

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Education
Central Islip Union Free School District
Central Islip, New York

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Central Islip Union Free School District as of and for the fiscal year ended June 30, 2011, which collectively comprise the Central Islip Union Free School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Central Islip Union Free School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 as well as the fiduciary funds of the Central Islip Union Free School District as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Central Islip Union Free School District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2011 on our consideration of the Central Islip 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages 1 through 15 and 52 through 54 be presented to supplement the basic financial statements. Such information, although not a required 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.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Central Islip Union Free School District's basic financial statements as a whole. The other supplementary financial information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

R.S. Abrams & Co. LLP

R.S. Abrams & Co. LLP
November 11, 2011

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The following is a discussion and analysis of the Central Islip Union Free School District's (the "District") financial performance for the fiscal year ended June 30, 2011. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-Wide and Fund Financial Statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2011 are as follows:

- On the District-Wide Financial Statements, revenues increased 2% primarily as a result of an increase in property taxes offset by a decrease in state aid.
- On the District-Wide Financial Statements, expenditures decreased by 4% primarily as a result of a decrease in instruction expense.
- On May 19, 2011, the District's residents authorized the proposed 2011-2012 budget in the amount of \$167,085,064.
- The District continued to offer all programs, without reducing services.
- On the District-Wide and Fund Financial Statements, the District has adopted Governmental Accounting Standards Board ("GASB") Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" to provide clearer fund balance classifications that can be more consistently applied and clarifying the existing governmental fund type definitions.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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

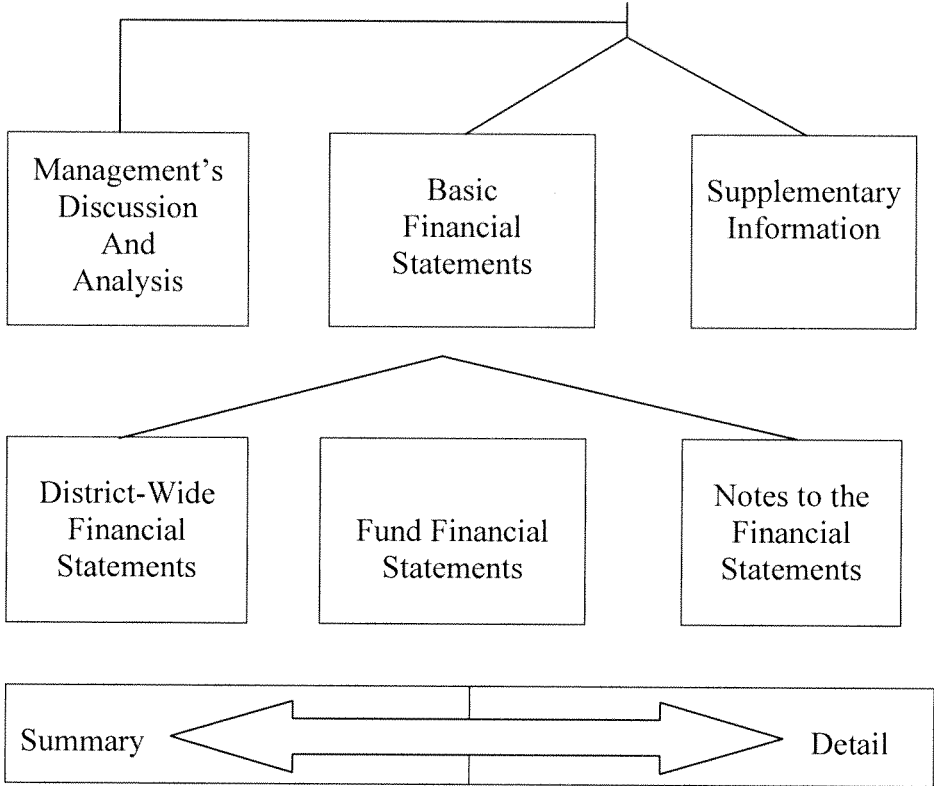
- The first two statements are *District-Wide Financial Statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of the District.

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

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



**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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

	District-Wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All financial assets and liabilities, short-term and long-term
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

A) District-Wide Financial Statements

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

The two District-Wide Financial Statements report the District's net assets and how they have changed. Net assets, the difference between the assets and liabilities, is one way to measure the financial health or position of the District.

- Over time, increases and decreases in net assets is an indicator of whether the financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the District, additional non-financial factors such as changes in the District's property tax base and the condition of buildings and other facilities should be considered.

Net assets of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated if it does not provide or reduce current financial resources. Finally, capital assets and long-term debt are both accounted for in account groups and do not affect the fund balances.

District-Wide Financial Statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the Statement of Net Assets:

- Capitalize current outlays for capital assets;
- Report long-term debt as a liability;
- Depreciate capital assets and allocate the depreciation to the proper program/activities;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting; and
- Allocate net asset balances as follows:
 - *Net Assets* invested in capital assets, net of related debt;
 - *Restricted net assets* are those with constraints placed on the use by external sources (creditors, grantors, contributors or laws or regulations of governments) or approved by law through constitutional provisions or enabling legislation;
 - *Unrestricted net assets* are net assets that do not meet any of the above restrictions.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

B) Fund Financial Statements

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

The District has two kinds of funds:

i) Governmental funds:

Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-Wide statements, additional information at the bottom of the governmental fund statements explains the relationship (or differences) between them. In summary, the government fund statements focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general fund, special revenue funds, school lunch fund, and capital projects fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance.

ii) Fiduciary funds:

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A) Net Assets

The District's total net assets decreased by \$21,012,928 in the fiscal year ended June 30, 2011, as detailed in Table A-3.

Table A-3: Condensed Statement of Net Assets-Governmental Activities

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)	Percentage Change
Current assets and other assets	\$53,782,152	\$46,374,250	\$7,407,902	16%
Capital assets	66,827,689	66,332,523	495,166	1%
Total assets	<u>\$120,609,841</u>	<u>\$112,706,773</u>	<u>\$7,903,068</u>	<u>7%</u>
Current Liabilities	\$33,229,436	\$31,072,779	\$2,156,657	7%
Long-term liabilities	134,959,789	108,200,450	26,759,339	25%
Total liabilities	<u>\$168,189,225</u>	<u>\$139,273,229</u>	<u>\$28,915,996</u>	<u>21%</u>
Net Assets				
Investment in capital assets, net of related debt	\$16,160,266	\$11,795,100	\$4,365,166	37%
Restricted	8,406,064	12,914,922	(4,508,858)	-35%
Unrestricted (Deficit)	<u>(72,145,714)</u>	<u>(51,276,478)</u>	<u>(20,869,236)</u>	<u>41%</u>
Total net assets	<u>(47,579,384)</u>	<u>(26,566,456)</u>	<u>(21,012,928)</u>	<u>79%</u>
Total liabilities and net assets	<u>\$120,609,841</u>	<u>\$112,706,773</u>	<u>\$7,903,068</u>	<u>7%</u>

Reclassifications have been made to the 2010 restricted and unrestricted net assets to conform to the 2011 financial statement classification. This new classification is consistent to restricted fund balance per Governmental Accounting Standards Board (GASB) Statement No. 54. Such reclassification had no effect on the total net assets as previously reported.

The net assets invested in capital assets, net of related debt, relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, and furniture & equipment, net of depreciation and related debt. This number increased from the prior year by \$4,365,166 primarily due to an increase in capital additions and a decrease in related debt.

Current assets and other assets increased by \$7,407,902 from 2010 to 2011 primarily due to an increase in the district's cash balance. Capital assets (net of depreciation) increased by \$495,166. This was attributable to current year capital asset additions offset by depreciation. Current liabilities increased by \$2,156,657. This was attributable to an increase in due to other government and due to teachers' retirement system. Long-term liabilities increased by \$26,759,339 primarily due to the current year's increase in net other postemployment benefits obligation, due to other governments and due to teachers' retirement system offset by a decrease in the long term portion of bonds payable.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The restricted net assets at June 30, 2011, is comprised of amounts with constraints placed on the use either externally imposed by creditors, grantor, contributors or laws and regulations of other governments; or imposed by law through constitutional provisions of enabling legislation. See page 11 of this MD&A and Note 1 to Financial Statements for further descriptions and detailed balances.

The unrestricted net deficit at June 30, 2011 is \$72,145,714 which represents the amount by which the District's liabilities excluding debt related to capital construction exceeded assets other than capital assets.

Net assets overall decreased by \$21,012,928.

B) Changes in Net Assets

The results of operations as a whole are reported in the Statement of Activities. A summary of this statement for the years ended June 30, 2011 and 2010 are as follows:

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

	Fiscal Year 2011	Fiscal Year 2010	Increase/ (Decrease)	Total Percentage Change
Program revenues				
Charges for services	\$1,614,164	\$1,579,372	\$34,792	2%
Operating grants	16,150,458	16,332,261	(181,803)	-1%
General revenues				
Property taxes (including other tax items)	81,293,223	75,443,345	5,849,878	8%
State aid	75,417,595	77,629,239	(2,211,644)	-3%
Use of money and property	496,225	391,177	105,048	27%
Other	2,212,071	2,528,965	(316,894)	-13%
Total Revenues	<u>\$177,183,736</u>	<u>\$173,904,359</u>	<u>\$3,279,377</u>	<u>2%</u>
Expenses				
General support	\$26,824,371	\$26,073,117	\$751,254	3%
Instruction	143,181,457	149,894,428	(6,712,971)	-4%
Pupil transportation	9,021,864	9,515,189	(493,325)	-5%
Debt service - interest	2,183,770	2,293,099	(109,329)	-5%
Food service program	3,022,508	3,236,274	(213,766)	-7%
Total Expenses	<u>\$184,233,970</u>	<u>\$191,012,107</u>	<u>(\$6,778,137)</u>	<u>-4%</u>
Other changes in net assets	(13,962,694)	0	(13,962,694)	-100%
Increase (Decrease) in Net Assets	<u>(\$21,012,928)</u>	<u>(\$17,107,748)</u>	<u>(\$3,905,180)</u>	<u>23%</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The District's total fiscal year 2011 revenues totaled \$177,183,736 (See Table A-4). Property taxes (including other tax items) and state formula aid accounted for most of the District's revenue by contributing 45 cents and 43 cents, respectively of every dollar raised (See Table A-5). The remainder came from fees charged for services, operating grants, investment earnings, and other miscellaneous sources.

The total cost of all programs and services totaled \$184,233,970 for fiscal year 2011. These expenses are predominantly related to general instruction and caring for (pupil services) and transporting students, which account for 83% of District expenses (See Table A-6). The District's general support activities accounted for 14% of total costs.

Table A-5: Revenues for Fiscal Year 2011 (See Table A-4)

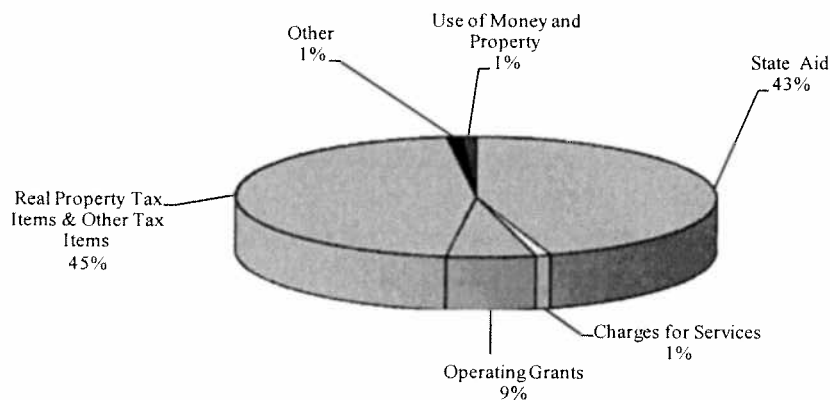
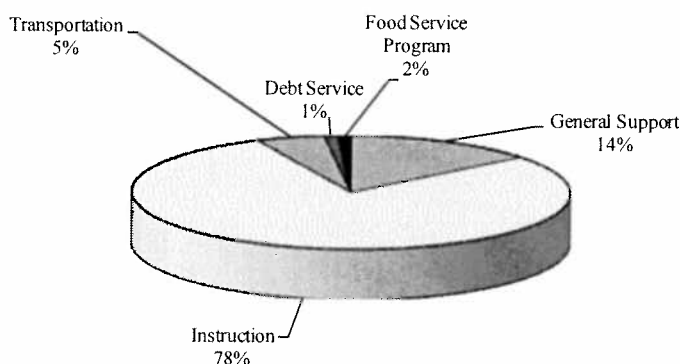


Table A-6: Expenses for Fiscal Year 2011 (See Tables A-4 and A-7)



**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

C) Governmental Activities

Revenues for the District's governmental activities totaled \$177,183,736 while total expenses equaled \$184,233,970. There was a total change in net assets for \$21,012,928, primarily due to an increase in the long-term liabilities for the net other postemployment benefits obligation, due to teachers' retirement system and an other change in fund balance for \$13,962,694. The overall financial condition of the District, as a whole, can be credited to:

- Continued leadership of the District's Board and administration;
- Strategic use of services from the Eastern Suffolk BOCES; and
- Improved curriculum and community support.

Table A-7 presents the cost of major District activities: instruction, general support, pupil transportation, debt service and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Table A-7: Net Cost of Governmental Activities

Category	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2010
General support	\$26,824,371	\$26,073,117	\$26,824,371	\$26,073,117
Instruction	143,181,457	149,894,428	127,737,584	134,394,081
Pupil transportation	9,021,864	9,515,189	9,021,864	9,515,189
Debt service - interest	2,183,770	2,293,099	2,183,770	2,293,099
Food service program	3,022,508	3,236,274	701,759	824,988
Total	<u>\$184,233,970</u>	<u>\$191,012,107</u>	<u>\$166,469,348</u>	<u>\$173,100,474</u>

- The cost of all governmental activities this year was \$184,233,970 (Statement of Activities and Changes in Net Assets, Expenses column-see Exhibit 3).
- The users of the District's programs financed \$1,614,164 of the cost (Statement of Activities and Changes in Net Assets, Charges for Services column-see Exhibit 3).
- The federal and state governments subsidized certain programs with grants of \$16,150,458. (Statement of Activities and Changes in Net Assets, Operating Grants column-see Exhibit 3)
- Most of the District's net costs \$166,469,348 was financed by District taxpayers and state and federal aid. (Statements of Activities and Changes in Net Assets, Net (Expense) Revenue and Changes in Net Assets column-see Exhibit 3).

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Variations between years for the governmental Fund Financial Statements are not the same as variations between years for the District-Wide Financial Statements. The District's governmental funds are presented on the **current financial resources measurement focus** and the **modified accrual basis of accounting**. Based on this presentation, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt.

As of June 30, 2011, the District's combined governmental funds reported a total fund balance of \$19,695,478 which is an increase of \$4,899,326 from the prior year. This increase is primarily due to revenues in excess of expenditures in the general fund due to operations, offset by expenses in excess of revenues in the school lunch fund due to operations and expenses in excess of revenues in the capital projects fund due capital outlay. A summary of the change in fund balance for all funds is as follows:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)	% Change
General Fund				
Non spendable for advances	\$1,340,565	\$639,099	\$701,466	110%
Restricted for workers' compensation	1,806,636	1,801,232	5,404	0.3%
Restricted for employee benefit accrued liability	6,523,633	9,038,121	(2,514,488)	-28%
Restricted for liability	75,795	2,075,569	(1,999,774)	-96%
Assigned-designated for subsequent year's expenditures	2,000,000	3,485,000	(1,485,000)	-43%
Assigned central services	24,900	98,097	(73,197)	-75%
Assigned - instruction	11,193	242	10,951	4525%
Assigned - instructional media	6,564	0	6,564	100%
Assigned - pupil services	0	5,390	(5,390)	-100%
Unassigned	15,934,228	2,854,492	13,079,736	458%
Total fund balance - general fund	<u>\$27,723,514</u>	<u>\$19,997,242</u>	<u>\$7,726,272</u>	<u>39%</u>
School Lunch Fund				
Non spendable for inventory	\$23,615	\$25,986	(\$2,371)	-9%
Unassigned for school lunch	(1,340,565)	(639,099)	(701,466)	-110%
Total fund balance - school lunch fund	<u>(\$1,316,950)</u>	<u>(\$613,113)</u>	<u>(\$703,837)</u>	<u>-115%</u>
Capital Projects Fund				
Restricted for capital projects	\$102,577	\$102,577	\$0	0%
Unassigned for capital projects	(6,813,663)	(4,690,554)	(2,123,109)	-45%
Total fund balance - capital projects fund	<u>(\$6,711,086)</u>	<u>(\$4,587,977)</u>	<u>(\$2,123,109)</u>	<u>-46%</u>
Total fund balance - all funds	<u>\$19,695,478</u>	<u>\$14,796,152</u>	<u>\$4,899,326</u>	<u>33%</u>

Reclassifications have been made to the 2010 restricted and unrestricted fund balances to conform to the 2011 financial statement classification. This new classification is consistent to restricted fund balance per Governmental Accounting Standards Board (GASB) Statement No. 54. Such reclassification had no effect on the total fund balance as previously reported.

The general fund – during the year the reserve for liability was utilized as a revenue source in the 2010-2011 budget. The employee benefit accrued liability reserve was decreased by \$2,534,000 through a budget revision and increased by \$19,512 for interest. The reserve for advances was increased by \$701,466 to reserve for loans made to the school lunch fund during the current year that are not expected to be repaid within the current period.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The school lunch fund - fund balance decreased by \$703,837 as compared to the prior year due to current year operations.

The capital projects fund – fund balance decreased by \$2,123,109 as compared to the prior year due to capital outlay in the current year.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A) 2010-2011 Budget

The District's general fund adopted budget for the year ended June 30, 2011 was \$171,367,626. This amount was increased by encumbrances carried forward from the prior year in the amount of \$103,729 and a budget revision of \$2,534,000 which resulted in a final budget of \$174,005,355. The majority of the funding was property taxes, including other tax items and state aid of \$75,417,595.

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

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

Opening, Unassigned Fund Balance	\$2,854,492
Revenues under budget	(2,884,309)
Expenditures and encumbrances under budget	18,690,653
Increase to nonspendable for advances	(701,466)
Increase in reserves due to interest earnings	(25,142)
Assigned, Designated for June 30, 2012 Budget	(2,000,000)
Closing, Unassigned Fund Balance	<u><u>\$15,934,228</u></u>

The unassigned fund balance represents the fund balance retained by the District that is not restricted or designated for subsequent year's taxes. This amount is in excess of the 4% statutory limit of the 2011-2012 budget.

The revenues under budget of \$2,884,309 was primarily in state aid and other real property tax items (see Supplemental Schedule #1 for detail).

The expenditures and encumbrances under budget of \$18,690,653 were primarily in instruction, general support and employee benefits (See Supplemental Schedule 1 for details).

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Increases and decreases to reserves were primarily due to board approved transfers and allocation of interest earnings. For further detail refer to section 4 in Management's Discussion and Analysis Section 4, Financial Analysis of the District's Funds.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A) Capital Assets

The District paid for equipment and various building additions and renovations during the fiscal year 2011. A summary of the District's capital assets, net of depreciation are as follows:

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

Category	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)	Percentage Change
Land	\$539,650	\$539,650	\$0	0%
Construction in progress	5,281,981	4,111,423	1,170,558	28%
Buildings & building improvements	88,758,075	88,691,997	66,078	0.07%
Furniture & equipment	5,446,887	4,227,647	1,219,240	29%
Site improvements	3,035,118	3,042,498	(7,380)	-0.24%
Subtotal	103,061,711	100,613,215	2,448,496	2%
Less: accumulated depreciation	36,234,022	34,280,692	1,953,330	6%
Total net capital assets	<u>\$66,827,689</u>	<u>\$66,332,523</u>	<u>\$495,166</u>	<u>1%</u>

The District spent \$2,117,979 in the capital projects fund on building improvements and technology equipment during the year. In the general fund the District spent \$330,517 on technology equipment and equipment to be used in general operations.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

B) Long-Term Debt

At June 30, 2011, the District had total bonds payable of \$42,770,000. Principal payments were made in the amount of \$3,870,000 for serial bonds. More detailed information about the District’s long-term debt is presented in the Notes to the Financial Statements.

	2011	2010	Increase (Decrease)
Serial Bonds	\$42,770,000	\$46,640,000	(\$3,870,000)

7. FACTORS BEARING ON THE DISTRICT’S FUTURE

- A) The State Education Department (SED) has issued a voucher requesting that \$15,017,764 of building aid received in prior years be repaid, upon the alleged grounds that the District failed to timely file the final building project reports for prior year building projects and that such alleged failure is grounds for withholding and recouping all associated past, present and future building aid. The amount of future building aid that may be affected is estimated at \$25,422,423. The District disputes SED’s position and has instituted a litigation entitled *Board of Education of the Central Islip Union Free School District v. Steiner*, Albany County Supreme Court (Index No. 11-3865), to enforce its rights and challenge SED’s position. By Order to Show Cause dated May 26, 2011, Supreme Court Justice Gerald W. Connolly issued a temporary restraining order which, among other things, prohibited SED from enforcing the associated building aid recoupments pending further order of the court. The litigation remains pending.

- B) On September 15, 2011 the District issued \$30,000,000 in tax anticipation notes. On September 15, 2011 the District issued \$13,550,000 in bond anticipation notes. The tax anticipation notes mature on June 28, 2012 and the bond anticipation notes mature September 14, 2012.

	Amount	Rate	Premium
TANS	\$30,000,000	1.50%	\$252,900
BANS	\$13,550,000	1.00%	\$50,000

- C) The general fund budget for the 2011-2012 school year was approved by the voters in the amount of \$167,085,064. This is a decrease of \$4,282,562 or 2.6% from the previous year’s budget. The decrease was primarily due to decrease in personnel costs.

- D) The District started work in July 2011 on an energy performance contract with Amersco Inc in the amount of \$11,690,610. The repayment schedule calls for the District to begin paying principal and interest on October 15, 2012.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- E) The 2010-2011 budget is negatively impacted by certain trends impacting school districts. These include significant increases in health insurance costs and the NYS Legislature passage of a property tax cap. The NYS Legislature approved a property tax cap beginning in the 2012-2013 school year. This bill limits tax levy growth to the lesser of two percent or the annual increase in the CPI. Limited exemptions to exceed the levy cap are provided for taxes needed to pay for voter-approved capital expenditures, pension rate increases, court orders and torts over five percent of the prior year's levy. If the tax levy proposed to the voters is within the District's tax levy cap, then a majority vote would be required for approval. If the proposed tax levy exceeds the District's tax levy cap, the threshold required for approval would be 60 percent of the vote. A school district that does not levy an amount up to the cap in any one year would be allowed to carry over unused tax levy capacity into future years.

8. CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the finances of the District and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, contact:

Central Islip Union Free School District
Dr. Craig G. Carr
Superintendent of Schools
50 Wheeler Road
Central Islip, New York 11722
631-348-5112

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF NET ASSETS (DEFICIT) -GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

ASSETS

Cash		
Unrestricted		\$40,454,594
Receivables		
State and federal aid		10,632,715
Due from other governments		2,461,347
Due from fiduciary funds		185,047
Accounts receivable		24,834
Inventories		23,615
Capital assets, net		
Not being depreciated		5,821,631
Being depreciated, net of accumulated depreciation		<u>61,006,058</u>
TOTAL ASSETS		<u><u>\$120,609,841</u></u>

LIABILITIES

Payables		
Accounts payable		\$951,113
Accrued liabilities		10,045,577
Other liabilities		55,065
Accrued interest payable		629,647
Due to other governments		3,894,637
Due to teachers' retirement system		7,415,724
Due to employees' retirement system		1,083,487
Bond anticipation note payable		8,000,000
Compensated absences payable		1,154,186
Long-term liabilities		
Due and payable within one year		
Bonds payable		4,065,000
Due to teachers' retirement system		330,656
Due to employees' retirement system		188,046
Due and payable after one year		
Bonds payable		38,705,000
Due to other governments		13,619,629
Due to teachers' retirement system		991,969
Due to employees' retirement system		570,232
Net OPEB obligation		38,875,443
Compensated absences payable		35,472,727
Workers compensation claims payable		<u>2,141,087</u>
TOTAL LIABILITIES		<u>168,189,225</u>

NET ASSETS (DEFICIT)

Investment in capital assets, net of related debt		16,160,266
Restricted net assets		8,406,064
Unrestricted (deficit)		<u>(72,145,714)</u>
TOTAL NET ASSETS (DEFICIT)		<u>(47,579,384)</u>
TOTAL NET ASSETS (DEFICIT) AND LIABILITIES		<u><u>\$120,609,841</u></u>

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FUNCTIONS / PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expense)
		<u>Charges for Services</u>	<u>Operating Grants</u>	Revenue and Changes in Net Assets
General support	\$26,824,371			(\$26,824,371)
Instruction	143,181,457	\$1,159,834	\$14,284,039	(127,737,584)
Pupil transportation	9,021,864			(9,021,864)
Debt service - interest	2,183,770			(2,183,770)
Food service program	3,022,508	454,330	1,866,419	(701,759)
TOTAL FUNCTIONS AND PROGRAMS	<u>\$184,233,970</u>	<u>\$1,614,164</u>	<u>\$16,150,458</u>	<u>(\$166,469,348)</u>
GENERAL REVENUES				
Real property taxes				\$70,500,950
Other tax items - including STAR reimbursement				10,792,273
Use of money & property				496,225
Sale of property & compensation for loss				920,704
Miscellaneous				1,218,170
Interfund revenue				72,823
State sources				75,417,595
Medicaid reimbursements				374
TOTAL GENERAL REVENUES				<u>\$159,419,114</u>
CHANGE IN NET ASSETS				(7,050,234)
OTHER CHANGES IN NET ASSETS (SEE NOTE 17)				<u>(13,962,694)</u>
TOTAL CHANGE IN NET ASSETS				(21,012,928)
TOTAL NET ASSETS (DEFICIT) - BEGINNING OF YEAR				<u>(26,566,456)</u>
TOTAL NET ASSETS (DEFICIT) - END OF YEAR				<u>(\$47,579,384)</u>

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash					
Unrestricted	\$38,267,242	\$366,739	\$405,791	\$1,414,822	\$40,454,594
Receivables					
State and federal aid	5,176,847	5,324,786	131,082		10,632,715
Due from other governments	2,461,347				2,461,347
Due from other funds	6,543,814		1,831		6,545,645
Accounts receivable	24,834				24,834
Inventories			23,615		23,615
TOTAL ASSETS	<u>52,474,084</u>	<u>\$5,691,525</u>	<u>\$562,319</u>	<u>\$1,414,822</u>	<u>\$60,142,750</u>
LIABILITIES AND FUND BALANCE					
Payables					
Accounts payable	\$663,052	\$162,174		\$125,887	\$951,113
Accrued liabilities	8,998,510	806,425	\$240,642		10,045,577
Other liabilities	55,065				55,065
Due to other governments	3,893,661		976		3,894,637
Due to other funds		4,722,926	1,637,651	21	6,360,598
Due to teachers' retirement system	7,415,724				7,415,724
Due to employees' retirement system	1,083,487				1,083,487
Compensated absences	1,154,186				1,154,186
Notes payable					
Bond anticipation notes payable				8,000,000	8,000,000
Deferred credits					
Deferred revenue	1,486,885				1,486,885
TOTAL LIABILITIES	<u>24,750,570</u>	<u>5,691,525</u>	<u>1,879,269</u>	<u>8,125,908</u>	<u>40,447,272</u>
FUND BALANCE					
Nonspendable	1,340,565		23,615		1,364,180
Restricted	8,406,064			102,577	8,508,641
Assigned	2,042,657				2,042,657
Unassigned	15,934,228		(1,340,565)	(6,813,663)	7,780,000
TOTAL FUND BALANCE	<u>27,723,514</u>	<u>0</u>	<u>(1,316,950)</u>	<u>(6,711,086)</u>	<u>19,695,478</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$52,474,084</u>	<u>\$5,691,525</u>	<u>\$562,319</u>	<u>\$1,414,822</u>	<u>\$60,142,750</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Governmental Fund Balances \$19,695,478

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

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

Original cost of capital assets	103,061,711	
Accumulated depreciation	<u>(36,234,022)</u>	66,827,689

Deferred Revenue - The Statement of Net Assets recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual. 1,486,885

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

Net OPEB obligation	(38,875,443)	
Bonds payable	(42,770,000)	
Accrued interest payable	(629,647)	
Due to other governments	(13,619,629)	
Due to teachers' retirement system	(1,322,625)	
Due to employees' retirement system	(758,278)	
Workers compensation claims payable	(2,141,087)	
Compensated absences payable	<u>(35,472,727)</u>	<u>(135,589,436)</u>

Total Net Assets (\$47,579,384)

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES					
Real property taxes	\$70,500,950				\$70,500,950
Other tax items - including STAR reimbursement	10,792,273				10,792,273
Charges for services	906,263				906,263
Use of money and property	495,603		\$622		496,225
Sale of property and compensation for loss	920,704				920,704
Miscellaneous	1,216,150		2,020		1,218,170
Interfund revenues	72,823				72,823
Local sources		\$614,717			614,717
State sources	75,417,595	2,370,284	59,865		77,847,744
Medicaid reimbursements	374				374
Federal sources	2,675,582	8,623,456	1,685,597		12,984,635
Surplus food			120,957		120,957
Sales			454,330		454,330
TOTAL REVENUES	<u>162,998,317</u>	<u>11,608,457</u>	<u>2,323,391</u>	<u>0</u>	<u>176,930,165</u>
EXPENDITURES					
General support	18,990,255				18,990,255
Instruction	85,175,748	10,645,992			95,821,740
Pupil transportation	9,021,864				9,021,864
Employee benefits	35,407,060	1,144,400			36,551,460
Debt service - principal	3,870,000				3,870,000
Debt service - interest	2,282,118				2,282,118
Cost of sales			3,027,228		3,027,228
Capital outlay				2,123,109	2,123,109
TOTAL EXPENDITURES	<u>154,747,045</u>	<u>11,790,392</u>	<u>3,027,228</u>	<u>2,123,109</u>	<u>171,687,774</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	<u>8,251,272</u>	<u>(181,935)</u>	<u>(703,837)</u>	<u>(2,123,109)</u>	<u>5,242,391</u>
OTHER FINANCING SOURCES AND USES					
Operating transfers in		525,000			525,000
Operating transfers (out)	(525,000)				(525,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(525,000)</u>	<u>525,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
CHANGE IN FUND BALANCE	7,726,272	343,065	(703,837)	(2,123,109)	5,242,391
OTHER CHANGES IN FUND BALANCE (SEE NOTE 17)		(343,065)			(343,065)
NET INCREASE (DECREASE)	7,726,272	0	(703,837)	(2,123,109)	4,899,326
FUND BALANCES - BEGINNING OF YEAR	<u>19,997,242</u>	<u>0</u>	<u>(613,113)</u>	<u>(4,587,977)</u>	<u>14,796,152</u>
FUND BALANCE - END OF YEAR	<u>\$27,723,514</u>	<u>\$0</u>	<u>(\$1,316,950)</u>	<u>(\$6,711,086)</u>	<u>\$19,695,478</u>

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net Change in Fund Balance	\$4,899,326
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 expenses-compensated absences (vacation and sick days), are measured by the amounts earned or incurred during the year. In the governmental funds, expenditures for these items are measured by the amount of financial resources used.	187,369
Deferred Revenue - The Statement of Net Assets recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual.	253,571
Workers' compensation claims payable in the Statement of Activities differs from the amounts reported in the governmental funds because the expense is recorded as an expenditure in the funds when it is due. In the Statement of Activities, the payable is recognized as it accrues regardless of when it is due. Accrued claims payable from June 30, 2010 to June 30, 2011 changed by	(351,064)
In the Statement of Activities, employees' retirement system expenses are measured by the amounts earned during the year. In the governmental funds, expenditures for these items are measured by the amount of financial resources used.	(504,784)
In the Statement of Activities recognizes long term TRS loans as current expenses. In the governmental funds these expenses are not measured until the financial resources are used.	(1,322,625)
Long-Term Debt Transactions	
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities	3,870,000
Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and this requires the use of current financial resources. In the Statements of Activities, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2010 to June 30, 2011 changed by	98,348
Increases in Net OPEB obligation reported in the Statement of Activities does not require the use of current financial resources and therefore are not reported in the governmental funds	(15,018,606)
Increases in due to other governments reported in the Statement of Net Assets does not require the use of current financial resources and therefore is not reported in the governmental funds	(13,619,629)
Capital Related Items	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. For governmental activities, those costs are capitalized and shown in the Statement of Net Assets and allocated over their useful lives as annual depreciation expense in the Statement of Activities	
Capital outlays	2,448,496
Depreciation expense	(1,953,330)
	495,166
Changes in Net Assets of Governmental Activities	(\$21,012,928)

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$7,414	\$479,488
Due from other governments		1,247
TOTAL ASSETS	<u>\$7,414</u>	<u>\$480,735</u>
LIABILITIES		
Extraclassroom activity balance	\$0	\$138,782
Due to governmental funds	0	185,047
Other liabilities	0	156,906
TOTAL LIABILITIES	<u>\$0</u>	<u>\$480,735</u>
NET ASSETS		
Reserved for scholarships	\$7,414	
TOTAL NET ASSETS	<u>\$7,414</u>	

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Private Purpose Trust Fund
ADDITIONS	
Gifts and contributions	\$0
Interest and earnings	15
TOTAL ADDITIONS	15
DEDUCTIONS	
Scholarships and awards	0
TOTAL DEDUCTIONS	0
CHANGE IN NET ASSETS	15
NET ASSETS - BEGINNING OF YEAR	7,399
NET ASSETS - END OF YEAR	\$7,414

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Central Islip Union Free School District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as apply to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

A) Reporting entity:

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

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, and by GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District and its component unit and other organizational entities determined to be includable in the District’s financial reporting entity. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District’s reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District’s reporting entity.

i) Extraclassroom Activity Funds

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

B) Joint venture:

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

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

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

C) Basis of presentation:

i) District-Wide Financial Statements

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

The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

ii) Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

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

Capital projects fund: This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

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

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

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

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

The District-Wide and Fiduciary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue

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from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

E) Property taxes:

i) Calendar

Real property taxes are levied annually by the Board of Education no later than October 1, and become a line on December 1. The District's tax levy is collected by the Town of Islip. Tax collections are remitted to the District and Town Comptrollers until their respective tax levies are satisfied.

ii) Enforcement

Uncollected real property taxes are subsequently enforced by the County in which the District is located. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following July 1.

F) Restricted resources:

When an expense is incurred for purposes for which both restricted and unrestricted net assets 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.

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

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of funds include the transfer of expenditure and revenues to provide financing or other services.

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

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

Refer to Note 9 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

H) Estimates:

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

I) Cash and investments:

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

J) Accounts receivable:

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

K) Inventories and prepaid items:

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount. Nonspendable fund balance for these non-liquid assets (inventories) has been recognized in the school lunch fund to signify that a portion of fund balance is not available for other subsequent expenditures.

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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 assets or balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

L) Capital assets:

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building & building improvements	\$500,000	Straight-line	50-25 years
Site Improvement	\$25,000	Straight-line	20 years
Furniture & Equipment	\$5,000	Straight-line	5-20 years

M) Deferred revenue:

Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded.

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

Deferred revenues recorded in governmental funds are recorded in the District-wide statements, and comprise part of the reconciliation in Note 2.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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N) Vested employee benefits:

Compensated absences

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

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

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

Consistent with GASB Statement 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

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

O) Other benefits:

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

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

P) Short-term debt:

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

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The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which there is an insufficient or no provision made in the annual budget. The budget note must be repaid no later than the close of second fiscal year succeeding the year in which the note was issued.

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

Q) Accrued liabilities and long-term obligations:

Payables, accrued liabilities and long-term obligations are reported in the District-Wide Financial Statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the Fund Financial Statements when due.

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statement of Net Assets.

R) Equity Classifications:

i) District-Wide Financial Statements

In the District-Wide Financial Statements, there are three classes of net assets:

Invested in capital assets, net of related debt - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets.

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

Unrestricted net assets - reports all other net assets that do not meet the definition of the above two classifications and are deemed to be available for general use by the District.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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ii) Fund Financial Statements

As of June 30 2011, the District adopted GASB Statement No. 54 “*Fund Balance Reporting and Governmental Fund Type Definitions*” (GASB 54) which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement provides more clearly defined categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. There are five classifications of fund balance as detailed below; however, in the Fund Financial Statements there are four classifications of fund balance presented:

- (1) **Nonspendable fund balance** – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes the inventory recorded in the school lunch fund of \$23,615 and \$1,340,565 in the general fund for the cumulative deficit in the school lunch fund.
- (2) **Restricted fund balance** – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has established the following restricted fund balances:

<u>Restricted for:</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Workers' compensation	\$1,806,636		\$1,806,636
Employee benefit accrued liability	6,523,633		6,523,633
Liability	75,795		75,795
Capital projects		\$102,577	102,577
Total	<u>\$8,406,064</u>	<u>\$102,577</u>	<u>\$8,508,641</u>

Beginning fund balances for the District’s governmental funds and the governmental activities have been reclassified to reflect the above classifications.

Currently, New York State laws still use the terminology “reserves” and Districts are only allowed to use reserves authorized by law. The District has classified the following reserves as restricted:

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Reserve for Employee Benefit Accrued Liability

According to General Municipal Law §6-p, this must be used for the payment of accrued employee benefit 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.

Property Loss Reserve and Liability Reserve

According to Education Law §1709(8)(c), are used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than \$125,000.

Workers' Compensation

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

- (3) **Committed fund balance** – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority (i.e., Board of Education). The District has no committed fund balances as of June 30, 2011.

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

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<u>Assigned for:</u>	<u>General Fund</u>
Designated for subsequent year's budget	\$2,000,000
Central services	24,900
Instruction	11,193
Instruction-instructional media	<u>6,564</u>
Total	<u><u>\$2,042,657</u></u>

Beginning fund balances for the District's governmental funds and the governmental activities have been reclassified to reflect the above classifications.

Designated for Subsequent Year's Expenditures

The amount of \$2,000,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2012.

Encumbrances

Encumbrances have been assigned based upon the District's intent to be used for a specific purpose such as general support, instruction and capital projects. See Note 3 for further detail regarding accountability and Note 18 for further detail regarding significant encumbrances.

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

The District has classified the following as unassigned:

<u>Unassigned for</u>	<u>General</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total</u>
General fund	\$15,934,228			\$15,934,228
School lunch fund		(\$1,340,565)		(1,340,565)
Capital projects fund			(\$6,813,663)	(6,813,663)
Total	<u>\$15,934,228</u>	<u>(\$1,340,565)</u>	<u>(\$6,813,663)</u>	<u>\$7,780,000</u>

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a District can retain to no more than 4% of the District's budget for the general fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances included in assigned fund balance are also excluded from the 4%

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limitation. The District has \$15,934,228 of unassigned fund balance as of June 30, 2011, which is in excess of the 4% limitation.

Deficit fund balance

At June 30, 2011, the school lunch fund and the capital projects fund have fund balance deficits of \$1,340,565 and \$6,813,663, respectively. The deficit in the capital projects fund is primarily a result of the project expenses that will be financed with the proceeds of long-term debt in subsequent years. The deficit in the school lunch fund is a result of expenditures greater than revenue.

Order of Use of Fund Balance

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves) the District will evaluate on an annual basis, based on financial condition, the order by which it will spend restricted and unrestricted (unassigned) fund balance.

S) Adopted Change in Accounting Standards:

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classification that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB Statement No. 54 is effective for the District's fiscal year ending June 30, 2011, and was adopted by the District. See Note 1 R ii for further information.

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND FINANCIAL STATEMENTS AND DISTRICT-WIDE FINANCIAL STATEMENTS:

Due to the differences in the measurement focus and basis of accounting used in the 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 focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

(A) Total fund balances of governmental funds vs. net assets of governmental activities:

Total fund balances of the District's governmental funds differ from "net assets" of governmental activities reported in the Statement of Net Assets. The difference primarily results from additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund Balance Sheets.

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

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

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i) Long-term revenue and expense differences:

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

ii) Capital related differences:

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

iii) Long-term debt transaction differences:

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

iv) Employee benefit allocations:

Expenditures for employee benefits are not allocated to a specific function on the Statement of Revenues, Expenditures, and Changes in Fund Balance based on the requirements of New York State. These costs have been allocated based on total salary for each function in the Statement of Activities.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A) Budgets:

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

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

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supplemental appropriation for the use of compensated absences from the employee benefit accrued liability reserve in the amount of \$2,534,000 during the year.

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward. 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 restrictions or assignments of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A) Cash:

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and districts.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB Statement No. 40 "*Deposit and Investment Risk Disclosures*", directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

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

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

B) Investments:

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

C) Investment Pool

The District participates in a multi-municipal cooperation investment pool agreement pursuant to New York State General Municipal Law Article 5-G, Section 119-0, whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents.

Total investments of the cooperative as of year-end are \$609,967,262 which consists of \$252,175,926 in repurchase agreements, \$221,500,000 in U.S. Treasury Securities, and \$136,291,336 in collateralized bank deposits with various interest rate and due dates.

At June 30, 2011 the District held \$1,039,196 in investments consisting of various investments in securities issued by the United States and its agencies.

The following amounts are included as cash:

<u>Fund</u>	<u>Carrying Amount</u>
General fund	\$986,594
Capital projects fund	52,602
	<u>\$1,039,196</u>

The above amounts represent the cost of the investment pool shares, and are considered to approximate market value. The investment pool is exempt from NYS collateral requirements. Additional information concerning the cooperative is presented in the annual report of Cooperative Liquid Assets Securities System –New York (CLASS), 113 King Street, Armonk, New York 10504.

NYCLASS is rated AAAM by Standard and Poor's Ratings Agency. Additional information concerning the cooperative is presented in the annual report of 2010, available at: [HTTP://WWW.NEWYORK-CLASS.ORG](http://www.newyork-class.org).

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NOTE 5 – PARTICIPATION IN BOCES:

During the year, the District was billed \$13,754,933 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$2,723,954. Financial statements for the BOCES are available from the BOCES administrative office at Eastern Suffolk Board of Cooperative Educational Services, James Hines Administration Center, 201 Sunrise Highway Patchogue, NY 11772.

NOTE 6 – STATE AND FEDERAL AID RECEIVABLES:

State and federal aid receivables at June 30, 2011 consists of the following:

Description	General Fund	Special Aid Fund	School Lunch Fund	Total
State aid-general aid	\$845,828			\$845,828
State aid-excess cost	2,065,699			2,065,699
State aid-texbook	74,620			74,620
State aid-BOCES	1,225,779			1,225,779
Federal ARRA stabilization	802,675			802,675
NYS MTA tax refund	92,323			92,323
NYS medicare part D	68,782			68,782
NYS division of unclaimed funds	1,141			1,141
State grants		\$3,298,809		3,298,809
Federal grants		2,025,977		2,025,977
Lunch - federal			\$108,782	108,782
Lunch - state			3,686	3,686
Breakfast - federal			15,414	15,414
Breakfast - state			922	922
Snack - federal			1,203	1,203
Milk - federal			1,075	1,075
Total	<u>\$5,176,847</u>	<u>\$5,324,786</u>	<u>\$131,082</u>	<u>\$10,632,715</u>

District management has deemed the amounts to be fully collectible.

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NOTE 7 – DUE FROM OTHER GOVERNMENTS:

Due from other governments in the general fund at June 30, 2011 consists of the following:

Foster tuition	\$1,767,091
Health services	2,087
Town of Islip	683,349
County of Suffolk	8,820
Total	<u><u>\$2,461,347</u></u>

District management has deemed these amounts to be fully collectible.

NOTE 8 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2011 were as follows:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities				
Land	\$539,650	\$0	\$0	\$539,650
Construction in progress	4,111,423	1,170,558		5,281,981
Total nondepreciable historical cost	<u>4,651,073</u>	<u>1,170,558</u>	<u>0</u>	<u>5,821,631</u>
Building & building improvement	88,691,997		66,078	88,758,075
Furniture and equipment	4,227,647	1,277,938	(58,698)	5,446,887
Land improvement	3,042,498		(7,380)	3,035,118
Total depreciable historical cost	<u>95,962,142</u>	<u>1,277,938</u>	<u>0</u>	<u>97,240,080</u>
Less accumulated depreciation:				
Building & building improvement	30,483,683	1,655,542	(68,011)	32,071,214
Furniture and equipment	2,525,728	328,675	(88,168)	2,766,235
Land improvement	1,271,281	131,125	(5,833)	1,396,573
Total accumulated depreciation	<u>34,280,692</u>	<u>2,115,342</u>	<u>(162,012)</u>	<u>36,234,022</u>
Total historical cost, net	<u><u>\$66,332,523</u></u>	<u><u>\$333,154</u></u>	<u><u>(\$162,012)</u></u>	<u><u>\$66,827,689</u></u>

Depreciation expense was charged to
Governmental functions as follows:

Instruction	\$1,670,442
General Support	271,932
Food Service	10,956
	<u><u>\$1,953,330</u></u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 9 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General fund	\$6,543,814			\$525,000
Special aid fund		\$4,722,926	\$525,000	
School lunch fund	1,831	1,637,651		
Capital projects fund		21		
Total government activities	6,545,645	\$6,360,598	525,000	525,000
Fiduciary agency fund	0	185,047	0	0
Totals	<u>\$6,545,645</u>	<u>\$6,545,645</u>	<u>\$525,000</u>	<u>\$525,000</u>

The District typically transfers from the general fund to the special aid fund and the school lunch fund in accordance with the general fund budget. The transfer to the special aid fund was for the District's share of the cost for the summer handicapped program. The transfer to the school lunch fund was done to fund operations.

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

All interfund payables are expected to be repaid within one year.

NOTE 10 – DUE TO OTHER GOVERNMENTS

Due to other governments at June 30, 2011 consists of the following:

General Fund

Due to NYS education department	\$3,511,707
Due to BOCES & local public schools	381,954
Total General Fund	<u>3,893,661</u>

School Lunch Fund

Due to NYS department of taxation	161
Due to NYS education department	815
Total School Lunch Fund	<u>976</u>

Total All Funds	<u><u>\$3,894,637</u></u>
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**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 11 - SHORT-TERM DEBT

On September 15, 2010, the District issued Tax Anticipation Notes, in the amount of \$37,000,000 and Bond Anticipation Notes in the amount of \$8,000,000. On September 15, 2010 the District retired \$8,000,000 in Bond Anticipation Notes. The Tax Anticipation Notes were issued for interim financing of general fund operations and the Bond Anticipation Notes were issued as interim financing for capital construction. Transactions in short-term debt for the year are summarized below:

	Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	6/30/2011	1.50%	\$0	\$37,000,000	\$37,000,000	\$0
BAN	9/15/2010	1.50%	8,000,000	0	8,000,000	0
BAN	9/15/2011	0.59%	0	8,000,000	0	8,000,000
			<u>\$8,000,000</u>	<u>\$45,000,000</u>	<u>\$45,000,000</u>	<u>\$8,000,000</u>

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

Interest paid	<u>Total</u> \$537,689
Less interest accrued in the prior year	(95,000)
Plus interest accrued in the current year	<u>37,367</u>
Total expense	<u>\$480,056</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 12 – LONG-TERM DEBT OBLIGATIONS

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

	Beginning Balance	Issued	Redeemed	Ending Balance	Due Within One Year
Government activities:					
Bonds payable:					
General obligation debt:					
Bonds payable	\$46,640,000	\$0	\$3,870,000	\$42,770,000	\$4,065,000
Total bonds payable	<u>46,640,000</u>	<u>0</u>	<u>3,870,000</u>	<u>42,770,000</u>	<u>4,065,000</u>
Other liabilities:					
Due to employees' retirement system	\$253,494	\$595,760	\$90,976	\$758,278	\$188,046
Due to teachers' retirement system	0	1,653,281	330,656	1,322,625	330,656
Due to other governments	0	13,619,629	0	13,619,629	0
Compensated absences payable	35,660,096	0	187,369	35,472,727	0
Net OPEB obligation	23,856,837	15,018,606	0	38,875,443	0
Workers' compensation claims payable	1,790,023	351,064		2,141,087	0
Total other liabilities	<u>61,560,450</u>	<u>31,238,340</u>	<u>609,001</u>	<u>92,189,789</u>	<u>518,702</u>
Total long-term liabilities	<u>\$108,200,450</u>	<u>\$31,238,340</u>	<u>\$4,479,001</u>	<u>\$134,959,789</u>	<u>\$4,583,702</u>

The compensated absences balance at June 30, 2011 was decreased primarily due to staff layoffs. The general fund has typically been used to liquidate long-term liabilities such as compensated absences, due to employees' retirement system, due to teachers' retirement system, workers' compensation and bonds payable.

Refer to Note 14 for a detailed disclosure for due to employees' retirement system and due to teachers' retirement system. Refer to Note 17 for a detailed disclosure for due to other governments.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Serial Bond	5/1/1998	5/1/2013	7.13%	\$2,265,000
Serial Bond	12/1/1998	11/1/2013	5.1 - 5.2%	180,000
Serial Bond	6/15/2003	6/15/2021	3.0 - 4.0%	5,235,000
Serial Bond	7/15/2003	7/15/2023	3.0 - 4.125%	21,315,000
Serial Bond	2/15/2004	2/1/2023	2.0 -4.125%	12,650,000
Serial Bond	5/29/2008	6/15/2018	3.13 - 3.50%	1,125,000
				<u>\$42,770,000</u>

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$4,065,000	\$1,599,730	\$5,664,730
2013	4,230,000	1,442,375	5,672,375
2014	3,105,000	1,280,397	4,385,397
2015	3,225,000	1,173,260	4,398,260
2016	3,330,000	1,060,257	4,390,257
2017 - 2021	17,990,000	3,361,750	21,351,750
2022 - 2023	6,825,000	336,122	7,161,122
	<u>\$42,770,000</u>	<u>\$10,253,891</u>	<u>\$53,023,891</u>

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

Interest paid	<u>\$1,744,429</u>
Less interest accrued in the prior year	(632,995)
Plus interest accrued in the current year	592,280
Total expense	<u>\$1,703,714</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 13 – DEFERRED REVENUE:

Deferred revenue in the general fund at June 30, 2011 consists of the following:

MTA tax reimbursement	\$92,323
Foster tuition	1,380,667
Employee insurance co-payments	<u>13,895</u>
Total	<u><u>\$1,486,885</u></u>

NOTE 14 – PENSION PLANS

A) General information:

The District participates in the New York State Employees' Retirement System (NYSERS) (the "System") and the New York State Teachers' Retirement System (NYSTRS) (the "System"). These are cost-sharing multiple employer public employee retirement systems. The Systems offer a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

B) Provisions and administration:

i) Teachers' Retirement System

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

ii) Employees' Retirement System

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

C) Funding policies:

The Systems are noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in NYSERS contribute 3% of their salary throughout their active membership and those in NYSTRS contribute 3.5% throughout their active membership. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

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

	NYSERS	NYSTRS
2010 - 2011	\$2,327,765	\$6,024,897
2009 - 2010	\$1,798,966	\$4,367,267
2008 - 2009	\$1,561,294	\$4,773,436

D) Retirement Incentive:

Chapter 105 of the Laws of 2010 of the State of New York authorized local governments to make available a retirement incentive program with an estimated total cost of \$2,138,631 of which \$330,656 was charged to TRS expenditures in the Governmental Funds in the current fiscal year. The District charged \$1,322,625 to TRS expenditures and \$485,350 to ERS expenditures in the District-Wide Financial Statements. The District is obligated for retirement incentive programs to the NYSERS. During the current fiscal year \$90,976 was charged to expenditures in the governmental funds and the outstanding obligation at June 30, 2011 is \$758,278.

The District is obligated for retirement incentives as follows:

	ERS	TRS
Laws of 2004	\$272,928	\$0
Laws of 2010	485,350	1,322,625
	\$758,278	\$1,322,625

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 15 – POST EMPLOYMENT (HEALTH INSURANCE) BENEFITS

A) Plan Description:

The District provides primarily post-employment health insurance coverage (the Healthcare Plan) to retired employees and their spouses in accordance with the provisions of various employment contracts. Benefits are provided through the New York State Health Insurance Program Empire Plan (NYSHIP) (the “Plan”), which is a single-employer defined benefit healthcare plan administered by New York State and the United Public Service Employees’ Union Benefit Plan (UPSEU) (the “Plan”), which is a fully insured, community rated plan maintained by Local 74 of the United Service Workers Union.

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

B) Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011, the District contributed \$5,499,623 to the Plan. Plan members receiving benefits contributed either a fixed annual amount ranging between \$200 and \$800 or 0% - 12% of the health insurance premium.

C) Annual OPEB Cost and Net OPEB Obligation:

The District’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District net OPEB obligation to the Plan:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution	\$20,986,649
Interest	950,379
Adjustment to Annual Required Contribution	(1,321,439)
Annual OPEB Cost (expense)	<u>20,615,589</u>
Contributions Made	<u>(5,499,623)</u>
Increase in net OPEB obligation	15,115,966
Net obligation beginning of year	23,856,837
Adjustment to OPEB Obligation 6/30/10	(97,360)
Net obligation end of year	<u><u>\$38,875,443</u></u>

The District's annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years, was as follows:

<u>Fiscal</u> <u>Year Ending</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>OPEB</u> <u>Contributions</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2011	\$20,615,589	\$5,499,623	27%	\$38,875,443
June 30, 2010	\$16,345,867	\$4,693,016	29%	\$23,856,837
June 30, 2009	\$16,536,461	\$4,332,475	26%	\$12,203,986

D) Funded Status and Funding Progress:

As of July 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$225,615,083 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$225,615,083. The covered payroll (annual payroll of active employees covered by the plan) was \$71,768,268 and the ratio of the UAAL to the covered payroll was 314%.

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

E) Actuarial Methods and Assumptions:

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

In the July 1, 2010 actuarial valuation prepared by an outside actuarial firm, the projected unit credit actuarial cost method was used to value the actuarial accrued liability and normal cost. The actuarial assumptions included a discount rate of 4% and an annual healthcare cost trend rate of 10.5% initially, reduced by decrements of .5% to an ultimate rate of 5% after 12 years. The UAAL is being amortized using the level percent amortization of payroll method over an open period of 30 years.

NOTE 16 – RISK MANAGEMENT

A) General:

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; 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 reserves and commercial insurance coverage for the past three years.

B) Consortiums and Self Insured Plans:

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported claims which were incurred on or before year-end but not paid. As of June 30, 2011, the District has incurred but unpaid claims liability in the amount of \$2,141,087 and has a restricted fund balance for workers' compensation in the amount of \$1,806,636. Claims activity is summarized below:

	2011	2010
Unpaid claims at beginning of year	\$1,790,023	\$1,703,823
Incurred claims and claim adjustment expenses	7,016,992	5,390,701
Claims payments	(6,665,928)	(5,304,501)
Unpaid claims at year end	\$2,141,087	\$1,790,023

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 17 – OTHER CHANGE IN FUND BALANCE/NET ASSETS:

Other changes in fund balance are the result of the following adjustments:

	Special Aid Fund	Net Assets
Adjustment for account receivable	\$343,065	\$343,065
Adjustment for building aid payable	0	13,619,629
	\$343,065	\$13,962,694

During the current school year \$343,065 was transferred from the general fund to the special aid fund to cover uncollectible receivables for the preschool program.

The District has recorded a liability to the State Education Department for the possible recoupment of prior year building aid monies received from the alleged failure of timely filings of the final building project reports.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

A. Grants:

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

B. Litigation:

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

C. Operating Leases:

The District leases various equipment under non-cancelable leases. Lease expense for the fiscal year was approximately \$25,596. The following is a summary of obligations of government activities under operating lease payments:

	Fiscal Year Ended	
	June 30,	Total
	2012	25,596
	2013	25,596
	2014	25,596
Total Lease Payments		\$76,788

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

D. Building aid revisions:

The State Education Department (SED) has issued a voucher requesting that \$15,017,764 of building aid received in prior years be repaid, upon the alleged grounds that the District failed to timely file the final building project reports for prior year building projects and that such alleged failure is grounds for withholding and recouping all associated past, present and future building aid. The amount of future building aid that may be affected is estimated at \$25,422,423. The District disputes SED's position and has instituted a litigation entitled *Board of Education of the Central Islip Union Free School District v. Steiner*, Albany County Supreme Court (Index No. 11-3865), to enforce its rights and challenge SED's position. By Order to Show Cause dated May 26, 2011, Supreme Court Justice Gerald W. Connolly issued a temporary restraining order which, among other things, prohibited SED from enforcing the associated building aid recoupments pending further order of the court. The litigation remains pending.

E. Encumbrances:

Significant encumbrances included in the general fund were classified as assigned fund balance.

General Fund - Total encumbrances of the general fund as of June 30, 2011 is \$42,657. Significant encumbrances of \$24,900 were assigned to central services, \$4,193 to instruction regular school, \$7,000 to instruction for handicapped students and \$6,564 to instructional media.

NOTE 19 – SUBSEQUENT EVENTS

A. The District issued \$30,000,000 in tax anticipation notes and \$13,550,000 in bond anticipation notes on September 15, 2011. The tax anticipation matures on June 28, 2012 and the bond anticipation note matures on September 14, 2012.

	Amount	Rate	Premium
TANS	\$30,000,000	1.50%	\$252,900
BANS	\$13,550,000	1.00%	\$50,000

B. Energy Performance Contract

The District started work in July 2011 on an energy performance contract with Amersco Inc in the amount of \$11,690,610. The repayment schedule calls for the District to begin paying principal and interest on October 15, 2012.

SUPPLEMENTARY INFORMATION

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Final Budget Variance with Budgetary Actual</u>
REVENUES				
Local Sources				
Real property taxes	\$70,444,576	\$70,444,576	\$70,500,950	\$56,374
Other real property tax items	10,580,410	10,835,857	10,792,273	(43,584)
Charges for services	3,420,000	906,263	906,263	0
Use of money & property	0	481,127	495,603	14,476
Sale of property	0			
& compensation for loss	100,000	941,399	920,704	(20,695)
Miscellaneous	0	1,250,390	1,216,150	(34,240)
Interfund revenues	0	100,000	72,823	(27,177)
State Sources				
Basic formula	80,922,640	55,581,196	52,751,733	(2,829,463)
Excess cost aid	0	9,577,731	9,577,731	0
Lottery grant	0	9,606,686	9,606,686	0
BOCES aid	0	2,723,954	2,723,954	0
Tuition	0	168,109	168,109	0
Textbook aid	0	350,015	350,015	0
Computer software aid	0	197,605	197,605	0
Library A/V loan program aid	0	41,762	41,762	0
Federal Sources				
ARRA stabilization funds	0	2,675,582	2,675,582	0
Medicaid reimbursement	415,000	374	374	0
TOTAL REVENUES AND OTHER SOURCES	165,882,626	165,882,626	\$162,998,317	(\$2,884,309)
Appropriated Fund Balance	3,485,000	3,485,000		
Appropriated Reserves	2,103,729	4,637,729		
TOTAL REVENUES & APPROPRIATED FUND BALANCE	\$171,471,355	\$174,005,355		

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Year-End Encumbrances</u>	<u>Final Budget Variance with Budgetary Actual and Encumbrances</u>
EXPENDITURES					
General Support					
Board of education	\$96,243	\$93,283	\$79,467	\$0	\$13,816
Central administration	967,391	828,252	733,814	0	94,438
Finance	1,767,062	1,870,546	1,719,478	0	151,068
Staff	794,258	1,013,898	957,091	0	56,807
Central services	14,694,761	15,232,712	13,658,871	24,900	1,548,941
Special items	1,210,000	2,039,000	1,841,534	0	197,466
Instructional					
Instruction, adm. & imp.	6,255,018	6,390,427	5,110,141	0	1,280,286
Teaching - regular school	38,745,190	40,698,735	36,859,337	4,193	3,835,205
Programs for children with handicapping conditions	41,967,936	41,180,651	34,600,458	7,000	6,573,193
Occupational education	1,372,020	1,314,668	1,169,381	0	145,287
Teaching special schools	16,000	606,434	553,163	0	53,271
Instructional media	1,640,840	1,667,833	1,476,105	6,564	185,164
Pupil services	7,017,196	7,605,651	5,407,163	0	2,198,488
Pupil transportation	10,340,320	9,146,348	9,021,864	0	124,484
Community services	5,000	5,000	0	0	5,000
Employee benefits	37,322,690	37,582,279	35,407,060	0	2,175,219
Debt service principal	3,870,000	3,870,000	3,870,000	0	0
Debt service - interest	2,864,430	2,334,638	2,282,118	0	52,520
TOTAL EXPENDITURES	<u>170,946,355</u>	<u>173,480,355</u>	<u>154,747,045</u>	<u>42,657</u>	<u>18,690,653</u>
Other Financing Uses					
Transfers to other funds	525,000	525,000	525,000	0	0
TOTAL EXPENDITURES AND OTHER USES	<u>\$171,471,355</u>	<u>\$174,005,355</u>	<u>155,272,045</u>	<u>\$42,657</u>	<u>\$18,690,653</u>
Change in fund balance			7,726,272		
Fund balance - beginning			<u>19,997,242</u>		
Fund balance - ending			<u>\$27,723,514</u>		

Note to Required Supplementary Information

Budget Basis of accounting

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)
 JUNE 30, 2011**

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
July 1, 2010	\$0	\$225,615,083	\$225,615,083	0%	\$71,768,268	314%
July 1, 2008	\$0	\$172,305,263	\$172,305,263	0%	\$77,687,732	222%

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
 AND USE OF UNASSIGNED FUND BALANCE- GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$171,367,626
Add: Prior year's encumbrances	<u>103,729</u>
Original Budget	171,471,355
Budget revision:	<u>2,534,000</u>
Final Budget	<u><u>\$174,005,355</u></u>
Next year's voter approved budget	<u><u>\$167,085,064</u></u>

USE OF UNASSIGNED FUND BALANCE

Unassigned Fund Balance-	
As of the beginning of the year	\$6,339,492
Less:	
Assigned fund balance used for the levy of taxes- adopted budget	<u>3,485,000</u>
Unassigned Fund Balance-	
As of the beginning of the year	<u><u>\$2,854,492</u></u>

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
 SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
 JUNE 30, 2011

Project Title	Original Appropriation	Revised Appropriation	Expenditures to Date			Unexpended Balance	Proceeds of Obligations	Methods of Financing		Fund Balance June 30, 2011
			Prior Year's	Current Year	Total			State Aid	Local Sources	
Library bond proceeds	\$1,500,000	\$1,500,000	\$1,500,000	\$0	\$1,500,000	\$0	\$1,500,000	\$0	\$0	\$0
Non-aidable	511,467	511,467	408,890	0	408,890	102,577	511,467	0	0	102,577
Capital project	16,800,000	16,800,000	4,690,554	2,123,109	6,813,663	9,986,337	0	0	0	(6,813,663) *
TOTAL	\$18,811,467	\$18,811,467	\$6,599,444	\$2,123,109	\$8,722,553	\$10,088,914	\$2,011,467	\$0	\$0	(\$6,711,086)

* The negative fund balance is temporary due to the lack of permanent financing

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES
COMPARED TO ST-3 DATA FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Property Taxes	A-1001	\$70,500,950	\$70,500,950
Non-Property Taxes	AT-1199	0	0
State Aid	AT-3999	75,417,595	75,417,595
Federal Aid - Medicaid reimbursement	AT-4999	374	374
TOTAL REVENUES	AT-5999	\$162,998,317	\$162,998,317
EXPENDITURES			
General Support	AT-1999	18,990,255	18,990,255
Pupil Transportation	AT-5999	9,021,864	9,021,864
Debt Service-Principal	AT-9798.6	3,870,000	3,870,000
Debt Service-Interest	AT-9798.7	2,282,118	2,282,118
TOTAL EXPENDITURES	AT-9999	\$155,272,045	\$155,272,045

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
JUNE 30, 2011**

Capital assets, net		\$66,827,689
Add:		
Unspent bond proceeds		102,577
Deduct:		
Bond anticipation note payable	8,000,000	
Short-term portion of bonds payable	4,065,000	
Long-term portion of bonds payable	38,705,000	50,770,000
	<u>38,705,000</u>	<u>50,770,000</u>
Investment in capital assets, net of related debt		<u><u>\$16,160,266</u></u>

**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
Central Islip Union Free School District

We have audited the financial statements of the governmental activities, each major fund, and the fiduciary funds of Central Islip Union Free School District as of and for the fiscal year ended June 30, 2011, which collectively comprise the Central Islip Union Free School District's basic financial statements and have issued our report thereon dated November 11, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Islip Union Free School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Islip Union Free School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Central Islip Union Free School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings to be a material weakness (2011-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Islip Union Free School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Central Islip Union Free School District in a separate letter dated November 11, 2011.

This report is intended solely for the information and use of the Board of Education, the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

R. S. Abrams & Co., LLP

R.S. Abrams & Co. LLP
November 11, 2011

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FINANCIAL STATEMENT FINDING

SCHOOL LUNCH FUND-DEFICIT FUND BALANCE

2011-01 Material Weakness

Criteria: To monitor the school lunch fund operations to ensure the school lunch fund is self-sustaining.

Condition: We noted the school lunch fund had expenditures over revenues of \$703,837 in 2010-2011.

Cause: The District does not have procedures in place to monitor the school lunch fund operations.

Effect: The school lunch fund has a deficit fund balance of \$1,316,950 as of June 30, 2011.

Recommendation: We recommend the District implement procedures to monitor the school lunch fund and to implement a long-term plan to fund the deficit with general fund budgetary appropriations or review the possibility of increasing meal prices or curtailing expenses.