

ELWOOD UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITOR'S REPORTS

June 30, 2014

ELWOOD UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Elwood Union Free School District
Greenlawn, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Elwood Union Free School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the Elwood Union Free School District, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 3 through 13 and 41 through 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Elwood Union Free School District's basic financial statements. The other supplementary information on pages 44 through 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014 on our consideration of the Elwood Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the Elwood Union Free School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

October 8, 2014

**ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Elwood Union Free School District's discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014 in comparison with the year ended June 30, 2013, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

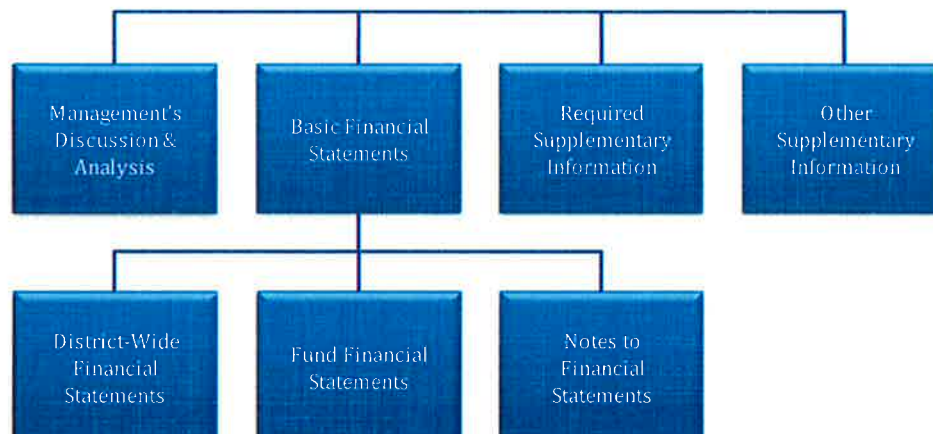
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2014 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, decreased by \$3,408,366. This was due to an excess of expenses over revenues based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$60,391,837. Of this amount, \$2,233,046 was offset by program charges for services, operating and capital grants. General revenues of \$54,750,425 amount to 96% of total revenues.
- The general fund's total fund balance, as reflected in the fund financial statements, decreased by \$606,799. This was due to an excess of expenditures over revenues based on the modified accrual basis of accounting.
- On the balance sheet, the general fund's unassigned fund balance at year end was \$687,146.
- The District's general fund revenues increased \$1,555,337 over the prior year, primarily due to an increase in real property tax of \$1,237,246 and state aid of \$299,038.
- The District's operating expenditures and other uses in the general fund increased \$2,425,948. This was primarily due to an increase in instruction and employee benefit related expenditures.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (MD&A), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of district-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements follows:



ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

A. District-Wide Financial Statements

The district-wide financial statements present the governmental activities of the District and are organized to provide an understanding of the fiscal performance of the District as a whole in a manner similar to a private sector business. There are two district-wide financial statements - the Statement of Net Position and the Statement of Activities. These statements provide both an aggregate and long-term view of the District's finances.

These statements utilize the accrual basis of accounting. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Position:

The Statement of Net Position presents information on all of the District's assets and deferred outflows of resources, and liabilities, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities:

The Statement of Activities presents information showing the change in net position during the fiscal year. All changes in net position are recorded at the time the underlying financial event occurs. Revenues are recognized in the period when they are earned and expenses are recognized in the period when the liability is incurred. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the District are reported in the governmental funds and the fiduciary funds.

Governmental Funds

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period in which the District incurs the liability, except for certain expenditures such as debt service on general long-term indebtedness, claims and judgments, compensated absences, pension costs, and other postemployment benefits, which are recognized as expenditures to the extent the related liabilities mature each period.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides.

ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Because the focus of governmental funds is narrower than that of district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, you may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District utilizes four individual governmental funds: general fund, special aid fund, school lunch fund and capital projects fund, each of which is considered to be a major fund and is presented separately in the fund financial statements.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District in its capacity as agent or trustee and utilize the accrual basis of accounting. All of the District's fiduciary activities are reported in separate statements. The fiduciary activities have been excluded from the District's district-wide financial statements because the District cannot use these assets to finance its operations.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position decreased by \$3,408,366 between fiscal year 2014 and 2013. A summary of the District's Statements of Net Position is as follows:

	2014	2013	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 12,528,564	\$ 12,764,386	\$ (235,822)	(1.85)%
Capital Assets, Net	22,751,815	23,469,056	(717,241)	(3.06)%
Total Assets	35,280,379	36,233,442	(953,063)	(2.63)%
Deferred Outflows of Resources	389,943	450,714	(60,771)	(13.48)%
Current and Other Liabilities	6,874,436	6,504,615	369,821	5.69 %
Long-Term Liabilities	17,481,377	18,933,449	(1,452,072)	(7.67)%
Net Other Postemployment Benefits Obligation	20,792,097	17,315,314	3,476,783	20.08 %
Total Liabilities	45,147,910	42,753,378	2,394,532	5.60 %
Net Position (Deficit)				
Net Investment in Capital Assets	8,630,162	7,767,406	862,756	11.11 %
Restricted	1,841,044	2,337,505	(496,461)	(21.24)%
Unrestricted (Deficit)	(19,948,794)	(16,174,133)	(3,774,661)	23.34 %
Total Net Position (Deficit)	\$ (9,477,588)	\$ (6,069,222)	\$ (3,408,366)	56.16 %

Current and other assets decreased by \$235,822, as compared to the prior year. The decrease is primarily related to a decrease in cash.

ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Capital assets, net decreased by \$717,241, as compared to the prior year. This decrease is due to depreciation expense of \$825,957 in excess of capital asset additions of \$108,716. The accompanying Notes to Financial Statements, Note 8 "Capital Assets" provides additional information.

Deferred outflows of resources represents the amount of deferred charges from refunding of bonds that is being amortized over the remaining term of the bonds, in accordance with GASB 65.

Current and other liabilities increased by \$369,821, as compared to the prior year primarily as a result of increases in due to teachers' retirement system of \$1,213,886, offset by decreases in accounts payable and accrued liabilities of \$846,772.

Long-term liabilities decreased by \$1,452,072 as compared to the prior year. This decrease is primarily attributable to scheduled debt service principal payments and amortization of a premium on bonding refunding, offset by an increase in compensated absences.

Net other postemployment benefits (OPEB) obligation increased by \$3,476,783, as compared to the prior year. This increase is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 13 "Postemployment Benefits", provides additional information.

The net investment in capital assets is the investment in capital assets, at cost such as land; construction in progress; buildings and improvements; and, furniture and equipment, net of depreciation and related outstanding debt. This number increased over the prior year by \$862,756.

The restricted amount of \$1,841,044 relates to the District's unemployment insurance, retirement contribution and employee benefit accrued liability reserves. This number decreased from the prior year by \$496,461 primarily due to the use of both the retirement contribution and employee benefit accrued liability reserves.

The unrestricted deficit amount of \$19,948,794 relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation.

B. Changes in Net Position

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

ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	2014	2013	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 782,545	\$ 884,114	\$ (101,569)	(11.49)%
Operating Grants & Contributions	1,361,738	1,318,290	43,448	3.30 %
Capital Grants & Contributions	88,763	641,975	(553,212)	(86.17)%
General Revenues				
Property Taxes and STAR	42,078,524	40,781,818	1,296,706	3.18 %
State Sources	11,907,748	11,548,599	359,149	3.11 %
Other	764,153	682,089	82,064	12.03 %
Total Revenues	<u>56,983,471</u>	<u>55,856,885</u>	<u>1,126,586</u>	2.02 %
Expenses				
General Support	7,696,346	7,546,431	149,915	1.99 %
Instruction	48,131,217	45,959,367	2,171,850	4.73 %
Pupil Transportation	3,227,455	3,269,218	(41,763)	(1.28)%
Debt Service - Interest	504,889	630,647	(125,758)	(19.94)%
Food Service Program	831,930	851,246	(19,316)	(2.27)%
Total Expenses	<u>60,391,837</u>	<u>58,256,909</u>	<u>2,134,928</u>	3.66 %
Decrease in Net Position	<u>\$ (3,408,366)</u>	<u>\$ (2,400,024)</u>	<u>\$ (1,008,342)</u>	42.01 %

The District's net position decreased by \$3,408,366 and \$2,400,024 for the years ended June 30, 2014 and 2013, respectively.

The District's revenues increased by \$1,126,586 or 2.02%, primarily due to the cumulative changes in the following:

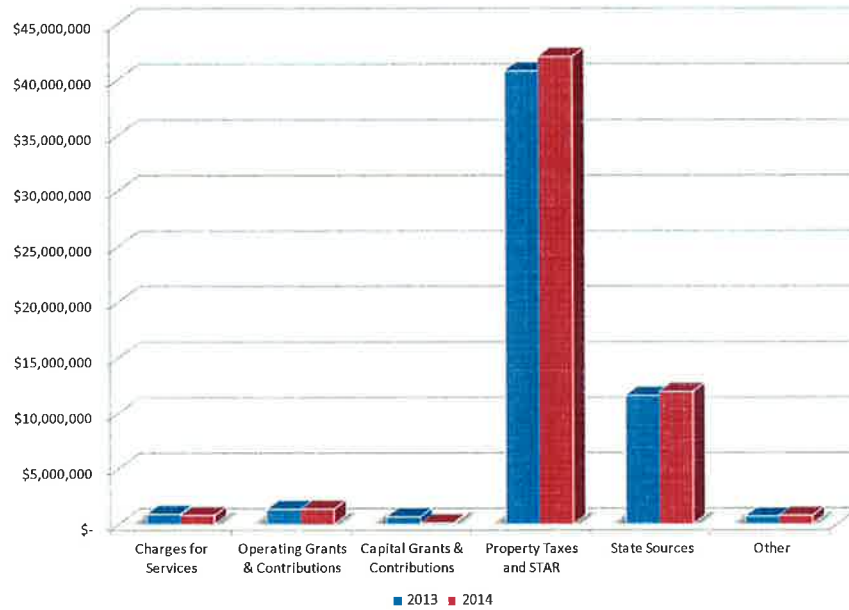
- Property taxes and STAR revenue increases of \$1,296,706.
- State source revenue increase of \$359,149.
- Capital grants and contributions decrease of \$553,212.

The District's expenses for the year increased by \$2,134,928 or 3.66%. This increase is primarily attributable to the increase in the District's general support and instruction expenses.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 74% and 73% of the total for the years 2014 and 2013, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 80% and 79% of the total for the years 2014 and 2013, respectively).

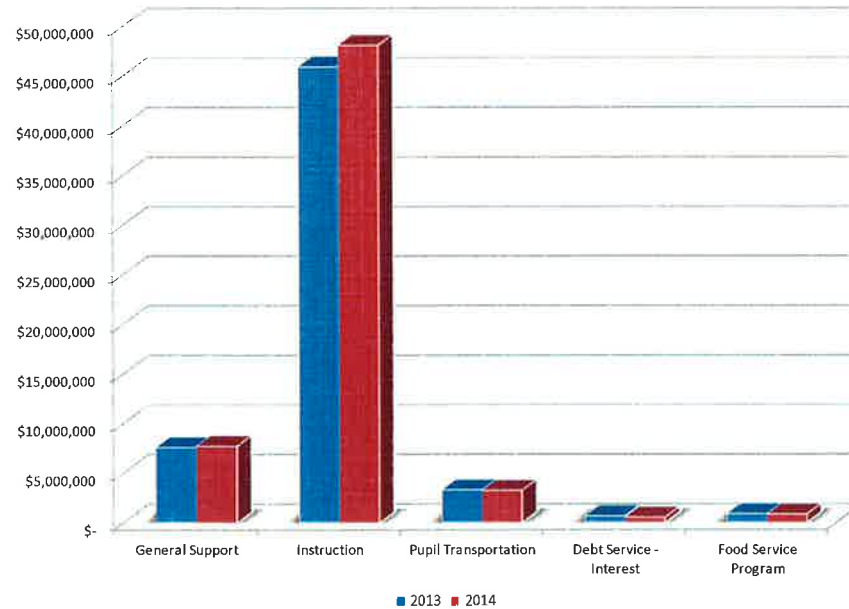
**ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

A graphic display of the distribution of revenues for the two years follows:



	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Property Taxes and STAR	State Sources	Other
2013	1.6%	2.4%	1.1%	73.0%	20.7%	1.2%
2014	1.4%	2.4%	0.2%	73.8%	20.9%	1.3%

A graphic display of the distribution of expenses for the two years follows:



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
2013	13.0%	78.8%	5.6%	1.1%	1.5%
2014	12.7%	79.8%	5.3%	0.8%	1.4%

ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2014, the District's governmental funds reported a combined fund balance of \$4,489,899, which is a decrease of \$345,409 from the prior year. This decrease is due to an excess of expenditures over revenues based upon the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	2014	2013	Increase (Decrease)
General Fund			
Nonspendable: Prepaids	\$ 552,982	\$ -	\$ 552,982
Restricted:			
Unemployment insurance	13,352	13,254	98
Retirement contribution	408,522	802,572	(394,050)
Employee benefit accrued liability	1,419,170	1,521,679	(102,509)
Assigned:			
Appropriated fund balance	2,700,965	1,750,000	950,965
Unappropriated fund balance	82,710	102,730	(20,020)
Unassigned: Fund balance	687,146	2,281,411	(1,594,265)
	<u>5,864,847</u>	<u>6,471,646</u>	<u>(606,799)</u>
School Lunch Fund			
Nonspendable: Inventory	30,210	27,149	3,061
Assigned: Unappropriated fund balance	39,692	75,262	(35,570)
	<u>69,902</u>	<u>102,411</u>	<u>(32,509)</u>
Capital Projects Fund			
Unassigned: Fund Balance (Deficit)	<u>(1,444,850)</u>	<u>(1,738,749)</u>	293,899
Total Fund Balance	<u>\$ 4,489,899</u>	<u>\$ 4,835,308</u>	<u>\$ (345,409)</u>

A. General Fund

The net change in the general fund – fund balance is a decrease of \$606,799. This resulted from expenditures in excess of revenues. Increases to the restricted reserves include interest earned on reserves and decreases were a result of the use of reserves for both retirement costs and compensated absence payouts.

Non-spendable prepaids increased \$552,982 as the District paid the July 2014 health insurance premium in June 2014.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is a decrease of \$32,509, which was the operating loss of the food service program.

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is an increase of \$293,899, due to an excess of revenues over expenditures.

ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2013-14 Budget

The District's general fund adopted budget for the year ended June 30, 2014 was \$57,035,292. This amount was increased by encumbrances carried forward from the prior year in the amount of \$102,730 and a budget revision in the amount of \$93,494 for a total final budget of \$57,231,516.

The budget was funded through a combination of revenues and appropriated fund balance. The majority of this funding source was \$42,155,783 in estimated property taxes, STAR and PILOT.

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

The general fund's unassigned fund balance is the component of total fund balance that is the residual of the prior year's excess revenues over expenditures, net of transfers to reserves, appropriated to fund the subsequent year's budget, encumbrances and amounts classified as nonspendable. The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening Unassigned: Fund Balance	\$ 2,281,411
Revenues Over Budget	236,988
Expenditures and Encumbrances Under Budget	1,440,023
Interest Allocated to Reserves	(17,329)
Nonspendable Fund Balance	(552,982)
Appropriated for June 30, 2015 Budget	<u>(2,700,965)</u>
Closing Unassigned: Fund Balance	<u><u>\$ 687,146</u></u>

Opening, Unassigned Fund Balance

The \$2,281,411 shown in the table is the portion of the District's June 30, 2013 fund balance that was retained as unassigned. This was 4.0% of the District's 2013-14 approved operating budget of \$57,035,292, which is the maximum permitted by law.

Revenues Over Budget

The 2013-14 final budget for revenues was \$54,864,996. Actual revenues received for the year were \$55,101,984, which are \$236,988 over the estimated or budgeted revenues. This revenue variance contributes to the change to the general fund unassigned fund balance from June 30, 2013 to June 30, 2014.

Expenditures and Encumbrances Under Budget

The 2013-14 final budget for expenditures, including prior year open encumbrances and budget revisions, was \$57,231,516. Actual expenditures as of June 30, 2014 were \$55,708,783 and outstanding encumbrances were \$82,710. Combined, the expenditures plus encumbrances for 2013-14 were \$55,791,493. The final budget was under expended by \$1,440,023. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2013 to June 30, 2014.

ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Interest Allocated to Reserves and Changes in Nonspendable Fund Balance

The increase in reserves in the general fund is attributable to interest allocated on existing reserves in the total amount of \$17,329.

The increase in the non-spendable fund balance of \$552,982 is attributed to there being a prepayment made at year end for health insurance.

Appropriated Fund Balance

The District has chosen to use \$2,700,965 of its available June 30, 2014 fund balance to partially fund its 2014-15 approved operating budget. As such, the June 30, 2014 unassigned fund balance must be reduced by this amount.

Closing Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2014 was \$687,146. This amount equals 1.17% of the 2014-15 budget and is within the 4% statutory limit.

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2014, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to depreciation in excess of capital additions recorded for the year ended June 30, 2014. A summary of the District's capital assets, net of depreciation at June 30, 2014 and 2013 is as follows:

	2014	2013	Increase (Decrease)
Land	\$ 278,950	\$ 278,950	\$ -
Construction in progress	1,798,215	1,711,544	86,671
Buildings and improvements	20,382,244	21,132,214	(749,970)
Furniture and equipment	292,406	346,348	(53,942)
Capital assets, net	<u>\$ 22,751,815</u>	<u>\$ 23,469,056</u>	<u>\$ (717,241)</u>

B. Debt Administration

At June 30, 2014, the District had total bonds payable of \$11,830,000. The bonds were issued to advance refund previously issued bonds for school building improvements. The decrease in outstanding debt is the result of principal repayments. A summary of the outstanding debt at June 30, 2014 and 2013 is as follows:

Issue Date	Interest Rate	2014	2013	Increase (Decrease)
4/19/2012	2.00-4.00%	<u>\$ 11,830,000</u>	<u>\$ 13,285,000</u>	<u>\$ (1,455,000)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's total outstanding indebtedness currently does not exceed its debt limit, which is 10% of the full valuation of the taxable real property within the District.

ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 20, 2014, for the year ending June 30, 2015, is \$58,634,724. This is an increase of \$1,599,432 or 2.80% over the previous years adopted budget. The increase is principally in the instructional program (\$903,226) and employee benefits (\$498,358) areas of the budget.

A property tax increase of 1.41% was needed to cover the increase in projected expenditures, and was within the allowed tax cap.

At the time these financial statements were prepared, the District was aware of the following circumstances that could significantly affect its financial health in the future.

The economic crisis that began in the fall of 2008 continues to impact school funding and budgeting. The continued impact on State tax revenues has constricted State Aid to schools. The situation is improving, albeit at a slow pace. In addition, there are new mandates from the New York State Education Department such as Annual Professional Performance and Review for professional staff and the New Common Core Standards which must be addressed within the framework of a constricted economic resource.

B. Future Budgets

Significant increases in costs of employee benefits, particularly teachers' retirement system contributions and health insurance, the property tax cap, and uncertainty in state aid and federal funds will greatly impact the District's future budgets.

C. Tax Cap

Chapter 97 of the 2011 Laws of New York limits, for a five year period, the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation starting with the 2012-13 fiscal year. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. The 1.41% increase in the 2014-15 levy is compliant with the tax cap and did not require an outside vote.

D. Property Tax Freeze

New York State recently enacted a law to effectively "freeze" property taxes for two years on the primary residences of homeowners with annual incomes at or below \$500,000 in school districts and local governments that stay within the tax cap. Qualifying homeowners will receive a credit, which will be distributed in the form of a check from New York State, up to the calculated amount of the tax cap. The program also requires the school districts and local governments in the second year to develop or participate in the development of a state approved government efficiency plan that will achieve savings for taxpayers. The law is effective for school districts starting with the 2014-15 school year and homeowners will receive refund checks in the fall of 2014. This program will provide an incentive for the District to be tax cap compliant.

ELWOOD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

8. CONTACTING THE DISTRICT

This financial report is designed to provide the reader with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Requests for additional information can be directed to:

Keri Loughlin
Assistant Superintendent for Business
Elwood Union Free School District
100 Kenneth Avenue
Greenlawn, New York 11740

ELWOOD UNION FREE SCHOOL DISTRICT

Statement of Net Position

June 30, 2014

ASSETS

Cash	
Unrestricted	\$ 7,113,633
Restricted	1,841,044
Receivables	
Accounts receivable	323,489
Due from other funds	109,386
Due from state and federal	2,083,745
Due from other governments	474,075
Prepays	552,982
Inventories	30,210
Capital assets:	
Not being depreciated	2,077,165
Being depreciated, net of accumulated depreciation	<u>20,674,650</u>
Total Assets	<u>35,280,379</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges from advance refunding, net	<u>389,943</u>
Total Deferred Outflows of Resources	<u>389,943</u>

LIABILITIES

Payables	
Accounts payable	572,269
Accrued liabilities	133,857
Due to other governments	93
Due to teachers' retirement system	4,092,957
Due to employees' retirement system	231,139
Compensated absences payable	168,969
Notes payable	
Bond anticipation	1,650,000
Unearned credits	
Collections in advance	25,152
Long-term liabilities	
Due and payable within one year	
Bonds payable, net of unamortized premium	1,670,768
Compensated absences payable	175,000
Due and payable after one year	
Bonds payable, net of unamortized premium	11,190,828
Compensated absences payable	4,444,781
Net other postemployment benefits obligation	<u>20,792,097</u>
Total Liabilities	<u>45,147,910</u>

NET POSITION (DEFICIT)

Net investment in capital assets	<u>8,630,162</u>
Restricted	
Unemployment insurance	13,352
Retirement contribution	408,522
Employee benefit accrued liability	<u>1,419,170</u>
	<u>1,841,044</u>
Unrestricted (deficit)	<u>(19,948,794)</u>
Net Position (Deficit)	<u>\$ (9,477,588)</u>

ELWOOD UNION FREE SCHOOL DISTRICT

Statement of Activities

For The Year Ended June 30, 2014

		Program Revenues		Net (Expense)	
		Charges for	Grants & Contributions	Revenue and	
	Expenses	Services	Operations	Capital Grants	Changes in
					Net Position
FUNCTIONS/PROGRAMS					
General support	\$ 7,696,346	\$	\$	\$	\$ (7,696,346)
Instruction	48,131,217	359,393	1,039,069	88,763	(46,643,992)
Pupil transportation	3,227,455				(3,227,455)
Debt service - interest	504,889				(504,889)
Food service program	831,930	423,152	322,669		(86,109)
Total Functions and Programs	<u>\$ 60,391,837</u>	<u>\$ 782,545</u>	<u>\$ 1,361,738</u>	<u>\$ 88,763</u>	<u>(58,158,791)</u>
GENERAL REVENUES					
Real property taxes					37,131,772
Other tax items					5,024,243
Use of money and property					140,439
Sale of property and compensation for loss					38,233
Miscellaneous					495,530
State sources					11,907,748
Medicaid reimbursement					12,460
Total General Revenues					<u>54,750,425</u>
Change in Net Position					(3,408,366)
Total Net Position (Deficit) - Beginning of Year					<u>(6,069,222)</u>
Total Net Position (Deficit) - End of Year					<u>\$ (9,477,588)</u>

ELWOOD UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2014

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 6,465,393	\$ 221,889	\$ 279,837	\$ 146,514	\$ 7,113,633
Restricted	1,841,044				1,841,044
Receivables					
Accounts receivable	223,622		1,074	98,793	323,489
Due from other funds	1,266,820		105		1,266,925
Due from state and federal	1,396,704	391,441	22,910	272,690	2,083,745
Due from other governments	474,075				474,075
Prepays	552,982				552,982
Inventories			30,210		30,210
Total Assets	<u>\$ 12,220,640</u>	<u>\$ 613,330</u>	<u>\$ 334,136</u>	<u>\$ 517,997</u>	<u>\$ 13,686,103</u>
LIABILITIES					
Payables					
Accounts payable	\$ 564,642	\$ 7,627	\$	\$	\$ 572,269
Accrued liabilities	109,615				109,615
Due to other funds		601,233	243,459	312,847	1,157,539
Due to other governments			93		93
Due to teachers' retirement system	4,092,957				4,092,957
Due to employees' retirement system	231,139				231,139
Compensated absences payable	168,969				168,969
Notes payable					
Bond anticipation				1,650,000	1,650,000
Unearned credits					
Collections in advance		4,470	20,682		25,152
Total Liabilities	<u>5,167,322</u>	<u>613,330</u>	<u>264,234</u>	<u>1,962,847</u>	<u>8,007,733</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred revenues	1,188,471				1,188,471
Total Deferred Inflows of Resources	<u>1,188,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,188,471</u>
FUND BALANCES (DEFICIT)					
Nonspendable:					
Inventory			30,210		30,210
Prepays	552,982				552,982
Restricted:					
Unemployment insurance	13,352				13,352
Retirement contribution	408,522				408,522
Employee benefit accrued liability	1,419,170				1,419,170
Assigned:					
Appropriated fund balance	2,700,965				2,700,965
Unappropriated fund balance	82,710		39,692		122,402
Unassigned: Fund balance (deficit)	687,146			(1,444,850)	(757,704)
Total Fund Balances (Deficit)	<u>5,864,847</u>	<u>-</u>	<u>69,902</u>	<u>(1,444,850)</u>	<u>4,489,899</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 12,220,640</u>	<u>\$ 613,330</u>	<u>\$ 334,136</u>	<u>\$ 517,997</u>	<u>\$ 13,686,103</u>

ELWOOD UNION FREE SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014

Total Governmental Fund Balances	\$ 4,489,899
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.	1,188,471
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Deferred charges on advance refunding of bonds are not reported on the Balance Sheet, but are reflected on the Statement of Net Position and amortized over the life of the related bonds.	389,943
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The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.

Original cost of capital assets	\$ 46,090,380	
Accumulated depreciation	<u>(23,338,565)</u>	
		22,751,815

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Accrued interest on bonds payable	(24,242)	
Bonds payable, net of unamortized premium	(12,861,596)	
Compensated absences payable	(4,619,781)	
Net other postemployment benefits obligation	<u>(20,792,097)</u>	
		<u>(38,297,716)</u>

Total Net Position (Deficit)	\$ <u><u>(9,477,588)</u></u>
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ELWOOD UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2014

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$ 37,131,772	\$	\$	\$	\$ 37,131,772
Other tax items	5,024,243				5,024,243
Charges for services	359,393				359,393
Use of money and property	140,430		9		140,439
Sale of property and compensation for loss	38,233			88,763	126,996
Miscellaneous	481,822	36,457	671		518,950
State sources	11,907,748	349,818	15,480	272,690	12,545,736
Medicaid reimbursement	12,460				12,460
Federal sources		652,794	307,189		959,983
Sales - school lunch			422,481		422,481
Total Revenues	55,096,101	1,039,069	745,830	361,453	57,242,453
EXPENDITURES					
General support	5,881,701				5,881,701
Instruction	30,521,549	1,058,249			31,579,798
Pupil transportation	3,149,015	78,440			3,227,455
Employee benefits	13,975,264		87,815		14,063,079
Debt service					
Principal	1,480,000				1,480,000
Interest	603,634				603,634
Cost of sales			690,524		690,524
Capital outlay				86,671	86,671
Total Expenditures	55,611,163	1,136,689	778,339	86,671	57,612,862
Excess (Deficiency) of Revenues Over Expenditures	(515,062)	(97,620)	(32,509)	274,782	(370,409)
OTHER FINANCING SOURCES AND (USES)					
Proceeds from debt				25,000	25,000
Operating transfers in	5,883	97,620			103,503
Operating transfers (out)	(97,620)			(5,883)	(103,503)
Total Other Financing Sources and (Uses)	(91,737)	97,620	-	19,117	25,000
Net Change in Fund Balances	(606,799)	-	(32,509)	293,899	(345,409)
Fund Balances (Deficit) - Beginning of Year	6,471,646		102,411	(1,738,749)	4,835,308
Fund Balances (Deficit) - End of Year	\$ 5,864,847	\$ -	\$ 69,902	\$ (1,444,850)	\$ 4,489,899

ELWOOD UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2014

Net Change in Fund Balances	\$ (345,409)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Long-Term Revenue and Expense Differences

In the Statement of Activities, certain operating revenues are measured by the amounts earned during the year. In the governmental funds, however, revenue for these items is measured by the amount of financial resources provided (essentially, the amounts actually received).

Increase in deferred amounts receivable from NYS for prior year state aid adjustments	\$ 13,708
Receipt of prior year EXCEL Aid from NYS in July 2014	(272,690)

Certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, but are expensed in the Statement of Activities.

Increase in compensated absences	(163,696)
Increase in net other postemployment benefits obligation	(3,476,783)
	(3,899,461)

Capital Related Differences

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expenses in the Statements of Activities. This is the amount by which depreciation exceeded capital outlays in the period.

Capital outlays	108,716
Depreciation expense	(825,957)
	(717,241)

Long-Term Debt Transactions Differences

Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

Repayment of bond principal	1,455,000
Amortization of deferred amounts on refunding	99,998

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the 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. This is the amount by which accrued interest accrued interest increased from June 30, 2013 to June 30, 2014

	(1,253)
	1,553,745

Change in Net Position (Deficit) of Governmental Activities	\$ (3,408,366)
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ELWOOD UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2014

	<u>Agency</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash	\$ 220,381	\$ 34,918
Total Assets	<u>\$ 220,381</u>	<u>34,918</u>
LIABILITIES		
Extraclassroom activity balances	\$ 100,358	
Due to other funds	109,386	
Other liabilities	<u>10,637</u>	
Total Liabilities	<u>\$ 220,381</u>	<u>-</u>
NET POSITION		
Restricted for scholarships		<u>\$ 34,918</u>

ELWOOD UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For The Year Ended June 30, 2014

	<u>Private Purpose Trust</u>
ADDITIONS	
Contributions	\$ 750
Investment earnings	
Interest	<u>113</u>
Total Additions	<u>863</u>
 DEDUCTIONS	
Scholarships and awards	<u>4,950</u>
Change in Net Position	(4,087)
Net Position - Beginning of Year	<u>39,005</u>
Net Position - End of Year	<u><u>\$ 34,918</u></u>

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Elwood Union Free School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the District are as follows:

A. Reporting Entity

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

The financial reporting entity is based on criteria set forth by GASB. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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 these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Position - Fiduciary Fund. Separate audited financial statements of the extraclassroom activity funds can be found at the District's Business Office.

B. Joint Venture

The District is a component district in the Board of Cooperative Educational Services of Western Suffolk (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the 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 Section §1950 of the Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

§119-n(a) of the 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 Education Law, Section §1950(4)(b)(7). There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate.

C. Basis of Presentation

District-Wide Financial Statements

The Statement of Net Position and the Statement of Activities present information about the overall governmental financial activities of the District, except for fiduciary activities. Eliminations have been made to minimize the double counting of interfund transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants, if applicable.

The Statement of Net Position presents the financial position of the District at fiscal year end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Employee benefits are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants, contributions, and other revenues that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including real property taxes and state aid, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund type, governmental and fiduciary, are presented. The District's financial statements present the following fund types:

Governmental Funds - are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The emphasis of governmental fund financial statements is on major funds as defined by GASB, each displayed in a separate column. The following are the District's major governmental funds:

General Fund - is the general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund.

Special Aid Fund - is used to account 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 by either governments that provide the funds or outside parties.

School Lunch Fund - is used to account for the activities of the food service program.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capital Projects Fund – is used to account for the financial resources used for acquisition, construction, renovation or major repair of capital facilities and other capital assets, such as equipment.

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

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.

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

D. Measurement Focus and Basis of Accounting

The district-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include real property taxes, grants and donations. On an accrual basis, revenue from real 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 and the related expenditures are incurred.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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, compensated absences, and other postemployment benefits, 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 are reported as other financing sources.

E. Real Property Taxes

Calendar

Real property taxes are levied annually by the Board no later than October 15th and become a lien on December 1st. Taxes are collected by the Town of Huntington and remitted to the District from December to June.

Enforcement

Uncollected real property taxes are subsequently enforced by Suffolk County in June.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Resources

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

G. Interfund Transactions

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include transfers to provide financing or other services. This includes the transfer of unrestricted general fund revenues to finance various programs that the District must account for in other funds in accordance with budgetary authorizations.

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

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

A detailed disclosure by individual fund for interfund receivables, payables, transfers in and transfers out activity is provided subsequently in these Notes to Financial Statements.

H. Use of Estimates

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

I. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and investments with a maturity date of three months or less from date of acquisition.

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

J. Receivables

Receivables are shown net of an allowance for uncollectibles, if any. However, no allowance for uncollectibles has been provided since it is believed that such allowance would not be material.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

K. Inventories and Prepaid Items

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. These items are reported as assets on the Statement of Net Position or Balance Sheet using the consumption method. Under the consumption method, a current asset for the inventory and/or prepaid item is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

A portion of fund balance has been classified as nonspendable to indicate that inventory and prepaids do not constitute available spendable resources.

L. Capital Assets

Capital assets are reflected in the district-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at estimated fair market value at the date of donation.

All capital assets, except land and construction in progress, are depreciated on a straight line basis over their estimated useful lives. Capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts, and estimated useful lives of capital assets as reported in the district-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 15,000	25-50 years
Furniture and equipment	5,000	8-20 years

M. Deferred Outflows of Resources

Deferred outflows of resources represents the unamortized amount of deferred charges from a prior year's refunding of bonds that is being amortized as a component of interest expense on a straight-line basis over the remaining life of the bonds.

N. Collections in Advance

Collections in advance arise when resources are received by the District before it has a legal claim to them, as when grants monies are received prior to the incurrence of qualifying expenditures or when charges for services monies are received in advance from payers prior to the services being rendered by the District. These amounts are recorded as liabilities in the financial statements. The liabilities are removed and revenues are recognized in subsequent periods when the District has legal claim to the resources.

O. Deferred Inflows of Resources

Deferred inflows of resources are reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. These amounts are shown as deferred revenues. In subsequent periods, when the availability criterion is met, deferred revenues are recognized as revenues.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

P. Vested Employee Benefits – Compensated Absences

Compensated absences consist of unpaid accumulated sick leave and vacation time.

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave. Certain collectively bargained agreements require these termination payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability has been calculated using the termination method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the fund financial statements, a liability is reported only for payments due for unused compensated absences for those employees that have obligated themselves to separate from service with the District by June 30th.

Q. Other Benefits

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

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

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if District employees are 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 an expenditure in the governmental funds as the liabilities for premiums mature (come due for payment). In the district-wide statements, the cost of postemployment health insurance coverage is recognized on the accrual basis of accounting in accordance with GASB Statement No. 45.

R. Short-Term Debt

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

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

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

S. Equity Classifications

District-Wide Statements

In the district-wide statements there are three classes of net position:

Net investment in capital assets – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisitions, construction and improvements of those assets and unamortized bond deferred charges.

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

Unrestricted – reports the balance of net position that does not meet the definition of the above two classifications.

Fund Statements

The fund statements report fund balance classifications according to the relative strength of spending constraints placed on the purpose for which resources can be used, as follows:

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of prepaid health insurance and inventories.

Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. The District has established the following restricted fund balances:

Unemployment Insurance Reserve

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 either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the general fund.

Retirement Contribution Reserve

Retirement Contribution Reserve (GML §6-r) is used for the purpose of financing retirement contributions payable to the New York State and Local Employees' Retirement System. The Board, by resolution, may establish the reserve and authorize expenditures from the reserve. The reserve is funded by budgetary appropriations or taxes raised for the reserve, revenues that are not required by law to be paid into any other fund or account, transfers from reserves and other funds that may legally be appropriated. The reserve is accounted for in the general fund.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Employee Benefit Accrued Liability Reserve

Employee Benefit Accrued Liability Reserve (GML §6-p) is used to reserve funds for the payment of accrued employee benefit primarily based on unused and unpaid sick leave, personal leave, holiday leave or vacation time due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the general fund.

Restricted for Scholarships

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

Assigned – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the District's Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance includes an amount appropriated to partially fund the subsequent year's budget. Assigned fund balance also includes encumbrances not classified as restricted at the end of the fiscal year.

Unassigned – Represents the residual classification for the District's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification is used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted or assigned. NYS Real Property Tax Law §1318, restricts the unassigned fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.

Fund Balance Classification

Any portion of fund balance may be applied or transferred for a specific purpose by law, voter approval if required by law or by formal action of the Board of Education if voter approval is not required. Amendments or modification 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 person(s) to whom it has delegated the authority to sign purchase orders.

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

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE 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 District-wide statements, compared with the current financial resource measurement focus of the governmental funds.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

A. Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities

Total fund balances of the District's governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund 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 three broad categories.

Long-Term Revenue and Expense Differences

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

Capital Related Differences

Capital related differences include the difference between proceeds from the sale of capital assets reported on fund statements and the gain or loss on the sale of assets as 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.

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 are recorded as expenditures in the fund statements when due and payable, whereas interest expense is recorded in the Statement of Activities as it accrues, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the general fund, the only fund with a legally adopted budget.

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) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

can be increased by budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. During the year, the District had supplemental appropriations of \$93,494 due to additional revenue from state aid for grants and from gifts and donations.

Budgets are adopted annually on a basis consistent with GAAP.

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

B. Encumbrances

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

C. Capital Projects Fund

The capital projects fund had a deficit fund balance of \$1,444,850. This will be funded with the District's permanent financing for its current construction project that will be obtained in October 2014.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The District's investment policies are governed by state statutes and District policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its Agencies and obligations of New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

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

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 did not have any investments at year-end or during the year. Consequently, the District was not exposed to any material interest rate risk or foreign currency risk.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2014, the District was billed \$3,334,717 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$870,984. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, P.O. Box 8007, Huntington Station, New York 11746-9007.

6. DUE FROM STATE AND FEDERAL

Due from state and federal at June 30, 2014 consisted of:

General Fund	
New York State - excess cost aid	\$ 264,353
New York State - deferred building aid	<u>1,132,351</u>
	1,396,704
 Special Aid Fund: Federal and state grants	 391,441
 School Lunch Fund: Federal and state food service program reimbursements	 22,910
 Capital Projects Fund: New York State - EXCEL aid	 <u>272,690</u>
	 <u><u>\$ 2,083,745</u></u>

7. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2014 consisted of:

General Fund	
BOCES aid	\$ 396,613
Payments in lieu of taxes	<u>77,462</u>
	 <u><u>\$ 474,075</u></u>

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

8. CAPITAL ASSETS

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

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
Governmental activities				
Capital assets not being depreciated				
Land	\$ 278,950	\$	\$	\$ 278,950
Construction in progress	1,711,544	86,671		1,798,215
Total capital assets not being depreciated	1,990,494	86,671	-	2,077,165
Capital assets being depreciated				
Buildings and improvements	43,095,558			43,095,558
Furniture and equipment	1,063,670	22,045	(168,058)	917,657
Total capital assets being depreciated	44,159,228	22,045	(168,058)	44,013,215
Less accumulated depreciation for:				
Buildings and improvements	21,963,344	749,970		22,713,314
Furniture and equipment	717,322	75,987	(168,058)	625,251
Total accumulated depreciation	22,680,666	825,957	(168,058)	23,338,565
Total capital assets, being depreciated, net	21,478,562	(803,912)	-	20,674,650
Capital assets, net	\$ 23,469,056	\$ (717,241)	\$ -	\$ 22,751,815

Depreciation expense was charged to governmental functions as follows:

General support	\$ 17,620
Instruction	797,800
Food service program	10,537
Total depreciation expense	\$ 825,957

9. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2014, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 1,266,820	\$	\$ 5,883	\$ 97,620
Special Aid Fund		601,233	97,620	
School Lunch Fund	105	243,459		
Capital Projects Fund		312,847		5,883
Total Governmental Funds	1,266,925	1,157,539	103,503	103,503
Fiduciary Funds		109,386		
Total	\$ 1,266,925	\$ 1,266,925	\$ 103,503	\$ 103,503

The District typically transfers from the general fund to the special aid fund for the District's share of the costs for the summer program for students with disabilities in accordance with the general fund budget. In addition, an unspent balance on capital projects of \$5,883 provided by local source revenues was transferred back to the general fund.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

10. SHORT-TERM DEBT

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

	Maturity	Stated Interest Rate	Balance June 30, 2013	Issued	Redeemed	Balance June 30, 2014
BAN	8/23/2013	0.69%	\$ 1,675,000	\$	\$ (1,675,000)	\$
BAN	8/22/2014	0.73%		1,650,000		1,650,000
TAN	6/21/2013	1.25%		12,750,000	(12,750,000)	
			<u>\$ 1,675,000</u>	<u>\$ 14,400,000</u>	<u>\$ (14,425,000)</u>	<u>\$ 1,650,000</u>

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

Interest paid	\$ 146,583
Less interest accrued in the prior year	(3,994)
Plus interest accrued in the current year	<u>6,419</u>
Total interest expense on short-term debt	<u>\$ 149,008</u>

11. LONG-TERM LIABILITIES

A. Changes

Long-term liability balances and activity, excluding other postemployment benefits obligations, for the year are summarized below:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 13,285,000	\$	\$ (1,455,000)	\$ 11,830,000	\$ 1,510,000
Add: Premium on refunding	<u>1,192,364</u>		<u>(160,768)</u>	<u>1,031,596</u>	<u>160,768</u>
	14,477,364		(1,615,768)	12,861,596	1,670,768
Other long-term liabilities					
Compensated absences	<u>4,456,085</u>	<u>163,696</u>		<u>4,619,781</u>	<u>175,000</u>
	<u>\$ 18,933,449</u>	<u>\$ 163,696</u>	<u>\$ (1,615,768)</u>	<u>\$ 17,481,377</u>	<u>\$ 1,845,768</u>

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

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2014
Refunding serial bonds	4/19/2012	12/1/2020	2.00-4.00%	<u>\$ 11,830,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,510,000	\$ 419,850	\$ 1,929,850
2016	1,560,000	373,800	1,933,800
2017	1,615,000	318,100	1,933,100
2018	1,680,000	252,200	1,932,200
2019	1,750,000	183,600	1,933,600
2020-2021	<u>3,715,000</u>	<u>150,100</u>	<u>3,865,100</u>
Total	<u>\$ 11,830,000</u>	<u>\$ 1,697,650</u>	<u>\$ 13,527,650</u>

C. Advance Refunding

In the district-wide statements, the District is amortizing deferred charges on the advance refunding and a refunding bond premium as a component of interest expense on a straight-line basis as follows:

Fiscal Year Ending June 30,	Deferred Charge	Deferred Premium on Refunding	Total
2015	\$ 60,770	\$ (160,768)	\$ (99,998)
2016	60,770	(160,768)	(99,998)
2017	60,770	(160,768)	(99,998)
2018	60,770	(160,768)	(99,998)
2019	60,770	(160,768)	(99,998)
2020-2021	<u>86,093</u>	<u>(227,756)</u>	<u>(141,663)</u>
Total	<u>\$ 389,943</u>	<u>\$ (1,031,596)</u>	<u>\$ (641,653)</u>

D. Interest Expense

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

Interest paid	\$ 457,051
Less interest accrued in the prior year	(18,995)
Plus interest accrued in the current year	17,823
Plus amortization of deferred charges from bond refunding	60,770
Less: amortization of bond refunding premium	<u>(160,768)</u>
Total interest expense on long-term debt	<u>\$ 355,881</u>

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

12. PENSION PLANS

A. General Information

The District participates in the New York State Teachers' Retirement System (NYSTRS) and the New York State and Local Employees' Retirement System (NYSERS). These are cost-sharing multiple employer, public employee retirement systems. The systems provide retirement, disability, withdrawal and death benefits to plan members and beneficiaries related to years of service and final average salary.

B. Provisions and Administration

Teachers' Retirement System

The NYSTRS is administered by the New York State Teachers' Retirement Board. The NYSTRS 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. The NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the NYSERS and for the custody and control of its funds. The NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

C. Funding Policies

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to NYSERS or 3.5% of their salary to NYSTRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on salaries paid. For the NYSTRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the fiscal year ended June 30. For the NYSERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYSERS' fiscal year ending March 31.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The District's share of the required contributions, based on each year's covered payroll, for the current year and two preceding years was:

Year	NYSTRS	NYSERS
2014	\$ 3,956,137	\$ 847,553
2013	2,824,848	948,322
2012	2,471,495	684,848

The District contributions made to the systems were equal to 100% of the contributions required for each year.

D. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2014, totaled \$57,778 and \$1,345,942, respectively.

E. Deferred Compensation

The District has also established a deferred compensation plan in accordance with internal revenue code §457 for a certain employee. During the 2013-14 fiscal year, one employee contributed \$23,000 to the plan. The District did not make any contributions to this plan for fiscal 2013-14.

13. POSTEMPLOYMENT BENEFITS

A. Plan Description

The District provides medical and Medicare part B reimbursement coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the New York State Health Insurance Program – Empire Plan. The plan does not issue a stand-alone financial report.

B. Funding Policy

The District assumes 75-85% of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums mature (come due for payment). For the year ended June 30, 2014, the District recognized a general fund expenditure of \$2,157,859 for insurance premiums for 244 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the "pay as you go" method.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Annual required contribution (ARC)	\$ 5,904,862
Interest on net OPEB obligation	692,613
Adjustment to ARC	<u>(962,833)</u>
Annual OPEB cost (expense)	5,634,642
Contributions made	<u>(2,157,859)</u>
Increase in net OPEB obligation	3,476,783
Net OPEB obligation - beginning of year	<u>17,315,314</u>
Net OPEB obligation - end of year	<u><u>\$ 20,792,097</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014 and the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 5,634,642	38.3%	\$ 20,792,097
June 30, 2013	5,583,436	36.3%	17,315,314
June 30, 2012	5,428,258	36.7%	13,757,448

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation update, the plan was 0% funded. The actuarial accrued liability for benefits was \$62,641,232 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$62,641,232. The covered payroll (annual payroll of active employees covered by the plan) was \$27,177,049, and the ratio of the UAAL to the covered payroll was 230%.

Actuarial valuations of an ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress following the notes to the financial statements presents multi-year trend information about whether the actuarial accrued liability for benefits is increasing or decreasing over time relative to the actuarial value of plan assets.

E. Actuarial Methods and Assumptions

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

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

In the July 1, 2012, actuarial valuation update, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an initial healthcare cost trend rate of 8.0%, which is then reduced by 1% decrements to an ultimate rate of 5% after five years. The UAAL is being amortized using level dollar amortization.

14. RISK MANAGEMENT

A. General Information

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

B. Public Entity Risk Pool

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

The District participates in the Nassau County Schools Cooperative Workers' Compensation Self Insured Plan (the "Workers' Compensation Plan") to insure workers' compensation claims. This is a public entity risk pool created under Article 5 of the Workers' Compensation Law, to administer claims, finance liability and manage risks related to workers' compensation claims. The District pays an annual assessment determined by the Plan's Board of Trustees. In the event that the Plan has insufficient funds to meet its obligations, the Plan's Board of Trustees may issue supplemental assessments to the Plan's members. Plan members who withdraw or are terminated from the Plan's membership will assume responsibilities for all open and unpaid claims associated with them. The Worker's Compensation Plan's total discounted liability for unbilled and open claims at June 30, 2014 was \$13,569,378 with the discount rate of 4.0%. The Workers Compensation Plan has assets of \$15,853,688 at June 30, 2014 to pay these liabilities.

15. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$2,700,965 has been appropriated to reduce taxes for the year ending June 30, 2015.

16. 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.

ELWOOD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Litigation

The District is involved in lawsuits arising from the normal conduct of its affairs. Management believes that the outcome of any matters would not have a material effect on these financial statements.

C. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$212,803. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 160,109
2016	87,764
2017	50,930
	<u>\$ 298,803</u>

D. Encumbrances

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

General Fund	
General Support	\$ 52,397
Instruction	30,313
	<u>\$ 82,710</u>

17. SUBSEQUENT EVENTS

On August 21, 2014, the District issued a ten year bond in the amount of \$1,530,000, which is due August 15, 2024 and bears a variable interest rate between 2.00 – 2.25%. The proceeds of the BAN along with \$120,000 from the general fund were used to satisfy the BAN maturing August 22, 2014.

On October 7, 2014, the District issued a tax anticipation note in the amount of \$11,000,000, which is due June 26, 2015 and bears an interest rate of 1.0%.

ELWOOD UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 37,028,922	\$ 37,131,540	\$ 37,131,772	\$ 232
Other tax items	5,126,861	5,024,243	5,024,243	-
Charges for services	237,473	237,473	359,393	121,920
Use of money and property	160,000	160,000	140,430	(19,570)
Sale of property and compensation for loss	3,500	3,500	38,233	34,733
Miscellaneous	125,000	218,494	481,822	263,328
Total Local Sources	42,681,756	42,775,250	43,175,893	400,643
State Sources	12,069,746	12,069,746	11,907,748	(161,998)
Medicaid Reimbursement	-	-	12,460	12,460
Total Revenues	54,751,502	54,844,996	55,096,101	251,105
OTHER SOURCES				
Operating transfers in	20,000	20,000	5,883	(14,117)
Total Revenues and Other Sources	54,771,502	54,864,996	55,101,984	\$ 236,988
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	1,750,000	1,750,000		
Prior Year's Encumbrances	102,730	102,730		
Appropriated Reserves	513,790	513,790		
Total Appropriated Fund Balance	2,366,520	2,366,520		
Total Revenues and Appropriated Fund Balance	\$ 57,138,022	\$ 57,231,516		

Note to Required Supplementary Information

Budget Basis of Accounting

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

ELWOOD UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 38,593	\$ 68,944	\$ 23,307	\$ 29,922	\$ 15,715
Central administration	344,208	345,202	343,610	623	969
Finance	710,369	690,961	622,374		68,587
Staff	397,526	438,649	430,296		8,353
Central services	4,125,944	4,109,508	3,931,442	21,852	156,214
Special items	523,287	537,147	530,672		6,475
Total General Support	6,139,927	6,190,411	5,881,701	52,397	256,313
Instruction					
Instruction, administration & improvement	2,648,564	2,613,403	2,462,516	1,617	149,270
Teaching - regular school	18,231,714	17,834,952	17,543,462	23,887	267,603
Programs for students with disabilities	5,785,849	5,704,773	5,685,242		19,531
Occupational education	454,790	452,840	452,840		-
Teaching - special school	-	1,853	1,853		-
Instructional media	1,437,023	1,495,231	1,479,318	1,482	14,431
Pupil services	2,995,531	3,057,050	2,896,318	3,327	157,405
Total Instruction	31,553,471	31,160,102	30,521,549	30,313	608,240
Pupil Transportation	3,305,180	3,190,661	3,149,015		41,646
Employee Benefits	14,057,394	14,509,088	13,975,264		533,824
Debt Service					
Principal	1,455,000	1,480,000	1,480,000		-
Interest	537,050	603,634	603,634		-
Total Debt Service	1,992,050	2,083,634	2,083,634	-	-
Total Expenditures	57,048,022	57,133,896	55,611,163	82,710	1,440,023
OTHER USES					
Operating transfers out	90,000	97,620	97,620		-
Total Expenditures and Other Uses	\$ 57,138,022	\$ 57,231,516	55,708,783	\$ 82,710	\$ 1,440,023
Net Change in Fund Balances			(606,799)		
Fund Balances - Beginning of Year			6,471,646		
Fund Balances - End of Year			\$ 5,864,847		

Note to Required Supplementary Information

Budget Basis of Accounting

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

ELWOOD UNION FREE SCHOOL DISTRICT
Schedule of Funding Progress - Other Postemployment Benefits
June 30, 2014

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrual Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2008	\$ -	\$ 53,319,246	\$ 53,319,246	0%	\$ 26,207,627	203.4%
July 1, 2010	-	61,751,398	61,751,398	0%	23,550,524	262.2%
July 1, 2012	-	62,641,232	62,641,232	0%	27,177,049	230.5%

ELWOOD UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
and the Real Property Tax Limit - General Fund
For The Year Ended June 30, 2014

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 57,035,292
Additions:	
Prior year's encumbrances	<u>102,730</u>
Original Budget	57,138,022
Budget revision	<u>93,494</u>
Final Budget	<u><u>\$ 57,231,516</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2014-15 voter-approved expenditure budget	<u><u>\$ 58,634,724</u></u>
Maximum allowed (4% of 2014-15 budget)	<u><u>\$ 2,345,389</u></u>

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

Unrestricted fund balance:		
Assigned fund balance	\$ 2,783,675	
Unassigned fund balance	<u>687,146</u>	
		\$ 3,470,821
Less:		
Appropriated fund balance	2,700,965	
Encumbrances	<u>82,710</u>	
Total adjustments		<u><u>2,783,675</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		<u><u>\$ 687,146</u></u>
Actual Percentage		1.17%

ELWOOD UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2014

Capital assets, net	\$ 22,751,815
Add:	
Unamortized bond deferred charges	<u>389,943</u>
	23,141,758
Deduct:	
Bond anticipation notes	1,650,000
Short-term portion of bonds payable, inclusive of premium	1,670,768
Long-term portion of bonds payable, inclusive of premium	<u>11,190,828</u>
	<u>14,511,596</u>
Net investment in capital assets	<u><u>\$ 8,630,162</u></u>



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(1950 - 2013)

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

To the Board of Education
Elwood Union Free School District
Greenlawn, 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 Elwood Union Free School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 8, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 Elwood Union Free School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Elwood Union Free School District in a separate letter dated October 8, 2014.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cullen & Danowski, LLP

October 8, 2014

