

**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, 2013**

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# Pappas & Company

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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, 2013, 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, 2013, 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.

### **Emphasis-of-Matter**

The Governmental Accounting Standards Board issued Statement No. 65-"Items Previously Reported as Assets and Liabilities". This Statement builds on the requirements of GASB Statement No. 63-"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position". The District chose early application of GASB Statement No.65 as it has an impact on the presentation of the advance refunding of bonds which took place during the fiscal year. Use of the term "deferred" is limited to specific inflows or outflows of resources as described in the Statement.

### **Other Matters**

#### Required Supplementary Information

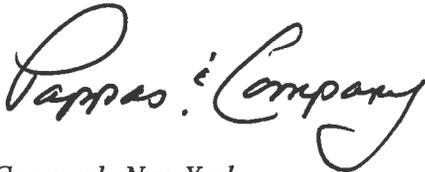
Accounting principles generally accepted in the United States of America require that the management discussion and analysis, the budgetary comparison schedules and the schedule of funding progress-post employment benefits plan, be presented to supplement the basic financial statements. Such information, 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 1, 2013 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.*

A handwritten signature in cursive script that reads "Pappas & Company". The signature is written in dark ink and is positioned above the typed name and date.

Commack, New York  
October 1, 2013

# 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, 2013. 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, 2013 was \$18,450,777. (For details please refer to Exhibit 1 in the Financial Statement section).
- Overall general revenues for all funds were \$86,511,247, which were less than expenditures by \$2,025,866 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, 2013 was \$28,993,664. Of this amount, \$3,575,973 is available for spending at the government's discretion (unassigned).
- During the year the District did an advance refunding of bonds (more fully explained in the Notes to the Financial Statements) at an approximate saving of \$553,180. Principal paid down on outstanding serial bond debt amounted to \$3,950,000.
- The District continues to offer all programs. The proposed 2013-2014 budget in the amount of \$89,461,217 was approved by the District's residents.

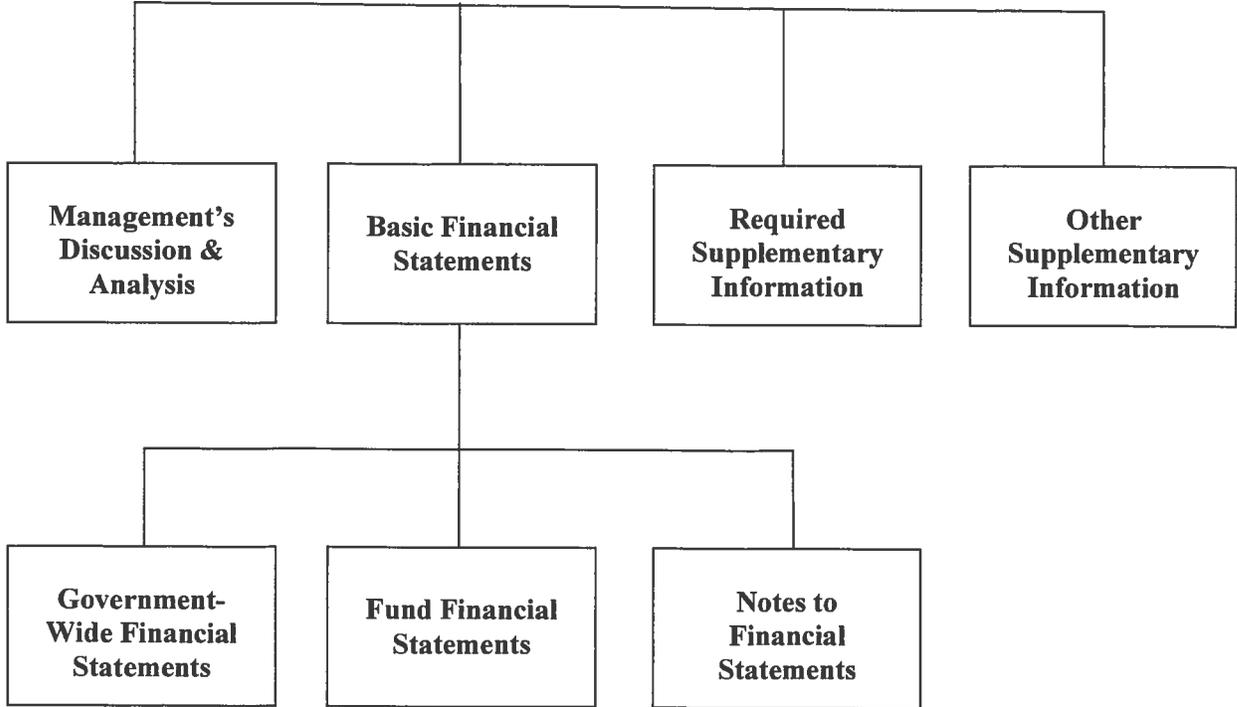
### OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *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:

<b>TABLE A-2</b>			
	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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes In Fiduciary Net Position</li> </ul>
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, 2013, than it was the year before, decreasing \$2,025,866 to \$18,450,777. (See Table A-3)

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

	<u>Governmental Activities</u>		Total
	<u>2013</u>	<u>2012</u>	<u>Percentage</u>
<u>ASSETS</u>			<u>Change</u>
Current and Other Assets	\$ 36,573	\$ 35,470	
Capital Assets	<u>60,493</u>	<u>60,909</u>	
Total Assets	<u>97,066</u>	<u>96,379</u>	<u>.71%</u>
<u>DEFERRED OUTFLOWS</u>			
Deferred Charges on Refunding	<u>422</u>	<u>-</u>	
<u>LIABILITIES</u>			
Current Liabilities	11,779	10,287	
Non-Current Liabilities/Unearned Revenue	<u>67,258</u>	<u>65,615</u>	
Total Liabilities/Unearned Revenue	<u>79,037</u>	<u>75,902</u>	<u>4.13%</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	22,758	21,371	
Restricted	18,529	16,074	
Unrestricted	<u>(22,836)</u>	<u>(16,968)</u>	
Net Position	<u>\$ 18,451</u>	<u>\$ 20,477</u>	<u>(9.89%)</u>

In 2013, Current and Other Assets showed an increase in combined Cash/Restricted Cash.

Capital assets increased by various school district improvement projects detailed in the supplementary schedule (SS 4). However, depreciation 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 implemented this fiscal year.

The largest increase in Current Liabilities is attributable to Accounts Payable/Accrued Liabilities. Other liabilities increased by lesser amounts (i.e. Due to the Teachers' and Employees' retirement systems as well as the current portion of serial debt).

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 in non-current liabilities.

- Capital assets valued here are net of depreciation.
- Liabilities include all school district debt and long-term compensated absences as well as other postemployment benefit obligations.
- Net 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 \$416,176. However, the financing related to the assets decreased by \$1,803,904.
- Restricted resources of \$18,528,541 are composed of amounts detailed under “Financial Analysis of the District’s Funds”.
- The unrestricted resources remaining in the amount of (\$22,836,144) 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)**

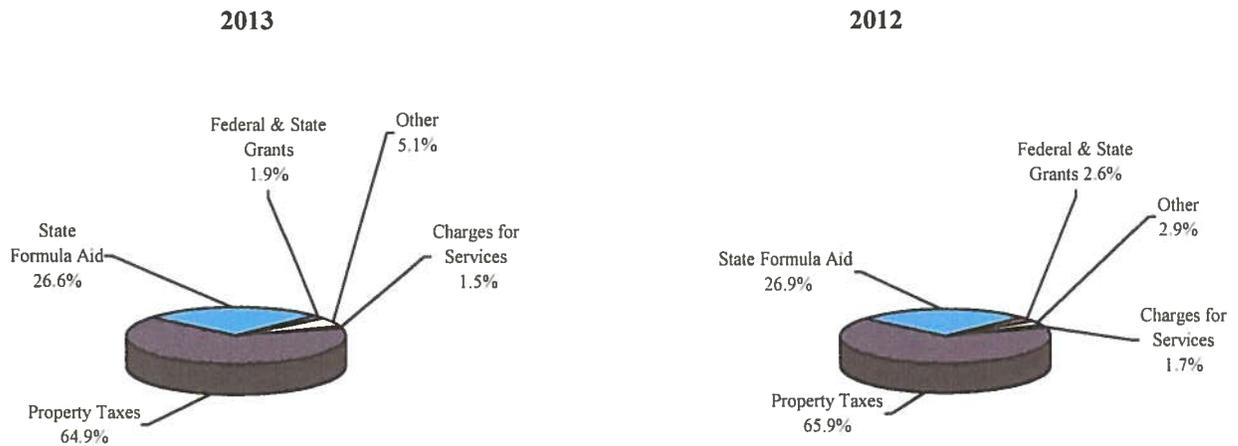
	Governmental Activities		Total Percentage Change
	2013	2012	
<b>Revenues</b>			
Program Revenues			
Charges for Services	\$ 1,300	\$ 1,414	
Operating Grants	1,677	2,198	
General Revenues			
Property Taxes and Tax Items	56,104	54,826	
State Formula Aid	23,008	22,367	
Other	4,422	2,404	
<b>Total Revenues</b>	<b>\$ 86,511</b>	<b>\$ 83,209</b>	<b>3.97%</b>
<b>Expenses</b>			
General Support	12,454	12,302	
Instruction	69,964	66,636	
Pupil Transportation	3,362	3,435	
Community Service	176	163	
Debt Interest	1,302	1,738	
Debt Issuance Costs	121	-	
School Lunch Program	1,158	1,148	
<b>Total Expenses</b>	<b>88,537</b>	<b>85,422</b>	<b>3.65%</b>
<b>Decrease in Net Position</b>	<b>(2,026)</b>	<b>(2,213)</b>	
<b>Net Position -beginning of year</b>	<b>20,477</b>	<b>22,690</b>	
<b>Net Position-end of year</b>	<b>18,451</b>	<b>20,477</b>	

**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**

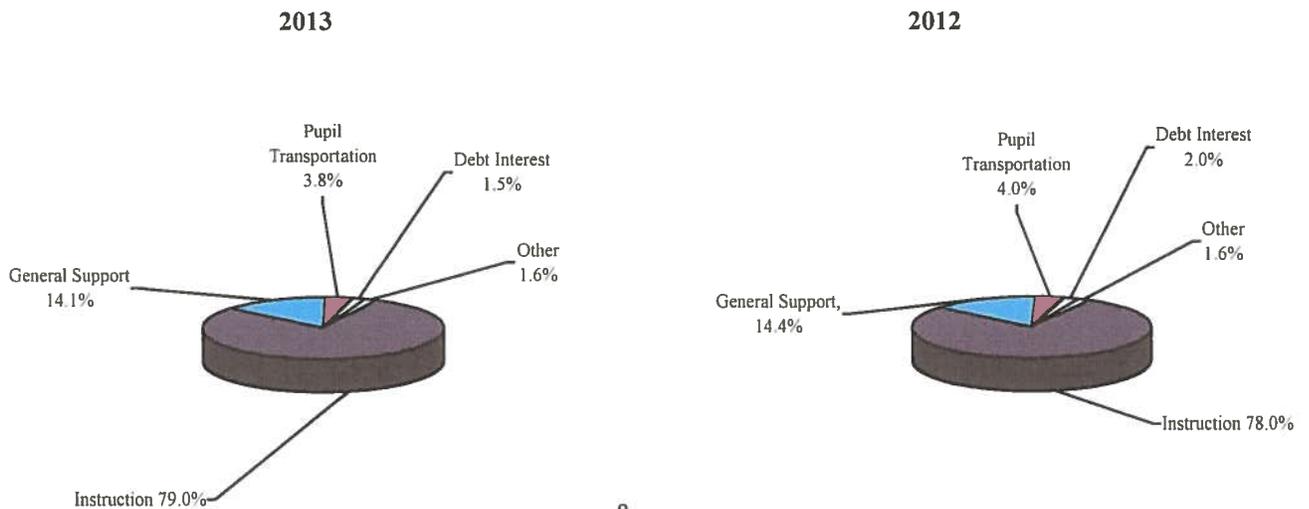


**Expenses**

The District’s expenses are predominantly related to general support, instruction and transporting students. The District’s general support activities accounted for 14.1 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.
- Positive financial performance due to conservative financial management and careful expenditure control.
- Approval of the annual budget and support of community.
- Long-range fiscal strategies that have effectively utilized the District's available resources; and the use of reserve and surplus funds.
- Recent sale of the Public Library building, in which 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)**

	2013		2012	
	Total Cost	Net Cost	Total Cost	Net Cost
General Support	\$ 12,454	\$ 12,454	\$ 12,302	\$ 12,302
Instruction	69,964	68,139	66,636	64,153
Pupil Transportation	3,362	3,362	3,435	3,435
Debt Interest	1,302	1,302	1,738	1,738
Debt Issuance Costs	121	121	-	-
Community Service	176	176	163	163
School Lunch	1,158	6	1,148	19
<b>Total</b>	<b>\$ 88,537</b>	<b>\$ 85,560</b>	<b>\$ 85,422</b>	<b>\$ 81,810</b>

- Most of the net costs of \$85,560,352 were financed by District's taxpayers and government aid.
- The total costs of all government activities this year was \$88,537,113.
- The users of the District's programs funded \$1,300,140 of the cost by "charges for services". Operating grants of \$1,676,621 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, 2013, the District's governmental funds reported a combined fund balance of \$29,214,650, which is a decrease of \$206,870 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:

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
<b>General Fund</b>			
Restricted for:			
Bonded debt	\$ 373,045	\$ 9,675	\$ 363,370
Tax Reduction	1,323,850	-	1,323,850
Employee benefit accrued liability	7,615,830	7,967,029	(351,199)
Retirement contribution	6,474,312	5,415,154	1,059,158
Workers' compensation	1,936,631	1,856,631	80,000
Unemployment insurance	804,873	825,403	(20,530)
Subtotal-Restricted	<u>18,528,541</u>	<u>16,073,892</u>	<u>2,454,649</u>
Assigned:			
Designated fund balance for subsequent year's budget	4,019,500	4,000,000	19,500
General Government expenditures	2,869,650	2,934,643	(64,993)
Unassigned	<u>3,575,973</u>	<u>3,424,023</u>	<u>151,950</u>
	<u>28,993,664</u>	<u>26,432,558</u>	<u>2,561,106</u>
<b>School Lunch Fund</b>			
Nonspendable: Inventory	22,771	20,538	2,233
Unassigned	<u>(22,771)</u>	<u>(20,538)</u>	<u>(2,233)</u>
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Capital Projects Fund</b>			
Restricted for bonded/EPC projects	217,659	2,273,660	(2,056,001)
Assigned:			
Unappropriated fund balance	3,327	715,302	(711,975)
	<u>220,986</u>	<u>2,988,962</u>	<u>(2,767,976)</u>
	<u>\$ 29,214,650</u>	<u>\$ 29,421,520</u>	<u>\$ (206,870)</u>

**A. General Fund**

The net change in the general fund – fund balance is an increase of \$2,561,106 as revenues of \$84,372,176 exceeded expenditures of \$81,811,070.

**B. School Lunch Fund**

The school lunch fund had no fund balance. Both revenue and expenditures were equal with no beginning fund balance. The nonspendable inventory caused a negative unassigned fund balance.

### C. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$2,767,976 as work continued on the District’s various capital projects and served to increase the capital assets.

## 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) 2012-2013 Budget

The District’s general fund adopted budget for the year ended June 30, 2013 was \$85,674,961. This amount was increased by encumbrances carried forward from the prior year in the amount of \$2,934,643 and budget revisions of \$286,215 for a final budget of \$88,895,819.

The actual results for the year show an excess of revenues over expenditures of \$2,561,106.

### (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	\$ 3,424,023
Revenues Over Budget	2,636,438
Restricted Reserves Appropriated	(225,438)
Expenditures and Encumbrances under budget	4,215,099
Changes in Restricted Fund Balance	(2,454,649)
Assigned, Designated for June 30, 2014 budget	<u>(4,019,500)</u>
Closing, Unassigned Fund Balance	\$ <u>3,575,973</u>

The unassigned fund balance represents the fund balance retained by the District that is not restricted or assigned for subsequent year's budget. This amount is limited to 4% of the 2013-2014 budget.

Most significant, revenues were over budget in "Sale of property and compensation for loss" as proceeds on the sale of the building (old library) are shown here.

In accordance with Schedule SS-1, the total unencumbered balance equaled \$4,215,099. The following represents a brief summary of the significant items:

- I. Of the \$2,244,764 under total instruction, \$1,368,839 consisted of unspent Special Education BOCES funds which resulted because less Special Education students attended BOCES than originally anticipated, and remained in District operated programs.
- II. Employee Benefits shows total unencumbered balance of \$1,047,746. The District's actual increase in health costs came in lower than what was originally budgeted. For the 2012-13 school year, rates increased by 10%.

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, 2013, the District had invested \$60,492,660 net of accumulated depreciation in a broad range of capital assets, including land, buildings and improvements, furniture, machinery and equipment and vehicles. This includes \$701,428 of grants and resources of the Sayville Library, contributed towards construction of the District owned building. Total depreciation expense for the year was \$3,384,895 and additions to building improvements and machinery and equipment amounted to \$2,981,469 net of the construction in progress rollover.

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

	Governmental Activities	
	2013	2012
Land	\$ 306	\$ 318
Construction in Progress	23	9,693
Buildings	57,686	48,601
Site Improvements	484	156
Machinery/Equipment/Vehicles	1,994	2,141
Total	\$ 60,493	\$ 60,909

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 \$26,835,000 (non-current portion) of general obligation bonds adjusted for the non-current portion of premium related of \$523,407 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	
	2013	2012
Serial Bonds	\$ 27,358	\$ 30,935
Energy Performance Contract	6,515	6,931
Compensated Absences	6,933	6,853
Net OPEB Obligation	26,453	20,896
<b>Total</b>	<b>\$ 67,259</b>	<b>\$ 65,615</b>

**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 31<sup>st</sup> CPI. Unfortunately, CPI is currently running about 1.6% and is not projected to grow much higher by December 2013. Therefore, there is a good possibility that the CPI used for levy cap calculation will be well under 2%. Couple this challenge with the new Pilot Project in Sayville and our Tax Levy Cap for preparation of the 2014-15 budget will in all likelihood be under 1.5%.
- Continued fiscal burden for local school districts to fund additional Federal, State, and local **unfunded mandates**.
- New York State’s **continuing** fiscal deficit.

- New York State's lack of commitment to fund the current State aid formula.
- New York State's ability to provide mandate relief in order to reduce the fiscal burden to local taxpayers.
- New York State's ability to provide the necessary Legislation to allow public schools to begin funding Other Postemployment Benefits (OPEB) in accordance with GASB 45 disclosure and reporting requirements.
- New York State's ability to create Legislation that would allow public schools to establish a Teacher Retirement reserve (TRS) to help offset rising retirement costs.
- The limited financial markets and the continued consolidation of financial institutions, thus limiting available resources.
- The effect of rising interest rates on the District's Tax Anticipation Notes (Tan's), Bond Anticipation Notes (BAN's) and future Bond borrowings.
- The continued downturn in financial investment markets and the effect of continued increases on New York State Employee and Teacher Retirement Systems and contribution rates.

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

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

SAYVILLE UNION FREE SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013

**ASSETS**

Current Assets:	
Cash	\$ 27,078,029
Restricted Cash	6,890,632
Accounts Receivable	104,178
State and Federal Aid Receivable	2,474,716
Due from Other Governments	3,083
Due from Fiduciary Fund	24
Inventories	22,771
Total Current Assets	<u>36,573,433</u>
Non-Current Assets:	
Capital Assets-Not Being Depreciated	329,028
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>60,163,632</u>
Total Assets	<u>97,066,093</u>

**DEFERRED OUTFLOWS**

Deferred Charge on Refunding	<u>422,376</u>
Total Deferred Outflows of Resources	<u>422,376</u>

**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities	2,486,693
Bond Interest and Matured Bonds	43,275
Accrued Interest Payable-Bonds	136,431
Due to Other Governments	580
Serial Bonds Payable - Due Within One Year	3,867,066
Energy Performance Contract - Due Within One Year	416,726
Due To Teachers' Retirement System	3,863,783
Due To Employees' Retirement System	474,649
Compensated Absences Payable-Due Within One Year	337,236
Unearned Revenue	152,567
Total Current Liabilities and Unearned Revenue	<u>11,779,006</u>
Non-Current Liabilities:	
Serial Bonds Payable	27,358,407
Energy Performance Contract	6,514,457
Net OPEB Obligation	26,452,477
Compensated Absences Payable	6,933,345
Total Non-Current Liabilities	<u>67,258,686</u>
Total Liabilities and Unearned Revenue	<u>79,037,692</u>

**NET POSITION**

Net Investment in Capital Assets	22,758,380
Restricted	18,528,541
Unrestricted (Deficit)	<u>(22,836,144)</u>
Total Net Position	<u>\$ 18,450,777</u>

See Accompanying Notes to the Basic Financial Statements.

SAYVILLE UNION FREE SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
JUNE 30, 2013

	<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>	
<b><u>FUNCTIONS/PROGRAMS</u></b>				
General Support	\$ 12,454,105	\$ -	\$ -	\$ (12,454,105)
Instruction	69,964,153	372,899	1,452,143	(68,139,111)
Pupil Transportation	3,361,989	-	-	(3,361,989)
Community Service	175,909	-	-	(175,909)
Debt Interest Expense	1,302,173	-	-	(1,302,173)
Debt Issuance Costs	120,478	-	-	(120,478)
School Lunch Program	1,158,306	927,241	224,478	(6,587)
	<u>\$ 88,537,113</u>	<u>\$ 1,300,140</u>	<u>\$ 1,676,621</u>	<u>(85,560,352)</u>
Total Functions and Programs				
 <b><u>GENERAL REVENUES</u></b>				
Real Property Taxes				49,622,471
Other Tax Items Including STAR Reimbursement				6,481,176
Use of Money and Property				1,763,283
Sale of Property and Compensation for Loss				1,578,177
Miscellaneous				682,644
Medicare Reimbursement				250,617
Federal Sources				148,127
State Aid-General				23,007,991
				<u>83,534,486</u>
Total General Revenues				
				(2,025,866)
Change in Net Position				
				<u>20,476,643</u>
Total Net Position - Beginning of Year				
				<u>\$ 18,450,777</u>
Total Net Position - End of Year				

See Accompanying Notes to the Basic Financial Statements.

SAYVILLE UNION FREE SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Governmental Funds Total
<b>ASSETS</b>						
Cash	\$ 26,556,946	\$ 205,793	\$ 57,193	\$ -	\$ 258,097	\$ 27,078,029
Restricted Cash	6,890,632	-	-	-	-	6,890,632
State and Federal Aid Receivable	1,195,168	1,267,349	12,199	-	-	2,474,716
Due From Other Funds	1,366,763	-	-	-	-	1,366,763
Due From Fiduciary	24	-	-	-	-	24
Due From Other Governments	3,083	-	-	-	-	3,083
Accounts Receivable	101,886	-	2,292	-	-	104,178
Inventories	-	-	22,771	-	-	22,771
Total Assets	\$ 36,114,502	\$ 1,473,142	\$ 94,455	\$ -	\$ 258,097	\$ 37,940,196
<b>LIABILITIES</b>						
Accounts Payable and Accrued Liabilities	\$ 2,270,795	\$ 190,359	\$ 25,539	\$ -	\$ -	\$ 2,486,693
Bond Interest and Matured Bonds	43,275	-	-	-	-	43,275
Due To Other Funds	-	1,280,232	49,420	-	37,111	1,366,763
Due To Other Governments	-	-	580	-	-	580
Due To Teachers' Retirement System	3,863,783	-	-	-	-	3,863,783
Due To Employees' Retirement System	474,649	-	-	-	-	474,649
Compensated Absences Payable	337,236	-	-	-	-	337,236
Unearned Revenue	131,100	2,551	18,916	-	-	152,567
Total Liabilities and Unearned Revenue	\$ 7,120,838	\$ 1,473,142	\$ 94,455	\$ -	\$ 37,111	\$ 8,725,546
<b>Fund Balances:</b>						
Nonspendable	-	-	22,771	-	-	22,771
Inventory	-	-	-	-	-	-
Restricted	-	-	-	-	217,659	217,659
Bonded Projects-unspent proceeds	-	-	-	-	-	-
Bonded Debt	373,045	-	-	-	-	373,045
Employee Benefit Accrued Liability	7,615,830	-	-	-	-	7,615,830
Retirement Contribution	6,474,312	-	-	-	-	6,474,312
Workers' Compensation	1,936,631	-	-	-	-	1,936,631
Unemployment Insurance	804,873	-	-	-	-	804,873
Tax Reduction	1,323,850	-	-	-	-	1,323,850
Assigned	-	-	-	-	-	-
Appropriated Fund Balance	-	-	-	-	-	-
Designated for subsequent year's budget	4,019,500	-	-	-	-	4,019,500
Other	2,869,650	-	-	-	3,327	2,872,977
Unassigned	3,575,973	-	(22,771)	-	-	3,553,202
Total Fund Balances	\$ 28,993,664	\$ -	\$ -	\$ -	\$ 220,986	\$ 29,214,650
Total Liabilities and Fund Bal	\$ 36,114,502	\$ 1,473,142	\$ 94,455	\$ -	\$ 258,097	\$ 37,940,196

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, 2013

Total Governmental Fund Balances	\$	29,214,650
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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	\$	104,132,928	
Accumulated depreciation		<u>(43,640,268)</u>	60,492,660

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.		422,376
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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	31,225,473	
Energy Performance Contract	6,931,183	
Accrued interest on bonds payable	136,431	
Compensated absences (less portion in General Fund)	6,933,345	
Net OPEB obligation	<u>26,452,477</u>	<u>(71,678,909)</u>

Total Net Position	\$	<u><u>18,450,777</u></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, 2013

	Governmental Fund Types					Capital Projects	Governmental Funds Total
	General	Special Aid	School Lunch	Debt Service			
<b>Revenues:</b>							
Real Property Taxes	\$ 49,622,471	-	-	-	-	\$	\$ 49,622,471
Real Property Tax Items (Including STAR Reimbursement)	6,481,176	-	-	-	-		6,481,176
Charges for Services	372,899	-	14,756	-	-		387,655
Use of Money and Property	1,763,207	-	76	-	-		1,763,283
Sale of Property and Compensation for Loss	1,590,927	-	-	-	-		1,590,927
Miscellaneous	674,179	-	-	-	-		674,179
Slate and Local Sources	23,007,991	546,649	13,711	-	-		23,568,351
Medicare Reimbursement	250,617	-	-	-	-		250,617
Federal Sources	148,127	905,494	157,144	-	-		1,210,765
Surplus Food	-	-	53,623	-	-		53,623
Sales-School Breakfast and Lunch Program	-	-	912,485	-	-		912,485
Total Revenues	83,911,594	1,452,143	1,151,795	-	-		86,515,532
<b>Expenditures:</b>							
Current:							
General Support	9,274,811	-	-	-	-		9,274,811
Instruction	44,286,342	1,481,982	-	-	-		45,768,324
Pupil Transportation	3,237,183	100,627	-	-	-		3,337,810
Community Services	103,372	-	-	-	-		103,372
Employee Benefits	18,622,438	-	101,236	-	-		18,723,674
Cost of Sales	-	-	1,050,559	-	-		1,050,559
Debt Service:							
Principal	4,185,661	-	-	-	-		4,185,661
Interest	1,470,797	-	-	-	-		1,470,797
Debt Issuance Costs	-	-	-	120,478	-		120,478
Capital Outlay	-	-	-	-	2,807,394		2,807,394
Total Expenditures	81,180,604	1,582,609	1,151,795	120,478	2,807,394		86,842,880
Excess (Deficiency) of Revenues Over Expenditures	2,730,990	(130,466)	-	-	(2,807,394)		(327,348)
<b>Other Sources and (Uses):</b>							
Operating Transfers In	460,582	130,466	-	-	-		591,048
Operating Transfers Out	(630,466)	-	-	-	-		(1,091,048)
Bonds Issued on Refunding	-	-	-	11,050,000	-		11,050,000
Premium on Refunding	-	-	-	642,217	-		642,217
Payment to Bond Escrow Agent	-	-	-	(11,571,739)	-		(11,571,739)
Total Other Sources (Uses)	(169,884)	130,466	-	120,478	39,418		120,478
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other (Uses)	2,561,106	-	-	-	(2,767,976)		(206,870)
Fund Balance Beginning of Year	26,432,558	-	-	-	2,988,962		29,421,520
Fund Balance End of Year	28,993,664	-	-	-	220,986		29,214,650

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, 2013

Excess of Revenues and Other Sources Over Expenditures and Other (Uses)	\$	(206,870)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<b>Capital Related Differences:</b>		
<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	\$ 2,973,004	
Depreciation expense	(3,384,895)	
Donated asset	8,465	
Land cost removed from capital assets on sale of building	<u>(12,750)</u>	(416,176)
<b>Long-Term Debt Transaction Differences</b>		
<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	3,950,000	
Energy performance	<u>235,661</u>	4,185,661
<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, 2012 to June 30, 2013 decreased by		156,243
<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>		
Issuance costs of refunding paid from proceeds and not requiring current resources	(120,478)	
Amortization of premium on refunding	41,744	
Amortization of deferred charge on refunding	<u>(29,363)</u>	(108,097)
<b>Long-Term Expense Differences</b>		
<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	(79,894)	
Increase in Postemployment benefits (Net OPEB Obligation)	<u>(5,556,733)</u>	<u>(5,636,627)</u>
Changes in Net Position of Governmental Activities	\$	<u><u>(2,025,866)</u></u>

See Accompanying Notes to the Basic Financial Statements.

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

	Private Purpose Fund	Agency Fund
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash	\$ 516,089	\$ 517,381
Total Assets	<u>516,089</u>	<u>517,381</u>
<b>LIABILITIES</b>		
Extraclassroom Activity Balances	-	207,792
Group Insurance and Benefits	-	231,345
Due to Other Funds	-	24
Other Liabilities	-	78,220
Total Liabilities	<u>-</u>	<u>\$ 517,381</u>
<b>NET POSITION</b>		
Held in Trust For:		
Endowment Scholarships	516,089	
Total Net Position	<u>\$ 516,089</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, 2013

	<u>Private Purpose Fund</u>
<b>ADDITIONS</b>	
Gifts and Donations	\$ 5,075
Interest	521
Total Additions	<u>5,596</u>
<b>DEDUCTIONS</b>	
Scholarship Expenses	36,050
Total Deductions	<u>36,050</u>
Change in Net Position	(30,454)
Net Position- Beginning	546,543
Net Position- Ending	<u>\$ 516,089</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*, effective beginning with June 30, 2013 fiscal year end. 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, 2013

**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, 2013, the District was billed \$4,715,219 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, 2013

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.

**Debt Service Fund:** Shown this year, as required by NYS, to reflect the advance refunding of bonds.

**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.

Sayville Union Free School District  
Notes to Basic Financial Statements  
Year Ended June 30, 2013

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

**D) Measurement focus and basis of accounting:**

The 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) Adoption of New Accounting Statements-GASB 63 and GASB 65:**

In June 2011, the Governmental Accounting Standards Board released Statement No. 63- *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for period beginning after December 15, 2011. GASB 63 amends the net asset reporting requirement in Statement 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District does not have any deferred inflows or deferred outflows of resources that fit the definition in GASB 63; therefore, the only change to the financial statements for GASB 63 is the reporting of the residual amount as net position rather than net assets and changing "Investment in Capital Assets, Net of Related Debt" to Net Investment in Capital Assets".

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Further, Governmental Accounting Statement No. 65 *Items Previously Reported as Assets and Liabilities* was issued in March of 2012 effective for statements for periods beginning after December 15, 2012. Earlier application is encouraged and with the advance refunding of serial bonds by the District during 2012-2013 it is appropriate to report the transaction under the new classifications required by GASB 65. The statement recognizes as a deferred inflow of resources or a deferred outflow of resources items that were previously reported as assets and liabilities. The difference between the reacquisition price and the net carrying amount of the old debt will be reported as a Deferred Outflow of Resources and the bond issuance costs will be treated as a current outflow (expense).

**F) Cash and investments:**

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

**G) Property taxes:**

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

**H) Accounts Receivable:**

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

**I) Inventories and prepaid items:**

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

**J) Due to/from other funds:**

The amounts reported on the Statement of Net 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

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and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these Notes.

**K) Capital assets:**

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

The District's capitalization policy is as follows:

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

	<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

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

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

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

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

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

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M) **Other benefits:**

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

In addition to providing pension benefits, the District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as 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*.

N) **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, mortgages 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.

*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

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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 Workers' Compensation Law, and for payment of expenses of administering this self-insurance program.

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

**Reserve for Debt Service**

Mandatory reserve for debt service (GML§6-l) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations

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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.

**Restricted-Unspent bond proceeds**

Unspent debt proceeds are recorded as a restricted fund balance because they are subject to external constraints in the agreement. These restricted funds are accounted for in the Capital Projects Fund.

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

**O) Budgetary procedures and budgetary accounting:**

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

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

Appropriations are adopted at the program line item level.

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

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

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

**P) Encumbrances:**

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

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

**R) Use of estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities

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and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period.

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

**S) Short-term debt:**

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

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

**T) Long-term liabilities:**

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

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**Note 3 – Stewardship and Compliance:**

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

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

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

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. During the fiscal year 2013, the District has invested in deposits within the above-described parameters.

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

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

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year-end. The District does not typically purchase investments for long enough duration to cause it to believe that it is exposed to any material interest rate risk.

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

Cash shown as Restricted is held in a separate account.

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**Note 5 – Capital assets:**

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

	Beginning Balance	Additions	Retirements/ Reclass.	Ending Balance
<b>Governmental Activities:</b>				
<b>Capital Assets That Are Not Depreciated:</b>				
Land	\$ 318,490	\$ -	\$ (12,750)	\$ 305,740
Construction in Progress	9,692,547	23,288	(9,692,547)	23,288
<b>Total Nondepreciable Cost</b>	<b>\$ 10,011,037</b>	<b>\$ 23,288</b>	<b>\$ (9,705,297)</b>	<b>\$ 329,028</b>
<b>Capital Assets That Are Depreciated:</b>				
Buildings/Building Improvements	\$ 86,490,875	\$ 12,150,966	\$ (511,966)	\$ 98,129,875
Site Improvements	711,892	335,986	(1,794)	1,046,084
Machinery and Equipment	3,914,141	119,814	(48,552)	3,985,403
Vehicles	640,169	43,962	(41,593)	642,538
<b>Total Depreciable Cost</b>	<b>\$ 91,757,077</b>	<b>\$ 12,650,728</b>	<b>\$ (603,905)</b>	<b>\$ 103,803,900</b>
<b>Less:</b>				
<b>Accumulated Depreciation:</b>				
Buildings/Building Improvements	37,890,431	3,065,648	(511,966)	40,444,113
Site Improvements	555,532	8,703	(1,794)	562,441
Machinery and Equipment	1,928,413	269,422	(48,552)	2,149,283
Vehicles	484,902	41,122	(41,593)	484,431
<b>Total Accumulated Depreciation</b>	<b>\$ 40,859,278</b>	<b>\$ 3,384,895</b>	<b>\$ (603,905)</b>	<b>\$ 43,640,268</b>
<b>Total Depreciable-Net</b>	<b>\$ 50,897,799</b>	<b>\$ 9,265,833</b>	<b>\$ -</b>	<b>\$ 60,163,632</b>
<b>Grand Total</b>	<b>\$ 60,908,836</b>	<b>\$ 9,289,121</b>	<b>\$ (9,705,297)</b>	<b>\$ 60,492,660</b>

Depreciation has been allocated to governmental functions as follows:

General Support	\$ 193,161
School Lunch Program	6,511
Instruction	3,185,223
<b>Total Depreciation Expense</b>	<b>\$ 3,384,895</b>

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

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

Custody of the Bond Proceeds shall be held in the name of the School District. The "Rent" for the School District's leasehold interest is directly related to the reimbursement for

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principal and interest on the outstanding bonds. The Library bond issue dated March 1, 2008 is in the amount of \$12,988,600. The aggregate amount expended on the construction project by bond proceeds and other revenue was \$12,595,165 at June 30, 2013. This amount is included in Capital Assets.

**Note 7 – Short-term debt:**

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

**Note 8– Long-term debt:**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Bonds Payable/Contracts:</b>					
Serial Construction Bonds	\$ 34,645,000	\$ 11,050,000	\$ 15,070,000	\$ 30,625,000	\$ 3,790,000
Premium on New Issue		642,217	41,744	600,473	77,066
Energy Performance Contract	7,166,844		235,661	6,931,183	416,726
<b>Total Bonds Payable/Contracts</b>	<b>41,811,844</b>	<b>11,692,217</b>	<b>15,347,405</b>	<b>38,156,656</b>	<b>4,283,792</b>
<b>Other Liabilities:</b>					
Compensated Absences	7,305,922	440,500	475,841	7,270,581	337,236
<b>Total Long-Term Liabilities</b>	<b>\$ 49,117,766</b>	<b>\$ 12,132,717</b>	<b>\$ 15,823,246</b>	<b>\$ 45,427,237</b>	<b>\$ 4,621,028</b>

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

**Advance Refunding**

During 2012-2013, 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 to refund \$11,120,000 of 2002 Serial bonds (Series A \$1,675,000, maturing June 15, 2016 and bearing interest at 4.375-4.500%; Series B \$2,430,000 maturing April 15, 2021 and bearing interest at 4.375-5.000%; Series C \$6,025,000 maturing June 15, 2016 and bearing interest at 4.000-4.250% and Series D \$990,000 maturing June 15, 2020 and bearing interest at 4.125-4.600%). The present value of savings to the District by such refunding is approximately \$553,180.

The net proceeds of \$11,571,739 (representing an amount including receipt of a premium in the amount of \$642,217 and payment of \$120,478 in underwriting fees and other issuance

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costs) were used to purchase U.S. Treasury Securities-State and Local Government Series (SLGS), to be deposited in Bank of New York Mellon for the automatic payment of the refunded issues.

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. The premium received on refunding \$642,217 is amortized over the life of the new debt and shown in the long term debt serial bond schedule.

Underwriting and other issuance costs which totaled \$120,478 are expensed and the loss on refunding of \$451,739 is shown as a Deferred Outflow of Resources and amortized in accordance with early application of GASB Statement No. 65.

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
2014	\$ 3,790,000	\$ 1,109,225	\$ 4,899,225
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
2019-2023	8,320,000	2,587,095	10,907,095
2024-2028	7,335,000	1,024,142	8,359,142
2029	550,000	22,000	572,000
	<u>\$ 30,625,000</u>	<u>\$ 8,140,950</u>	<u>\$ 38,765,950</u>

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

Fiscal Year	Premium on Refunding	Deferred Outflow (Loss on Refunding)
2014	\$ 77,066	\$ 54,209
2015	77,066	54,209
2016	77,066	54,209
2017	77,066	54,209
2018	77,066	54,209
2019-2021	215,143	151,331
	<u>\$ 600,473</u>	<u>\$ 422,376</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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Fiscal Year	Principal	Interest	Total
2014	\$ 416,726	\$ 221,222	\$ 637,948
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
2019-2023	2,612,030	577,711	3,189,741
2024-2027	2,094,889	137,930	2,232,819
	<u>\$ 6,931,183</u>	<u>\$ 1,681,120</u>	<u>\$ 8,612,303</u>

Interest on long-term debt, after adjustment for accruals and refunding amounts amortized, amounted to \$1,302,173.

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

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	\$ 1,366,787	\$ -	\$ 460,582	\$ 630,466
School Lunch Fund	-	49,420	-	-
Special Aid Fund	-	1,280,232	130,466	-
Capital Projects Fund	-	37,111	500,000	460,582
Total Governmental Activities	<u>\$ 1,366,787</u>	<u>\$ 1,366,763</u>	<u>\$ 1,091,048</u>	<u>\$ 1,091,048</u>
Agency Fund	-	24	-	-
Grand Totals	<u><u>\$ 1,366,787</u></u>	<u><u>\$ 1,366,787</u></u>	<u><u>\$ 1,091,048</u></u>	<u><u>\$ 1,091,048</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  
Year Ended June 30, 2013

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, 15<sup>th</sup> 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, currently 11.84% of the annual covered payroll for the fiscal year ended June 30, 2013. Rates applicable to the fiscal years ended June 30, 2012 and 2011 were respectively, 11.11% and 8.62%.

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.

Sayville Union Free School District  
Notes to Basic Financial Statements  
Year Ended June 30, 2013

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
2010 - 2011	\$ 2,413,346	\$	1,086,469
2011 - 2012	3,383,421		1,410,263
2012 - 2013	3,713,134		1,769,788

**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, 2012.

**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.

Sayville Union Free School District  
Notes to Basic Financial Statements  
Year Ended June 30, 2013

The OPEB cost (expense) is based on the annual required contribution of the employer (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

<b>Annual OPEB Cost and Net OPEB Obligation (NOO)</b>	
Annual Required Contribution (ARC):	
Normal Cost	\$
Amortization of UAAL	
Total ARC	<u>10,251,544</u>
Interest on NOO	835,830
Adjustment to ARC	<u>(1,317,775)</u>
Annual OPEB cost	9,769,599
Contributions made	<u>(4,212,866)</u>
Increase in OPEB obligation	5,556,733
Net OPEB obligation-beginning of year	<u>20,895,744</u>
Net OPEB obligation-end of year	<u>\$ 26,452,477</u>
Annual OPEB cost	\$ 9,769,599
Percentage of annual OPEB cost contributed	43.1%
Net OPEB obligation-end of year	\$ 26,452,477
<b>Funded Status</b>	
Actuarial Accrued Liability (AAL)	\$ 112,409,679
Actuarial value of assets	0
Unfunded Actuarial Accrued Liability	\$ 112,409,679
Funded Ratio (Assets as a percentage of AAL)	0%
Annual covered payroll	\$ 37,961,207
UAAL as a percentage of covered payroll	296.1%

**Funded Status and Funding Progress**

As of June 30, 2013, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$112,409,679, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$112,409,679. The covered payroll (annual payroll of active employees covered by the plan) was \$37,961,207 and the ratio of the UAAL to the covered payroll was 296.1%.

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

Sayville Union Free School District  
Notes to Basic Financial Statements  
Year Ended June 30, 2013

actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Actuarial Methods and Assumptions**

The outside actuarial firm used the Projected Unit Credit cost method to prepare its valuation. The actuarial assumptions included a 4% investment rate of return and the mortality rate based on the RP-2000 Combined Healthy Mortality Table, retirement rates and turnover rates. The UAAL uses level dollar amortization (closed) based on 30 years. At June 30, 2013, the remaining period was 24 years.

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

**Health Care Cost Trend Rates**

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

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

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

**Note 12 – Risk Management:**

General Information

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

Suffolk School Employees Health Plan

The Sayville Union Free School District is self insured for health benefits. The plan, entitled *Suffolk School Employees Health Plan* (the “Plan”), consists of four contributing school districts in Suffolk County, New York. It is subject to the provisions of Article 44 of the New York State Insurance Law. The Plan provides health benefits (medical, hospital, surgical, major medical, and prescriptions) covering employees (and their

Sayville Union Free School District  
Notes to Basic Financial Statements  
Year Ended June 30, 2013

beneficiaries and covered dependents) with a regular schedule of twenty (20) hours or more a week, in a job category, as defined by the Plan or as modified by the School District. Each school district makes contributions to the Plan determined annually by the Plan's Board of Trustees.

**Note 13– Operating Leases**

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

Fiscal Year Ending June 30	Amount
2014	\$ 305,897
2015	281,781
2016	255,897
2017	145,808
2018	72,904
	\$ 1,062,287

**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	\$ 1,872,373
Instruction	918,068
Pupil Transportation	47,009
Employee Benefits	32,200
TOTAL	\$ 2,869,650

**(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.

Sayville Union Free School District  
Notes to Basic Financial Statements  
Year Ended June 30, 2013

**Note 15 – Subsequent Events**

Events and transactions are evaluated through the date of the financial report, which is the date the financial statements were available for issuance, for possible disclosure and recognition in the financial statements. In 2013-2014, the District entered into Phase 21-an operating lease for computers and printers for approximately one million dollars,

SAYVILLE UNION FREE SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND  
 JUNE 30, 2013

REVENUES	Original Budget	Final Budget	Actual Revenues	Over (Under) Budget
Local Sources				
Real Property Taxes	\$ 49,763,913	\$ 49,763,913	\$ 49,622,471	\$ (141,442)
Real Property Tax Items (Including STAR Reimbursement)	6,333,298	6,333,298	6,481,176	147,878
Charges for Services	449,078	449,078	372,899	(76,179)
Use of Money and Property	1,809,848	1,809,848	1,763,207	(46,641)
Sale of Property and Compensation for Loss	6,100	218,690	1,590,927	1,372,237
Medicare Part D	150,000	150,000	250,617	100,617
Miscellaneous	70,000	70,000	674,179	604,179
Total Local Sources	<u>58,582,237</u>	<u>58,794,827</u>	<u>60,755,476</u>	<u>1,960,649</u>
State Sources	22,867,286	22,940,911	23,007,991	67,080
Federal Aid			148,127	148,127
Interfund Transfer			460,582	460,582
Total Revenues	<u>81,449,523</u>	<u>81,735,738</u>	<u>84,372,176</u>	<u>2,636,438</u>
Prior year's encumbrances	2,934,643	2,934,643		
Appropriated Fund Balance (\$4,000,000) and Reserves (\$225,438)	4,225,438	4,225,438		
Total Revenues and Appropriated Fund Balance	<u>\$ 88,609,604</u>	<u>\$ 88,895,819</u>	<u>\$</u>	<u>\$</u>
EXPENDITURES				
General Support:				
Board of Education	61,198	61,390	51,560	9,830
Central Administration	318,409	320,143	318,188	1,730
Finance	1,050,626	1,069,605	936,537	110,316
Staff	717,086	726,811	660,513	24,700
Central Services	7,831,134	8,663,820	6,501,816	1,824,696
Special Items	864,335	864,335	806,197	58,138
Total General Support	<u>10,842,788</u>	<u>11,706,104</u>	<u>9,274,811</u>	<u>1,872,373</u>
Instruction:				
Instruction, Administration and Improvement	3,421,303	3,442,841	3,301,603	1,379
Teaching - Regular School	23,644,549	23,650,660	23,344,643	160,020
Programs for Children with Handicapping Conditions	11,548,350	11,543,978	9,793,726	381,413
Occupational Education	785,112	785,112	575,600	209,512
Teaching - Special Schools	193,284	195,233	167,741	27,492
Instructional Media	3,559,633	3,729,758	3,191,969	367,950
Pupil Services	4,091,941	4,101,592	3,911,060	7,306
Total Instruction	<u>47,244,172</u>	<u>47,449,174</u>	<u>44,286,342</u>	<u>918,068</u>
Pupil Transportation	3,422,256	3,426,026	3,237,183	47,009
Community Services	114,237	114,237	103,372	10,865
Employee Benefits			18,622,438	18,622,438
Debt Service	20,281,428	19,702,384		32,200
Principal	3,945,661	4,202,091	4,185,661	16,430
Interest	2,109,062	1,645,803	1,470,797	175,006
Subtotal	<u>6,054,723</u>	<u>5,847,894</u>	<u>5,656,458</u>	<u>191,436</u>
Interfund Transfers	650,000	650,000	630,466	19,534
Total Expenditures	<u>\$ 88,609,604</u>	<u>\$ 88,895,819</u>	<u>\$ 81,811,070</u>	<u>\$ 2,869,650</u>
Excess Revenues / Expenditures			\$ 2,561,106	
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, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Plan Assets</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a % of Payroll</u>
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%

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, 2013

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

Adopted Budget	\$ 85,674,961
Add: Prior year's encumbrances	2,934,643
Original Budget	<u>88,609,604</u>
Budget Revisions	<u>286,215</u>
Final Budget	<u><u>88,895,819</u></u>

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

Assigned: Appropriated and Unassigned Fund Balance- As of the beginning of the year	\$ 7,424,023
Less: Appropriated fund balance used for the levy of taxes	(4,000,000)
Unassigned Fund Balance-As of the beginning of the year	<u>\$ 3,424,023</u>

**SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION**

2013-14 voter-approved expenditure budget	
Maximum Fund Balance allowed (4% of 2013-14 budget or \$3,578,449)	<u>\$ 89,461,217</u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law*:	
Unrestricted fund balance:	
Assigned fund balance	\$ 6,889,150
Unassigned fund balance	<u>3,575,973</u>
Total unrestricted fund balance	<u>10,465,123</u>
Less:	
Appropriated fund balance	4,019,500
Encumbrances included in assigned fund balance	<u>2,869,650</u>
Total adjustments	<u>6,889,150</u>
General Fund Balance Subject to Section 1318 of Real Property Law	\$ 3,575,973
Actual percentage of 2013-14 budget	4.00%

\* 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, 2013

PROJECT TITLE	Appropriation		Prior Year's	Expenditures to Date		Unexpended Balance
	Original	Revised		Current Year	Total	
Energy Performance Contract	\$ 7,166,844	\$ 7,166,844	\$ 5,944,552	\$ 1,222,292	\$ 7,166,844	\$ -
Garfield Avenue Maintenance Facility	1,108,000	1,608,000	392,698	1,211,975	1,604,673	3,327
Library Bond Project	12,988,600	13,055,707	12,540,660	515,047	13,055,707	-
2007 Bond Projects - School District Improvements	12,940,517	12,941,402	12,405,081	318,662	12,723,743	217,659
Total	<u>\$ 34,203,961</u>	<u>\$ 34,771,953</u>	<u>\$ 31,282,991</u>	<u>\$ 3,267,976</u>	<u>\$ 34,550,967</u>	<u>\$ 220,986</u>

SAYVILLE UNION FREE SCHOOL DISTRICT  
 SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES  
 COMPARED TO ST-3 DATA  
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
<b>REVENUES</b>			
Property Taxes	A - 1001	\$ 49,622,471	\$ 49,622,471
Non-property Taxes	AT - 1199	-	-
State Aid	AT - 3999	23,007,991	23,007,991
Federal Aid	AT - 4999	148,127	148,127
Total Revenues	AT - 5999	84,372,176	84,372,176
<b>EXPENDITURES</b>			
General Support	AT - 1999	9,274,811	9,274,811
Pupil Transportation	AT - 5599	3,237,183	3,237,183
Debt Service - Principal	AT - 9798.6	4,185,661	4,185,661
Debt Service - Interest	AT - 9798.7	1,470,797	1,470,797
Total Expenditures	AT - 9999	81,811,070	81,811,070

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, 2013

Capital Assets, Net		\$	60,492,660
Deduct:			
Short-term Portion of Bonds Payable	\$	3,790,000	
Long-term Portion of Bond Payable		26,835,000	
Short-term Portion of Energy Performance Contract		416,726	
Long-term Portion of Energy Performance Contract		6,514,457	
Unamortized Portion of Deferred Refunding Premium, Net of Deferred Charge on Refunding		<u>178,097</u>	<u>(37,734,280)</u>
Net Investment in Capital Assets		\$	<u><u>22,758,380</u></u>

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



# Pappas & Company

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2013, 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 1, 2013.*

***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.*

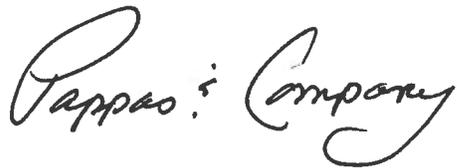
*Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in cursive script that reads "Pappas & Company". The signature is written in dark ink and is positioned above the typed name and date.

Commack, New York  
October 1, 2013