

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

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, 2013, 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, 2013, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 1 through 16 and 52 through 54, 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, 2013 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.

R. S. Abrams + Co., LLP
R.S. Abrams & Co., LLP
Islandia, NY
October 10, 2013

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

The following is a discussion and analysis of the Herricks Union Free School District's (the "District") financial performance for the fiscal year ended June 30, 2013. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-Wide 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 1.8% as a result of increased property taxes. Expenses remained constant due to efforts to streamline costs.
- The District continued to offer all programs, without reducing services.
- On May 21, 2013, the proposed 2013-2014 budget in the amount of \$104,619,373 was authorized by the District's residents. This budget was under the NYS property tax cap.
- As described in Note 2 to the financial statements, "Changes in Accounting Principles", the District has adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of June 30, 2013.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

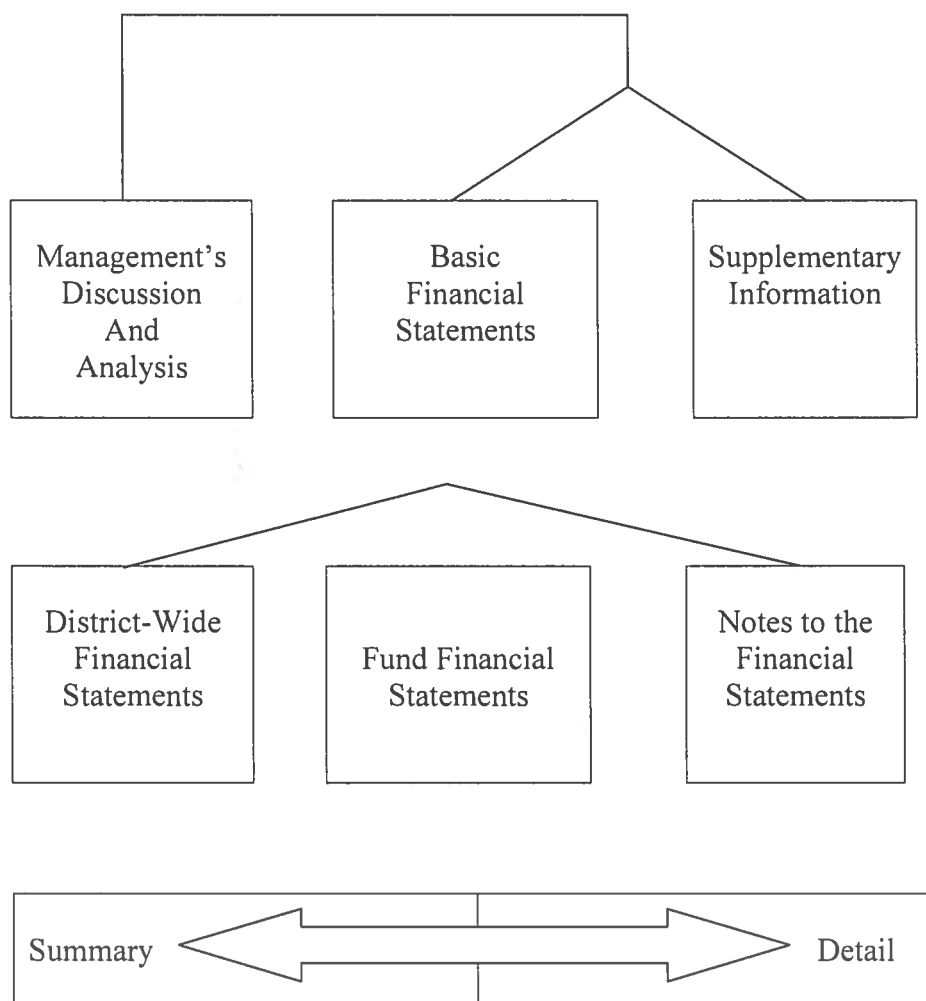
This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and optional supplementary information. The basic financial statements include two kinds of statements that present different views of the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

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

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

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



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

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

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

	District-Wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	<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 Balance 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources 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, 2013**

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* are net position that do not meet any of the above restrictions.

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

B) Fund Financial Statements

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

The District has two kinds of funds:

i) Governmental funds

Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-Wide 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 revenue fund, debt service fund and capital projects fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance.

ii) Fiduciary funds

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

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

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A) Net Position

The District's total net deficit increased by \$4,679,161 in the fiscal year ended June 30, 2013 as detailed in Table A-3.

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

	Fiscal Year 2013	Fiscal Year 2012	Increase (Decrease)	Total Percentage Change
Current assets and other assets	\$26,201,175	\$22,968,737	\$3,232,438	14.1%
Capital assets	47,480,318	49,589,616	(2,109,298)	-4.3%
Total assets	<u>\$73,681,493</u>	<u>\$72,558,353</u>	<u>\$1,123,140</u>	<u>1.5%</u>
Current liabilities	\$16,000,809	\$15,827,036	\$173,773	1.1%
Long-term liabilities	62,536,289	56,907,761	5,628,528	9.9%
Total liabilities	<u>78,537,098</u>	<u>72,734,797</u>	<u>5,802,301</u>	<u>8.0%</u>
Net Position				
Net investment in capital assets	25,055,734	25,391,879	(336,145)	-1.3%
Restricted	9,120,778	6,033,074	3,087,704	51.2%
Unrestricted	<u>(39,032,117)</u>	<u>(31,601,397)</u>	<u>(7,430,720)</u>	<u>-23.5%</u>
Total net position (deficit)	<u>(4,855,605)</u>	<u>(176,444)</u>	<u>(4,679,161)</u>	<u>2651.9%</u>
Total Liabilities and Net Position	<u>\$73,681,493</u>	<u>\$72,558,353</u>	<u>\$1,123,140</u>	<u>1.5%</u>

Current assets and other assets increased \$3,232,438 from 2012 to 2013 primarily due to an increase in cash offset by a decrease in state and federal aid receivable. Capital assets (net of depreciation) decreased by \$2,109,298. This was attributable to current year depreciation offset by current year additions. Current liabilities increased by \$173,773. This is a result of an increase in accounts payable, accrued liabilities, due to teachers' retirement system and due to employees' retirement system offset by a decrease in claims payable. Long-term liabilities increased by \$5,628,528. This increase is primarily a result of the increase in the net other post employment benefits obligation of approximately \$7 million, offset by a decrease in bonds payable and energy performance debt 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 \$336,145. This is due to current year depreciation of capital assets and a decrease in long term liabilities.

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

The restricted net position refers to the District's reserves: workers' compensation, unemployment, retirement contribution, insurance, repairs, tax certiorari and employee benefit accrued liability, as well as the net position of the debt service fund. The increase in the balance of \$3,087,704 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 amount, (\$39,032,117), is an increase of \$7,430,720 from the prior year. The net deficit overall increased by \$4,679,161.

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, 2013 and 2012 is as follows:

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

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

	Fiscal Year 2013	Fiscal Year 2012	Increase (Decrease)	Total Percentage Change
Revenues				
Program revenues				
Charges for services	\$2,368,767	\$2,464,278	(\$95,511)	-3.9%
Operating grants	2,837,108	3,062,776	(225,668)	-7.4%
Capital grants	24,987	99,913	(74,926)	-75.0%
General revenues				
Property taxes (including STAR)	89,669,295	87,148,369	2,520,926	2.9%
State formula aid	8,434,478	8,132,170	302,308	3.7%
Investment earnings	647,244	769,953	(122,709)	-15.9%
Other	478,056	972,167	(494,111)	-50.8%
Total Revenues	104,459,935	102,649,626	1,810,309	1.8%
Expenses				
General support	13,452,238	13,067,681	384,557	2.9%
Instruction	88,978,707	87,962,075	1,016,632	1.2%
Pupil transportation	3,753,823	4,160,975	(407,152)	-9.8%
Community service	819,463	992,669	(173,206)	-17.4%
Debt service - interest	737,084	861,371	(124,287)	-14.4%
School lunch program	1,397,781	1,457,824	(60,043)	-4.1%
Total Expenses	109,139,096	108,502,595	636,501	0.6%
Change in net position (deficit)	(\$4,679,161)	(\$5,852,969)	\$1,173,808	-20.1%

The District's total fiscal year 2013 revenues totaled \$104,459,935. (See Table A-4). This is an increase of \$1,810,309 or 1.8% over the prior year. Property taxes and state formula aid accounted for most of the District's revenue by contributing 86 cents and 8 cents, respectively, of every dollar raised. (See Table A-5). The remainder came from fees charged for services, operating grants, investment earnings, and other miscellaneous sources.

The total cost of all programs and services totaled \$109,139,096 for fiscal year 2013. This is an increase of \$636,501 or .6% from the prior year. These expenses are predominantly related to general instruction and caring for (pupil services) and transporting students, which account for 85% of district expenses. (See Table A-6). The District's general support activities accounted for 12% of total costs. Depreciation expense has been allocated to programs in fiscal year 2013.

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

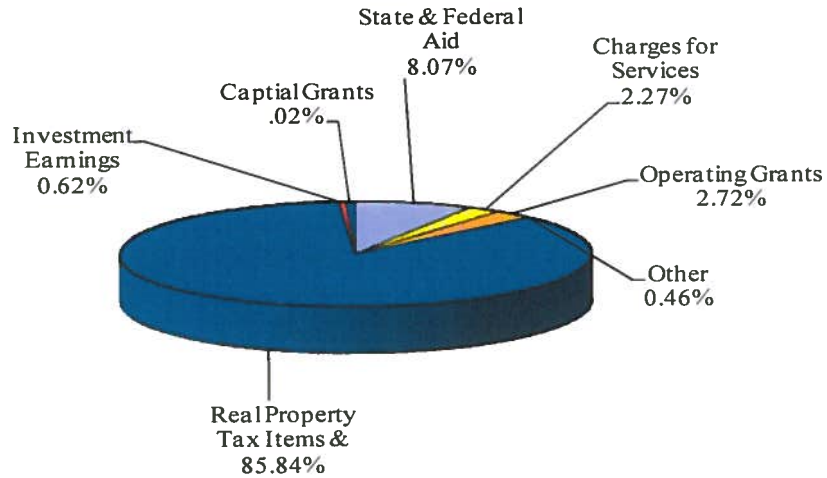
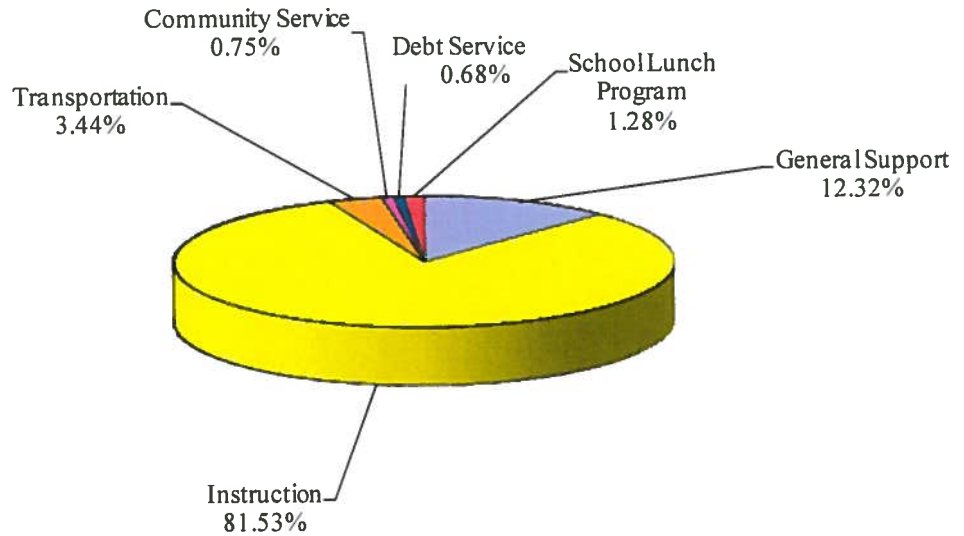


Table A-6: Expenses for Fiscal Year 2013 (See Tables A-4 and A-7)



**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

C) Governmental Activities

Revenues for the District’s governmental activities totaled \$104,459,935 while total expenses equaled \$109,139,096. The increase in the net deficit for governmental activities was \$4,679,161 in 2013. 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: instruction, general support, pupil transportation, debt service and others. The table also shows each activity’s net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District’s taxpayers by each of these functions.

Table A-7: Net Cost of Governmental Activities

Category	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012
General support	\$13,452,238	\$13,067,681	\$13,452,238	\$12,963,688
Instruction	88,978,707	87,962,075	85,327,127	84,358,105
Pupil transportation	3,753,823	4,160,975	3,753,823	4,030,155
Community service	819,463	992,669	636,484	650,021
Debt service - interest	737,084	861,371	737,084	861,371
School lunch program	1,397,781	1,457,824	1,478	12,288
Total	\$109,139,096	\$108,502,595	\$103,908,234	\$102,875,628

- The cost of all governmental activities this year was \$109,139,096. (Statement of Activities and Changes in Net Position, Expenses column-see Exhibit 3)
- The users of the District’s programs \$2,368,767 financed some of the cost. (Statement of Activities and Changes in Net Position, Charges For Services column-see Exhibit 3)
- The federal and state governments subsidized certain programs with grants of \$2,837,108 and capital grants of \$24,987 (Statement of Activities and Changes in Net Position, Operating Grants column and Capital Grants column– see Exhibit 3)

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

- Most of the District's net costs \$103,908,234 were financed by District taxpayers and state and federal aid. (Statements of Activities and Changes in Net Position, Net (Expense) Revenue and Changes in Net Assets 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, 2013, the District's combined governmental funds reported a total fund balance of \$10,051,515 which is an increase of \$3,408,990 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, 2013**

	2013	2012	Increase/ (Decrease)	Change
General fund				
Nonspendable - prepaid expenditures	\$766,916	\$702,533	\$64,383	9.2%
Restricted for workers compensation	2,047,885	1,761,455	286,430	16.3%
Restricted for unemployment	905,391	1,000,155	(94,764)	-9.5%
Restricted for retirement contributions	3,239,197	742,051	2,497,146	336.5%
Restricted for insurance	553,145	534,485	18,660	3.5%
Restricted for repairs	2,769	2,767	2	0.1%
Restricted for tax certiorari	351,025	0	351,025	
Restricted for employee benefit accrued liability	1,200,000	1,172,933	27,067	2.3%
Assigned - designated for subsequent year's expenditures	1,320,000	1,200,000	120,000	10.0%
Assigned for general support	247,109	157,060	90,049	57.3%
Assigned for instruction	511,724	545,715	(33,991)	-6.2%
Assigned for pupil transportation	181	24,762	(24,581)	-99.3%
Assigned for Community Services	4,000	348	3,652	1049.4%
Assigned for employee benefits	1,081	0	1,081	100.0%
Unassigned	4,146,418	4,055,311	91,107	2.2%
Total fund balance - general fund	<u>15,296,841</u>	<u>11,899,575</u>	<u>3,397,266</u>	<u>28.5%</u>
School lunch fund				
Nonspendable-inventory & prepaid expenditures	39,233	35,677	3,556	10.0%
Unassigned	(135,186)	(131,158)	(4,028)	-3.1%
Total fund balance - school lunch fund	<u>(95,953)</u>	<u>(95,481)</u>	<u>(472)</u>	<u>-0.5%</u>
Debt service fund				
Restricted for debt service	821,366	819,228	2,138	0.3%
Total fund balance -debt service fund	<u>821,366</u>	<u>819,228</u>	<u>2,138</u>	<u>0.3%</u>
Capital projects fund				
Unassigned	(5,970,739)	(5,980,797)	10,058	0.2%
Total fund balance - capital projects fund	<u>(5,970,739)</u>	<u>(5,980,797)</u>	<u>10,058</u>	<u>0.2%</u>
Total fund balance - all funds	<u><u>\$10,051,515</u></u>	<u><u>\$6,642,525</u></u>	<u><u>\$3,408,990</u></u>	<u><u>51.3%</u></u>

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

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 \$286,430 is a result of the District appropriating \$450,376 for use, allocating interest and earnings of the fund of \$51,510 and funding an additional \$685,296 into the reserve.

The decrease in the restricted fund balance for unemployment of \$94,764 is the result of the District appropriating \$95,179 for use and allocating interest of \$415 into the reserve.

The increase in the restricted fund balance for retirement contributions of \$2,497,145 is the result of the District transferring \$350,000 into the tax certiorari reserve, allocating interest of \$1,470 and funding an additional \$2,845,675.

The increase in the restricted fund balance for insurance of \$18,660 is the result of the District appropriating \$4,632 for use offset by the earnings of the fund of \$23,292.

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

A Nassau County Law was passed in 2013 whereby the liability for a school district property tax deficiency existing or arising from a decrease in real property assessments or taxes that is due a taxpayer (tax certiorari judgments) will become that of the school district rather than the County. The legislation was schedule to take effect during the 2012-13 year; however, the law is being challenged in the courts. In the latest ruling (February 2013), the four-judge Appellate Division panel unanimously ruled against the County. The County has appealed the ruling. However, the ultimate outcome cannot be determined at this time. If the County prevails, the tax certiorari judgments will create significant liabilities for the District. The District started funding the tax certiorari restricted reserve in 12/13. A transfer in the amount of \$350,000 was transferred from the retirement reserve and \$1,025 of interest revenue was allocated.

The increase in the restricted fund balance for employee benefit accrued liability of \$27,067 is the result of allocating interest of \$3,845 and funding an additional \$23,222.

The decrease in the total school lunch fund balance of \$472 is the operating deficit of the school lunch fund for the current year.

The increase in the debt service fund balance of \$2,138 represents interest earnings.

The decrease in the capital projects fund deficit of \$10,058 is primarily a result of expenditures being funded by a Bond Anticipation Note ("BAN"), a short term borrowing with a favorable interest rate, rather than a long term bond. Once the District borrows the funds through a bond the deficit will be eliminated.

**HERRICKS UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A) 2012-2013 Budget

The District’s general fund adopted budget for the year ended June 30, 2013 was \$101,382,816. This amount was increased by encumbrances carried forward from the prior year in the amount of \$727,885 and budget revisions in the amount of \$934,141 which resulted in a final budget of \$103,044,842. The majority of the funding was property taxes and STAR revenue of \$89,429,579.

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	\$4,055,311
Revenues over budget	740,855
Expenditures and encumbrance under budget	4,724,342
Transfers to reserves	(3,597,959)
Interest to reserves	(6,758)
Budget revisions for emergency projects and legislative grants	(384,990)
Change in nonsperdable - prepaid expenditures	(64,383)
Assigned -appropriated for June 30, 2014 budget	<u>(1,320,000)</u>
Closing, unassigned fund balance	<u><u>\$4,146,418</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 2013-2014 budget.

The revenues over budget of \$740,855 were primarily in FEMA, EBALR(BOCES refund of prior year), charges for services and miscellaneous items. (see Supplemental Schedule #1 for detail).

The expenditures and encumbrances under budget of \$4,724,342 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.

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

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A) Capital Assets

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

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

Category	Fiscal Year 2013	Fiscal Year 2012	Increase (Decrease)	Percentage Change
Land & land improvements	\$4,685,063	\$4,677,063	\$8,000	0.2%
Construction in progress	209,627	92,937	116,690	125.6%
Buildings & building improvements	75,545,085	75,410,704	134,381	0.2%
Furniture & equipment	3,888,286	4,001,194	(112,908)	-2.8%
Vehicles	1,618,010	1,619,010	(1,000)	-0.1%
Subtotal	<u>85,946,071</u>	<u>85,800,908</u>	<u>145,163</u>	<u>0.2%</u>
Less: Accumulated depreciation	<u>38,465,753</u>	<u>36,211,292</u>	<u>2,254,461</u>	<u>6.2%</u>
Total Net Capital Assets	<u><u>\$47,480,318</u></u>	<u><u>\$49,589,616</u></u>	<u><u>(\$2,109,298)</u></u>	<u><u>-4.3%</u></u>

The District spent \$229,842 in the capital projects fund.

B) Long-Term Debt

At June 30, 2013, the District had total bonds payable of \$13,385,000 and an energy performance debt payable of \$2,869,584. 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, 2013 and 2012 is as follows:

	2013	2012	Increase (Decrease)
Bonds payable	\$13,385,000	\$14,815,000	(\$1,430,000)
Energy performance debt payable	2,869,584	3,097,738	(228,154)
Total	<u><u>\$16,254,584</u></u>	<u><u>\$17,912,738</u></u>	<u><u>(\$1,658,154)</u></u>

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

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

- A) The District issued \$8,000,000 in tax anticipation notes on September 10, 2013, maturing on June 20, 2014 with interest rate of 1.00% and received a TAN premium of \$48,320.
- B) The general fund budget for the 2013-2014 school year was approved by the voters in the amount of \$104,619,373. This is an increase of \$3,236,557 or 3.19% over the previous year's budget. The 2013-2014 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.

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-GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

ASSETS

Cash and cash equivalents	
Unrestricted	\$20,396,945
Receivables	
State and federal aid	2,402,797
Taxes receivable	1,375,941
Due from other governments	1,010,767
Due from fiduciary funds	133,359
Accounts receivable	71,218
Inventories	33,736
Prepaid expenditures	776,412
Capital assets, net	<u>47,480,318</u>
TOTAL ASSETS	<u><u>\$73,681,493</u></u>

LIABILITIES

Payables	
Accounts payable	\$1,839,072
Accrued liabilities	297,965
Claims payable	762,000
Due to other governments	568
Due to teachers' retirement system	5,908,552
Due to employees' retirement system	547,512
Note payable	
Bond anticipation note payable	6,170,000
Unearned credits	
Collections in advance	431,148
Unearned revenue - premium on bond anticipation note payable	43,992
Long-term liabilities	
Due and payable within one year	
Bonds payable	1,490,000
Energy performance debt payable	237,576
Accrued interest payable	121,044
Due and payable after one year	
Bonds payable	11,895,000
Energy performance debt payable	2,632,008
Net other post employment benefits obligation	39,311,492
Compensated absences payable	6,492,605
Claims payable	<u>356,564</u>
TOTAL LIABILITIES	<u><u>78,537,098</u></u>

NET POSITION

Net investment in capital assets	25,055,734
Restricted	9,120,778
Unrestricted (deficit)	<u>(39,032,117)</u>

TOTAL NET POSITION (DEFICIT) **(4,855,605)**

TOTAL NET POSITION & LIABILITIES **\$73,681,493**

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

FUNCTIONS / PROGRAMS	Expenses	Program Revenues		Capital Grants	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants		
General support	(\$13,452,238)				(\$13,452,238)
Instruction	(88,978,707)	\$1,227,256	\$2,399,337	\$24,987	(85,327,127)
Pupil transportation	(3,753,823)				(3,753,823)
Community services	(819,463)		182,979		(636,484)
Debt service - interest	(737,084)				(737,084)
School lunch program	(1,397,781)	1,141,511	254,792		(1,478)
TOTAL FUNCTIONS AND PROGRAMS	<u>(\$109,139,096)</u>	<u>\$2,368,767</u>	<u>\$2,837,108</u>	<u>\$24,987</u>	<u>(\$103,908,234)</u>
GENERAL REVENUES					
Real property taxes					\$80,297,043
Other tax items - including STAR reimbursement					9,372,252
Use of money & property					647,244
Sale of property & compensation for loss					76,716
Miscellaneous					290,687
Interfund revenue					1,143
State sources					8,434,478
Medicaid reimbursement					109,510
TOTAL GENERAL REVENUES					<u>99,229,073</u>
CHANGES IN NET POSITION					(4,679,161)
TOTAL NET POSITION - BEGINNING OF YEAR					<u>(176,444)</u>
TOTAL NET POSITION (DEFICIT) - END OF YEAR					<u>(\$4,855,605)</u>

**HERRICKS UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents						
Unrestricted	\$19,036,155	\$105,742	\$73,665	\$820,095	\$361,288	\$20,396,945
Receivables						
State and federal aid	708,501	1,682,901	11,395			2,402,797
Taxes receivable	1,375,941					1,375,941
Due from other governments	1,010,767					1,010,767
Due from other funds	1,938,549	11,003		1,271		1,950,823
Accounts receivable	61,554	7,911	1,753			71,218
Inventories			33,736			33,736
Prepaid expenditures	766,916	4,000	5,496			776,412
TOTAL ASSETS	<u>\$24,898,383</u>	<u>\$1,811,557</u>	<u>\$126,045</u>	<u>\$821,366</u>	<u>\$361,288</u>	<u>\$28,018,639</u>
LIABILITIES AND FUND BALANCE						
Payables						
Accounts payable	\$1,571,334	\$142,580	\$8,469		\$116,689	\$1,839,072
Accrued liabilities	250,075	11,850	36,040			297,965
Claims payable	762,000					762,000
Due to other governments			568			568
Due to other funds		1,639,197	176,921		1,346	1,817,464
Due to teachers' retirement system	5,908,552					5,908,552
Due to employees' retirement system	547,512					547,512
Note payable						
Bond anticipation note payable					6,170,000	6,170,000
Unearned credits						
Collections in advance	413,218	17,930				431,148
Unearned revenue - premium on bond anticipation note					43,992	43,992
DEFERRED INFLOW OF RESOURCES						
New York Economic Development Program Grant	148,851					148,851
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>9,601,542</u>	<u>1,811,557</u>	<u>221,998</u>	<u>0</u>	<u>6,332,027</u>	<u>17,967,124</u>
FUND BALANCE						
Nonspendable	766,916		39,233			806,149
Restricted	8,299,412			821,366		9,120,778
Assigned	2,084,095					2,084,095
Unassigned	4,146,418		(135,186)		(5,970,739)	(1,959,507)
TOTAL FUND BALANCE	<u>15,296,841</u>	<u>0</u>	<u>(95,953)</u>	<u>821,366</u>	<u>(5,970,739)</u>	<u>10,051,515</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCE	<u>\$24,898,383</u>	<u>\$1,811,557</u>	<u>\$126,045</u>	<u>\$821,366</u>	<u>\$361,288</u>	<u>\$28,018,639</u>

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

Total Governmental Fund Balances \$10,051,515

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	85,946,071	
Accumulated depreciation	<u>(38,465,753)</u>	47,480,318

Deferred inflow of resources - NY Economic Development Program Grant - The Statement of Net Position recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual. 148,851

Long-term liabilities, that 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	(13,385,000)	
Energy performance debt payable	(2,869,584)	
Accrued interest payable	(121,044)	
Claims payable	(356,564)	
Net other post employment benefits obligation	(39,311,492)	
Compensated absences payable	<u>(6,492,605)</u>	<u>(62,536,289)</u>

Total Net Position (\$4,855,605)

HERRICKS UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$80,297,043					\$80,297,043
Other tax items - including STAR reimbursement	9,372,252					9,372,252
Charges for services	1,227,256					1,227,256
Use of money and property	645,106			\$2,138		647,244
Sale of property and compensation for loss	76,716					76,716
Miscellaneous	540,093		\$1,006			541,099
Interfund revenue	1,143					1,143
Local sources		\$44,520				44,520
State sources	8,434,478	1,050,500	19,034		\$124,900	9,628,912
Federal sources	250,074	1,237,222	142,629			1,629,925
Medicaid reimbursement	109,510					109,510
Surplus food			93,129			93,129
Sales			1,141,511			1,141,511
TOTAL REVENUES	100,953,671	2,332,242	1,397,309	2,138	124,900	104,810,260
EXPENDITURES						
General support	10,387,055					10,387,055
Instruction	57,931,782	2,627,727				60,559,509
Pupil transportation	3,087,810					3,087,810
Community service	447,538	182,979				630,517
Employee benefits	22,699,581					22,699,581
Debt service - principal	1,773,154					1,773,154
Debt service - interest	751,021					751,021
Cost of sales			1,397,781			1,397,781
Capital outlay					229,842	229,842
TOTAL EXPENDITURES	97,077,941	2,810,706	1,397,781	0	229,842	101,516,270
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,875,730	(478,464)	(472)	2,138	(104,942)	3,293,990
OTHER FINANCING SOURCES AND USES						
BANs redeemed by appropriations					115,000	115,000
Operating transfers in		478,464				478,464
Operating transfers (out)	(478,464)					(478,464)
TOTAL OTHER FINANCING SOURCES (USES)	(478,464)	478,464	0	0	115,000	115,000
CHANGE IN FUND BALANCE	3,397,266	0	(472)	2,138	10,058	3,408,990
OTHER CHANGES IN FUND BALANCE	0	0	0	0	0	0
NET CHANGE IN FUND BALANCE	3,397,266	0	(472)	2,138	10,058	3,408,990
FUND BALANCES - BEGINNING OF YEAR	11,899,575	0	(95,481)	819,228	(5,980,797)	6,642,525
FUND BALANCE - END OF YEAR	\$15,296,841	\$0	(\$95,953)	\$821,366	(\$5,970,739)	\$10,051,515

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

Net Change in Fund Balance		\$3,408,990
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, 2013 changed by		(332,276)
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, 2013		(350,325)
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, 2013 changed by		113,279
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, 2013 changed by		(7,081,622)
Long-Term Debt Transactions		
Proceeds from the redemption of bond anticipation notes is an other funding source in the governmental funds, it increases a liability in the Statement of Net Position and does not affect the Statement of Activities		(115,000)
Repayment of bond 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.		1,773,154
Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and this requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2012 to June 30, 2013 changed by		13,937
Capital Related Items		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net assets and allocated over their useful lives as depreciation expense in the statement of activities. This is the amount capital outlays exceed depreciation in the period.		
Capital outlays	292,459	
Depreciation expense and disposal loss	(2,401,757)	(2,109,298)
Changes in Net Position of Governmental Activities		<u>(\$4,679,161)</u>

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

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$108,661	\$2,275,362
Accounts receivable	0	44,428
TOTAL ASSETS	<u>\$108,661</u>	<u>\$2,319,790</u>
LIABILITIES		
Due to governmental funds	\$0	\$133,359
Extraclassroom activity balance	0	194,082
Other liabilities	0	1,992,349
TOTAL LIABILITIES	<u>\$0</u>	<u>\$2,319,790</u>
NET POSITION		
Reserved for scholarships	\$108,661	
TOTAL NET POSITION	<u>\$108,661</u>	

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

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	\$10,917
Interest and earnings	181
TOTAL ADDITIONS	<u>11,098</u>
 DEDUCTIONS	
Scholarships and awards	<u>20,085</u>
TOTAL DEDUCTIONS	<u>20,085</u>
 CHANGE IN NET POSITION	 (8,987)
 NET POSTION - BEGINNING OF YEAR	 <u>117,648</u>
 NET POSITION - END OF YEAR	 <u><u>\$108,661</u></u>

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

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of 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.

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

A) Reporting entity:

The District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of 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 certain entities included in the District’s reporting entity.

i) Extraclassroom Activity Funds

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

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

Extraclassroom organizations in the Statement of Fiduciary Net Position – Fiduciary Fund.

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 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.

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, 2013**

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

D) Measurement focus and basis of accounting:

The District-Wide Financial Statements 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 2012-2013.

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, 2013**

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

J) Receivables:

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

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

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, donated by the U.S. Department of Agriculture, at the Government assigned value, which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

Nonspendable fund balance for these non-liquid assets (inventories) has been recognized in the school lunch fund to signify that a portion of fund balance is not available for other subsequent expenditures.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-Wide and Fund Financial Statements. These items are reported as assets on the Statement of Net 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.

A reserve for these non-liquid assets (inventories) has been recognized in the school lunch fund to signify that a portion of fund balance is not available for other subsequent expenditures.

L) Capital assets:

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

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

	<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

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

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.

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

N) Vested employee benefits:

Compensated absences:

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

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

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

Consistent with GASB Statement 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting 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.

O) Other benefits:

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

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

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

P) 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.

Q) 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.

R) 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.

Restricted Net Position – reports net position when constraints placed on the assets are either externally imposed by creditors (such as through debt covenants), grantors,

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NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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 \$33,736 and prepaid expense in the amount of \$5,496 in the school lunch fund. Non-spendable fund balance also includes the prepaid expenditures recorded in the general fund of \$766,916 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 as restricted:

<u>Restricted for:</u>	General Fund	Debt service Fund	Total Governmental Funds
Workers' compensation	\$2,047,885		\$2,047,885
Unemployment insurance	905,391		905,391
Retirement contributions	3,239,197		3,239,197
Insurance	553,145		553,145
Repairs	2,769		2,769
Employee benefit accrued liability	1,200,000		1,200,000
Reserve for certiorari	351,025		351,025
Debt service		\$821,366	821,366
Total restricted fund balance	\$8,299,412	\$821,366	\$9,120,778

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

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appropriations of the next succeeding fiscal year's budget. The reserve is accounted for in the general fund under restricted fund balance.

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

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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 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.

Tax Certiorari Reserve

Tax certiorari reserve (EL§3651.1-a), must be used to establish a reserve fund for tax certiorari and to expend from the fund without voter approval. The monies held in the reserve shall not exceed the amount that might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings. Any resources deposited to the reserve which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the general fund on or before the first day of the fourth fiscal year after deposit of these monies. This reserve is accounted for in the general fund under restricted fund balance.

- 1) **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, 2013.
- 2) **Assigned** fund balance - Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District management through Board policies. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund. The District has classified the following as assigned:

<u>Assigned for:</u>	<u>General fund</u>
Designated for subsequent year's expenditures	\$1,320,000
General support	247,109
Instruction	511,724
Pupil transportation	181
Community services	4,000
Employee Benefits	1,081
Total assigned fund balance	\$2,084,095

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

Designated for Subsequent Year's Expenditure

The amount of \$1,320,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2014.

Encumbrances

Encumbrances have been assigned based upon the District's intent to be used for a specific purpose such as general support, instruction and capital projects. See Note 3 for further detail regarding accountability and Note 17 for further detail regarding significant encumbrances.

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

The District has classified the following as unassigned:

	General fund	Capital projects fund	School lunch fund	Total
Unassigned fund balance	\$4,146,418	(\$5,970,739)	(\$135,186)	(\$1,959,507)
Total unassigned fund balance	<u>\$4,146,418</u>	<u>(\$5,970,739)</u>	<u>(\$135,186)</u>	<u>(\$1,959,507)</u>

The negative unassigned fund balance in the capital projects fund will be eliminated once permanent financing is obtained. The negative unassigned fund balance in the school fund is the result of operating deficits in the prior fiscal years.

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 balance. Expenditures incurred in the unrestricted fund balances shall be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

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

S) Adoption of New Accounting Standards

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

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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and amends the net asset reporting provisions of GASB Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the residual measure and by renaming that measure as net position, rather than net assets.

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

T) Future Changes in Accounting Standards

GASB has issued Statement No. 66, *GASB Technical Corrections –2012– an Amendment of Statement 10 and 62*, effective for the year ending December 31, 2013.

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*, effective for the year ending December 31, 2015.

GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the year ending December 31, 2014.

GASB has issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending December 31, 2014.

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.

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

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 Balance vs. Statement of Activities:

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

i) Long-term revenue and expense differences:

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

ii) Capital related differences:

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the fund 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 Balance based on the requirements of New York State. These costs have been allocated based on total salary for each function in the Statement of Activities.

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

A) Budgets:

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

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

Workers' compensation expenses	\$450,375
Insurance expenses	98,776
Bullet aid	30,000
Board approved emergency projects	<u>354,990</u>
Total budget revisions	<u><u>\$934,141</u></u>

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Budgets are established and used for individual capital project 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. The District does not have a legally adopted budget for the School Lunch Fund thus no Budget to actual comparison is included in these financial statements.

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.

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

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 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

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

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

B) Investments:

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

NOTE 5 – PARTICIPATION IN BOCES

During the year ended June 30, 2013, the District was billed \$3,540,318 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$599,752. 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.

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

NOTE 6 – STATE AND FEDERAL AID RECEIVABLES:

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

General fund	
Excess cost aid	\$ 559,650
Dormitory Authority grant	<u>148,851</u>
Total General fund	<u>708,501</u>
Special aid fund	
Federal aid	617,449
State and local aid	<u>1,065,452</u>
Total Special aid fund	<u>1,682,901</u>
School lunch fund	
Lunch - federal aid	3,256
Lunch - state aid	<u>8,139</u>
Total School lunch fund	<u>11,395</u>
Total state and federal receivable	<u><u>\$ 2,402,797</u></u>

District management has deemed these amounts to be fully collectible.

NOTE 7 – PREPAID EXPENDITURES:

Prepaid expenditures at June 30, 2013 consisted of the following:

General fund	
Health insurance premium for July 2013	<u>\$766,916</u>
Total general fund	<u>766,916</u>
School lunch fund	
Health insurance premium for July 2013	<u>5,496</u>
Total school lunch fund	<u>5,496</u>
Federal fund	
Other	<u>4,000</u>
Total federal fund	<u>4,000</u>
Total Prepaid expenditures	<u><u>\$776,412</u></u>

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

NOTE 8 – DUE FROM OTHER GOVERNMENTS:

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

General Fund

Non resident tuition	\$230,115
District of location -special education	229,075
BOCES Aid	441,063
2012 OASAS claim	93,060
Interest & penalties on property tax	12,232
Miscellaneous	5,222
Total Due from other governments	<u>\$1,010,767</u>

NOTE 9 – CAPITAL ASSETS:

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

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Capital Assets that are not depreciated:				
Land	\$1,730,116			\$1,730,116
Construction in Progress	92,937	\$116,690		209,627
Total nondepreciable historical cost	1,823,053	116,690	0	1,939,743
Capital assets that are depreciated				
Building & Building Improvements	75,410,704	134,381		75,545,085
Furniture & Equipment	4,001,194	33,387	(146,295)	3,888,286
Vehicles	1,619,010		(1,000)	1,618,010
Land Improvement	2,946,947	8,000		2,954,947
Total depreciable historical cost	83,977,855	175,768	(147,295)	84,006,328
Less accumulated depreciation				
Building & Building Improvements	30,538,954	2,011,033		32,549,987
Furniture & Equipment	3,143,839	179,140	(145,246)	3,177,733
Vehicles	1,400,370	64,194	(1,000)	1,463,564
Land Improvement	1,128,129	146,340		1,274,469
Total accumulated depreciation	36,211,292	2,400,707	(146,246)	38,465,753
Total capital assets, net	<u>\$49,589,616</u>	<u>(\$2,108,249)</u>	<u>(\$1,049)</u>	<u>\$47,480,318</u>

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

Depreciation expense was allocated to governmental functions as follows:

General support	\$119,800
Instruction	2,240,551
Pupil transportation	<u>40,356</u>
Total	<u>\$2,400,707</u>

NOTE 10- COLLECTIONS IN ADVANCE

Collections in advance on the governmental funds balance sheet as of June 30, 2013 consisted of:

General fund	
Summer program	\$ 413,218
Total	<u>413,218</u>
Special Aid	
Unearned Revenues from local and federal grants	<u>17,930</u>
Total	<u>17,930</u>
Total Collections in Advance	<u>\$ 431,148</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	\$1,938,549			\$478,464
Special aid fund	11,003	\$1,639,197	\$478,464	
School lunch fund		176,921		
Debt service fund	1,271			
Capital projects fund		1,346		
Total government activities	<u>1,950,823</u>	<u>1,817,464</u>	<u>478,464</u>	<u>478,464</u>
Fiduciary agency fund		133,359		
Totals	<u>\$1,950,823</u>	<u>\$1,950,823</u>	<u>\$478,464</u>	<u>\$478,464</u>

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, 2013**

NOTE 12 - SHORT-TERM DEBT:

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

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
BAN	05/15/13	1.50%	\$6,285,000	\$0	\$6,285,000	\$0
BAN	05/14/14	1.00%	0	6,170,000	0	6,170,000
TAN	06/22/13	1.50%	0	9,000,000	9,000,000	0
Total			<u>\$6,285,000</u>	<u>\$15,170,000</u>	<u>\$15,285,000</u>	<u>\$6,170,000</u>

Interest expense on short-term debt for the year was \$40,005.

The debt was issued for interim financing of the general fund operations.

NOTE 13 – LONG-TERM LIABILITIES:

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Reclassified and Redeemed</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government activities:					
Bonds payable:					
General obligation debt:					
Construction serial	\$14,815,000	\$0	\$1,430,000	\$13,385,000	\$1,490,000
Total bonds & notes payable	<u>14,815,000</u>	<u>0</u>	<u>1,430,000</u>	<u>13,385,000</u>	<u>1,490,000</u>
Other liabilities:					
Compensated absences payable	6,160,329	332,276	0	6,492,605	0
Claims payable	469,843	0	113,279	356,564	0
Net other post employment benefits obligation	32,229,870	10,662,722	3,581,100	39,311,492	0
Energy performance debt payable	3,097,737	0	228,153	2,869,584	237,576
Total other liabilities	<u>41,957,779</u>	<u>10,994,998</u>	<u>3,922,532</u>	<u>49,030,245</u>	<u>237,576</u>
Total long-term liabilities	<u>\$56,772,779</u>	<u>\$10,994,998</u>	<u>\$5,352,532</u>	<u>\$62,415,245</u>	<u>\$1,727,576</u>

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

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

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

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Construction Serial Bond	7/15/2004	7/15/2014	3.25% - 3.75%	\$580,000
Construction Serial Bond	11/15/2005	11/15/2021	3.75% - 4.5%	12,805,000
				<u>\$13,385,000</u>

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2014	\$1,490,000	\$528,984	\$2,018,984
2015	1,550,000	468,909	2,018,909
2016	1,305,000	412,178	1,717,178
2017	1,360,000	358,878	1,718,878
2018	1,415,000	302,670	1,717,670
2019-2023	6,265,000	569,718	6,834,718
	<u>\$13,385,000</u>	<u>\$2,641,337</u>	<u>\$16,026,337</u>

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2014	\$237,576	\$114,905	\$352,481
2015	247,387	105,094	352,481
2016	257,604	94,877	352,481
2017	268,242	84,239	352,481
2018	279,320	73,161	352,481
2019-2023	1,579,455	182,948	1,762,403
	<u>\$2,869,584</u>	<u>\$655,224</u>	<u>\$3,524,808</u>

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

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

	Total
Interest paid	\$711,017
Less interest accrued in the prior year	(134,982)
Plus interest accrued in the current year	121,044
Total expense	\$697,079

NOTE 14 – 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.

C) Funding Policy:

The Systems are noncontributory for employees who joined prior to July 27, 1976. For employees who joined after July 27, 1976, and prior to January 1, 2010, employees

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

contribute 3% to 3.5% of their salary. With the exception of ERS Tier V and VI employees, employees in the System more than ten years are no longer required to contribute. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually, which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

The District is required to contribute at 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
2012 - 2013	\$ 2,004,779	\$ 5,466,819
2011 - 2012	\$ 1,621,787	\$ 5,496,582
2010 - 2011	\$ 1,355,704	\$ 3,303,922

NOTE 15 – 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 District. The Plan does not issue a stand alone, publicly available report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

B) Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District. For fiscal year 2013, the District contributed \$3,581,100 to the Plan, including \$3,581,100 for current premiums and an additional \$0 to prefund benefits. Plan members contributed between 5%-50% of the cost of premiums depending on coverage selected and date of retirement.

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)

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

over a period not to exceed thirty years. The following table shows the components of the District annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District net OPEB obligation to the Plan:

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution	\$11,166,067
Interest on net OPEB obligation	1,289,195
Adjustment to Annual Required Contribution	<u>(1,792,540)</u>
Annual OPEB cost (expense)	10,662,722
Contributions made	<u>(3,581,100)</u>
Increase in net OPEB obligation	7,081,622
Net OPEB obligation-beginning of year	<u>32,229,870</u>
Net OPEB obligation-end of year	<u><u>\$39,311,492</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</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>OPEB</u> <u>Contributions</u>	Percentage of Annual OPEB Cost Contributed	<u>Net OPEB</u> <u>Obligation</u>
6/30/11	\$11,573,817	\$3,399,109	29%	\$24,347,728
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

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%.

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

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

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 16 – 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, 2013, the District has incurred but unpaid claims liability in the amount of \$1,118,564 (\$762,000 of claims payable is recorded in the general fund accrued liabilities) and has a workers' compensation reserve balance of \$2,047,885. Claims activity for the current and preceding year is summarized below.

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

	2013	2012
Unpaid claims at beginning of year	\$1,322,442	\$1,429,199
Incurred claims and claim adjustment expenses	314,712	515,728
Claims payments	(518,590)	(622,485)
Unpaid claims at year end	\$1,118,564	\$1,322,442

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, 2013. The program is accounted for in the trust and agency fund of the District.

NOTE 17- COMMITMENTS AND CONTINGENCIES:

A) Grants:

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

B) Litigation:

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

A Nassau County Law was passed in 2013 whereby the liability for a school district property tax deficiency existing or arising from a decrease in real property assessments or taxes that is due a taxpayer (tax certiorari judgments) will become that of the school district rather than the County. The legislation was schedule to take effect during the 2012-13 year; however, the law is being challenged in the courts. In the latest ruling (February 2013), the four-judge Appellate Division panel unanimously ruled against the County. The County has appealed the ruling. However, the ultimate outcome cannot be determined at this time. If the County prevails, the tax certiorari judgments will create significant liabilities for the District. The District established a tax certiorari and provided funding of \$350,000 to the reserve as of June 30, 2013.

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

C) Operating Leases:

The District is committed under various non-cancelable operating leases, primarily for copiers (principally in the general fund). Expenditures were \$161,010 for the fiscal year ended June 30, 2013. The following is a summary of obligations of government activities under operating lease payments:

Fiscal year ended June 30,	<u>Total</u>
2014	\$145,155
2015	103,967
2016	48,176
2017	21,249
2018	<u>5,766</u>
Total	<u><u>\$324,313</u></u>

D) Encumbrances

Significant encumbrances included in the governmental fund balances have been classified as assigned, restricted or unassigned fund balance and are as follows:

- i) **General Fund** - Total encumbrances of the general fund as of June 30, 2013 were \$764,095. No significant encumbrances were identified
- ii) **Special Aid Fund** – Total encumbrances of the special aid fund as of June 30, 2013 were \$62,936. No significant encumbrances were identified.

NOTE 18 – SUBSEQUENT EVENTS:

- A) The District issued \$8,000,000 in tax anticipation notes on September 10, 2013, maturing on June 20, 2014 with interest rate of 1.00% and received a TAN premium of \$48,320.

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, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Final Budget Variance with Budgetary Actual</u>
REVENUES				
Local Sources				
Real property taxes	\$80,297,043	\$80,297,043	\$80,297,043	\$0
Other real property tax items	9,387,525	9,387,525	9,372,252	(15,273)
Charges for services	1,544,445	1,544,445	1,227,256	(317,189)
Use of money & property	557,284	557,284	645,106	87,822
Sale of property & compensation for loss	4,500	4,500	76,716	72,216
Miscellaneous	404,805	404,805	540,093	135,288
Interfund revenues	4,000	4,000	1,143	(2,857)
State sources				
Basic formula	3,510,689	3,510,689	3,458,577	(52,112)
Excess cost aid	2,568,512	2,568,512	2,773,808	205,296
BOCES aid	565,165	565,165	599,752	34,587
Lottery aid	961,438	961,438	1,114,919	153,481
Textbook aid	251,723	251,723	249,718	(2,005)
Computer software aid	67,770	67,770	66,721	(1,049)
Library A/V loan program aid	28,275	28,275	27,837	(438)
Computer hardware	16,642	16,642	17,785	1,143
Other state aid	0	30,000	125,361	95,361
Federal sources (FEMA)	0	0	250,074	250,074
Medicaid reimbursement	13,000	13,000	109,510	96,510
Other financing sources				
Transfers from other funds	0	0	0	0
TOTAL REVENUES AND OTHER SOURCES	<u>100,182,816</u>	<u>100,212,816</u>	<u>\$100,953,671</u>	<u>\$740,855</u>
Appropriated fund balance	1,200,000	1,554,990		
Appropriated reserves	<u>727,885</u>	<u>1,277,036</u>		
TOTAL REVENUES & APPROPRIATED FUND BALANCE	<u>\$102,110,701</u>	<u>\$103,044,842</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 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Expense Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance with Budgetary Actual and Encumbrances
EXPENDITURES					
General support					
Board of education	\$64,938	\$64,683	\$37,370	\$0	\$27,313
Central administration	362,576	364,041	362,437	0	1,604
Finance	958,234	955,548	936,070	13,585	5,893
Staff	317,554	317,653	240,989	0	76,664
Central services	7,977,694	8,360,478	7,818,636	232,489	309,353
Special items	1,012,656	1,014,994	991,553	1,035	22,406
Instructional					
Instruction, adm. & imp.	4,227,871	4,218,238	4,162,252	8,049	47,937
Teaching - regular school	29,871,696	30,229,194	30,081,146	29,267	118,781
Programs for children with handicapping conditions	18,396,279	17,918,499	16,124,127	408,534	1,385,838
Occupational education	1,052,617	1,051,080	741,310	199	309,571
Teaching special schools	10,500	11,059	11,059	0	0
Instructional media	2,313,119	2,334,763	2,266,847	1,442	66,474
Pupil services	4,834,915	4,842,921	4,545,041	64,233	233,647
Pupil transportation	3,326,949	3,330,382	3,087,810	181	242,391
Community services	510,133	511,033	447,538	4,000	59,495
Employee benefits	23,632,558	24,211,727	22,699,581	1,081	1,511,065
Debt service					
Debt service principal	1,773,154	1,773,154	1,773,154	0	0
Debt service interest	1,116,719	1,052,778	751,021	0	301,757
TOTAL EXPENDITURES	<u>101,760,162</u>	<u>102,562,225</u>	<u>97,077,941</u>	<u>764,095</u>	<u>4,720,189</u>
Other financing uses					
Transfers to other funds	350,539	482,617	478,464	0	4,153
TOTAL EXPENDITURES AND OTHER USES	<u>\$102,110,701</u>	<u>\$103,044,842</u>	<u>97,556,405</u>	<u>\$764,095</u>	<u>\$4,724,342</u>
NET CHANGE IN FUND BALANCE			3,397,266		
FUND BALANCE - BEGINNING OF YEAR			11,899,575		
FUND BALANCE - END OF YEAR			<u>\$15,296,841</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, 2013**

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, 2013**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$101,382,816
Add: Prior year's encumbrances		<u>727,885</u>
Original Budget		102,110,701
Budget revisions:		
Workers' compensation expenses	450,375	
Insurance expenses	98,776	
Special legislative grants/ bullet aid	30,000	
Board approved emergency projects	<u>354,990</u>	
		<u>934,141</u>
Final Budget		<u><u>\$103,044,842</u></u>
Next year's voter approved budget		<u><u>\$104,619,373</u></u>

SECTION 1318 OF REAL PROPERTY TAX LIMIT CALCULATION

2013-14 voter approved expenditure budget		\$4,184,775
Maximum allowed (4% of 2013-2014 budget)		
General fund fund balance subject to Section 1318 of Real Property Tax Law		
Unrestricted fund balance:		
Assigned fund balance	2,084,095	
Unassigned fund balance	<u>4,146,418</u>	
Total unrestricted fund balance	<u><u>\$6,230,513</u></u>	
Less:		
Appropriated fund balance	1,320,000	
Encumbrances included in assigned fund balance	<u>764,095</u>	
Total adjustments	<u><u>\$2,084,095</u></u>	
General Fund Balance Subject to Section 1318 of Real Property Tax Law		<u><u>\$4,146,418</u></u>
Actual percentage		3.96%

HERRICKS UNION FREE SCHOOL DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Project Title	Original Appropriation		Revised Appropriation		Expenditures and Obligations to Date			Methods of Financing				Fund Balance June 30, 2013	
					Prior Year's	Current Year	Total	Unexpended Balance	Proceeds of Obligations	State Aid/ EXCELS Aid	Local Sources		Total
Solar Panels District wide- 09/10 Grant	\$125,000		\$125,000		\$11,748	\$113,152	\$124,900	\$100		\$124,900	\$0	\$124,900	\$0
District Wide Bond Approved 5/08	7,795,110		7,795,000		7,795,000	0	7,795,000	0		1,300,000	325,000	1,625,000	(6,170,000) *
Budgetary Appropriation from 08/09	55,000		55,000		0	0	0	55,000		0	55,000	55,000	55,000
Budgetary Appropriation Fire Hydrant	0		353,161		92,212	116,690	208,902	144,259		0	353,163	353,163	144,261
TOTAL	\$7,979,110		\$8,328,161		\$7,898,960	\$229,842	\$8,128,802	\$199,359	\$0	\$1,424,900	\$733,163	\$2,158,063	(\$5,970,739)

* The current deficit fund balance will be eliminated when permanent financing is obtained.

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

Capital assets, net		\$47,480,318
Deduct:		
Bond anticipation note payable	6,170,000	
Short-term portion of bonds payable	1,490,000	
Long-term portion of bonds payable	11,895,000	
Short-term portion of energy performance debt payable	237,576	
Long-term portion of energy performance debt payable	<u>2,632,008</u>	
		<u>22,424,584</u>
Net Investment in capital assets		<u><u>\$25,055,734</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, 2013, 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, 2013.

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

R.S. Abrams & Co., LLP

Islandia, NY

October 10, 2013