

**SAYVILLE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, and the fiduciary funds of the Sayville Union Free School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from 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 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 funds of the Sayville Union Free School District, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. The other supplementary financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 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 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated October 6, 2014 on our consideration of the Sayville Union Free 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 Sayville Union Free School District's internal control over financial reporting and compliance.



Commack, New York
October 6, 2014

SAYVILLE UNION FREE SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

Management offers readers of the Sayville Union Free School District financial statements this narrative overview and analysis of the financial activities and the District's performance during the fiscal year ending June 30, 2014. We would encourage readers to consider the information presented in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

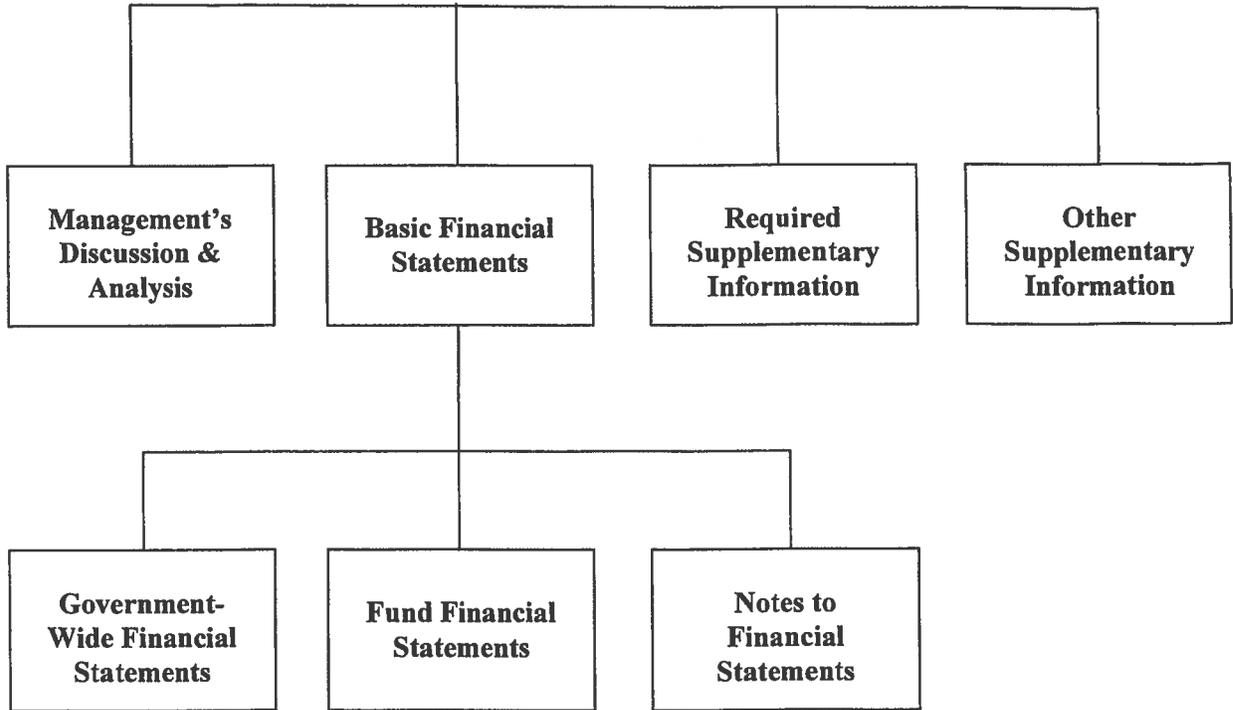
- Government-wide net position at June 30, 2014 was \$12,437,401. (For details please refer to Exhibit 1 in the Financial Statement section).
- Overall general revenues for all funds were \$86,168,317, which were less than expenditures by \$6,013,376 thus decreasing the District's net position. (See Exhibit 2 of the Financial Statements section. Overall revenue is the sum of general revenues, charges for services and operating grants).
- The ending fund balance of the District's General fund as of June 30, 2014 was \$26,605,776. Of this amount, \$3,473,107 is available for spending at the government's discretion (unassigned).
- Principal paid down on outstanding serial bond debt amounted to \$3,790,000.
- For 2014-2015, the District continues to offer all programs except Regular ED-Summer School. The proposed 2014-2015 budget in the amount of \$90,051,225 was approved by the District's residents on June 17, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the District's **overall** financial status.
- The remaining statements are *fund financial statements* that focus on **individual** parts of the District, reporting the District's operations in more detail than the district-wide statements. Government Fund statements tell how basic services were financed in the short term and what remains for future spending.
- Fiduciary Funds statements provide financial information where the District acts as a trustee or agent for the benefit of others.

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



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

	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes In Fiduciary Net Position
Accounting Basis and measurement focus	Accrual accounting and Economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, deferred inflows/outflows of resources, both financial and capital, short term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Government-wide statements report the District's *net position* and how it has changed. Net Position – the difference between the District's assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the net assets are an indicator of whether the financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Net 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.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the Statement of Net Position:

- Capitalize current outlays for capital assets;
- Report long-term debt as a liability;
- Depreciate capital assets;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting;
- Allocate net position as follows:
 - *Net investment in capital assets*-consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition,

construction, or improvement of those assets or related debt also should be included in this component of net position.

- *Restricted* – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- *Unrestricted* – the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the district uses to keep track of specific sources of funding and spending on particular programs. The funds have been established by the laws of the State of New York.

The District has two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is found in the two Exhibits that provide a reconciliation to explain the relationship (or differences) between them. In summary, the government fund statements focus primarily on the sources, uses, and balances of current financial resources and often have a budgetary orientation. Included are the general fund, special revenue funds, debt service funds, capital project funds and permanent funds. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.
- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from district-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position was less on June 30, 2014, than it was the year before, decreasing \$6,013,376 to \$12,437,401. (See Table A-3)

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

	<u>Governmental Activities</u>		<u>Total Percentage Change</u>
	<u>2014</u>	<u>2013</u>	
<u>ASSETS</u>			
Current and Other Assets	\$ 34,475	\$ 36,573	
Capital Assets	<u>57,869</u>	<u>60,493</u>	
Total Assets	<u>92,344</u>	<u>97,066</u>	<u>(4.86%)</u>
<u>DEFERRED OUTFLOWS</u>			
Deferred Charges on Refunding	<u>368</u>	<u>422</u>	<u>(12.80%)</u>
<u>LIABILITIES</u>			
Current Liabilities	11,743	11,779	
Non-Current Liabilities/Unearned Revenue	<u>68,532</u>	<u>67,258</u>	
Total Liabilities/Unearned Revenue	<u>80,275</u>	<u>79,037</u>	<u>1.57%</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	24,364	22,758	
Restricted	16,720	18,529	
Unrestricted	<u>(28,647)</u>	<u>(22,836)</u>	
Net Position	<u>\$ 12,437</u>	<u>\$ 18,451</u>	<u>(32.59%)</u>

In 2014, Current and Other Assets showed a decrease in combined Cash/Restricted Cash.

Capital assets increased by various school district improvements and purchases as shown in Note 5 to the basic financial statements. However, depreciation, which exceeded additions, serves to reduce the total Capital assets.

Deferred Outflows of Resources represents a deferred charge as a result of an advance refunding of bonds and is presented in accordance with Governmental Accounting Standard No. 65.

Current Liabilities showed a decrease in Accounts Payable/Accrued Liabilities over the prior year. Other liabilities increased, particularly with respect to the amount Due to the Teachers' Retirement System.

Non-current liabilities within the grouping had a decrease in serial bonds and the energy performance contract, but the postemployment benefit obligations impacted the increase.

- Capital assets valued here are net of depreciation.
- Liabilities include all school district debt and long-term compensated absences as well as other postemployment benefit obligations.
- Net investment in capital assets relates to capital assets at cost such as land, buildings and improvements, and furniture and equipment, etc. and subtracting accumulated depreciation, related bond debt and adjustments related to the refunding (premium and deferred outflow). The net investment in capital assets showed an increase over the prior year. The additions were less than the depreciation and retirements/reclassifications by \$2,623,095. However, the financing related to the assets decreased by \$4,229,583.
- Restricted resources of \$16,719,575 are composed of amounts detailed under “Financial Analysis of the District’s Funds”.
- The unrestricted resources remaining in the amount of (\$28,647,042) relates to the balance of the District’s net position including assigned and unassigned fund balances less unfunded liabilities. The District is only permitted to fund other postemployment benefits on a “pay as you go” basis. New York State has not put into legislation a vehicle to accumulate funds for the Net OPEB obligation.

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

	Governmental Activities		Total Percentage Change
	2014	2013	
Revenues			
Program Revenues			
Charges for Services	\$ 1,517	\$ 1,300	
Operating Grants	1,636	1,677	
General Revenues			
Property Taxes and Tax Items	57,287	56,104	
State Formula Aid	23,298	23,008	
Other	2,430	4,422	
Total Revenues	\$ 86,168	\$ 86,511	(0.40%)
Expenses			
General Support	13,767	12,454	
Instruction	72,086	69,964	
Pupil Transportation	3,708	3,362	
Community Service	188	176	
Debt Interest	1,305	1,302	
Debt Issuance Costs	-	121	
School Lunch Program	1,128	1,158	
Total Expenses	92,182	88,537	4.12%
Decrease in Net Position	(6,014)	(2,026)	
Net Position -beginning of year	18,451	20,477	
Net Position-end of year	\$ 12,437	\$ 18,451	

Revenues

- Property taxes and state aid contributed most of the revenue.
- Charges for Services include tuition, fees and related services.
- Operating Grants are state and federal funds received for school lunch reimbursement and special aid instruction.

Table A-5

Source of Revenues for Governmental Activities Fiscal Year

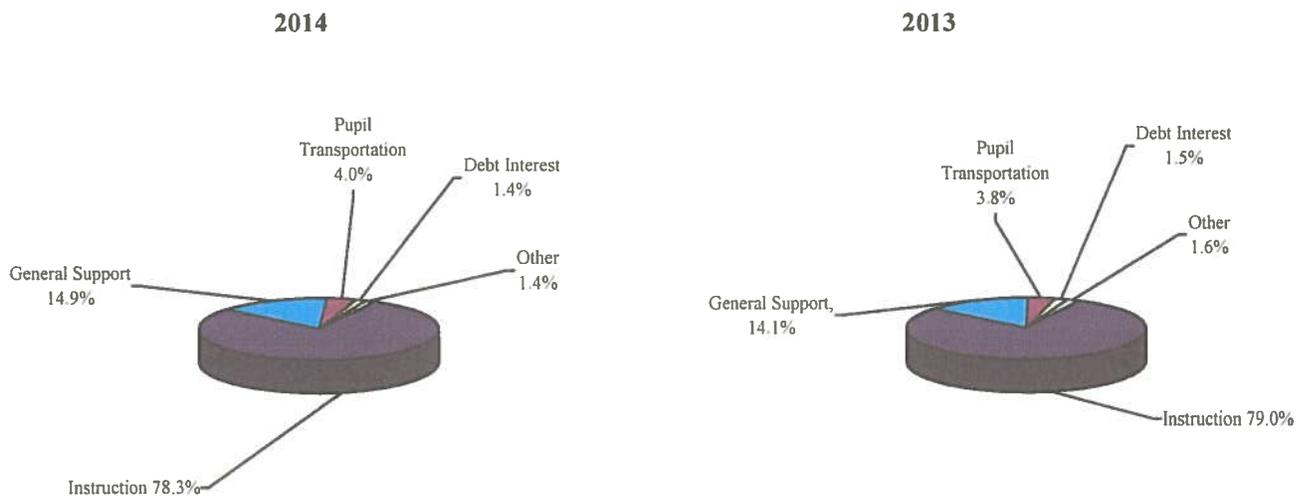


Expenses

The District’s expenses are predominantly related to general support, instruction and transporting students. The District’s general support activities accounted for 14.9 percent of expenses. On the charts, “Other” includes community service, the school lunch program and debt issuance costs on refunding of bonds.

Table A-6

Expenses for Fiscal Year



Governmental Activities

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

- Leadership of the District’s Board of Education.
- Board of Education and Administration’s oversight of District’s finances.
- The District’s Policy review process that has resulted in Policies and Procedures being updated in a timely manner.
- Continued assessment, implementation and improvement of financial internal control structure.
- The constructive recommendations provided by External, Internal, and Claims Audit processes.
- Approval of the annual budget and support of community.
- Long-range fiscal strategies that have effectively utilized the District’s available resources; and the use of reserve and surplus funds.
- Sale of the Public Library building in the 2012-13 school year when proceeds were placed in a Tax Reserve Fund and can be used over a ten-year period to reduce the tax rate.

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

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

	2014		2013	
	Total Cost	Net Cost	Total Cost	Net Cost
General Support	\$ 13,767	\$ 13,767	\$ 12,454	\$ 12,454
Instruction	72,086	70,133	69,964	68,139
Pupil Transportation	3,708	3,708	3,362	3,362
Debt Interest	1,305	1,305	1,302	1,302
Debt Issuance Costs	-	-	121	121
Community Service	188	188	176	176
School Lunch	1,128	(73)	1,158	6
Total	\$ 92,182	\$ 89,028	\$ 88,537	\$ 85,560

- Most of the net costs of \$89,028,335 were financed by District’s taxpayers and government aid.
- The total costs of all government activities this year was \$92,181,693.
- The users of the District’s programs funded \$1,517,420 of the cost by “charges for services”. Operating grants of \$1,635,938 received for instruction and the school lunch program also reduced the total costs to the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2014, the District's governmental funds reported a combined fund balance of \$26,905,731, which is a decrease of \$2,308,919 from the prior year. This decrease is due to an excess of expenditures over revenues. A summary of the change in fund balance by fund presented in accordance with GASB 54 classifications is as follows:

	2014	2013	Increase (Decrease)
General Fund			
Restricted for:			
Bonded debt	\$ 295,140	\$ 373,045	\$ (77,905)
Tax Reduction	1,073,850	1,323,850	(250,000)
Employee benefit accrued liability	7,518,561	7,615,830	(97,269)
Retirement contribution	5,050,211	6,474,312	(1,424,101)
Workers' compensation	1,786,631	1,936,631	(150,000)
Unemployment insurance	777,523	804,873	(27,350)
Subtotal-Restricted	16,501,916	18,528,541	(2,026,625)
Assigned:			
Designated fund balance for subsequent year's budget	4,109,654	4,019,500	90,154
General Government expenditures	2,521,099	2,869,650	(348,551)
Unassigned	3,473,107	3,575,973	(102,866)
	26,605,776	28,993,664	(2,387,888)
School Lunch Fund			
Nonspendable: Inventory	24,233	22,771	1,462
Assigned	54,058		54,058
Unassigned		(22,771)	22,771
	78,291	-	78,291
Capital Projects Fund			
Restricted for bonded/EPC projects	217,659	217,659	0
Assigned:			
Unappropriated fund balance	4,005	3,327	678
	221,664	220,986	678
	\$ 26,905,731	\$ 29,214,650	\$ (2,308,919)

A. General Fund

The net change in the general fund – fund balance is a decrease of \$2,387,888 as revenues of \$83,556,673 were less than expenditures of \$85,944,561.

B. School Lunch Fund

The school lunch fund had an ending balance of \$78,291 whereas the fund had no fund balance in the prior year. Nonspendable inventory amounted to \$24,233.

C. Capital Projects Fund

The net change in the capital projects fund – fund balance has little effect on the analysis of district funds with a minor increase of \$678.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

(A) 2013-2014 Budget

The District’s general fund adopted budget for the year ended June 30, 2014 was \$89,461,217. This amount was increased by encumbrances carried forward from the prior year in the amount of \$2,869,650 for a final budget of \$92,330,867.

The actual results for the year show an excess of expenditures over revenues in the amount of (\$2,387,888).

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

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

Unassigned Fund Balance

Opening, Unassigned Fund Balance	\$	3,575,973
Revenues Over Budget		108,894
Restricted Reserves Appropriated		(1,993,938)
Expenditures and Encumbrances under budget		3,865,207
Changes in Restricted Fund Balance		2,026,625
Assigned, Designated for June 30, 2015 budget		<u>(4,109,654)</u>
Closing, Unassigned Fund Balance	\$	<u>3,473,107</u>

The unassigned fund balance represents the fund balance retained by the District that is not restricted or assigned for the subsequent year's budget. This amount is limited to 4% of the 2014-2015 budget. The actual unassigned fund balance for the period ending 6/30/14 is \$3,473,107. This amount represents 3.86% of the 2014-2015 budget.

There were minor changes in revenue (plus and minus) that accounted for the Revenues over budget of \$108,894.

In accordance with Schedule SS-1, the total unencumbered balance equaled \$3,865,207. The following represents a brief summary of the significant items that were under budget that resulted from savings achieved through reduced spending and effective budget management:

- The largest area of General Support under budget was for Central Services in the amount of \$1,303,978. The following are some of the significant factors attributable to this savings:
 - Personnel changes/retirements during the school year resulted in \$124,360 budgetary savings.
 - An Energy Performance contract was completed in the 2012-13 school year. Combined budgeted energy savings into the 2013-14 school year was approximately \$1,117,200.
- Of the \$1,940,075 savings under Instruction, the greatest savings were experienced in Teaching-Regular School (\$760,899) and Programs for Children with Handicapping Conditions (\$543,098).
 - In the area of Teaching-Regular School, the budgetary savings is attributable to several reasons, such as a decrease in the use of substitute teaching staff, along with a decrease in anticipated contingent instructional and instructional support staff, coupled with cutting off spending prior to the end of the school year.
 - Within the area of Programs for Children with Handicapping Conditions, the achieved budgetary savings are a direct result of several children with handicapping conditions being brought back into District operated programs.
- Employee Benefits shows an unencumbered balance of \$357,115. The predominant savings was in health costs which came in lower than what the District had anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2014, the District had invested \$57,869,565 net of accumulated depreciation in a broad range of capital assets, including land, buildings and improvements, furniture, machinery and equipment and vehicles. Total depreciation expense for the year was \$3,276,546 and additions to building improvements and machinery and equipment amounted to \$653,451.

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

	Governmental Activities	
	2014	2013
Land	\$ 306	\$ 306
Construction in Progress	23	23
Buildings	54,728	57,686
Site Improvements	460	484
Machinery/Equipment/Vehicles	2,352	1,994
Total	\$ 57,869	\$ 60,493

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

Long-Term Debt

At year-end, the District had \$23,290,000 (non-current portion) of general obligation bonds adjusted for the non-current portion of premium related of \$446,341 in addition to other long-term debt outstanding. More detailed information is presented in Note 8 to the Financial Statements. Information on the Net Other Postemployment Benefits is shown separately in Note 11.

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

	Fiscal Year	
	2014	2013
Serial Bonds	\$ 23,736	\$ 27,358
Energy Performance Contract	6,084	6,515
Compensated Absences	7,331	6,933
Net OPEB Obligation	31,381	26,453
Total	\$ 68,532	\$ 67,259

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

- The tax levy cap percentage for school districts is based on the December consumer price index (CPI). The regulations require us to use the LOWER of 2% or the December 31st CPI. CPI is currently trending about 1.6% and is not projected to grow much higher by December 2014. Therefore, it is anticipated that the CPI used for the 2015-16 levy cap calculation will be well under 2%. Sayville's new Pilot Project will continue to further reduce the calculated tax levy cap.
- Continued fiscal burden for local school districts to fund additional Federal, State, and local **unfunded mandates**.
- New York State's lack of commitment to fund the current State aid formula.
- New York State's ability to provide mandate relief in order to reduce the fiscal burden to local taxpayers.
- New York State's ability to provide the necessary Legislation to allow public schools to begin funding Other Postemployment Benefits (OPEB) in accordance with GASB 45 disclosure and reporting requirements.
- New York State's ability to create Legislation that would allow public schools to establish a Teacher Retirement reserve (TRS) to help better plan for future retirement costs.
- The limited financial markets and the continued consolidation of financial institutions, thus limiting available resources.
- The effect of rising interest rates on the District's Tax Anticipation Notes (Tan's), Bond Anticipation Notes (BAN's) and future Bond borrowings.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

ASSETS

Current Assets:	
Cash	\$ 19,098,346
Restricted Cash	12,904,391
Accounts Receivable	56,380
State and Federal Aid Receivable	2,391,708
Due from Fiduciary Fund	35
Inventories	24,233
Total Current Assets	34,475,093
Non-Current Assets:	
Capital Assets-Not Being Depreciated	329,028
Capital Assets Being Depreciated, Net of Accumulated Depreciation	57,540,537
Total Assets	92,344,658

DEFERRED OUTFLOWS

Deferred Charge on Refunding	368,167
Total Deferred Outflows of Resources	368,167

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities	1,698,188
Bond Interest and Matured Bonds	40,480
Accrued Interest Payable-Bonds	121,177
Due to Other Governments	556
Serial Bonds Payable - Due Within One Year	3,622,066
Energy Performance Contract - Due Within One Year	430,338
Due To Teachers' Retirement System	5,176,117
Due To Employees' Retirement System	495,716
Compensated Absences Payable-Due Within One Year	93,193
Unearned Revenue	65,112
Total Current Liabilities and Unearned Revenue	11,742,943
Non-Current Liabilities:	
Serial Bonds Payable	23,736,341
Energy Performance Contract	6,084,119
Net OPEB Obligation	31,381,242
Compensated Absences Payable	7,330,779
Total Non-Current Liabilities	68,532,481
Total Liabilities and Unearned Revenue	80,275,424

NET POSITION

Net Investment in Capital Assets	24,364,868
Restricted	16,719,575
Unrestricted (Deficit)	(28,647,042)
Total Net Position	\$ 12,437,401

See Accompanying Notes to the Basic Financial Statements.

SAYVILLE UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
<u>FUNCTIONS/PROGRAMS</u>				
General Support	\$ 13,766,922	\$ -	\$ -	\$ (13,766,922)
Instruction	72,086,280	541,487	1,411,168	(70,133,625)
Pupil Transportation	3,707,619	-	-	(3,707,619)
Community Service	187,933	-	-	(187,933)
Debt Interest Expense	1,305,116	-	-	(1,305,116)
School Lunch Program	<u>1,127,823</u>	<u>975,933</u>	<u>224,770</u>	<u>72,880</u>
Total Functions and Programs	<u>\$ 92,181,693</u>	<u>\$ 1,517,420</u>	<u>\$ 1,635,938</u>	<u>(89,028,335)</u>
 <u>GENERAL REVENUES</u>				
Real Property Taxes				50,638,324
Other Tax Items Including STAR Reimbursement				6,648,908
Use of Money and Property				1,762,895
Sale of Property and Compensation for Loss				89,588
Miscellaneous				347,080
Medicare Reimbursement				193,066
Federal Sources				34,097
Donated Assets				3,000
State Aid-General				<u>23,298,001</u>
Total General Revenues				<u>83,014,959</u>
Change in Net Position				(6,013,376)
Total Net Position - Beginning of Year				<u>18,450,777</u>
Total Net Position - End of Year				<u>\$ 12,437,401</u>

See Accompanying Notes to the Basic Financial Statements.

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

	General	Special Aid	School Lunch	Capital Projects	Governmental Funds Total
ASSETS					
Cash	\$ 18,430,228	\$ 333,480	\$ 109,576	\$ 225,062	\$ 19,098,346
Restricted Cash	12,904,391	-	-	-	12,904,391
State and Federal Aid Receivable	1,373,579	1,001,980	16,149	-	2,391,708
Due From Other Funds	1,235,974	-	-	-	1,235,974
Due from Fiduciary	35	-	-	-	35
Accounts Receivable	54,495	-	1,885	-	56,380
Inventories	-	-	24,233	-	24,233
Total Assets	\$ 33,998,702	\$ 1,335,460	\$ 151,843	\$ 225,062	\$ 35,711,067
LIABILITIES					
Accounts Payable and Accrued Liabilities	\$ 1,543,805	\$ 120,158	\$ 34,225	-	\$ 1,698,188
Bond Interest and Matured Bonds	40,480	-	-	-	40,480
Due To Other Funds	-	1,213,156	19,420	3,398	1,235,974
Due To Other Governments	-	-	556	-	556
Due To Teachers' Retirement System	5,176,117	-	-	-	5,176,117
Due To Employees' Retirement System	495,716	-	-	-	495,716
Compensated Absences Payable	93,193	-	-	-	93,193
Unearned Revenue	43,615	2,146	19,351	-	65,112
Total Liabilities and Unearned Revenue	7,392,926	1,335,460	73,552	3,398	8,805,336
Fund Balances:					
Nonspendable	-	-	24,233	-	24,233
Inventories	-	-	-	-	-
Restricted	-	-	-	217,659	217,659
Unspent Bond Proceeds	295,140	-	-	-	295,140
Bonded Debt	7,518,561	-	-	-	7,518,561
Employee Benefit Accrued Liability	5,050,211	-	-	-	5,050,211
Retirement Contribution	1,786,631	-	-	-	1,786,631
Workers' Compensation	777,523	-	-	-	777,523
Unemployment Insurance	1,073,850	-	-	-	1,073,850
Tax Reduction	-	-	-	-	-
Assigned:					
Appropriated Fund Balance:					
Designated for subsequent year's budget	4,109,654	-	-	-	4,109,654
Other	2,521,099	-	54,058	4,005	2,579,162
Unassigned	3,473,107	-	-	221,664	3,473,107
Total Fund Balances	26,605,776	-	78,291	221,664	26,905,731
Total Liabilities and Fund Bal	\$ 33,998,702	\$ 1,335,460	\$ 151,843	\$ 225,062	\$ 35,711,067

See Accompanying Notes to the Basic Financial Statements.

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

Total Governmental Fund Balances	\$	26,905,731
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Original cost of capital assets	\$	104,642,113	
Accumulated depreciation		<u>(46,772,548)</u>	57,869,565

Governmental funds report the issuance costs and similar items when debt is first issued, whereas the loss on refunding is amortized and treated as a deferred outflow of resources in the Statement of Net Position.		368,167
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable-including premium on refunding		27,358,407	
Energy Performance Contract		6,514,457	
Accrued interest on bonds payable		121,177	
Compensated absences (less portion in General Fund)		7,330,779	
Net OPEB obligation		<u>31,381,242</u>	<u>(72,706,062)</u>

Total Net Position	\$	<u>12,437,401</u>
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See Accompanying Notes to the Basic Financial Statements.

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

	Governmental Fund Types				Governmental Funds
	General	Special Aid	School Lunch	Capital Projects	
Revenues:					
Real Property Taxes	\$ 50,638,324	-	-	-	\$ 50,638,324
Real Property Tax Items (Including STAR Reimbursement)	6,648,908	-	-	-	6,648,908
Charges for Services	341,487	-	14,327	-	555,814
Use of Money and Property	1,762,795	-	100	-	1,762,895
Sale of Property and Compensation for Loss	89,588	-	-	-	89,588
Medicare Reimbursement	193,066	-	-	-	193,066
Miscellaneous	347,080	-	-	-	347,080
State and Local Sources	23,298,001	514,766	13,270	-	23,826,037
Federal Sources	34,097	896,402	156,060	-	1,086,559
Surplus Food	-	-	961,606	-	961,606
Sales-School Breakfast and Lunch Program	-	-	1,200,803	-	1,200,803
Total Revenues	83,553,346	1,411,168	1,200,803	-	86,165,317
Expenditures:					
Current:					
General Support	10,102,355	-	-	-	10,102,355
Instruction	43,892,167	1,528,342	-	-	45,420,509
Pupil Transportation	3,524,930	155,765	-	-	3,680,695
Community Services	107,162	-	-	-	107,162
Employee Benefits	21,995,055	-	84,560	-	22,079,615
Cost of Sales	-	-	1,037,952	-	1,037,952
Debt Service:					
Principal	4,206,726	-	-	-	4,206,726
Interest	1,343,227	-	-	-	1,343,227
Capital Outlay	-	-	-	495,995	495,995
Total Expenditures	85,171,622	1,684,107	1,122,512	495,995	88,474,236
Excess (Deficiency) of Revenues Over Expenditures	(1,618,276)	(272,939)	78,291	(495,995)	(2,308,919)
Other Sources and (Uses):					
Operating Transfers In	3,327	272,939	-	500,000	776,266
Operating Transfers Out	(772,939)	-	-	(3,327)	(776,266)
Total Other Sources (Uses)	(769,612)	272,939	-	496,673	-
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other (Uses)	(2,387,888)	-	78,291	678	(2,308,919)
Fund Balance Beginning of Year	28,993,664	-	-	220,986	29,214,650
Fund Balance End of Year	\$ 26,605,776	\$ -	\$ 78,291	\$ 221,664	\$ 26,905,731

See Accompanying Notes to the Basic Financial Statements.

SAYVILLE UNION FREE SCHOOL DISTRICT
 RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2014

Excess of Revenues and Other Sources Over Expenditures and Other (Uses)	\$	(2,308,919)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
Capital Related Differences:		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However for governmental activities, those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expense in the Statement of Activities.</p>		
Capital outlays	\$ 650,451	
Depreciation expense	(3,276,546)	
Donated asset	3,000	(2,623,095)
Long-Term Debt Transaction Differences		
<p>Repayment of bond principal and energy performance contract obligations is an expenditure in the government funds, but it reduces the long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.</p>		
Serial bonds	3,790,000	
Energy performance	416,726	4,206,726
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the government funds because interest is recorded as an expenditure in funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is due.</p>		
Accrued interest for June 30, 2013 to June 30, 2014 decreased by		15,254
<p>Government funds report the issuance costs and similar items when debt is issued, whereas premium on refunding as well as a deferred charge on refunding is amortized for the Statement of Activities.</p>		
Amortization of premium on refunding	77,066	
Amortization of deferred charge on refunding	(54,209)	22,857
Long-Term Expense Differences		
<p>In the Statement of Activities, certain operating expenses are measured by the amounts earned or incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.</p>		
Compensated absences	(397,434)	
Increase in Postemployment benefits (Net OPEB Obligation)	(4,928,765)	(5,326,199)
Changes in Net Position of Governmental Activities	\$	(6,013,376)

See Accompanying Notes to the Basic Financial Statements.

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

	<u>Private Purpose Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash	\$ 525,690	\$ 448,373
Total Assets	<u>525,690</u>	<u>448,373</u>
LIABILITIES		
Extraclassroom Activity Balances	-	212,143
Group Insurance and Benefits	-	139,395
Due to Other Funds	-	35
Other Liabilities	-	96,800
Total Liabilities	<u>-</u>	<u>\$ 448,373</u>
NET POSITION		
Held in Trust For:		
Endowment Scholarships	525,690	
Total Net Position	<u>\$ 525,690</u>	

See Accompanying Notes to the Basic Financial Statements.

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

	<u>Private Purpose Fund</u>
ADDITIONS	
Gifts and Donations	\$ 33,200
Interest	526
Total Additions	<u>33,726</u>
DEDUCTIONS	
Scholarship Expenses	<u>24,125</u>
Total Deductions	<u>24,125</u>
 Change in Net Position	 9,601
Net Position- Beginning	<u>516,089</u>
Net Position- Ending	<u><u>\$ 525,690</u></u>

See Accompanying Notes to the Basic Financial Statements.

Note 1 – Summary of certain significant accounting policies:

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A) Reporting entity:

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

The financial reporting entity is based on criteria set forth by GASB Statement 61, *The Financial Reporting Entity: Omnibus--an amendment of GASB No. 14 and No. 34*. This statement modifies certain requirements for the financial reporting entity to address since the issuance of GASB Statement No. 14. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a reporting financial entity.

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

Extraclassroom Activity Funds:

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

Sayville Union Free School District
Notes to Basic Financial Statements
Year Ended June 30, 2014

B) Joint venture:

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

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

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate. During the year ended June 30, 2014, the District was billed \$5,807,274 for administrative and program costs. Financial statements for BOCES are available from the BOCES Administrative Offices.

C) Basis of presentation:

i) Government-wide financial statements:

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

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

Sayville Union Free School District
Notes to Basic Financial Statements
Year Ended June 30, 2014

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

ii) **Fund financial statements:**

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

Governmental Funds:

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

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

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

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

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

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

Agency Funds: These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for

Sayville Union Free School District
Notes to Basic Financial Statements
Year Ended June 30, 2014

various student groups or extraclassroom activity funds and for payroll or employee withholding.

D) Measurement focus and basis of accounting:

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

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

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

E) Cash and investments:

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

F) Property taxes:

Real property taxes are levied annually by the Board of Education no later than November 1, and become a lien on December 1. Taxes were collected by the Town(s) and remitted to the District. Uncollected real property taxes are subsequently enforced by Suffolk County.

Sayville Union Free School District
Notes to Basic Financial Statements
Year Ended June 30, 2014

G) Accounts Receivable:

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

H) Inventories and prepaid items:

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

I) Due to/from other funds:

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

J) Capital assets:

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

The District's capitalization policy is as follows:

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

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

Sayville Union Free School District
Notes to Basic Financial Statements
Year Ended June 30, 2014

K) Vested employee benefits – Compensated absences:

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

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

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

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

L) Other benefits:

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

In addition to providing pension benefits, the District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as expenditure in the General Fund. In the Government-wide statements, postemployment costs are measured and disclosed using the accrual basis of accounting in accordance with GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

M) Equity Classifications:

Government-wide statements

In the government-wide statements there are three categories of net position:

Net Investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to those assets are to be included in this component as well.

Sayville Union Free School District
Notes to Basic Financial Statements
Year Ended June 30, 2014

Restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.net position

Fund Statements

Fund balances are reported in accordance with GASB Statement No. 54. The intention of the Statement to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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

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

- Restricted:

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

Reserve for Retirement Contribution

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

Workers' Compensation Reserve

Workers' Compensation Reserve (GML§6-j) is used to pay for compensation benefits and other expenses authorized by Article 2 of the

Sayville Union Free School District
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Workers' Compensation Law, and for payment of expenses of administering this self-insurance program.

The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. The reserve is accounted for in the General Fund.

Reserve for Debt Service

Mandatory reserve for debt service (GML§6-1) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvement. Unexpended balances of proceeds of borrowings for capital projects; interest and earnings from investing proceeds of obligations, and premium and accrued interest are recorded in the reserve for debt and held until appropriated for debt payments. The reserve is accounted for in the General Fund.

Reserve for Employee Benefit Accrued Liability

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

Reserve for Unemployment Insurance

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

Reserve for Tax Reduction

This reserve is authorized under Education Law and permits the District to retain the proceeds from the sale of school district real property that are not needed to pay any debts. The proceeds are used to reduce real property taxes over a period not to exceed ten years. It may be established and expended without voter approval. This reserve was established in the current year with the sale of a library building. Such reserve is accounted for in the General Fund.

- **Committed:**

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

- **Assigned:**

Fund balances that contain self-imposed constraints of the government to be used for a particular purpose are assigned. This will include an amount appropriated or partially fund the subsequent year's budget as well as encumbrances, not otherwise classified as restricted.

- **Unassigned:**

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

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

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

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

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

N) Budgetary procedures and budgetary accounting:

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

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

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

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

The General Fund is the only fund with a legally authorized appropriated budget.

O) Encumbrances:

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

P) Unearned revenue:

Unearned revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period.

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,

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such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

Q) Use of estimates:

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

Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, other postemployment benefits, potential contingent liabilities and useful lives of long-lived assets.

R) Short-term debt:

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

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

S) Long-term liabilities:

Payables, accrued liabilities and long-term obligations are reported in the Government-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.

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

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

A) Total fund balances of governmental fund vs. net 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 funds Balance Sheet.

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

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

i) Long-Term Revenue and Expense Differences

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

ii) Capital Related Differences

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

iii) Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because the issuance of long-term debt provides current financial resources to governmental funds, but is recorded as a liability in the Statement of Net Position. In addition, both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

Note 3 – Stewardship and Compliance:

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

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

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. While the District does not have a specific policy for custodial credit risk, New York State statutes govern the District's investment policies, as previously discussed in these Notes. Governmental Accounting Standards Board Statement #40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. During the fiscal year 2014, the District has invested in deposits within the above-described parameters.

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

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

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None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year-end. 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 does not typically purchase investments dominated in foreign currency, and is not exposed to foreign currency risk.

Note 5 – Capital assets:

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

	Beginning Balance	Additions	Retirements/ Reclass.	Ending Balance
Governmental Activities:				
Capital Assets That Are Not Depreciated:				
Land	\$ 305,740	\$ -	\$ -	\$ 305,740
Construction in Progress	23,288	-	-	23,288
Total Nondepreciable Cost	<u>\$ 329,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 329,028</u>
Capital Assets That Are Depreciated:				
Buildings/Building Improvements	\$ 98,129,875	\$ -	\$ -	\$ 98,129,875
Site Improvements	1,046,084	-	-	1,046,084
Machinery and Equipment	3,985,403	554,582	(103,561)	4,436,424
Vehicles	642,538	98,869	(40,705)	700,702
Total Depreciable Cost	<u>103,803,900</u>	<u>653,451</u>	<u>(144,266)</u>	<u>104,313,085</u>
Less:				
Accumulated Depreciation:				
Buildings/Building Improvements	40,444,113	2,957,805	-	43,401,918
Site Improvements	562,441	23,381	-	585,822
Machinery and Equipment	2,149,283	256,027	(103,561)	2,301,749
Vehicles	484,431	39,333	(40,705)	483,059
Total Accumulated Depreciation	<u>43,640,268</u>	<u>3,276,546</u>	<u>(144,266)</u>	<u>46,772,548</u>
Total Depreciable-Net	<u>\$ 60,163,632</u>	<u>\$ (2,623,095)</u>	<u>\$ -</u>	<u>\$ 57,540,537</u>
Grand Total	<u>\$ 60,492,660</u>	<u>\$ (2,623,095)</u>	<u>\$ -</u>	<u>\$ 57,869,565</u>

Depreciation has been allocated to governmental functions as follows:

General Support	\$ 190,009
School Lunch Program	7,023
Instruction	<u>3,079,514</u>
Total Depreciation Expense	<u>\$ 3,276,546</u>

Sayville Union Free School District
Notes to Basic Financial Statements
Year Ended June 30, 2014

Note 6 – Construction and Lease of Library Building:

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

Custody of the Bond Proceeds was held in the name of the School District. The “Rent” for the School District’s leasehold interest is directly related to the reimbursement for principal and interest on the outstanding bonds. The Library construction is now complete and included in Capital Assets.

Note 7 – Short-term debt:

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

Note 8– Long-term debt:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable/Contracts:					
Serial Construction Bonds	\$ 30,625,000	\$	\$ 3,790,000	\$ 26,835,000	\$ 3,545,000
Premium on New Issue	600,473		77,066	523,407	77,066
Energy Performance Contract	6,931,183		416,726	6,514,457	430,338
Total Bonds Payable/Contracts	38,156,656	-	4,283,792	33,872,864	4,052,404
Other Liabilities:					
Compensated Absences	7,270,581	501,889	348,498	7,423,972	93,193
Total Long-Term Liabilities	\$ 45,427,237	\$ 501,889	\$ 4,632,290	\$ 41,296,836	\$ 4,145,597

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

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Notes to Basic Financial Statements
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Advance Refunding

In the prior year, the District issued \$11,050,000 of 2012 Refunding Bonds at an interest rate varying between 2.00%-4.000% maturing on April 15, 2021.

The reacquisition price (amount put in escrow) \$11,571,739 exceeded the net carrying amount of the old debt by \$451,739 and is an economic loss on refunding. This deferred outflow, being amortized, is shown on the Statement of Net Position. The premium received on refunding \$642,217 is amortized over the life of the new debt and the remaining balance at June 30, 2014 is shown in the long term debt serial bond schedule.

As of June 30, 2013, \$11,120,000 of outstanding Serial Bonds-2002, Series A, B, C and D are considered defeased.

Serial Bonds:

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

Fiscal Year	Principal	Interest	Total
	\$	\$	\$
2015	3,545,000	1,006,500	4,551,500
2016	3,625,000	896,200	4,521,200
2017	1,720,000	779,700	2,499,700
2018	1,740,000	716,088	2,456,088
2019	1,760,000	651,675	2,411,675
2020-2024	8,050,000	2,264,462	10,314,462
2025-2029	6,395,000	717,100	7,112,100
	<u>\$ 26,835,000</u>	<u>\$ 7,031,725</u>	<u>\$ 33,866,725</u>

The following is a summary of amortization of the amounts on refunding:

Fiscal Year	Premium on Refunding	Deferred Outflow (Loss on Refunding)
	\$	\$
2015	77,066	54,209
2016	77,066	54,209
2017	77,066	54,209
2018	77,066	54,209
2019	77,066	54,209
2020-2021	138,077	97,122
	<u>\$ 523,407</u>	<u>\$ 368,167</u>

Energy Performance Contract:

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

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<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$	\$	\$
2015	430,338	207,611	637,949
2016	444,393	193,555	637,948
2017	458,909	179,040	637,949
2018	473,898	164,051	637,949
2019	489,376	148,572	637,948
2020-2024	2,697,346	492,396	3,189,742
2025-2027	1,520,197	74,673	1,594,870
	\$ <u>6,514,457</u>	\$ <u>1,459,898</u>	\$ <u>7,974,355</u>

Interest on long-term debt, after adjustment for accruals and refunding amounts amortized, amounted to \$1,305,116.

Note 9 – Interfund balances and activity:

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenues</u>	<u>Expenditures</u>
General Fund	\$ 1,236,009	\$ -	\$ 3,327	\$ 772,939
School Lunch Fund	-	19,420	-	-
Special Aid Fund	-	1,213,156	272,939	-
Capital Projects Fund	-	3,398	500,000	3,327
Total Governmental Activities	\$ <u>1,236,009</u>	\$ <u>1,235,974</u>	\$ <u>776,266</u>	\$ <u>776,266</u>
Agency Fund	-	35	-	-
Grand Totals	\$ <u><u>1,236,009</u></u>	\$ <u><u>1,236,009</u></u>	\$ <u><u>776,266</u></u>	\$ <u><u>776,266</u></u>

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

Note 10– Pension plans:

General information

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

Sayville Union Free School District
Notes to Basic Financial Statements
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plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

Provisions and administration

Teacher's Retirement System

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

Employee's Retirement System

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

Funding Policies

Plan members for TRS who joined the System before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute 3% of their annual salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3-1/2% of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. Employers are required to contribute at an actuarially determined rate on annual covered payroll. Rates applicable to the fiscal years ended June 30, 2014, 2013 and 2012 were respectively, 16.25%, 11.84% and 11.11%.

For ERS, there are also six tiers of membership. Members who joined the System prior to January 1, 2010 need five years of service to be 100 percent vested. Members who joined on or after January 1, 2010 require ten years of service credit to be 100 percent vested. Funding of the System is accomplished through District and employee contributions. Tier 1 and 2 employees who entered into membership before July 27, 1976, are not required to contribute. Tier 3 and 4 employees with a membership date on or after July 27, 1976 with ten or more years of credited service are not required to contribute; otherwise Tier 3, 4 and 5 members must contribute 3% of their salary. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary and they are required to contribute for all years of service.

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

	NYSTRS		NYSERS
2011-2012	3,383,421	\$	1,410,263
2012-2013	3,713,134		1,769,788
2013-2014	5,011,434		1,776,296

Note 11- Postemployment Benefits:

The District provides postemployment health insurance coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels and employee contributions are governed by the District's contractual agreements. An outside actuarial firm determined information for the Sayville UFSD as of December 31, 2013.

Plan Description

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

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

Funding Policy

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

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

The OPEB cost (expense) is based on the annual required contribution of the employer (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to

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cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

Annual OPEB Cost and Net OPEB Obligation (NOO)	
Annual Required Contribution (ARC):	
Normal Cost	\$ 3,341,532
Amortization of UAAL	<u>6,850,486</u>
Total ARC	10,192,018
Interest on NOO	1,058,099
Adjustment to ARC	<u>(1,712,010)</u>
Annual OPEB cost	9,538,107
Contributions made	<u>(4,609,342)</u>
Increase in OPEB obligation	4,928,765
Net OPEB obligation-beginning of year	<u>26,452,477</u>
Net OPEB obligation-end of year	<u>\$ 31,381,242</u>
Annual OPEB cost	\$ 9,538,107
Percentage of annual OPEB cost contributed	48.3%
Net OPEB obligation-end of year	\$ 31,381,242
Funded Status	
Actuarial Accrued Liability (AAL)	\$ 105,847,649
Actuarial value of assets	0
Unfunded Actuarial Accrued Liability	\$ 105,847,649
Funded Ratio (Assets as a percentage of AAL)	0%
Annual covered payroll	\$ 38,420,962
UAAL as a percentage of covered payroll	275.5%

Funded Status and Funding Progress

As of June 30, 2014, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$105,847,649, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$105,847,649. The covered payroll (annual payroll of active employees covered by the plan) was \$38,420,962 and the ratio of the UAAL to the covered payroll was 275.5%.

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

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Actuarial Methods and Assumptions

The outside actuarial firm used the Projected Unit Credit cost method to prepare its valuation. The actuarial assumptions included a 4% investment rate of return and the mortality rate based on the RP-2000 Combined Healthy Mortality Table, retirement rates and turnover rates. The UAAL uses level dollar amortization (closed) based on 30 years. At June 30, 2014, the remaining period was 23 years.

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

Health Care Cost Trend Rates

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

31-Dec	Medical	Drugs
2014	7.0%	6.0%
2015	6.5%	5.5%
2016	6.0%	5.0%
2017	5.5%	5.0%
2018	5.0%	5.0%

Subsequent years may indicate a flat 5.0% for medical and a flat 5.0% for prescription drugs.

Note 12 – Risk Management:

General Information

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

Suffolk School Employees Health Plan

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

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Each school district makes contributions to the Plan determined annually by the Plan's Board of Trustees.

Note 13-- Operating Leases

The District leases equipment under various non-cancelable leases. The minimum annual rentals for each of the remaining years of the leases are:

Fiscal Year Ending June 30	Amount
2015	\$ 539,210
2016	516,387
2017	418,857
2018	350,291
2019	100,928
	\$ 1,925,673

Note 14 – Commitments and Contingencies

(A) Grants

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

(B) Encumbrances

Assigned: Unappropriated Fund Balance – General Fund

General Support	\$ 772,509
Instruction	1,609,020
Pupil Transportation	93,016
Employee Benefits	46,499
Community Services	55
TOTAL	\$ 2,521,099

(C) Litigation

The District engages general counsel and labor counsel. Lawsuits arise from the normal conduct of its affairs. Reported lawsuits were either dismissed or result in being the obligation of a third party. Management believes that the outcome of any matters will not have a material effect on these financial statements.

Note 15 – Subsequent Events

Events and transactions are evaluated through the date of the financial report, October 6, 2014.

SAYVILLE UNION FREE SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND
 JUNE 30, 2014

<u>REVENUES</u>	Original Budget	Final Budget	Actual Revenues	Over (Under) Budget
Local Sources				
Real Property Taxes	\$ 50,756,031	\$ 50,756,031	\$ 50,638,324	\$ (117,707)
Real Property Tax Items (Including STAR Reimbursement)	6,480,325	6,480,325	6,648,908	168,583
Charges for Services	449,078	449,078	541,487	92,409
Use of Money and Property	1,803,973	1,803,973	1,762,795	(41,178)
Sale of Property and Compensation for Loss	6,100	6,100	89,588	83,488
Medicare Part D	150,000	150,000	193,066	43,066
Miscellaneous	70,000	70,000	347,080	277,080
Total Local Sources	<u>59,715,507</u>	<u>59,715,507</u>	<u>60,221,248</u>	<u>505,741</u>
State Sources	23,607,272	23,607,272	23,298,001	(309,271)
Federal Aid	125,000	125,000	34,097	(90,903)
Interfund Transfer	-	-	3,327	3,327
Total Revenues	<u>83,447,779</u>	<u>83,447,779</u>	<u>83,556,673</u>	<u>108,894</u>
Prior year's encumbrances	2,869,650	2,869,650	-	-
Appropriated Fund Balance (\$4,019,500) and Reserves (\$1,993,938)	6,013,438	6,013,438	-	-
Total Revenues and Appropriated Fund Balance	<u>\$ 92,330,867</u>	<u>\$ 92,330,867</u>	<u>\$</u>	<u>\$</u>

<u>EXPENDITURES</u>	Original Budget	Final Budget	Actual Expenditures	Encumbrances	Unencumbered Balance
General Support:					
Board of Education	\$ 62,285	\$ 66,624	\$ 62,394	\$ 1,853	\$ 2,377
Central Administration	329,176	329,895	327,306	2,202	387
Finance	1,002,898	1,020,901	936,173	63,690	21,038
Staff	738,400	743,607	556,934	40,146	146,327
Central Services	8,955,414	9,386,816	7,405,889	664,130	1,316,797
Special Items	853,761	854,206	813,659	488	40,059
Total General Support	<u>11,941,934</u>	<u>12,402,049</u>	<u>10,102,355</u>	<u>772,509</u>	<u>1,527,185</u>
Instruction:					
Instruction, Administration and Improvement	3,455,891	3,485,332	3,335,219	58,270	91,843
Teaching - Regular School	23,621,732	23,608,179	22,700,228	147,052	760,899
Programs for Children with Handicapping Conditions	11,241,019	11,368,935	9,976,658	849,179	543,098
Occupational Education	738,320	738,320	484,785	-	253,535
Teaching - Special Schools	197,140	204,967	178,980	832	25,155
Instructional Media	3,654,168	3,905,579	3,254,163	522,772	128,644
Pupil Services	4,132,162	4,129,950	3,962,134	30,915	128,644
Total Instruction	<u>47,040,432</u>	<u>47,441,262</u>	<u>43,892,167</u>	<u>1,609,020</u>	<u>1,940,075</u>
Pupil Transportation	3,624,845	3,626,572	3,524,930	93,016	8,626
Community Services	115,260	115,260	107,162	55	8,043
Employee Benefits	23,101,222	22,398,669	21,995,055	46,499	357,115
Debt Service					
Principal	4,206,727	4,206,727	4,206,726	-	1
Interest	1,650,447	1,367,389	1,343,227	-	24,162
Subtotal	5,857,174	5,574,116	5,549,953	-	24,163
Interfund Transfers	650,000	772,939	772,939	-	-
Total Expenditures	<u>\$ 92,330,867</u>	<u>\$ 92,330,867</u>	<u>\$ 85,944,561</u>	<u>\$ 2,521,099</u>	<u>\$ 3,865,207</u>
Excess Revenues / Expenditures			<u>(2,387,888)</u>		

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

See paragraph on supplementary schedules included in auditor's report.

SAYVILLE UNION FREE SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS-POSTEMPLOYMENT BENEFITS PLAN
 JUNE 30, 2014

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a % of Payroll
12/31/2007	\$ 68,287,017	\$ -	\$ 68,287,017	\$ -	\$ 36,714,601	186.0%
12/31/2009	106,852,152	-	106,852,152	-	37,821,235	282.5%
12/31/2009	106,852,152	-	106,852,152	-	36,440,730	293.2%
12/31/2011	112,409,679	-	112,409,679	-	37,382,708	300.7%
12/31/2011	112,409,679	-	112,409,679	-	37,961,207	296.1%
12/31/2013	105,847,649	-	105,847,649	-	38,420,962	275.5%

See paragraph on supplementary schedules included in auditor's report

SAYVILLE UNION FREE SCHOOL DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET-GENERAL FUND,
 USE OF UNASSIGNED FUND BALANCE-GENERAL FUND AND THE REAL PROPERTY TAX LIMIT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 89,461,217
Add: Prior year's encumbrances	2,869,650
Original Budget	<u>92,330,867</u>
Budget Revisions	-
Final Budget	<u><u>92,330,867</u></u>

USE OF ASSIGNED: APPROPRIATED AND UNASSIGNED FUND BALANCE

Assigned: Appropriated and Unassigned Fund Balance- As of the beginning of the year	\$ 7,595,473
Less: Appropriated fund balance used for the levy of taxes	(4,019,500)
Unassigned Fund Balance-As of the beginning of the year	<u>\$ 3,575,973</u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2014-15 voter-approved expenditure budget	
Maximum Fund Balance allowed (4% of 2014-15 budget or \$3,602,049)	<u>\$ 90,051,225</u>
Unrestricted fund balance:	
Assigned fund balance	\$ 6,630,753
Unassigned fund balance	<u>3,473,107</u>
Total unrestricted fund balance	<u>10,103,860</u>
Less:	
Appropriated fund balance	4,109,654
Encumbrances included in assigned fund balance	<u>2,521,099</u>
Total adjustments	<u>6,630,753</u>
General Fund Balance Subject to Section 1318 of Real Property Law	\$ 3,473,107
Actual percentage of 2013-14 budget	3.86%

* Per Office of the State Comptroller's "Fund Balance Reporting and Governmental Fund Type Definitions", Updated April 2011 (Originally Issued November 2010), the portion of [General Fund] fund balance subject to Section 1318 of the Real Property Tax Law is: unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.

See paragraph on supplementary schedules included in auditor's report.

SAYVILLE UNION FREE SCHOOL DISTRICT
 SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
 JUNE 30, 2014

PROJECT TITLE	Appropriation		Prior Year's	Expenditures to Date		Unexpended Balance
	Original	Revised		Current Year	Total	
Districtwide Security	\$ 500,000	\$ 500,000	\$ -	\$ 495,995	\$ 495,995	\$ 4,005
Garfield Avenue Maintenance Facility	1,108,000	1,608,000	1,604,673	3,327	1,608,000	-
2007 Bond Projects - School District Improvements	12,940,517	12,941,402	12,723,743	-	12,723,743	217,659
Total	\$ 14,548,517	\$ 15,049,402	\$ 14,328,416	\$ 499,322	\$ 14,827,738	\$ 221,664

See paragraph on supplementary schedules included in auditor's report

SAYVILLE UNION FREE SCHOOL DISTRICT
 SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES
 COMPARED TO ST-3 DATA
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Property Taxes	A - 1001	\$ 50,638,324	\$ 50,638,324
Non-property Taxes	AT - 1199	-	-
State Aid	AT - 3999	23,298,001	23,298,001
Federal Aid	AT - 4999	34,097	34,097
Total Revenues	AT - 5999	83,556,673	83,556,673
EXPENDITURES			
General Support	AT - 1999	10,102,355	10,102,355
Pupil Transportation	AT - 5599	3,524,930	3,524,930
Debt Service - Principal	AT - 9798.6	4,206,726	4,206,726
Debt Service - Interest	AT - 9798.7	1,343,227	1,343,227
Total Expenditures	AT - 9999	85,944,561	85,944,561

See paragraph on supplementary schedules included in auditor's report.

SAYVILLE UNION FREE SCHOOL DISTRICT
SCHEDULE OF NET INVESTMENT IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2014

Capital Assets, Net		\$ 57,869,565
Deduct:		
Short-term Portion of Bonds Payable	\$ 3,545,000	
Long-term Portion of Bond Payable	23,290,000	
Short-term Portion of Energy Performance Contract	430,338	
Long-term Portion of Energy Performance Contract	6,084,119	
Unamortized Portion of Deferred Refunding Premium, Net of Deferred Charge on Refunding	<u>155,240</u>	<u>(33,504,697)</u>
Net Investment in Capital Assets		<u>\$ 24,364,868</u>

See paragraph on supplementary schedules included in auditor's report.



Pappas & Company

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited, 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 the Sayville Union Free School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 6, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sayville Union Free School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the 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.

Pappas & Company

Commack, New York
October 6, 2014