
Total Liabilities and Net Position	<u>\$76,103,624</u>	<u>\$73,681,493</u>	<u>\$2,422,131</u>	<u>3.29%</u>

Certain reclassifications have been made for financial statement presentation. Such reclassifications had no effect on the total net position as previously reported.

Current assets and other assets increased \$4,753,992 from 2013 to 2014 primarily due to an increase in cash offset by a decrease in state and federal aid receivable. Capital assets (net of depreciation) decreased by \$2,331,861. This was attributable to current year depreciation offset by current year additions. Other liabilities decreased by \$3,043,345. This is a result of no new BAN issued during 13-14. Long-term liabilities increased by \$10,719,131. This increase is primarily a result of the increase in

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

the net other post employment benefits obligation of approximately \$7 million, and an increase in bonds payable.

The net investment in capital assets 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 decreased from the prior year by \$552,882. This is due to an increase in related debt offset by current year additions.

The restricted net position refers to the District's reserves: workers' compensation, unemployment, retirement contribution, insurance, repairs, and employee benefit accrued liability, as well as the net position of the debt service fund and capital projects fund. The increase in the balance of \$1,467,511 is a result of the District's funding the reserves and allocation of interest earnings, as well as the change in the debt service fund net position. Changes to the restricted net position are discussed further in Section 4 "Financial Analysis of the District's Funds".

The unrestricted net deficit relates to the balance of the District's net position. This deficit, \$45,438,998, is an increase of \$6,406,881 from the prior year. The net deficit overall increased by \$5,492,252. This is primarily caused by an increase in the net other post employment benefits obligation.

B) Changes in Net Position

The results in this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2014 and 2013 is as follows:

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)	Total Percentage Change
Revenues				
Program revenues				
Charges for services	\$2,394,690	\$2,368,767	\$25,923	1.09%
Operating grants	2,404,417	2,837,108	(432,691)	-15.25%
Capital grants		24,987	(24,987)	-100.00%
General revenues				
Property taxes and other tax items	92,432,877	89,669,295	2,763,582	3.08%
State sources	9,058,750	8,434,478	624,272	7.40%
Use of money and property	627,958	647,244	(19,286)	-2.98%
Other	544,319	478,056	66,263	13.86%
Total Revenues	107,463,011	104,459,935	3,003,076	2.87%
Expenses				
General support	14,361,970	13,452,238	909,732	6.76%
Instruction	91,903,179	88,978,707	2,924,472	3.29%
Pupil transportation	3,874,150	3,753,823	120,327	3.21%
Community service	785,159	819,463	(34,304)	-4.19%
Debt service interest	645,217	737,084	(91,867)	-12.46%
Food service program	1,385,587	1,397,781	(12,194)	-0.87%
Total Expenses	112,955,263	109,139,096	3,816,166	3.50%
Change in net position (deficit)	(\$5,492,252)	(\$4,679,161)	(\$813,091)	17.38%

The District's total fiscal year 2014 revenues totaled \$107,463,011. (See Table A-4). This is an increase of \$3,003,076 or 2.87% over the prior year. Property taxes and state sources accounted for most of the District's revenue by contributing 86.01% and 8.43%, respectively, of total revenue. (See Table A-5). The remainder came from fees charged for services, operating grants, use of money and property, and other miscellaneous sources.

The total cost of all programs and services totaled \$112,955,263 for fiscal year 2014. This is an increase of \$3,816,167 or 3.50% from the prior year. These expenses are predominantly related to general instruction and caring for (pupil services) and transporting students, which account for 84.79% of district expenses. (See Table A-6). The District's general support activities accounted for 12.71% of total costs.

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Table A-5: Revenues for Fiscal Year 2014 (See Table A-4)

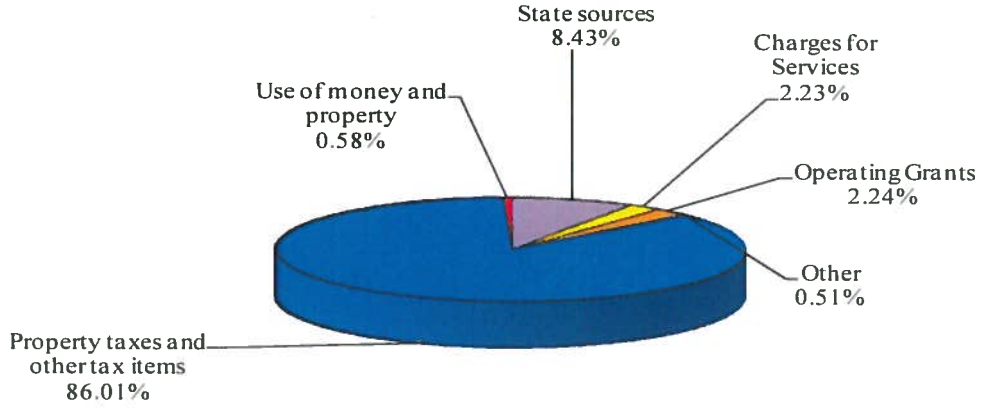
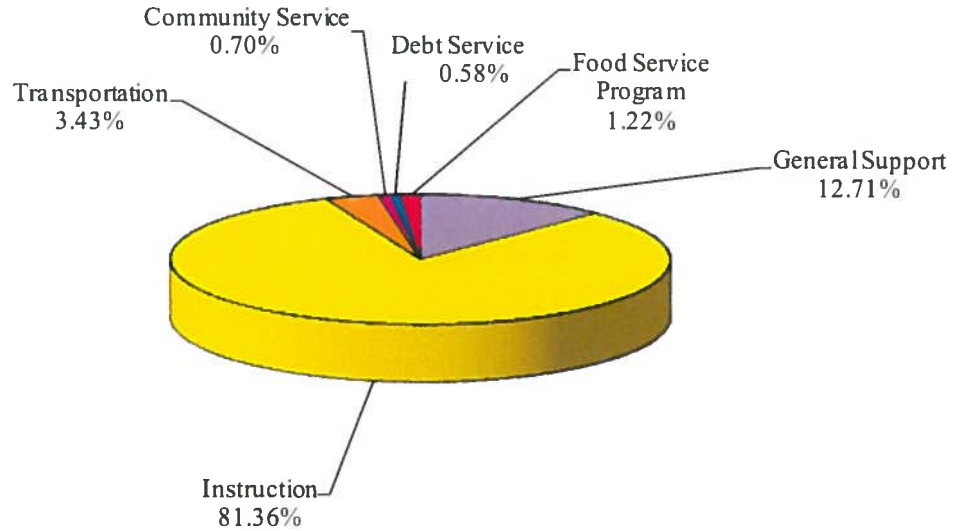


Table A-6: Expenses for Fiscal Year 2014 (See Tables A-4 and A-7)



**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

C) Governmental Activities

Revenues for the District's governmental activities totaled \$107,463,011 while total expenses equaled \$112,955,263. The increase in the net deficit for governmental activities was \$5,492,252 in 2014. Although actual expenses exceeded actual revenues, this was primarily due to an increase in the long-term liabilities as a result of recording a net other postemployment benefits obligation in the current year per GASB Statement #45. The overall good financial condition of the District, as a whole, can be credited to:

- Continued leadership of the District's Board and administration;
- Strong tax base;
- Strategic use of services from the Nassau BOCES;
- Improved curriculum and community support;

Table A-7 presents the cost of major District activities: general support, instruction, pupil transportation, community service, debt service and food service program. 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 2014	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2013
General support	\$14,361,970	\$13,452,238	\$14,361,970	\$13,452,238
Instruction	91,903,179	88,978,707	88,544,247	85,327,127
Pupil transportation	3,874,150	3,753,823	3,874,150	3,753,823
Community service	785,159	819,463	666,425	636,484
Debt service interest	645,217	737,084	645,217	737,084
Food service program	1,385,587	1,397,781	64,147	1,478
Total	\$112,955,262	\$109,139,096	\$108,156,156	\$103,908,234

- The cost of all governmental activities this year was \$112,955,263. (Statement of Activities, Expenses column-see Exhibit 3)
- The users of the District's programs \$2,394,690 financed some of the cost. (Statement of Activities, Charges For Services column-see Exhibit 3)
- The federal and state governments subsidized certain programs with grants of \$2,404,417 (Statement of Activities, Operating Grants column – see Exhibit 3)

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

- Most of the District's net costs \$108,156,156 were financed by District taxpayers and state sources. (Statements of Activities, Net (Expense) Revenue and Changes in Net Position column-see Exhibit 3)

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, 2014, the District's combined governmental funds reported a total fund balance of \$17,971,442 which is an increase of \$7,919,927 from the prior year.

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

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	2014	2013	Increase/ (Decrease)	Change
General fund				
Nonspendable - prepaid expenditures	\$778,331	\$766,916	\$11,415	1.49%
Restricted for workers' compensation	2,161,805	2,047,885	113,920	5.56%
Restricted for unemployment	830,300	905,391	(75,091)	-8.29%
Restricted for retirement contribution	4,875,388	3,239,197	1,636,191	50.51%
Restricted for insurance	550,000	553,145	(3,145)	-0.57%
Restricted for repairs	2,772	2,769	3	0.11%
Restricted for tax certiorari		351,025	(351,025)	-100.00%
Restricted for employee benefit accrued liability	1,200,000	1,200,000	-	0.00%
Assigned - designated for subsequent year's expenditures	1,756,000	1,320,000	436,000	33.03%
Assigned for general support	208,377	247,109	(38,732)	-15.67%
Assigned for instruction	496,091	511,724	(15,633)	-3.05%
Assigned for pupil transportation	169	181	(12)	-6.63%
Assigned for community services		4,000	(4,000)	-100.00%
Assigned for employee benefits		1,081	(1,081)	-100.00%
Unassigned	4,303,796	4,146,418	157,378	3.80%
Total fund balance - general fund	<u>17,163,029</u>	<u>15,296,841</u>	<u>1,866,188</u>	<u>12.20%</u>
School lunch fund				
Nonspendable-inventory & prepaid expenditures	37,324	39,233	(1,909)	-4.87%
Unassigned	(196,935)	(135,186)	(61,749)	45.68%
Total fund balance - school lunch fund	<u>(159,611)</u>	<u>(95,953)</u>	<u>(63,658)</u>	<u>66.34%</u>
Debt service fund				
Restricted for debt service	823,763	821,366	2,397	0.29%
Total fund balance -debt service fund	<u>823,763</u>	<u>821,366</u>	<u>2,397</u>	<u>0.29%</u>
Capital projects fund				
Unassigned	144,261	(5,970,739)	6,115,000	-102.42%
Total fund balance - capital projects fund	<u>144,261</u>	<u>(5,970,739)</u>	<u>6,115,000</u>	<u>-102.42%</u>
Total fund balance - all funds	<u>\$17,971,442</u>	<u>\$10,051,515</u>	<u>\$7,919,927</u>	<u>78.79%</u>

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

In the general fund the District can attribute changes to fund balance primarily due to operating results, Board approved transfers and allocation of interest earnings.

The increase in the restricted fund balance for workers' compensation of \$113,920 is a result of the District appropriating \$63,866 for use, allocating interest and earnings of the fund of \$38,821 and funding an additional \$138,965 into the reserve.

The decrease in the restricted fund balance for unemployment of \$75,091 is the result of the District appropriating \$75,532 for use and allocating interest of \$440 into the reserve.

The increase in the restricted fund balance for retirement contribution of \$1,636,191 is the result of allocating interest of \$8,719 and funding an additional \$1,627,472.

The decrease in the restricted fund balance for insurance of \$3,145 is the result of the District appropriating \$131,380 for use offset by the earnings of the fund of \$105,240 and funding an additional \$22,995 into the reserve.

The increase in the restricted fund balance for repairs of \$3 is the result of allocating interest.

The tax certiorari restricted reserve of \$351,025 was transferred into general fund as a result of full exhaustion of appeals as to the validity of the County Guaranty repeal, the County Guaranty remains in effect and reserve money is not reasonably required to pay any tax certiorari judgment or claim.

The restricted fund balance for employee benefit accrued liability had disbursements of \$172,086 and funding of additional \$172,086.

The decrease in the total school lunch fund balance of \$63,658 is the operating deficit of the school lunch fund for the current year.

The increase in the debt service fund balance of \$2,397 represents interest earnings.

The increase in the capital projects fund of \$6,115,000 is primarily a result of new bond issued to replace the prior year Bond Anticipation Note ("BAN").

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A) 2013-2014 Budget

The District's general fund adopted budget for the year ended June 30, 2014 was \$104,619,373. This amount was increased by encumbrances carried forward from the prior year in the amount of \$764,095 and budget revisions in the amount of \$441,830 which resulted in a final budget of \$105,825,298. The majority of the funding was property taxes and STAR revenue of \$92,128,889.

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

The general fund’s unassigned fund balance is a component to total fund balance that is the residual of prior years’ excess revenues over expenditures, net of transfers to reserves and designations to fund subsequent years’ budgets. It is 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	\$4,146,418
Revenues over budget	885,627
Expenditures and encumbrance under budget	2,801,849
Transfers to reserves	(1,578,692)
Interest to reserves	(11,905)
Budget revisions per Board Approval	(172,086)
Change in nonspendable - prepaid expenditures	(11,415)
Assigned -appropriated for June 30, 2015 budget	<u>(1,756,000)</u>
Closing, unassigned fund balance	<u><u>\$4,303,796</u></u>

The unassigned fund balance represents the fund balance retained by the District that is not restricted or assigned for subsequent year’s taxes. This amount is limited to 4% of the 2014-2015 budget.

The revenues over budget of \$885,627 were primarily in charges for services, BOCES aid and miscellaneous items. (see Supplemental Schedule #1 for detail).

The expenditures and encumbrances under budget of \$2,801,849 were primarily in programs for children with handicapping conditions and employee benefits (see Supplemental Schedule #1 for detail).

The changes in fund balance is discussed further in Management Discussion and Analysis Section 4, Financial Analysis of the District’s Funds.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A) Capital Assets

The District had no expense related to any capital projects during 2013-2014. A summary of the District’s capital assets net of depreciation are as follows:

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

Category	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)	Percentage Change
Land & land improvements	\$4,700,907	\$4,685,063	\$15,844	0.34%
Construction in progress	208,901	209,627	(726)	-0.35%
Buildings & building improvements	75,545,085	75,545,085	-	0.00%
Furniture & equipment	3,627,404	3,888,286	(260,882)	-6.71%
Vehicles	1,605,210	1,618,010	(12,800)	-0.79%
Subtotal	<u>85,687,507</u>	<u>85,946,071</u>	<u>(258,564)</u>	<u>-0.30%</u>
Less: Accumulated depreciation	<u>40,539,050</u>	<u>38,465,753</u>	<u>2,073,297</u>	<u>5.39%</u>
Total Net Capital Assets	<u><u>\$45,148,457</u></u>	<u><u>\$47,480,318</u></u>	<u><u>(\$2,331,861)</u></u>	<u><u>-4.91%</u></u>

The District transferred \$55,000 from the capital projects fund back to the general fund.

B) Long-Term Debt Obligations:

At June 30, 2014, the District had total bonds payable of \$17,775,000 and an energy performance debt payable of \$2,632,008. The bonds were issued for district-wide projects, and the energy performance debt was issued for energy savings costs. The decrease in outstanding debt represents principal payments. A summary of outstanding debt at June 30, 2014 and 2013 is as follows:

	2014	2013	Increase (Decrease)
Bonds payable	\$17,775,000	\$13,385,000	\$4,390,000
Energy performance debt payable	<u>2,632,008</u>	<u>2,869,584</u>	<u>(237,576)</u>
Total	<u><u>\$20,407,008</u></u>	<u><u>\$16,254,584</u></u>	<u><u>\$4,152,424</u></u>

Refer to Footnote 13 for further detail on long-term obligations disclosures.

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

- A)** The District issued \$7,000,000 in tax anticipation notes on September 24, 2014, maturing on June 26, 2015 with interest rate of 1.00% and received a TAN premium of \$40,462.
- B)** The general fund budget for the 2014-2015 school year was approved by the voters in the amount of \$107,594,911. This is an increase in the operating budget of \$2,975,538 or 2.84% over the previous year's budget. The 2014-2015 budget was within the NYS property tax cap. The increase was primarily due to increases in personnel costs
- C)** The 2013-2014 budget is negatively impacted by certain trends impacting school districts. These include increases in retirement contributions and health insurance costs. For the 2013-2014 school budget the retirement contribution increased and the health insurance rates increased. It is anticipated that these items will continue to have increases in the future.
- D)** The NYS Legislature has introduced and 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 school 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 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.
- E)** New York State recently enacted a law to effectively "freeze" property taxes for two years on the primary residences of homeowners with annual incomes at or below \$500,000 in school districts and local governments that stay within the tax cap. Qualifying homeowners will receive a credit, which will be distributed in the form of a check from New York State, up to the calculated amount of the tax cap. The program also requires the school districts and local governments in the second year to develop or participate in the development of a state approved government efficiency plan that will achieve savings for taxpayers. The law is effective for school districts starting with the 2014-2015 school year and homeowners will receive refund checks in the fall of 2014. This program will provide an incentive for the District to be tax cap compliant.
- F)** The Patient Protection and Affordable Care Act or more commonly referred to as the Affordable Care Act was enacted into law on March 23, 2010. Beginning in 2015, the mandate requires large employers (generally those with fifty (50) or more full-time equivalent employees) to either offer affordable health coverage to full-time employees and their dependents, or pay a penalty if the employer fails to offer affordable health coverage, and at least one full-time employee receives a premium tax credit to help purchase coverage through an Affordable Insurance Exchange. It is anticipated that implementation of this law will increase the health insurance costs for the District

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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:

Herricks Union Free School District
Ms. Helen Costigan, CPA
Assistant Superintendent for Business
999 B Herricks Road
New Hyde Park, New York 11040
(516) 305-8903

HERRICKS UNION FREE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS		
Cash		
Unrestricted		\$14,147,309
Restricted		10,443,267
Receivables		
State and federal aid		2,121,301
Taxes receivable		1,436,583
Due from other governments		1,064,024
Due from fiduciary funds		838,267
Accounts receivable		80,261
Inventories		31,786
Prepaid expenditures		792,369
Capital assets		
Not being depreciated		1,939,018
Being depreciated, net of accumulated depreciation		<u>43,209,439</u>
TOTAL ASSETS		<u>\$76,103,624</u>
LIABILITIES		
Payables		
Accounts payable		\$2,812,313
Accrued liabilities		337,521
Accrued interest payable		94,783
Claims payable		624,000
Due to other governments		689
Due to teachers' retirement system		8,118,086
Due to employees' retirement system		546,173
Unearned credits		
Collections in advance		544,943
Long-term liabilities		
Due and payable within one year		
Bonds payable		2,175,000
Energy performance debt payable		247,387
Compensated absences payable		200,000
Due and payable after one year		
Bonds payable		15,600,000
Energy performance debt payable		2,384,621
Compensated absences payable		5,902,234
Claims payable		333,137
Net other post employment benefits obligation		<u>46,291,997</u>
DEFERRED INFLOWS OF RESOURCES		
Gain on defeasance		<u>238,597</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		<u>86,451,481</u>
NET POSITION (DEFICIT)		
Net investment in capital assets		<u>24,502,852</u>
Restricted		
Workers' Compensation		2,161,805
Unemployment		830,300
Retirement Contribution		4,875,388
Insurance		550,000
Repairs		2,772
Employee Benefit Accrued Liability		1,200,000
Debt		823,763
Capital		<u>144,261</u>
		<u>10,588,289</u>
Unrestricted (deficit)		<u>(45,438,998)</u>
TOTAL NET POSITION (DEFICIT)		<u>(10,347,857)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		<u>\$76,103,624</u>

**HERRICKS UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

FUNCTIONS / PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
General support	(\$14,361,970)			(\$14,361,970)
Instruction	(91,903,179)	\$1,316,067	\$2,042,865	(88,544,247)
Pupil transportation	(3,874,150)			(3,874,150)
Community services	(785,159)		118,734	(666,425)
Debt service - interest	(645,217)			(645,217)
Food service program	(1,385,587)	1,078,623	242,818	(64,146)
TOTAL FUNCTIONS AND PROGRAMS	(\$112,955,263)	\$2,394,690	\$2,404,417	(108,156,156)
 GENERAL REVENUES				
Real property taxes				82,804,784
Other tax items - including STAR reimbursement				9,628,093
Use of money & property				627,958
Sale of property & compensation for loss				143,958
Miscellaneous				305,283
State sources				9,058,750
Medicaid reimbursement				95,078
TOTAL GENERAL REVENUES				102,663,904
 CHANGES IN NET POSITION				 (5,492,252)
 TOTAL NET POSITION (DEFICIT) - BEGINNING OF YEAR				 (4,855,605)
 TOTAL NET POSITION (DEFICIT) - END OF YEAR				 (\$10,347,857)

**HERRICKS UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash						
Unrestricted	\$13,605,864	\$229,835	\$111,547		\$200,063	\$14,147,309
Restricted	9,620,265			\$823,002		10,443,267
Receivables						
State and federal aid	686,693	1,415,959	18,649			2,121,301
Taxes receivable	1,436,583					1,436,583
Due from other governments	1,064,024					1,064,024
Due from other funds	2,583,229	11,018		761		2,595,008
Accounts receivable	62,053	14,198	4,010			80,261
Inventories			31,786			31,786
Prepaid expenditures	778,331	8,500	5,538			792,369
TOTAL ASSETS	<u>\$29,837,042</u>	<u>\$1,679,510</u>	<u>\$171,530</u>	<u>\$823,763</u>	<u>\$200,063</u>	<u>\$32,711,908</u>
LIABILITIES AND FUND BALANCES						
Payables						
Accounts payable	\$2,600,817	\$186,276	\$25,220			\$2,812,313
Accrued liabilities	270,225	11,523	55,773			337,521
Claims payable	624,000					624,000
Due to other governments			689			689
Due to other funds		1,451,480	249,459		\$55,802	1,756,741
Due to teachers' retirement system	8,118,086					8,118,086
Due to employees' retirement system	546,173					546,173
Unearned credits						
Collections in advance	514,712	30,231				544,943
TOTAL LIABILITIES	<u>12,674,013</u>	<u>1,679,510</u>	<u>331,141</u>	<u>-</u>	<u>55,802</u>	<u>14,740,466</u>
FUND BALANCES						
Nonspendable	778,331		37,324			815,655
Restricted:						
Workers' Compensation	2,161,805					2,161,805
Unemployment	830,300					830,300
Retirement Contribution	4,875,388					4,875,388
Insurance	550,000					550,000
Repairs	2,772					2,772
Employee Benefit Accrued Liability	1,200,000					1,200,000
Debt				\$823,763		823,763
Assigned:						
Appropriated fund balance	1,756,000					1,756,000
Unappropriated fund balance	704,637				144,261	848,898
Unassigned: Fund balance	4,303,796		(196,935)			4,106,861
TOTAL FUND BALANCES	<u>17,163,029</u>	<u>-</u>	<u>(159,611)</u>	<u>823,763</u>	<u>144,261</u>	<u>17,971,442</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$29,837,042</u>	<u>\$1,679,510</u>	<u>\$171,530</u>	<u>\$823,763</u>	<u>\$200,063</u>	<u>\$32,711,908</u>

**HERRICKS UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Governmental Fund Balances \$17,971,442

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. However, 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	\$85,687,507	
Accumulated depreciation	(40,539,050)	45,148,457

Defeasance gain - gain on defeasance on the advance refunding. The Statement of Net Position will amortize the gain on defeasance on the advance refunding over the life of the bond.

Governmental funds recorded the gain on defeasance on the advance refunding as a revenue. (238,597)

Payables that are associated with long-term liabilities that are not payable in the current period are not reported as liabilities in the funds. Additional payables relating to long-term liabilities at year end consisted of:

Accrued interest on bonds and energy performance debt	(94,783)
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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 consisted of:

Bonds payable	(17,775,000)	
Energy performance debt payable	(2,632,008)	
Compensated absences payable	(6,102,234)	
Claims payable	(333,137)	
Net other post employment benefits obligation	(46,291,997)	(73,134,376)

Total Net Position (\$10,347,857)

HERRICKS UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$82,804,784					\$82,804,784
Other tax items - including STAR reimbursement	9,628,093					9,628,093
Charges for services	1,464,918					1,464,918
Use of money and property	626,359			\$1,599		627,958
Sale of property and compensation for loss	143,958					143,958
Miscellaneous	303,997		\$488	798		305,283
Interfund revenue	3,085					3,085
Local sources		\$59,326				59,326
State sources	9,058,750	1,010,401	18,094			10,087,245
Federal sources	978	1,090,894	153,854			1,245,726
Medicaid reimbursement	95,078					95,078
Surplus food			70,870			70,870
Sales - school lunch			1,078,623			1,078,623
TOTAL REVENUES	104,130,000	2,160,621	1,321,929	2,397	-	107,614,947
EXPENDITURES						
General support	11,076,111					11,076,111
Instruction	59,586,969	2,523,191				62,110,160
Pupil transportation	3,139,884					3,139,884
Community service	459,319	118,734				578,053
Employee benefits	25,022,150					25,022,150
Debt service principal	1,877,576					1,877,576
Debt service interest	675,499					675,499
Cost of sales			1,385,587			1,385,587
TOTAL EXPENDITURES	101,837,508	2,641,925	1,385,587	-	-	105,865,020
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,292,492	(481,304)	(63,658)	2,397	-	1,749,927
OTHER FINANCING SOURCES AND (USES)						
Proceeds from serial bonds					\$6,020,000	6,020,000
Proceeds from advanced refunding				10,205,000		10,205,000
Bond premium				459,627		459,627
Bond issuance costs				(102,618)		(102,618)
Payment to escrow agent (advanced refunding)				(10,562,009)		(10,562,009)
BANs redeemed by appropriations					150,000	150,000
Operating transfers (in)	55,000	481,304				536,304
Operating transfers (out)	(481,304)				(55,000)	(536,304)
TOTAL OTHER FINANCING SOURCES AND (USES)	(426,304)	481,304	-	-	6,115,000	6,170,000
NET CHANGE IN FUND BALANCES	1,866,188	-	(63,658)	2,397	6,115,000	7,919,927
FUND BALANCES - BEGINNING OF YEAR	15,296,841	-	(95,953)	821,366	(5,970,739)	10,051,515
FUND BALANCE - END OF YEAR	\$17,163,029	\$ -	(\$159,611)	\$823,763	\$144,261	\$17,971,442

HERRICKS 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, 2014

Net Change in Fund Balances	\$7,919,927
Amounts reported for governmental activities in the Statement of Activities are different because:	
Long-Term Revenue and Expense Differences	
In the Statement of Activities, compensated absences 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. Compensated absences payable for the year ended June 30, 2014 changed by	390,371
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 method. The difference in the revenues recognized under the full accrual method for the year ended June 30, 2014 was	(148,851)
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. Claims payable for the year ended June 30, 2014 changed by	23,427
Net other post-employment benefits obligation payable in the Statement of Activities differs from the amount 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. Net other post-employment benefits obligation payable for the year ended June 30, 2014 changed by	(6,980,505)
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, 2013 to June 30, 2014 changed by	26,261
Capital Related Differences	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expense in the Statement of Activities.	
Capital outlays	\$33,572
Loss on disposal	(3,247)
Depreciation expense	(2,362,186)
	(2,331,861)
Long-Term Debt Differences	
Repayment of bond and energy performance principal 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.	1,727,576
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, 2014 was	(102,618)
Proceeds from serial bonds is another financing source in the governmental funds, but it increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	(6,020,000)
Governmental funds may report the premiums, discounts, and similar items on the refunded bonds. These amounts are deferred and amortized in the Statement of Activites. The amount of amortization is	4,021
Changes in Net Position	(\$5,492,252)

**HERRICKS UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
ASSETS		
Cash		
Restricted	\$2,917,039	\$99,704
Accounts receivable	52,646	
TOTAL ASSETS	<u><u>\$2,969,685</u></u>	<u><u>\$99,704</u></u>
LIABILITIES		
Due to governmental funds	\$838,267	
Extraclassroom activity balance	183,932	
Other liabilities	1,947,486	
TOTAL LIABILITIES	<u><u>\$2,969,685</u></u>	<u><u>-</u></u>
NET POSITION		
Restricted for scholarships		99,704
TOTAL NET POSITION		<u><u>99,704</u></u>
TOTAL LIABILITIES AND NET POSITION		<u><u>\$99,704</u></u>

**HERRICKS UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	\$7,525
Interest and earnings	108
TOTAL ADDITIONS	<u>7,633</u>
DEDUCTIONS	
Scholarships and awards	<u>16,590</u>
TOTAL DEDUCTIONS	<u>16,590</u>
CHANGE IN NET POSITION	(8,957)
NET POSTION - BEGINNING OF YEAR	<u>108,661</u>
NET POSITION - END OF YEAR	<u><u>\$99,704</u></u>

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Herricks 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.

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 five (5) 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 a certain entity included in the District’s reporting entity.

Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. 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. Separate audited Financial Statements of the Extraclassroom Activity Funds can be found at the District’s business office.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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B) Joint venture:

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

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

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

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, while the capital grants column reflects capital-specific grants, if applicable.

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.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 Funds: 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 Funds: 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:

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.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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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 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

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

E) Real property taxes:

i) Calendar:

Real property taxes are levied annually by the Board of Education no later than September 1, and become a lien on July 1. Taxes are collected by the Town of North Hempstead during the period 2013-2014.

ii) Enforcement:

Uncollected real property taxes are subsequently enforced by Nassau County (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.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 payable, net other post employment benefits, potential contingent liabilities and useful lives of capital assets.

I) Cash and investments:

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

Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves and debt agreements.

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.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.

A reserve for these non-liquid assets (inventories) has been recognized in the school lunch fund as non-spendable under GASB Statement No. 54 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 Position or Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

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 Financial Statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building & Building Improvements	\$15,000	Straight-line	50 years
Furniture & Equipment	\$5,000	Straight-line	5-20 years
Land Improvements	\$15,000	Straight-line	20 years
Vehicles	\$5,000	Straight-line	8 years

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.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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In the fund level statements, collections in advance consist of amounts received in advance for summer programs in the general fund and for amounts received in advance for grants in the special aid fund.

N) Deferred Inflows of Resources – gain on defeasance:

A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. The District reported \$238,597 of deferred inflows of resources at June 30, 2014, representing the financial effect of deferred revenue on the advance refunding of general obligation serial bonds. A deferred inflow of resources results from the difference in the net carrying value of refunded debt over its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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. Certain collectively bargained agreements require these termination payments to be paid in the form of non-elective contributions into the employee's 403 (b) plan.

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 termination method and an accrual for that liability is included in the District-Wide Financial Statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

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

P) Other benefits:

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

District employees may choose to participate in the District's elective deferred compensation plans established under Internal Revenue Code Sections 403 (b) and 457.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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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 governmental funds as a the liabilities for premiums mature (come due for payment). In the District-Wide Statements, the cost of postemployment health insurance coverage is recognized on the accrual basis of accounting in accordance with GASB Statement No. 45.

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 of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue 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.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 position (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets, net of any unexpended proceeds and including any unamortized items (discounts, premiums, gain on refunding).

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) Non-spendable** fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory in the amount of \$31,786 and prepaid expenditures in the amount of \$5,538 in the school lunch fund. Non-spendable fund balance also includes the prepaid expenditures recorded in the general fund of \$778,331 for health insurance.
- 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 classified the following reserves as restricted:

Workers' Compensation Reserve

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

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Unemployment Insurance Reserve

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

Retirement Contribution Reserve

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

Insurance Reserve

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

Repair Reserve

Repair reserve (GML §6-d) must be used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. The Board of Education without voter approval may establish a repair reserve fund by a majority vote of its members. Voter approval is required to fund this reserve (Opinion of the New York State Comptroller 81-401). Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years. This reserve is accounted for in the general fund under restricted fund balance.

Employee Benefit Accrued Liability

Employee benefit accrued liability reserve (GML §6-p) must be used for the payment of accrued employee benefit due to an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the general fund under restricted fund balance.

Debt Service

Used to account for the accumulation of resources and that are restricted to pay debt service. The fund includes all unused debt proceeds and interest and earnings on temporary investment of debt proceeds. This reserve is accounting for in the debt service fund.

Scholarships

Amounts restricted for scholarships are used to account for monies donated for scholarship purposes, net of earnings and awards. These restricted funds are accounted in the private purpose trust fund.

- 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., the Board of Education). The District has no committed fund balances as of June 30, 2014.
- 4) **Assigned** fund balance - Includes amounts that are subject to a purpose constraint that represents an intended use established by the District's Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance includes an amount appropriated to partially fund the subsequent year's budget. Assigned fund balance also includes Board designations and encumbrances not classified as restricted or committed at the end of the fiscal year.
- 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.

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. Non-spendable and restricted fund balance of the general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances included in the assigned fund balance are also excluded from the 4% limitation.

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 balances. Expenditures incurred in the unrestricted fund balances shall

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

T) Future Changes in Accounting Standards

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*, effective for the fiscal years ending June 30, 2015.

GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for fiscal years ending June 30, 2015.

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective for fiscal years ending June 30, 2015.

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 STATEMENTS AND DISTRICT-WIDE STATEMENTS:

Due to the differences in the measurement focus and basis of accounting used in the Fund Financial Statements and the District-Wide Financial Statements, certain financial transactions are treated differently. The 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 Position” of governmental activities reported in the Statement of Net Position. The difference primarily results from additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund Balance Sheets.

B) Statement of revenues, expenditures and changes in fund balances 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 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.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 financial statements and depreciation expense on those items as recorded in the Statement of Activities.

iii) Long-term debt transaction differences:

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

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 Balances 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.

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.

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Supplemental appropriations that occurred during the year are shown on Supplemental Schedule #3.

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

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

B) Encumbrances:

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

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 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.

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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.

Restricted cash:

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by status to be reserved for various purposes. Restricted cash at June 30, 2014 include \$10,443,267 within the governmental funds for debt service and general reserve purposes and \$3,016,743 in the fiduciary funds.

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.

NOTE 5 – PARTICIPATION IN BOCES

During the year ended June 30, 2014, the District was billed \$3,575,265 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$855,740. Financial statements for the BOCES are available from the BOCES administrative office at Nassau Board of Cooperative Educational Services, 71 Clinton Road, P.O. Box 9195, Garden City, NY 11530-9195.

NOTE 6 – STATE AND FEDERAL AID RECEIVABLES:

State and federal aid receivables at June 30, 2014 consisted of the following:

General fund	
Excess cost aid	\$ 537,842
Dormitory Authority grant	148,851
Total General fund	<u>686,693</u>
Special aid fund	
Federal aid	533,655
State and local aid	882,304
Total Special aid fund	<u>1,415,959</u>
School lunch fund	
Lunch - federal aid	15,069
Lunch - state aid	3,580
Total School lunch fund	<u>18,649</u>
Total state and federal receivable	<u><u>\$ 2,121,301</u></u>

District management has deemed these amounts to be fully collectible.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 7 – PREPAID EXPENDITURES:

Prepaid expenditures at June 30, 2014 consisted of the following:

General fund	
Health insurance premium for July 2014	\$778,331
Total general fund	<u>778,331</u>
School lunch fund	
Health insurance premium for July 2014	5,538
Total school lunch fund	<u>5,538</u>
Federal fund	
Other	8,500
Total federal fund	<u>8,500</u>
Total Prepaid expenditures	<u><u>\$792,369</u></u>

NOTE 8 – DUE FROM OTHER GOVERNMENTS:

Due from other governments in the general fund at June 30, 2014 consisted of the following:

Non resident tuition	\$293,781
District of location -special education	198,515
BOCES Aid	446,927
2012 OASAS claim	93,060
Interest & penalties on property tax	26,224
Miscellaneous	5,517
Total Due from other governments	<u><u>\$1,064,024</u></u>

District management has deemed the amounts to be fully collectible.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 9 – CAPITAL ASSETS:

Capital asset balances and activity for the year ended June 30, 2014 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital Assets that are not depreciated:				
Land	\$1,730,116			\$1,730,116
Construction in Progress	209,627		(\$725)	208,902
Total capital assets not being depreciated	<u>1,939,743</u>	<u>-</u>	<u>(725)</u>	<u>1,939,018</u>
Capital assets that are depreciated				
Building & Building Improvements	75,545,085			75,545,085
Furniture & Equipment	3,888,286	\$17,729	(278,611)	3,627,404
Vehicles	1,618,010		(12,800)	1,605,210
Land Improvement	2,954,947	15,843		2,970,790
Total capital assets being depreciated	<u>84,006,328</u>	<u>33,572</u>	<u>(291,411)</u>	<u>83,748,489</u>
Less accumulated depreciation				
Building & Building Improvements	32,549,987	1,999,417		34,549,404
Furniture & Equipment	3,177,733	154,433	(276,089)	3,056,077
Vehicles	1,463,564	62,042	(12,800)	1,512,806
Land Improvement	1,274,469	146,294		1,420,763
Total accumulated depreciation	<u>38,465,753</u>	<u>2,362,186</u>	<u>(288,889)</u>	<u>40,539,050</u>
Total capital assets being depreciated, net	<u>45,540,575</u>	<u>(2,328,614)</u>	<u>(2,522)</u>	<u>43,209,439</u>
Total capital assets, net	<u>\$47,480,318</u>	<u>(\$2,328,614)</u>	<u>(\$3,247)</u>	<u>\$45,148,457</u>

Depreciation expense was allocated to governmental functions as follows:

General support	\$117,461
Instruction	2,204,368
Pupil transportation	40,357
Total	<u>\$2,362,186</u>

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 10- COLLECTIONS IN ADVANCE

Collections in advance on the governmental funds balance sheet as of June 30, 2014 consisted of:

General fund		
Summer program		\$ 514,712
Total		<u>514,712</u>
Special Aid		
Unearned Revenues from local and federal grants		30,231
Total		<u>30,231</u>
Total Collections in Advance		<u>\$ 544,943</u>

NOTE 11 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS:

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenues</u>	<u>Expenditures</u>
General fund	\$2,583,229		\$55,000	\$481,304
Special aid fund	11,018	\$1,451,480	481,304	
School lunch fund		249,459		
Debt service fund	761			
Capital projects fund		55,802		55,000
Total government activities	<u>2,595,008</u>	<u>1,756,741</u>	<u>536,304</u>	<u>536,304</u>
Fiduciary agency fund		838,267		
Totals	<u>\$2,595,008</u>	<u>\$2,595,008</u>	<u>\$536,304</u>	<u>\$536,304</u>

The District typically transfers from the general fund to the special aid fund to fund the District's 20% share of summer school handicap expenses required by state law and State Supported schools for the blind and deaf. The capital projects fund transferred to the general fund as result of a capital fund project the District decided not to complete.

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

All inter-fund payables are expected to be repaid within one year.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 12 - SHORT-TERM DEBT:

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

	Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
BAN	05/14/14	1.00%	\$ 6,170,000		\$ 6,170,000	\$ -
TAN	06/20/14	1.00%		8,000,000	8,000,000	-
Total			<u>\$6,170,000</u>	<u>\$8,000,000</u>	<u>\$14,170,000</u>	<u>\$ -</u>

Interest expense on short-term debt for the year was \$31,610.

The TAN was issued for interim financing of the general fund operations. The BAN was issued for interim financing of the capital projects fund.

NOTE 13 – LONG-TERM LIABILITIES:

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

	Beginning Balance	Issued	Reclassified and Redeemed	Ending Balance	Due Within One Year
Long-term debt:					
Bond payable	\$13,385,000	\$16,225,000	\$11,835,000	\$17,775,000	\$2,175,000
Energy performance debt payable	2,869,584		237,576	2,632,008	247,387
Other long-term liabilities:					
Compensated absences payable	6,492,605		390,371	6,102,234	200,000
Claims payable	356,564		23,427	333,137	-
Net other post employment benefits	39,311,492	10,552,126	3,571,621	46,291,997	-
Total long-term liabilities	<u>\$62,415,245</u>	<u>\$26,777,126</u>	<u>\$16,057,995</u>	<u>\$73,134,376</u>	<u>\$2,622,387</u>

The general fund has typically been used to liquidate long-term liabilities such as bonds payable, compensated absences payable, claims payable, net other post employment benefits and energy performance debt payable.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

A) Bonds Payable

Bonds payable is comprised of the following:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at Year End</u>
Construction Serial Bond	7/15/2004	7/15/2014	3.25% - 3.75%	\$295,000
Construction Serial Bond	11/15/2005	11/15/2021	3.75% - 4.5%	1,255,000
Construction Serial Bond	5/15/2014	11/1/2021	2 - 3%	10,205,000
Construction Serial Bond	5/13/2014	5/1/2024	1.25 - 2.25%	6,020,000
				<u>\$17,775,000</u>

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

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$2,175,000	\$358,500	\$2,533,500
2016	1,915,000	319,338	2,234,338
2017	1,955,000	284,900	2,239,900
2018	2,000,000	249,738	2,249,738
2019	2,040,000	605,087	2,645,087
2020-2024	7,690,000	14,962	7,704,962
	<u>\$17,775,000</u>	<u>\$1,832,525</u>	<u>\$19,607,525</u>

On May 13, 2014, the District issued \$6,020,000 in serial bonds with an average interest rate of 1.25% - 2.25%.

On May 15, 2014, the District issued \$10,205,000 in serial bonds with an average interest rate of 2.00% - 3.00% to advance refund \$10,345,000 of outstanding 2005 serial bonds with an average interest rate of 4.06%. The net proceeds of \$10,562,009 (including a premium of \$459,627 and after payment of \$102,618 in underwriting fees, insurance, and other issuance costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 2005 serial bonds. As a result, the 2005 serial bonds are considered to be defeased and the liability for those bonds have been removed from the government wide Statement of Net Position. The District refunded the 2005 serial bonds to reduce its total debt service payments over the next years by \$1,089,591 and to obtain an economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) of \$1,015,051.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

B) Energy Performance Debt:

Energy performance debt is comprised of the following:

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	\$247,387	\$105,094	\$352,481
2016	257,603	94,877	352,480
2017	268,242	84,239	352,481
2018	279,320	73,161	352,481
2019	290,855	61,626	352,481
2020-2023	1,288,601	121,322	1,409,923
	<u>\$2,632,008</u>	<u>\$540,319</u>	<u>\$3,172,327</u>

C) Long-Term Interest

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

Interest paid	<u>\$643,889</u>
Less interest accrued in the prior year	(121,044)
Plus interest accrued in the current year	94,783
Less amortized deferred amounts on refunding	(4,021)
Total expense	<u>\$613,607</u>

NOTE 14 – DEFERRED INFLOWS OF RESOURCES

The gain on defeasance pertaining to the 2014 bond refunding as recorded in the District-Wide Financial Statements as deferred inflows of resources at June 30, 2014 consisted of the following:

2014 Bond refunding	
Bond premium	\$452,009
Deferred charges on refunding	<u>(213,412)</u>
Total Gain on defeasance - 2014	<u>\$238,597</u>

The gain on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 7 years, the time to mature on the refunded bonds, at the point of refunding. Amortized defeasance gain recorded on the District-Wide financials amount to \$4,021 for the year ending June 30, 2014.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

ii) Employees' Retirement System

NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute, and benefits to employees. The 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 or accessed at www.osc.state.ny.us/retire/publications/index.php.

C) Funding Policy:

The Systems are noncontributory for employees who joined the Systems prior to July 27, 1976. For employees who joined after July 27, 1976, and prior to January 1, 2010, employees contribute 3% to 3.5% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined on or after January 1, 2010 and before April 1, 2012 employees in NYERS contribute 3% of their salary throughout their active membership and those in NYSTRS contribute 3.5% throughout their active membership. For employees hired on or after April 1, 2012, employee contribution rates are dependent upon salaries and range from 3% to 6% of salary throughout active membership. 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.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

	NYSERS	NYSTRS
2014	\$ 2,184,693	\$ 5,868,700
2013	2,004,779	5,466,819
2012	1,621,787	5,496,582

D) Tax Sheltered Annuities:

The District has adopted a 403 (b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2014, totaled \$172,086 and \$3,131,762 respectively.

E) Deferred Compensation Plan:

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2014 totaled \$349,210.

NOTE 16 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS:

A) Plan Description

NYSHIP Empire Plan (the “Plan”) is a single-employer defined benefit healthcare plan administered by New York State. The Plan provides medical insurance benefits to eligible retirees, spouses and their eligible dependents. Article 37 of the Statutes of the state assigns the authority to establish and amend benefit provisions to the school district.

B) Funding Policy

The District shares of the cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the Fund Financial Statements as payments are made. For fiscal year 2014, the District contributed \$3,571,621 to the Plan. Plan members contributed between 5%-50% of the cost of premiums depending on coverage selected and date of retirement. Currently, there is no provisions in the law to permit the District to fund other post-employment benefits by an means other than the “pay as you go” method. Therefore, there are no plan assets and no report is issued.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 required contribution	\$11,166,067
Interest on net OPEB obligation	1,572,460
Adjustment to Annual Required Contribution	<u>(2,186,401)</u>
Annual OPEB cost (expense)	10,552,126
Contributions made	<u>(3,571,621)</u>
Increase in net OPEB obligation	6,980,505
Net OPEB obligation-beginning of year	<u>39,311,492</u>
Net OPEB obligation-end of year	<u><u>\$46,291,997</u></u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>OPEB Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 11,446,150	\$ 3,564,008	31%	\$ 32,229,870
6/30/13	10,662,722	3,581,100	34%	39,311,492
6/30/14	10,552,126	3,571,621	34%	46,291,997

D) Funded Status and Funding Progress

As of July 1, 2012 the District had obtained an actuarial valuation. As of the valuation, the Plan was 0 percent funded. The actuarial accrued liability for benefits was \$121,499,319 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$121,499,319. The covered payroll (annual payroll of active employees covered by the plan) was \$51,674,106 and the percentage of the UAAL to the covered payroll was 235%.

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

E) Actuarial Methods and Assumptions

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

In the July 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include 4.0 percent discount rate and an annual healthcare cost trend rate of 10.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after twelve years. The UAAL is being amortized under the level dollar amortization method over a period of 30 years.

NOTE 17 – RISK MANAGEMENT:

A) General:

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

B) Consortiums and Self Insured Plans:

The District participates in New York Schools Insurance Reciprocal (NYSIR), a non-risk-retained public entity risk pool for its District property and liability insurance coverage. The pool is operated for the benefit of individual governmental units located within the pool's geographic area, and is considered a self-sustaining risk pool that will provide coverage for its members. The pool obtains independent coverage for insured events and the District has essentially transferred all related risk to the pool.

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, 2014, the District has incurred but unpaid claims liability in the amount of

**HERRICKS UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

\$957,137 (\$624,000 of claims payable is recorded in the general fund accrued liabilities) and has a workers' compensation reserve balance of \$2,161,805. Claims activity is as follows:

	2014	2013
Unpaid claims at beginning of year	\$ 1,118,564	\$ 1,322,442
Incurred claims and claim adjustment expenses	75,198	314,712
Claims payments	(236,625)	(518,590)
Unpaid claims at year end	\$ 957,137	\$ 1,118,564

The District has chosen to establish a self-funded dental benefit program for its employees. The benefit programs administrator, CBCA, is responsible for the approval, processing and payment of claims, after which they bill the District for reimbursement. The District is also responsible for a monthly administrative fee. The benefit program reports on a fiscal year ending June 30, 2014. The program is accounted for in the trust and agency fund of the District.

NOTE 18 – FUND BALANCES – ASSIGNED:

A) Assigned: Appropriated:

The amount of \$1,756,000 has been designed as the amount estimated to be appropriated to reduce taxes for the fiscal year ending June 30, 2015 in the general fund.

B) Assigned: Encumbered:

All encumbrances are classified as assigned fund balance. At June 30, 2014, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance	
General Fund	
General Support	\$ 208,376
Instruction	496,092
Transportation	169
	\$ 704,637

**HERRICKS UNION FREE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 19- 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:

As of June 30, 2014 we are unaware of any pending or threatened litigation or unasserted claims or assessments against the District which require disclosure.

C) Operating Leases:

The District is committed under various non-cancelable operating leases, primarily for copiers (principally in the general fund). Expenditures were \$145,155 for the fiscal year ended June 30, 2014. The following is a summary of obligations of government activities under operating lease payments:

Fiscal year ended June 30,	<u>Total</u>
2015	\$111,181
2016	55,390
2017	28,463
2018	9,736
Total	<u><u>\$204,770</u></u>

NOTE 20 – SUBSEQUENT EVENTS:

A) The District issued \$7,000,000 in tax anticipation notes on September 24, 2014, maturing on June 26, 2015 with interest rate of 1.00% and received a TAN premium of \$40,462.

SUPPLEMENTARY INFORMATION

**HERRICKS UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<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	\$82,804,784	\$82,804,784	\$82,804,784	-
Other real property tax items	9,604,765	9,604,765	9,628,093	\$23,328
Charges for services	1,411,438	1,411,438	1,464,918	53,480
Use of money & property	584,893	584,893	626,359	41,466
Sale of property & compensation for loss	3,500	3,500	143,958	140,458
Miscellaneous	159,100	159,100	303,997	144,897
Interfund revenues	1,140	1,140	3,085	1,945
State sources				
Basic formula	3,714,645	3,714,645	3,209,839	(504,806)
Excess cost aid	2,845,034	2,845,034	2,797,332	(47,702)
BOCES aid	599,752	599,752	855,740	255,988
Lottery aid	1,114,919	1,114,919	1,713,517	598,598
Textbook aid	249,718	249,718	241,971	(7,747)
Computer software aid	66,721	66,721	64,909	(1,812)
Library A/V loan program aid	27,837	27,837	27,081	(756)
Tuition			46,622	46,622
Computer hardware	17,785	17,785	26,739	8,954
Other state aid	50,000	50,000	75,000	25,000
Federal sources (FEMA)				
Medicaid reimbursement	43,342	43,342	95,078	51,736
Other financing sources				
Transfers from other funds			55,000	55,000
TOTAL REVENUES AND OTHER SOURCES	<u>103,299,373</u>	<u>103,299,373</u>	<u>\$104,185,000</u>	<u>\$885,627</u>
Appropriated fund balance	1,320,000	1,589,744		
Appropriated reserves	<u>764,095</u>	<u>936,181</u>		
TOTAL REVENUES, OTHER SOURCES AND APPROPRIATED FUND BALANCE	<u>\$105,383,468</u>	<u>\$105,825,298</u>		

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.

HERRICKS UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<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	\$62,517	\$48,790	\$37,134		\$11,656
Central administration	369,301	370,335	369,719		616
Finance	959,562	1,006,902	999,199	\$4,000	3,703
Staff	308,615	395,333	369,838	23,536	1,959
Central services	8,261,078	8,600,340	8,151,788	180,840	267,712
Special items	1,040,487	1,169,496	1,148,433		21,063
Instructional					
Instruction, adm. & imp.	4,432,938	4,444,774	4,273,346	3,192	168,236
Teaching - regular school	29,933,297	30,718,017	30,566,233	18,395	133,389
Programs for children with handicapping conditions	18,393,016	17,788,537	16,784,037	454,258	550,242
Occupational education	977,507	979,580	780,177	1,500	197,903
Teaching special schools	10,500	11,500	11,231		269
Instructional media	2,395,768	2,550,215	2,394,664	4,414	151,137
Pupil services	4,896,685	4,922,057	4,777,281	14,333	130,443
Pupil transportation	3,352,244	3,308,169	3,139,884	169	168,116
Community services	510,197	510,455	459,319		51,136
Employee benefits	26,161,645	25,932,196	25,022,150		910,046
Debt service					
Debt service principal	1,877,576	1,877,576	1,877,576		-
Debt service interest	972,489	709,721	675,499		34,222
TOTAL EXPENDITURES	<u>104,915,422</u>	<u>105,343,993</u>	<u>101,837,508</u>	<u>704,637</u>	<u>2,801,848</u>
Other financing uses					
Transfers to other funds	<u>468,046</u>	<u>481,305</u>	<u>481,304</u>		<u>1</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$105,383,468</u>	<u>\$105,825,298</u>	<u>102,318,812</u>	<u>\$704,637</u>	<u>\$2,801,849</u>
NET CHANGE IN FUND BALANCE			1,866,188		
FUND BALANCE - BEGINNING OF YEAR			<u>15,296,841</u>		
FUND BALANCE - END OF YEAR			<u>\$17,163,029</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

**HERRICKS UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)
JUNE 30, 2014**

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
July 1, 2008	\$0	\$108,232,783	\$108,232,783	0%	\$47,098,685	230%
July 1, 2010	\$0	121,715,899	121,715,899	0%	50,966,356	239%
July 1 2012	\$0	121,499,319	121,499,319	0%	51,674,106	235%

**HERRICKS 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, 2014**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$104,619,373
Add: Prior year's encumbrances		<u>764,095</u>
Original Budget		105,383,468
Budget revisions:		
Workers' compensation expenses	\$ 63,866	
Insurance expenses	205,878	
Board approved funding employee benefit reserve	<u>172,086</u>	
		<u>441,830</u>
Final Budget		<u><u>\$105,825,298</u></u>

SECTION 1318 OF REAL PROPERTY TAX LIMIT CALCULATION

Next year's voter approved budget		<u><u>\$107,594,911</u></u>
Maximum allowed (4% of 2014-2015 budget)		<u><u>\$4,303,796</u></u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 2,460,637	
Unassigned fund balance	<u>4,303,796</u>	
Total unrestricted fund balance		\$6,764,433
Less:		
Appropriated fund balance	1,756,000	
Encumbrances included in assigned fund balance	<u>704,637</u>	
Total adjustments		<u>2,460,637</u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law		<u><u>\$4,303,796</u></u>
Actual percentage		4.00%

**HERRICKS UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2014**

Capital assets, net		\$45,148,457
Deduct:		
Defeasance gain		238,597
Short-term portion of bonds payable	2,175,000	
Long-term portion of bonds payable	<u>15,600,000</u>	17,775,000
Short-term portion of energy performance debt payable	247,387	
Long-term portion of energy performance debt payable	<u>2,384,621</u>	<u>2,632,008</u>
Net Investment in capital assets		<u><u>\$24,502,852</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
Herricks 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 Herricks Union Free School District, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Herricks Union Free School District's basic financial statements, and have issued our report thereon dated October 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Herricks 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 Herricks Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Herricks 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 Herricks 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 10, 2014