

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

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, 2012, 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 and the fiduciary funds of the Central Islip Union Free School District as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2012, 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 16 and 52 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 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 financial statements. The 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 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 financial statements as a whole.

R. S. Abrams + Co., LLP
R.S. Abrams & Co. LLP
November 1, 2012

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012. 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 2012 are as follows:

- On the District-Wide Financial Statements, revenues increased 3% primarily as a result of increased state aid and increased property tax revenue.
- On the District-Wide Financial Statements, expenditures decreased by 1% primarily as a result of a decrease in instructional expenses.
- On May 15, 2012, the District's residents authorized the proposed 2012-2013 budget in the amount of \$176,266,302.
- The District continued to offer all programs, without reducing services.
- The District's long-term liabilities, as reflected in the District-Wide Financial Statements, increased by \$12,978,465 primarily due to an increase in the net other post employment benefits obligation in the amount of \$14,583,769.
- The District's net assets, as reflected in the District-Wide Financial Statements, increased by \$13,150,154 due to current year operations in the general fund of approximately \$17 million, restoration of building aid of approximately \$13 million offset by an increase in the net other post employment benefits obligation of approximately \$14 million.

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:

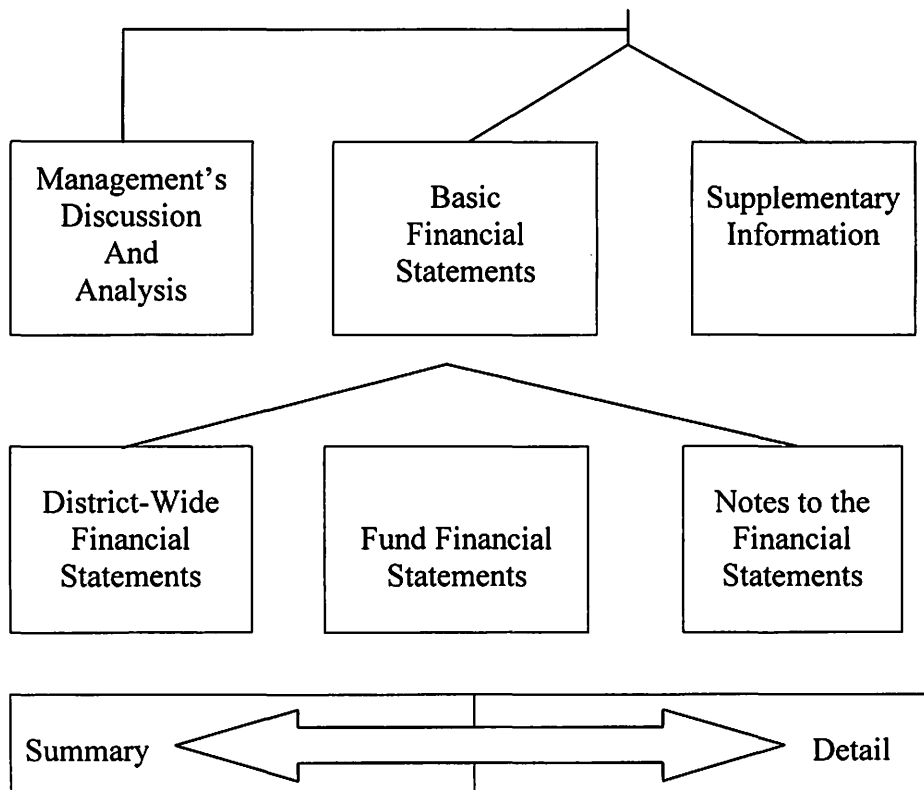
- The first two statements are *District-Wide Financial Statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-Wide Statements.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- The *Governmental Fund Statements* tell how basic services such as instruction and support functions were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of 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, 2012**

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, 2012**

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, 2012**

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, 2012**

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A) Net Assets

The District's total net assets increased by \$13,150,154 in the fiscal year ended June 30, 2012, as detailed in Table A-3.

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

	Fiscal Year 2012	Fiscal Year 2011	Increase (Decrease)	Percentage Change
Current assets and other assets	\$75,195,700	\$53,782,152	\$21,413,548	40%
Capital assets	79,580,899	66,827,689	12,753,210	19%
Total assets	<u>\$154,776,599</u>	<u>\$120,609,841</u>	<u>\$34,166,758</u>	<u>28%</u>
Current Liabilities	\$41,267,575	\$33,229,436	\$8,038,139	24%
Long-term liabilities	147,938,254	134,959,789	12,978,465	10%
Total liabilities	<u>\$189,205,829</u>	<u>\$168,189,225</u>	<u>\$21,016,604</u>	<u>12%</u>
Net Assets				
Investment in capital assets, net of related debt	\$18,294,253	\$16,160,266	\$2,133,987	13%
Restricted	8,422,877	8,406,064	16,813	0%
Unrestricted (Deficit)	(61,146,360)	(72,145,714)	10,999,354	15%
Total net assets (deficit)	<u>(34,429,230)</u>	<u>(47,579,384)</u>	<u>13,150,154</u>	<u>-28%</u>
Total liabilities and net assets	<u>\$154,776,599</u>	<u>\$120,609,841</u>	<u>\$34,166,758</u>	<u>28%</u>

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 decreased from the prior year by \$2,133,987 primarily due to an increase in capital additions and offset by an increase in related debt.

Current assets and other assets increased by \$21,413,548 from 2011 to 2012 primarily due to an increase in the District's cash balance in the general fund due to operations and the capital fund due to proceeds from a bond anticipation note (BAN). Capital assets (net of depreciation) increased by \$12,753,210. This was attributable to current year capital asset additions offset by depreciation. Current liabilities increased by \$8,038,139. This was attributable to an increase in BAN payable and accounts payable in the capital projects fund for capital improvements offset by a reduction in due to other governments in the general fund. The District reduced due to other governments by \$3,511,707 and recognized the amount as revenue based on the passage of New York State Building Aid Legislation, Section 31 of Chapter 57 of the Laws of 2012. Long-term liabilities increased by \$12,978,465 primarily due to the current year's increases in: net other post employment benefits obligation, energy performance contract debt, and compensated absences payable. This increase was offset by a decrease in bonds payable.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

For additional information see Note 12 to the Financial Statements. The restricted net assets at June 30, 2012, 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 Section 4 of this MD&A and Note 1 to Financial Statements for further descriptions and detailed balances.

The unrestricted net deficit at June 30, 2012 is \$61,146,360 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 increased by \$13,150,154.

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, 2012 and 2011 are as follows:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

	Fiscal Year 2012	Fiscal Year 2011	Increase/ (Decrease)	Total Percentage Change
Program revenues				
Charges for services	\$1,628,598	\$1,614,164	\$14,434	1%
Operating grants	9,933,076	16,150,458	(6,217,382)	-38%
General revenues				
Property taxes (including other tax items)	86,740,494	81,293,223	5,447,271	7%
State aid	81,276,549	75,417,595	5,858,954	8%
Use of money and property	377,627	496,225	(118,598)	-24%
Other	2,854,173	2,212,071	642,102	29%
Total Revenues	<u>\$182,810,517</u>	<u>\$177,183,736</u>	<u>\$5,626,781</u>	<u>3%</u>
Expenses				
General support	\$26,940,761	\$26,824,371	\$116,390	0%
Instruction	140,988,860	143,181,457	(2,192,597)	-2%
Pupil transportation	9,162,374	9,021,864	140,510	2%
Debt service - interest	2,324,827	2,183,770	141,057	6%
Food service program	3,513,170	3,022,508	490,662	16%
Total Expenses	<u>\$182,929,992</u>	<u>\$184,233,970</u>	<u>(\$1,303,978)</u>	<u>-1%</u>
Other changes in net assets	<u>13,269,629</u>	<u>(13,962,694)</u>	<u>27,232,323</u>	<u>195%</u>
Increase (Decrease) in Net Assets	<u>\$13,150,154</u>	<u>(\$21,012,928)</u>	<u>\$34,163,082</u>	<u>-163%</u>

The District's total fiscal year 2012 revenues totaled \$182,810,517 (See Table A-4). Property taxes (including other tax items) and state formula aid accounted for most of the District's revenue by contributing 47.5 cents and 44 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 \$182,929,992 for fiscal year 2012. These expenses are predominantly related to general instruction and caring for (pupil services) and transporting students, which account for 82% of District expenses (See Table A-6). The District's general support activities accounted for 15% of total costs.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Table A-5: Revenues for Fiscal Year 2012 (See Table A-4)

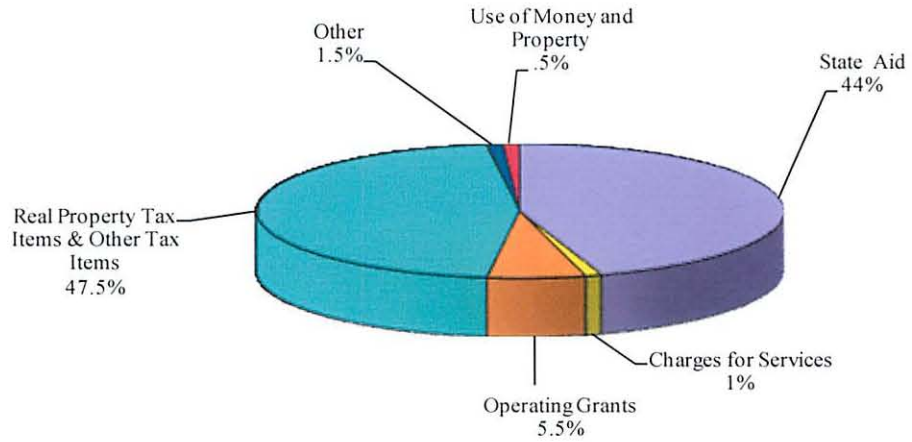
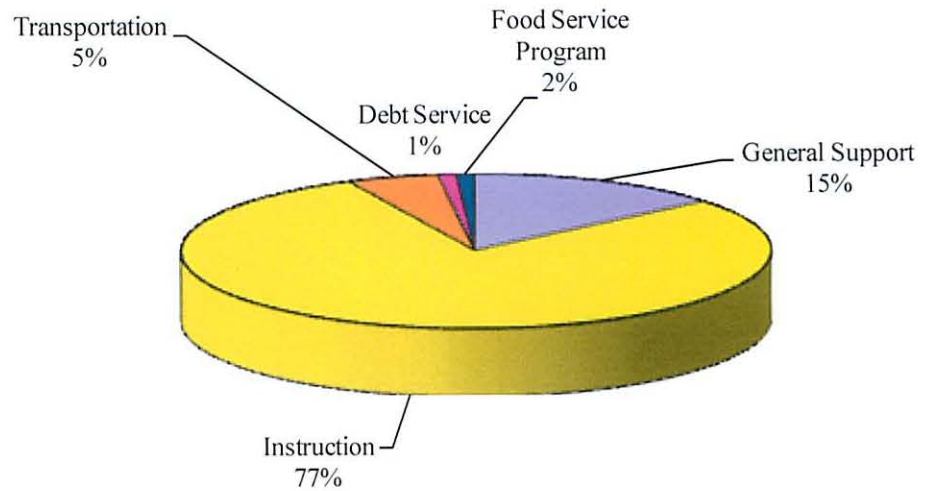


Table A-6: Expenses for Fiscal Year 2012 (See Tables A-4 and A-7)



**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

C) Governmental Activities

Revenues for the District's governmental activities totaled \$182,810,517 while total expenses equaled \$182,929,992. There was an increase in net assets of \$13,150,154, primarily due to an other change to net assets of \$13,619,629 from a reduction in due to other governments based on the passage of NYS Building Aid Legislation in March 2012. 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 2012	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2011
General support	\$26,940,761	\$26,824,371	\$26,940,761	\$26,824,371
Instruction	140,988,860	143,181,457	132,168,904	127,737,584
Pupil transportation	9,162,374	9,021,864	9,162,374	9,021,864
Debt service - interest	2,324,827	2,183,770	2,324,827	2,183,770
Food service program	3,513,170	3,022,508	771,452	701,759
Total	<u>\$182,929,992</u>	<u>\$184,233,970</u>	<u>\$171,368,318</u>	<u>\$166,469,348</u>

- The cost of all governmental activities this year was \$182,929,992 (Statement of Activities and Changes in Net Assets, Expenses column-see Exhibit 3).
- The users of the District's programs financed \$1,628,598 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 \$9,933,076. (Statement of Activities and Changes in Net Assets, Operating Grants column-see Exhibit 3)
- Most of the District's net costs \$171,368,318 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, 2012**

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

As of June 30, 2012, the District's combined governmental funds reported a total fund balance of \$33,743,162 which is an increase of \$14,047,684 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 are as follows:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Fiscal Year 2012	Fiscal Year 2011	Increase (Decrease)	% Change
General Fund				
Non spendable for advances	\$1,620,529	\$1,340,565	\$279,964	21%
Restricted for workers' compensation	1,810,249	1,806,636	3,613	0.2%
Restricted for employee benefit accrued liability	6,536,681	6,523,633	13,048	0.2%
Restricted for liability	75,947	75,795	152	0.2%
Assigned-designated for subsequent year's expenditures	2,750,000	2,000,000	750,000	38%
Assigned - board of education & finance	30,399	0	30,399	100%
Assigned - central services	103,189	24,900	78,289	314%
Assigned - instruction	10,594	11,193	(599)	-5%
Assigned - instructional media	1,474	6,564	(5,090)	-78%
Assigned - pupil services	748	0	748	100%
Unassigned	32,319,535	15,934,228	16,385,307	103%
Total fund balance - general fund	\$45,259,345	\$27,723,514	\$17,535,831	63%
School Lunch Fund				
Non spendable for inventory	\$25,491	\$23,615	\$1,876	8%
Unassigned for school lunch	(1,620,529)	(1,340,565)	(279,964)	-21%
Total fund balance (deficit) - school lunch fund	(\$1,595,038)	(\$1,316,950)	(\$278,088)	-21%
Capital Projects Fund				
Restricted for capital projects	\$2,658,964	\$102,577	\$2,556,387	2492%
Unassigned for capital projects	(12,580,109)	(6,813,663)	(5,766,446)	-85%
Total fund balance (deficit) - capital projects fund	(\$9,921,145)	(\$6,711,086)	(\$3,210,059)	-48%
Total fund balance - all funds	\$33,743,162	\$19,695,478	\$14,047,684	71%

The general fund—the fund balance increased by \$17,535,831 as compared to the prior year due to current year operations.

The school lunch fund - fund balance decreased by \$278,088 as compared to the prior year due to current year operations.

The capital projects fund – fund balance decreased by \$3,210,059 as compared to the prior year due to capital outlay in the current year offset by proceeds of energy performance debt.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A) 2011-2012 Budget

The District's general fund adopted budget for the year ended June 30, 2012 was \$167,085,064. This amount was increased by encumbrances carried forward from the prior year in the amount of \$42,657 and a budget revision of \$40,625 which resulted in a final budget of \$167,168,346. The majority of the funding was property taxes, including other tax items and state aid of \$81,214,531.

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

The general fund 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	\$15,934,228
Revenues over budget	7,490,432
Expenditures and encumbrances under budget	11,941,652
Increase to nonspendable for advances	(279,964)
Increase due to allocation of interest to reserves	(16,813)
Assigned, Designated for June 30, 2013 Budget	(2,750,000)
Closing, Unassigned Fund Balance	<u><u>\$32,319,535</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 2012-2013 budget.

The revenues over budget of \$7,490,432 was primarily in state aid and miscellaneous revenue. (see Supplemental Schedule #1 for detail).

The expenditures and encumbrances under budget of \$11,941,652 were primarily in instruction, general support, employee benefits, central services and pupil transportation (See Supplemental Schedule 1 for details).

Increases and decreases to reserves were primarily due to 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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A) Capital Assets

The District paid for equipment and various building additions and renovations during the fiscal year 2012. 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 2012	Fiscal Year 2011	Increase (Decrease)	Percentage Change
Land	\$539,650	\$539,650	\$0	0%
Construction in progress	19,409,029	5,281,981	14,127,048	267%
Buildings & building improvements	88,758,075	88,758,075	0	0.00%
Furniture & equipment	6,429,394	5,446,887	982,507	18%
Site improvements	3,035,118	3,035,118	0	0.00%
Subtotal	<u>118,171,266</u>	<u>103,061,711</u>	<u>15,109,555</u>	<u>15%</u>
Less: accumulated depreciation	<u>38,590,367</u>	<u>36,234,022</u>	<u>2,356,345</u>	<u>7%</u>
Total net capital assets	<u><u>\$79,580,899</u></u>	<u><u>\$66,827,689</u></u>	<u><u>\$12,753,210</u></u>	<u><u>19%</u></u>

The District spent \$14,962,687 in the capital projects fund primarily on building improvements, building addition and technology equipment during the year. In the general fund the District spent \$385,157 on technology equipment and equipment to be used in general operations.

B) Long-Term Debt

At June 30, 2012, the District had total bonds payable of \$38,705,000 and obligation under installment purchase agreement of \$11,690,610. Principal payments were made in the amount of \$4,065,000 for serial bonds. More detailed information about the District's long-term debt is presented in the Notes to the Financial Statements.

	2012	2011	(Decrease)
Serial bonds	<u>\$38,705,000</u>	<u>\$42,770,000</u>	<u>(\$4,065,000)</u>
Energy performance debt	<u>11,690,610</u>	<u>0</u>	<u>11,690,610</u>
	<u><u>\$50,395,610</u></u>	<u><u>\$42,770,000</u></u>	<u><u>\$7,625,610</u></u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

7. FACTORS BEARING ON THE DISTRICT’S FUTURE

- A) Beginning in the 2009-2010 school year the District had a loss of building aid due to the District’s late filing of the final building project reports with the State Education Department in previous years. Section 31 of Chapter 57 of the Laws of 2012 provides for amnesty for late filed final cost reports. Under this provision, rather than losing all aid associated with projects, a late filing penalty is assessed. The District has filed the necessary paperwork for building aid restoration. The timing and amount to be restored has not yet been finalized by the State Education Department.

- B) On September 13, 2012 the District issued \$8,100,000 in bond anticipation notes (BANS) and \$5,000,000 in serial bonds. The bond anticipation notes mature on September 12, 2013.

	<u>Amount</u>	<u>Rate</u>	<u>Premium</u>
BANS	\$8,100,000	1.00%	\$40,986
Serial bonds	\$5,000,000	4.20%	\$0

- C) The general fund budget for the 2012-2013 school year was approved by the voters in the amount of \$176,266,302. This is an increase of \$9,181,238 or 5.5% from the previous year’s budget. The increase was primarily due to increase in personnel and employee benefits costs.

- D) The 2012-2013 budget was negatively impacted by certain trends impacting school districts. These include significant increases in retirement contributions, 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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012**

ASSETS

Cash		
Unrestricted		\$61,943,768
Receivables		
State and federal aid		11,323,961
Due from other governments		1,882,989
Accounts receivable		19,491
Inventories		25,491
Capital assets, net		
Not being depreciated		19,948,679
Being depreciated, net of accumulated depreciation		<u>59,632,220</u>
TOTAL ASSETS		<u><u>\$154,776,599</u></u>

LIABILITIES

Payables		
Accounts payable		\$4,831,321
Accrued liabilities		11,251,514
Due to fiduciary fund		22,936
Retainage payable		229,762
Accrued interest payable		953,794
Due to other governments		416,196
Due to teachers' retirement system		8,466,703
Due to employees' retirement system		1,207,328
Compensated absences payable		338,021
Note payable		
Bond anticipation note payable		13,550,000
Long-term liabilities		
Due and payable within one year		
Bonds payable		4,230,000
Energy performance debt		402,704
Due to teachers' retirement system		330,656
Due to employees' retirement system		188,046
Due and payable after one year		
Bonds payable		34,475,000
Energy performance debt		11,287,906
Due to teachers' retirement system		661,313
Due to employees' retirement system		382,186
Net OPEB obligation		53,459,212
Compensated absences payable		40,234,448
Workers compensation claims payable		<u>2,286,783</u>
TOTAL LIABILITIES		<u>189,205,829</u>
NET ASSETS (DEFICIT)		
Investment in capital assets, net of related debt		18,294,253
Restricted		8,422,877
Unrestricted (deficit)		<u>(61,146,360)</u>
TOTAL NET ASSETS (DEFICIT)		<u>(34,429,230)</u>
TOTAL NET ASSETS (DEFICIT) AND LIABILITIES		<u><u>\$154,776,599</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, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS / PROGRAMS				
General support	\$26,940,761			(\$26,940,761)
Instruction	140,988,860	\$1,086,544	\$7,733,412	(132,168,904)
Pupil transportation	9,162,374			(9,162,374)
Debt service - interest	2,324,827			(2,324,827)
Food service program	3,513,170	542,054	2,199,664	(771,452)
TOTAL FUNCTIONS AND PROGRAMS	<u>\$182,929,992</u>	<u>\$1,628,598</u>	<u>\$9,933,076</u>	<u>(\$171,368,318)</u>
GENERAL REVENUES				
Real property taxes				\$75,305,128
Other tax items - including STAR reimbursement				11,435,366
Use of money & property				377,627
Sale of property & compensation for loss				827,271
Miscellaneous				1,926,927
Interfund revenue				80,180
State sources				81,276,549
Medicaid reimbursements				19,795
TOTAL GENERAL REVENUES				<u>\$171,248,843</u>
CHANGE IN NET ASSETS				(119,475)
OTHER CHANGES IN NET ASSETS (SEE NOTE 17)				<u>13,269,629</u>
TOTAL CHANGE IN NET ASSETS				13,150,154
TOTAL NET ASSETS (DEFICIT) - BEGINNING OF YEAR				<u>(47,579,384)</u>
TOTAL NET ASSETS (DEFICIT) - END OF YEAR				<u>(\$34,429,230)</u>

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash					
Unrestricted	\$52,855,870	\$264,021	\$864,762	\$7,959,115	\$61,943,768
Receivables					
State and federal aid	6,958,577	4,334,994	30,390		11,323,961
Due from other governments	1,882,989				1,882,989
Due from other funds	6,135,698				6,135,698
Accounts receivable	19,438		53		19,491
Inventories			25,491		25,491
TOTAL ASSETS	<u>67,852,572</u>	<u>\$4,599,015</u>	<u>\$920,696</u>	<u>\$7,959,115</u>	<u>\$81,331,398</u>
LIABILITIES AND FUND BALANCE					
Payables					
Accounts payable	\$605,775	\$174,731	\$338	\$4,050,477	\$4,831,321
Accrued liabilities	10,471,297	538,176	242,041		11,251,514
Retainage Payable				229,762	229,762
Due to other governments	416,080		116		416,196
Due to other funds		3,886,108	2,272,505	21	6,158,634
Due to teachers' retirement system	8,466,703				8,466,703
Due to employees' retirement system	1,207,328				1,207,328
Compensated absences	338,021				338,021
Notes payable					
Bond anticipation notes payable				13,550,000	13,550,000
Deferred credits					
Deferred revenue	1,088,023		734	50,000	1,138,757
TOTAL LIABILITIES	<u>22,593,227</u>	<u>4,599,015</u>	<u>2,515,734</u>	<u>17,880,260</u>	<u>47,588,236</u>
FUND BALANCE					
Nonspendable	1,620,529		25,491		1,646,020
Restricted	8,422,877			2,658,964	11,081,841
Assigned	2,896,404				2,896,404
Unassigned	32,319,535		(1,620,529)	(12,580,109)	18,118,897
TOTAL FUND BALANCE	<u>45,259,345</u>	<u>0</u>	<u>(1,595,038)</u>	<u>(9,921,145)</u>	<u>33,743,162</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$67,852,572</u>	<u>\$4,599,015</u>	<u>\$920,696</u>	<u>\$7,959,115</u>	<u>\$81,331,398</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Governmental Fund Balances		\$33,743,162
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p> <p>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.</p>		
Original cost of capital assets	118,171,266	
Accumulated depreciation	<u>(38,590,367)</u>	79,580,899
<p>Deferred Revenue - The Statement of Net Assets recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual.</p>		
		1,138,757
<p>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:</p>		
Net OPEB obligation	(53,459,212)	
Bonds payable	(38,705,000)	
Accrued interest payable	(953,794)	
Due to teachers' retirement system	(991,969)	
Due to employees' retirement system	(570,232)	
Energy performance debt	(11,690,610)	
Workers compensation claims payable	(2,286,783)	
Compensated absences payable	<u>(40,234,448)</u>	<u>(148,892,048)</u>
Total Net Assets		<u><u>(\$34,429,230)</u></u>

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES					
Real property taxes	\$75,305,128				\$75,305,128
Other tax items - including STAR reimbursement	11,435,366				11,435,366
Charges for services	1,434,672				1,434,672
Use of money and property	376,920		\$707		377,627
Sale of property and compensation for loss	827,271				827,271
Miscellaneous	1,922,258		4,669		1,926,927
Interfund revenues	80,180				80,180
Local sources		\$48,444			48,444
State sources	81,214,531	2,711,014	73,384	62,018	84,060,947
Medicaid reimbursements	19,795				19,795
Federal sources		4,973,954	1,953,221		6,927,175
Surplus food			173,059		173,059
Sales			542,054		542,054
TOTAL REVENUES	<u>172,616,121</u>	<u>7,733,412</u>	<u>2,747,094</u>	<u>62,018</u>	<u>183,158,645</u>
EXPENDITURES					
General support	18,519,163				18,519,163
Instruction	80,675,697	6,911,410			87,587,107
Pupil transportation	9,162,374				9,162,374
Employee benefits	39,601,506	1,027,872			40,629,378
Debt service - principal	4,065,000				4,065,000
Debt service - interest	2,000,680				2,000,680
Cost of sales			3,525,182		3,525,182
Capital outlay				14,962,687	14,962,687
TOTAL EXPENDITURES	<u>154,024,420</u>	<u>7,939,282</u>	<u>3,525,182</u>	<u>14,962,687</u>	<u>180,451,571</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>18,591,701</u>	<u>(205,870)</u>	<u>(778,088)</u>	<u>(14,900,669)</u>	<u>2,707,074</u>
OTHER FINANCING SOURCES AND USES					
Proceeds from energy performance debt				11,690,610	11,690,610
Operating transfers in		555,870	500,000		1,055,870
Operating transfers (out)	(1,055,870)				(1,055,870)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,055,870)</u>	<u>555,870</u>	<u>500,000</u>	<u>11,690,610</u>	<u>11,690,610</u>
CHANGE IN FUND BALANCE	17,535,831	350,000	(278,088)	(3,210,059)	14,397,684
OTHER CHANGES IN FUND BALANCE (SEE NOTE 17)		<u>(350,000)</u>			<u>(350,000)</u>
NET INCREASE (DECREASE)	17,535,831	0	(278,088)	(3,210,059)	14,047,684
FUND BALANCES - BEGINNING 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>
FUND BALANCE - END OF YEAR	<u>\$45,259,345</u>	<u>\$0</u>	<u>(\$1,595,038)</u>	<u>(\$9,921,145)</u>	<u>\$33,743,162</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, 2012**

Net Change in Fund Balance \$14,047,684

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. (4,761,721)

Deferred revenue - The Statement of Net Assets recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual. (348,128)

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, 2011 to June 30, 2012 changed by (145,696)

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. 188,046

In the Statement of Activities recognizes long term teachers' retirement system loans as current expenses. In the governmental funds these expenses are not measured until the financial resources are used. 330,656

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 4,065,000

Proceeds from the issuance of debt to finance installment purchase obligations provide current financing resources to governmental funds, but issuing debt increases long-term liability in the statement of net assets (11,690,610)

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 financials resources. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2011 to June 30, 2012 changed by (324,147)

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 (14,583,769)

Decreases 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

	15,109,555	
Capital outlays	(2,356,345)	12,753,210
Depreciation expense		

Changes in Net Assets of Governmental Activities \$13,150,154

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$7,425	\$265,768
Due from trust and agency	1,000	
Due from other funds		22,936
Due from other governments		99
TOTAL ASSETS	<u><u>\$8,425</u></u>	<u><u>\$288,803</u></u>
LIABILITIES		
Extraclassroom activity balance	\$0	\$104,513
Due to private purpose trust fund		1,000
Other liabilities	0	183,290
TOTAL LIABILITIES	<u><u>\$0</u></u>	<u><u>\$288,803</u></u>
NET ASSETS		
Reserved for scholarships	<u>\$8,425</u>	
TOTAL NET ASSETS	<u><u>\$8,425</u></u>	

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	\$1,000
Interest and earnings	<u>11</u>
TOTAL ADDITIONS	<u>1,011</u>
 DEDUCTIONS	
Scholarships and awards	<u>0</u>
TOTAL DEDUCTIONS	<u>0</u>
 CHANGE IN NET ASSETS	 1,011
 NET ASSETS - BEGINNING OF YEAR	 <u>7,414</u>
 NET ASSETS - END OF YEAR	 <u><u>\$8,425</u></u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012**

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, 2012**

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 lien 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) Receivables:

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

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 inventorable 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.

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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

Beginning with the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" (GASB 54) which redefines how fund balances of the governmental funds are presented in the financial statements. There are five classifications of fund balance as detailed below; however, in the Fund Financial Statements there are four classifications of fund balance presented:

- (1) **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 \$25,491 and \$1,620,529 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	\$1,810,249		\$1,810,249
Employee benefit accrued liability	6,536,681		6,536,681
Liability	75,947		75,947
Capital projects		\$2,658,964	2,658,964
Total	<u>\$8,422,877</u>	<u>\$2,658,964</u>	<u>\$11,081,841</u>

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:

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. This reserve is accounted for in the general fund under restricted fund balance.

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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. This reserve is accounted for in the general fund under restricted fund balance.

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. This reserve is accounted for in the general fund under restricted fund balance.

- (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, 2012.
- (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 in the general fund:

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Assigned for:

Designated for subsequent year's budget	\$2,750,000
Board of education	75
Finance	30,324
Central services	103,189
Instruction	9,049
Instruction-handicapped students	1,545
Instruction-instructional media	1,474
Pupil services	748
Total	\$2,896,404

Designated for Subsequent Year's Expenditures

The amount of \$2,750,000 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2013.

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:

Unassigned for	General	School Lunch	Capital Projects	Total
General fund	\$32,319,535			\$32,319,535
School lunch fund		(\$1,620,529)		(1,620,529)
Capital projects fund			(\$12,580,109)	(12,580,109)
Total	\$32,319,535	(\$1,620,529)	(\$12,580,109)	\$18,118,897

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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% limitation. The District has \$32,321,411 of unassigned fund balance as of June 30, 2012, which is in excess of the 4% limitation.

Deficit fund balance

At June 30, 2012, the school lunch fund and the capital projects fund have fund balance deficits of \$1,620,529 and \$12,580,109, 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 due to current year operations.

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.

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 and the Statement of Activities fall into one of the four broad categories. The amounts shown below represent:

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NOTES TO FINANCIAL STATEMENTS
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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

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which was not determined at the time the budget was adopted. The Board of Education increased the general fund budget by \$40,625 for supplemental instructional programs.

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 \$90,443,298 which consists of \$43,145,000 in repurchase agreements, \$17,000,000 in U.S. Treasury Securities, and \$30,298,298 in collateralized bank deposits with various interest rate and due dates.

At June 30, 2012 the District held \$269,805 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	\$217,197
Capital projects fund	52,608
	<u>\$269,805</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 \$12,985,986 for BOCES administrative and program costs. The District’s share of BOCES aid amounted to \$2,022,112. 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, 2012 consisted of the following:

Description	General Fund	Special Aid Fund	School Lunch Fund	Total
State aid-general aid	\$2,228,783			\$2,228,783
State aid-excess cost	2,577,585			2,577,585
State aid-other	40,700			40,700
State aid-BOCES	2,022,112			2,022,112
Federal medicaid	4,698			4,698
NYS medicare part D	84,699			84,699
State grants		\$3,080,765		3,080,765
Federal grants		1,254,229		1,254,229
Lunch - state			21,905	21,905
Breakfast - state			7,630	7,630
Milk - federal			855	855
Total	<u>\$6,958,577</u>	<u>\$4,334,994</u>	<u>\$30,390</u>	<u>\$11,323,961</u>

District management has deemed the amounts to be fully collectible.

NOTE 7 – DUE FROM OTHER GOVERNMENTS:

Due from other governments in the general fund at June 30, 2012 consisted of the following:

Foster tuition	\$1,007,785
Town of Islip	751,682
LIPA	123,522
Total	<u>\$1,882,989</u>

District management has deemed these amounts to be fully collectible.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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NOTE 8 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2012 were as follows:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities				
Land	\$539,650	\$0	\$0	\$539,650
Construction in progress	5,281,981	14,127,048		19,409,029
Total nondepreciable historical cost	<u>5,821,631</u>	<u>14,127,048</u>	<u>0</u>	<u>19,948,679</u>
Building & building improvement	88,758,075		0	88,758,075
Furniture and equipment	5,446,887	982,507	0	6,429,394
Land improvement	3,035,118		0	3,035,118
Total depreciable historical cost	<u>97,240,080</u>	<u>982,507</u>	<u>0</u>	<u>98,222,587</u>
Less accumulated depreciation:				
Building & building improvement	32,071,214	1,655,542	0	33,726,756
Furniture and equipment	2,766,235	569,677	0	3,335,912
Land improvement	1,396,573	131,126	0	1,527,699
Total accumulated depreciation	<u>36,234,022</u>	<u>2,356,345</u>	<u>0</u>	<u>38,590,367</u>
Total capital assets, net	<u>\$66,827,689</u>	<u>\$12,753,210</u>	<u>\$0</u>	<u>\$79,580,899</u>

Depreciation expense was charged to
Governmental functions as follows:

Instruction	\$2,016,173
General support	328,214
Food service	11,958
	<u>\$2,356,345</u>

NOTE 9 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General fund	\$6,135,698			\$1,055,870
Special aid fund		\$3,886,108	\$555,870	
School lunch fund		2,272,505	500,000	
Capital projects fund		21		
Total government activities	<u>6,135,698</u>	<u>\$6,158,634</u>	<u>1,055,870</u>	<u>1,055,870</u>
Fiduciary agency fund	113,060	90,124	0	0
Totals	<u>\$6,248,758</u>	<u>\$6,248,758</u>	<u>\$1,055,870</u>	<u>\$1,055,870</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The District typically transfers from the general fund to the special aid fund to fund the District's local share of summer school handicap expenses required by New York State Law, to fund the preschool program and to fund the State Supported Section 4201 schools. Beginning in the 2011-2012 school year, the State Supported Section 4201 schools were authorized under Chapter 58 of the Laws of 2011 to bill the District at time of initial admission for the cost of the 10-month school year education. 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, 2012 consisted of the following:

General Fund

Due to Islip Town & NYS agencies	132,237
Due to BOCES & local public schools	283,843
Total General Fund	416,080

School Lunch Fund

Due to NYS department of taxation	116
Total School Lunch Fund	116

Total All Funds	\$416,196
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NOTE 11 - SHORT-TERM DEBT

On September 15, 2011, the District issued Tax Anticipation Notes, in the amount of \$30,000,000 and Bond Anticipation Notes in the amount of \$13,550,000. On September 15, 2011 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	6/28/2012	1.50%	\$0	\$30,000,000	\$30,000,000	\$0
BAN	9/15/2011	0.59%	8,000,000	0	8,000,000	0
BAN	9/14/2012	1.00%	0	13,550,000	0	13,550,000
			\$8,000,000	\$43,550,000	\$38,000,000	\$13,550,000

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

	Total
Interest paid	\$400,950
Less interest accrued in the prior year	(37,367)
Plus interest accrued in the current year	67,390
Total expense	\$430,973

NOTE 12 – LONG-TERM LIABILITIES

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	\$42,770,000	\$0	\$4,065,000	\$38,705,000	\$4,230,000
Total bonds payable	42,770,000	0	4,065,000	38,705,000	4,230,000
Other liabilities:					
Energy performance debt		\$11,690,610		\$11,690,610	\$402,704
Due to employees' retirement system	\$758,278		\$188,046	570,232	188,046
Due to teachers' retirement system	1,322,625		330,656	991,969	330,656
Due to other governments	13,619,629		13,619,629	0	0
Compensated absences payable	35,472,727	4,761,721		40,234,448	0
Net OPEB obligation	38,875,443	14,583,769		53,459,212	0
Workers' compensation claims payable	2,141,087	145,696		2,286,783	0
Total other liabilities	92,189,789	31,181,796	14,138,331	109,233,254	921,406
Total long-term liabilities	\$134,959,789	\$31,181,796	\$18,203,331	\$147,938,254	\$5,151,406

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.

The District reduced due to other governments by \$13,619,629. The liability was reduced based on the passage of NYS Building Aid Legislation in March 2012, section 31 of Chapter 57 of the Laws of 2012.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The District began District Wide work on an energy performance contract in the amount of \$11,690,610 with Ameresco Inc.

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

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%	\$1,160,000
Serial Bond	12/1/1998	11/1/2013	5.1 - 5.2%	90,000
Serial Bond	6/15/2003	6/15/2021	3.0 - 4.0%	4,795,000
Serial Bond	7/15/2003	7/15/2023	3.0 - 4.125%	19,865,000
Serial Bond	2/15/2004	2/1/2023	2.0 - 4.125%	11,820,000
Serial Bond	5/29/2008	6/15/2018	3.13 - 3.50%	975,000
				<u>\$38,705,000</u>

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

Fiscal Year Ended June 30,	Principal	Interest	Total
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>\$38,705,000</u>	<u>\$8,654,161</u>	<u>\$47,359,161</u>

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

June 30,	Principal	Interest	Total
2013	\$402,704	\$623,946	\$1,026,650
2014	687,034	339,616	1,026,650
2015	708,182	318,468	1,026,650
2016	729,981	296,669	1,026,650
2017	752,451	274,199	1,026,650
2018-2022	4,124,267	1,008,984	5,133,251
2023-2027	4,285,991	333,936	4,619,927
	<u>\$11,690,610</u>	<u>\$3,195,818</u>	<u>\$14,886,428</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

	Total
Interest paid	\$1,599,730
Less interest accrued in the prior year	(592,280)
Plus interest accrued in the current year	886,404
Total expense	\$1,893,854

NOTE 13 – DEFERRED REVENUE:

Deferred revenue at June 30, 2012 consists of the following:

	General	School Lunch	Capital Projects	Total
NYS supplemental aid	\$140,236			\$140,236
Foster tuition	930,593			930,593
Employee insurance receipts	17,194			17,194
Student pre-paid meals		\$734		734
Premium on BAN			\$50,000	50,000
	\$1,088,023	\$734	\$50,000	\$1,138,757

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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

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 NYSTRS employees who joined on or after January 1, 2010 and before April 1, 2012, they are required to contribute 3.5% of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. For employees in NYSERS who joined after January 1, 2010 but prior to March 31, 2013, they must contribute 3% of their salary throughout their active membership. Those joining after April 1, 2013 are required to contribute 3% and 6% dependent upon their salary, for their entire working career. 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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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:

	<u>NYSERS</u>	<u>NYSTRS</u>
2011 - 2012	\$2,734,150	\$7,133,777
2010 - 2011	\$2,327,765	\$6,024,897
2009 - 2010	\$1,798,966	\$4,367,267

D) Retirement Incentive:

The District is obligated for retirement incentives as follows:

	<u>ERS</u>	<u>TRS</u>
Laws of 2004	\$181,952	\$0
Laws of 2010	388,280	991,969
	<u>\$570,232</u>	<u>\$991,969</u>

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 -3Public 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 2012, the District contributed \$5,795,749 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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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:

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution	\$20,986,649
Interest	1,555,018
Adjustment to Annual Required Contribution	(2,162,149)
Annual OPEB Cost (expense)	<u>20,379,518</u>
Contributions Made	<u>(5,795,749)</u>
Increase in net OPEB obligation	14,583,769
Net obligation beginning of year	<u>38,875,443</u>
Net obligation end of year	<u><u>\$53,459,212</u></u>

The District's annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years, was as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>OPEB Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$20,379,518	\$5,795,749	28%	\$53,459,212
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

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%.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

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, 2012, the District has incurred but unpaid claims liability in the amount of \$2,286,783 and has a restricted fund balance for workers' compensation in the amount of \$1,810,249. Claims activity is summarized below:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	2012	2011
Unpaid claims at beginning of year	\$2,141,087	\$1,790,023
Incurred claims and claim adjustment expenses	7,991,355	7,016,992
Claims payments	(7,845,659)	(6,665,928)
Unpaid claims at year end	\$2,286,783	\$2,141,087

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 state and federal aid receivable	\$350,000	(\$350,000)
Adjustment for building aid payable	0	13,619,629
	\$350,000	\$13,269,629

In the special aid fund, old receivables were written off for the preschool program.

The District reversed its prior school year charge of \$13,619,629 to net assets for the amount NYS Education Department claimed the District should repay for the late filing of building aid reports. The NYS Legislature passed legislation whereby the prior building aid received will not be deducted by the State in the future.

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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

C. Operating Leases:

The District leases various equipment under non-cancelable leases. Lease expense for the fiscal year was approximately \$332,504. The following is a summary of obligations of government activities under operating lease payments:

Fiscal Year Ended June 30,	Total
2013	332,504
2014	186,297
2015	26,689
Total Lease Payments	<u>\$545,490</u>

D. Building aid revisions:

Section 31 of Chapter 57 of the Laws of 2012 provides for amnesty for late filed final cost reports. Under this provision, rather than losing all aid associated with projects, a late filing penalty is assessed. The District has filed the necessary paperwork for building aid restoration. The timing and amount to be restored have not yet been finalized by the State Education Department.

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, 2012 is \$146,404. Significant encumbrances of \$133,588 were assigned to non instructional services and \$12,816 to instruction.

NOTE 19 – SUBSEQUENT EVENTS

A. On September 13, 2012 the District issued \$8,100,000 in bond anticipation notes (BANS) and \$5,000,000 in serial bonds. The bond anticipation notes mature on September 12, 2013.

	<u>Amount</u>	<u>Rate</u>	<u>Premium</u>
BANS	\$8,100,000	1.00%	\$40,986
Serial bonds	\$5,000,000	4.20%	\$0

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, 2012**

	<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	\$75,299,184	\$75,299,184	\$75,305,128	\$5,944
Other real property tax items	10,897,030	11,053,448	11,435,366	381,918
Charges for services	3,620,000	1,407,652	1,434,672	27,020
Use of money & property	0	388,811	376,920	(11,891)
Sale of property	0			
& compensation for loss	100,000	871,500	827,271	(44,229)
Miscellaneous	0	1,043,619	1,922,258	878,639
Interfund revenues	0	79,000	80,180	1,180
State Sources				
Basic formula	74,753,850	53,906,564	59,830,310	5,923,746
Excess cost aid	0	9,500,000	9,974,573	474,573
Lottery grant	0	8,420,990	8,420,990	0
BOCES aid	0	2,000,000	2,022,112	22,112
Tuition	0	158,500	158,500	0
Textbook aid	0	402,714	402,714	0
Computer software aid	0	198,726	198,276	(450)
Library A/V loan program aid	0	42,425	42,425	0
Other state aid	0	164,556	164,631	75
Federal Sources				
ARRA stabilization funds	0	0	0	0
Medicaid reimbursement	415,000	188,000	19,795	(168,205)
TOTAL REVENUES AND OTHER SOURCES	165,085,064	165,125,689	\$172,616,121	\$7,490,432
Appropriated Fund Balance	2,000,000	2,000,000		
Appropriated Reserves	42,657	42,657		
TOTAL REVENUES & APPROPRIATED FUND BALANCE	\$167,127,721	\$167,168,346		

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, 2012**

	<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	\$92,000	\$94,200	\$92,024	\$75	\$2,101
Central administration	930,058	551,145	470,721	0	80,424
Finance	1,744,701	1,776,447	1,689,484	30,324	56,639
Staff	756,539	889,270	837,451	0	51,819
Central services	14,427,918	15,139,287	14,028,271	103,189	1,007,827
Special items	1,533,278	1,513,278	1,401,212	0	112,066
Instructional					
Instruction, adm. & imp.	6,512,612	5,822,380	5,337,425	0	484,955
Teaching - regular school	44,671,501	41,691,160	39,669,618	9,049	2,012,493
Programs for children with handicapping conditions	28,239,903	28,200,217	25,763,128	1,545	2,435,544
Occupational education	1,213,111	1,340,132	1,155,491	0	184,641
Teaching special schools	566,000	579,500	547,034	0	32,466
Instructional media	1,736,523	1,808,902	1,691,617	1,474	115,811
Pupil services	6,641,793	6,884,961	6,511,384	748	372,829
Pupil transportation	10,743,654	10,530,077	9,162,374	0	1,367,703
Community services	5,000	5,000	0	0	5,000
Employee benefits	39,426,200	42,424,460	39,601,506	0	2,822,954
Debt service principal	4,065,000	4,065,000	4,065,000	0	0
Debt service - interest	2,796,930	2,796,930	2,000,680	0	796,250
TOTAL EXPENDITURES	<u>166,102,721</u>	<u>166,112,346</u>	<u>154,024,420</u>	<u>146,404</u>	<u>11,941,522</u>
Other Financing Uses					
Transfers to other funds	1,025,000	1,056,000	1,055,870	0	130
TOTAL EXPENDITURES AND OTHER USES	<u><u>\$167,127,721</u></u>	<u><u>\$167,168,346</u></u>	<u><u>155,080,290</u></u>	<u><u>\$146,404</u></u>	<u><u>\$11,941,652</u></u>
Change in fund balance			17,535,831		
Fund balance - beginning of year			<u>27,723,514</u>		
Fund balance - end of year			<u><u>\$45,259,345</u></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, 2012**

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Covered Payroll</u>
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 ASSIGNED; APPROPRIATED AND UNASSIGNED FUND BALANCE- GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$167,085,064
Add: Prior year's encumbrances	<u>42,657</u>
Original Budget	167,127,721
Budget revision:	<u>40,625</u>
Final Budget	<u>\$167,168,346</u>
Next year's voter approved budget	<u>\$176,266,302</u>

USE OF ASSIGNED: APPROPRIATED AND UNASSIGNED FUND BALANCE

Assigned: Appropriated and Unassigned Fund Balance As of the beginning of the year	\$17,934,228
Less:	
Assigned fund balance used for the levy of taxes- adopted budget	<u>2,000,000</u>
Unassigned Fund Balance- As of the beginning of the year	<u>\$15,934,228</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
JUNE 30, 2012**

Project Title	Original Appropriation	Revised Appropriation	Expenditures to Date			Unexpended Balance	Proceeds of Obligations	Methods of Financing		Total	Fund Balance June 30, 2012
			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	\$1,500,000	\$0
Non-aidable	511,467	511,467	408,890	0	408,890	102,577	511,467	0	0	511,467	102,577
Capital project	16,800,000	16,800,000	6,813,663	5,828,464	12,642,127	4,157,873	0	62,018	0	62,018	(12,580,109) *
Energy Performance Contract	11,690,610	11,690,610	0	9,134,223	9,134,223	2,556,387	11,690,610			11,690,610	2,556,387
TOTAL	\$30,502,077	\$30,502,077	\$8,722,553	\$14,962,687	\$23,685,240	\$6,816,837	\$13,702,077	\$62,018	\$0	\$13,764,095	(\$9,921,145)

* 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, 2012**

	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
REVENUES			
Property Taxes	A-1001	\$75,305,128	\$75,305,128
Non-Property Taxes	AT-1199	0	0
State Aid	AT-3999	81,214,531	81,214,531
Federal Aid - Medicaid reimbursement	AT-4999	19,795	19,795
TOTAL REVENUES	AT-5999	\$172,616,121	\$172,616,121
EXPENDITURES			
General Support	AT-1999	\$18,519,163	\$18,519,163
Pupil Transportation	AT-5999	9,162,374	9,162,374
Debt Service-Principal	AT-9798.6	4,065,000	4,065,000
Debt Service-Interest	AT-9798.7	2,000,680	2,000,680
TOTAL EXPENDITURES	AT-9999	\$155,080,290	\$155,080,290

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
JUNE 30, 2012**

Capital assets, net		\$79,580,899
Add:		
Unspent bond proceeds		102,577
Unspent energy performance proceeds		2,556,387
Deduct:		
Bond anticipation note payable	13,550,000	
Short-term portion of bonds payable	4,230,000	
Long-term portion of bonds payable	34,475,000	
Short term portion of energy performance debt	402,704	
Long term portion of energy performance debt	<u>11,287,906</u>	<u>63,945,610</u>
Investment in capital assets, net of related debt		<u><u>\$18,294,253</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 the Central Islip Union Free School District, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Central Islip Union Free School District's basic financial statements and have issued our report thereon dated November 1, 2012. 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

Management of Central Islip Union Free School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 1, 2012.

This report is intended solely for the information and use of management, the Board of Education, the audit committee, 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 1, 2012