

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Central Islip Union Free School District

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 1 through 17 and 57 through 59, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Boards, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

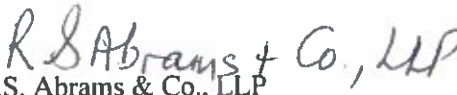
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Islip Union Free School District's basic financial statements. 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Islip Union Free School District's internal control over financial reporting and compliance.


R.S. Abrams & Co., LLP
Islandia, NY
October 31, 2014

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014. 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 2014 are as follows:

- On the District-Wide Financial Statements, revenues increased 7.71% primarily as a result of increased state sources and property tax revenue. See Table A-4.
- On the District-Wide Financial Statements, expenditures increased by 11.03% primarily as a result of an increase in instructional, general support expenses and the food service program. See Table A-4.
- On May 21, 2014, the District's residents authorized the proposed 2014-2015 budget in the amount of \$192,496,924.
- 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 \$14,832,069 primarily due to an increase in the net other post employment benefits obligation and compensated absences.
- The District's net position, as reflected in the District-Wide Financial Statements, decreased by \$14,151,541 with restatement. This decrease includes a loss from operations of \$12,046,935 and a prior period adjustment of \$2,104,606 for the penalty relating to New York State building aid from prior years. See Note 19 to the Financial Statements.

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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-Wide Statements.
- The *Governmental Fund Statements* tell how basic services such as instruction and support functions were financed in the *short-term* as well as what remains for future spending.
- *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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

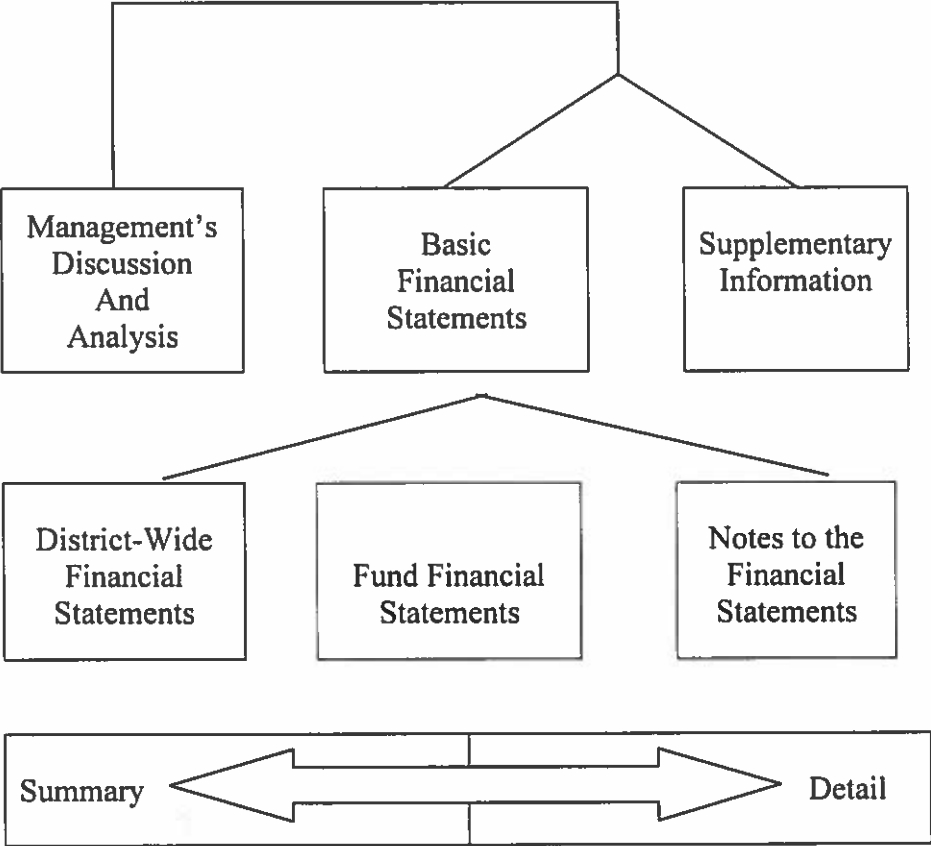


Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 Position • 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 Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
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, 2014**

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 Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. 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 position and how they have changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources - is one way to measure the financial health or position of the District.

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

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 Position:

- 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 position balances as follows:
 - *Net investment in capital assets*;
 - *Restricted net position* 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 position* is net position that does 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, 2014**

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 aid fund, 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 position and changes in net position. 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, 2014**

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A) Net Position

The District's total net position decreased by \$12,046,935 in the fiscal year ended June 30, 2014, as detailed in Table A-3.

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

	Fiscal Year 2014	As Restated Fiscal Year 2013	Increase/ (Decrease)	Percentage Change
Assets:				
Current assets and other assets	\$ 83,229,489	\$ 77,997,179	\$ 5,232,310	6.71%
Capital assets, net	81,765,627	81,460,169	305,458	0.37%
Total assets	164,995,116	159,457,348	5,537,768	3.47%
Deferred outflows of resources	606,196	681,189	(74,993)	(11.01%)
Total assets and deferred outflows of resources	<u>\$ 165,601,312</u>	<u>\$ 160,138,537</u>	<u>\$ 5,462,775</u>	3.41%
Liabilities:				
Other liabilities	\$ 41,826,486	\$ 38,679,276	\$ 3,147,210	8.14%
Long-term liabilities	173,882,223	159,050,154	14,832,069	9.33%
Total liabilities	215,708,709	197,729,430	17,979,279	9.09%
Deferred inflows of resources	3,795,684	4,265,253	(469,569)	(11.01%)
Total liabilities and deferred inflows of resources	<u>219,504,393</u>	<u>201,994,683</u>	<u>17,509,710</u>	8.67%
Net position:				
Net investment in capital assets	27,757,844	22,530,776	5,227,068	23.20%
Restricted	34,957,389	35,946,039	(988,650)	(2.75%)
Unrestricted (deficit)	(116,618,314)	(100,332,961)	(16,285,353)	16.23%
Total net position (deficit), as restated	<u>(53,903,081)</u>	<u>(41,856,146)</u>	<u>(12,046,935)</u>	28.78%
Total liabilities, deferred inflows of resources, and net position	<u>\$ 165,601,312</u>	<u>\$ 160,138,537</u>	<u>\$ 5,462,775</u>	3.41%

Certain reclassifications have been made for financial statement presentation. Such reclassifications had no effect on the total net position as previously reported.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The District reported a prior period adjustment for fiscal year ended June 30, 2013 which added an amount for due to other governments of \$2,104,606 (for corrections to prior years New York State building aid) and, therefore increased the District's unrestricted (deficit). The District's total net position (deficit) as restated for June 30, 2013 was (\$41,856,146).

Current assets and other assets increased by \$5,232,310 from 2013 to 2014 primarily due to increases in the District's cash position, increases in due from state and federal aid, and an increase in due from other governments. Capital assets (net of depreciation) increased by \$305,458. This was attributable to current year capital asset additions exceeding depreciation. Other liabilities increased by \$3,147,210 primarily due to increases in: accounts payable, accrued liabilities, due to NYS Teacher's Retirement System and compensated absences payable. The increases were offset by decreases in due to NYS Employees' Retirement System and BAN payable. Long-term liabilities increased by \$14,832,069 primarily due to an increase in compensated absences payable and net OPEB obligation offset by scheduled repayments of bonds payable and energy performance debt.

The net investment in capital assets, net of related debt, relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, and furniture & equipment, net of depreciation and related debt. This number increased from the prior year by \$5,227,068 primarily due to a decrease in related debt. See Supplemental Schedule 5.

The restricted net position in the amount of \$34,957,389 refers to the District's reserves: workers' compensation, employee benefit accrued liability, retirement contribution, capital and property loss and liability. The decrease of \$988,650 can be attributed to the decrease in the employee benefits accrued liability reserve of \$1,000,000 for termination pay to current year retirees offset by interest that was allocated to the reserves of \$11,350. See Section 4 of this MD&A and Note 1 to the Financial Statements for further descriptions and detailed balances.

The unrestricted (deficit) at June 30, 2014 is \$116,618,314 which represents the amount by which the District's liabilities excluding debt related to capital construction exceeded assets other than capital assets and restricted net resources.

Net position overall decreased by \$12,046,935 and 28.78%.

B) Changes in Net Position

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, 2014 and 2013 are as follows:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

	Fiscal Year 2014	Fiscal Year 2013	Increase/ (Decrease)	Percentage Change
Program revenues:				
Charges for services	\$2,288,299	\$1,698,741	\$589,558	34.71%
Operating grants	10,648,765	10,083,828	564,937	5.60%
General revenues:				
Property taxes (including other tax items)	91,166,329	89,463,019	1,703,310	1.90%
State sources	92,390,729	80,496,601	11,894,128	14.78%
Use of money and property	426,155	202,714	223,441	110.22%
Other	2,001,375	2,739,479	(738,104)	(26.94%)
Total Revenues	<u>198,921,652</u>	<u>184,684,382</u>	<u>14,237,270</u>	7.71%
Expenses:				
General support	30,998,858	28,824,553	2,174,305	7.54%
Instruction	163,145,092	146,331,179	16,813,913	11.49%
Pupil transportation	9,570,696	9,159,368	411,328	4.49%
Debt service - interest	1,428,647	1,670,821	(242,174)	(14.49%)
Food service program	5,825,294	4,020,771	1,804,523	44.88%
Total Expenses	<u>210,968,587</u>	<u>190,006,692</u>	<u>20,961,895</u>	11.03%
Increase (Decrease) in net position	<u>(\$12,046,935)</u>	<u>(\$5,322,310)</u>	<u>(\$6,724,625)</u>	126.35%

The District's total fiscal year 2014 revenues totaled \$198,921,652 (See Table A-4). Property taxes (including other tax items) and state sources accounted for most of the District's revenue by contributing 45.83% and 46.45%, respectively of total revenues (See Table A-5). The remainder came from fees charged for services, operating grants, use of money and property, and other miscellaneous sources

The total cost of all programs and services totaled \$210,968,587 for fiscal year 2014 (See Table A-4). These expenses are predominantly related to general instruction and caring for (pupil services) and transporting students, which account for 81.88% of District expenses (See Table A-6). The District's general support activities accounted for 14.70% of total costs.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Table A-5: Revenues for Fiscal Year 2014 (See Table A-4)

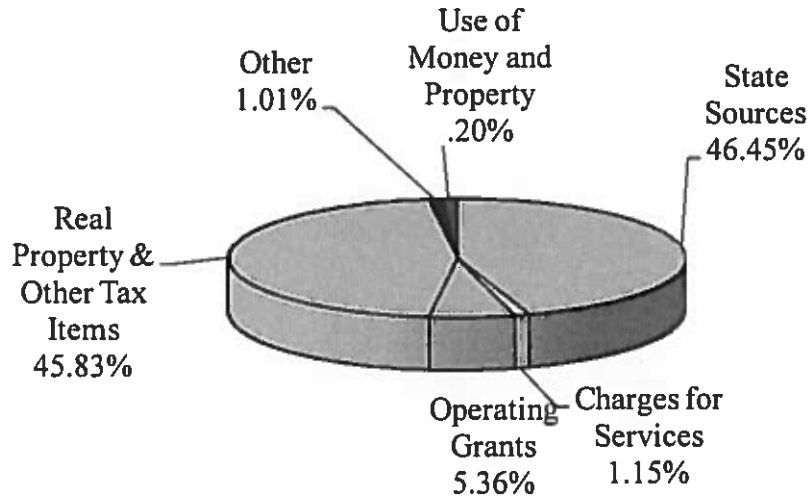
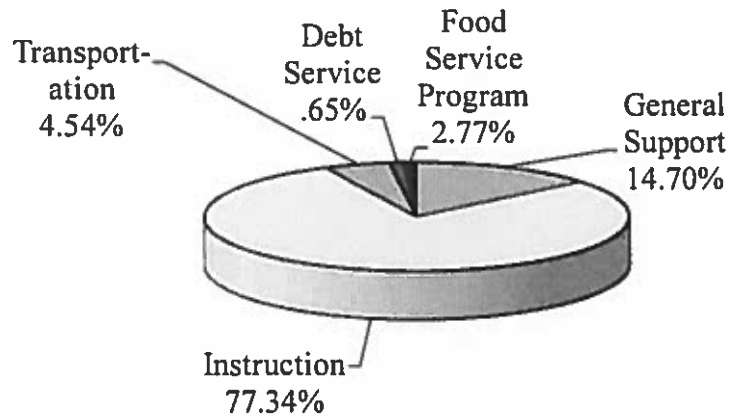


Table A-6: Expenses for Fiscal Year 2014 (See Tables A-4 and A-7)



**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

C) Governmental Activities

Revenues for the District's governmental activities totaled \$198,921,652 while total expenses equaled \$210,968,587. There was a decrease in net position of \$12,046,935 primarily due to an increase in operating expenses. 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 2014	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2013
General support	\$30,998,858	\$28,824,553	\$30,998,858	\$28,824,553
Instruction	163,145,092	146,331,179	154,342,406	138,080,484
Pupil transportation	9,570,696	9,159,368	9,570,696	9,159,368
Debt service - interest	1,428,647	1,670,821	1,428,647	1,670,821
Food service program	5,825,294	4,020,771	1,690,916	488,897
Total	<u>\$210,968,587</u>	<u>\$190,006,692</u>	<u>\$198,031,523</u>	<u>\$178,224,123</u>

- The cost of all governmental activities this year was \$210,968,587 (Statement of Activities, Expenses column-see Exhibit 3).
- The users of the District's programs financed \$2,288,299 of the cost (Statement of Activities, Charges for Services column-see Exhibit 3).
- The federal and state governments subsidized certain programs with grants of \$10,648,765. (Statement of Activities, Operating Grants column-see Exhibit 3)
- Most of the District's net costs \$198,031,523 were financed by District taxpayers and state and federal aid. (Statements of Activities, Net (Expense) Revenue and Changes in Net Position column-see Exhibit 3).

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014, the District's combined governmental funds reported a total fund balance of \$40,816,863 which is an increase of \$2,413,026 from the prior year.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Fiscal Year 2014	As Restated Fiscal Year 2013	Increase (Decrease)	% Change
General Fund				
Non spendable for advances	\$727,085	\$1,394,357	(\$667,272)	(47.86%)
Restricted for workers' compensation	1,815,800	1,815,227	573	0.03%
Restricted for employee benefit accrued liability	10,558,305	11,554,656	(996,351)	(8.62%)
Restricted for retirement contribution	15,004,736	15,000,000	4,736	0.03%
Restricted for capital improvement	7,502,368	7,500,000	2,368	0.03%
Restricted for liability	76,180	76,156	24	0.03%
Assigned-appropriated subsequent year's expenditures	7,550,000	3,000,000	4,550,000	151.67%
Assigned - central administration, staff, finance	59,489	74,770	(15,281)	(20.44%)
Assigned - central services	27,170	205,010	(177,840)	(86.75%)
Assigned - instruction	407,532	166,110	241,422	145.34%
Unassigned	7,515,521	7,663,458	(147,937)	(1.93%)
Total fund balance - general fund	<u>\$51,244,186</u>	<u>\$48,449,744</u>	<u>\$2,794,442</u>	5.77%
School Lunch Fund				
Non spendable for inventory	\$12,106	\$24,124	(\$12,018)	(49.82%)
Unassigned (deficit)	(727,085)	(1,340,483)	613,398	45.76%
Total fund balance (deficit) - school lunch fund	<u>(\$714,979)</u>	<u>(\$1,316,359)</u>	<u>\$601,380</u>	45.69%
Capital Projects Fund				
Restricted for unspent bond proceeds	\$102,577	\$102,577	\$0	0.00%
Unassigned (deficit)	(9,814,921)	(8,832,125)	(982,796)	(11.13%)
Total fund balance (deficit) - capital projects fund	<u>(\$9,712,344)</u>	<u>(\$8,729,548)</u>	<u>(\$982,796)</u>	(11.26%)
Total fund balance - all funds	<u>\$40,816,863</u>	<u>\$38,403,837</u>	<u>\$2,413,026</u>	6.28%

The general fund—the fund balance increased by \$2,794,442 as compared to the prior year as restated due to current year operations.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The school lunch fund - fund balance increased by \$601,380 as compared to the prior year due to current year operations.

The capital projects fund – fund balance decreased by \$982,796 as compared to the prior year due to an increase in capital outlay. The District will seek permanent financing in the form of long term debt in future periods.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A) 2013-2014 Budget

The District’s general fund adopted budget for the year ended June 30, 2014 was \$187,955,865. This amount was increased by encumbrances carried forward from the prior year in the amount of \$445,890 and by \$1,000,000 withdrawal from the employee benefit accrued liability reserve which resulted in a final budget of \$189,401,755. The majority of the funding was property taxes, including other tax items and state sources of \$91,166,329 and \$90,927,299 respectively.

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	\$9,768,064
Adjustment due to New York State recoupment of building aid	(2,104,606)
Opening, Unassigned Fund Balance, as restated	7,663,458
Revenues over budget	1,309,433
Expenditures and encumbrances under budget	5,436,708
Decrease to nonspendable for advances	667,272
Decrease due to allocation of interest to reserves	(11,350)
Assigned Appropriated for June 30, 2015 Budget	(7,550,000)
Closing, Unassigned Fund Balance	\$7,515,521

The closing unassigned fund balance represents the fund balance retained by the District that is not restricted or appropriated for subsequent year’s taxes. This amount is in under the statutory limit of 4% of the 2014-2015 budget.

The revenues over budget of \$1,309,433 was primarily in state sources and charges for services. (see Supplemental Schedule #1 for detail).

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The expenditures and encumbrances under budget of \$5,436,708 were primarily in instruction, employee benefits, central services and pupil transportation (See Supplemental Schedule 1 for details).

Increases and decreases to reserves were primarily due to transfers from the employee benefits liability reserve to pay for termination benefits for current year retirees. For further detail refer to section 4 in Management's Discussion and Analysis Section 4, Financial Analysis of the District's Funds.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A) Capital Assets

The District paid for equipment and various building additions and renovations during the fiscal year 2014. 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 2014	Fiscal Year 2013	Increase (Decrease)	Percentage Change
Land	\$539,650	\$539,650	\$0	0.00%
Construction in progress	14,505,611	11,667,463	2,838,148	24.33%
Buildings & building improvements	100,451,444	100,451,444	0	0.00%
Furniture & equipment	6,045,208	5,924,437	120,771	2.04%
Land improvements	3,051,918	3,035,118	16,800	0.55%
Subtotal	<u>124,593,831</u>	<u>121,618,112</u>	<u>2,975,719</u>	2.45%
Less: accumulated depreciation	<u>42,828,204</u>	<u>40,157,943</u>	<u>2,670,261</u>	6.65%
Total net capital assets	<u><u>\$81,765,627</u></u>	<u><u>\$81,460,169</u></u>	<u><u>\$305,458</u></u>	0.37%

The District spent \$2,846,226 in the capital projects fund primarily on construction in progress. The District's remaining additions to furniture and equipment and land improvements were provided by the general and school lunch funds.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

B) Long-Term Debt

At June 30, 2014, the District had total bonds payable of \$32,620,000 and obligation under installment purchase agreement of \$10,600,872. The decrease in long term debt represents principal payments. A summary of outstanding debt at June 30, 2014 follows. More detailed information about the District’s long-term debt is presented in the Notes to the Financial Statements.

	2014	2013	Increase (Decrease)
Serial bonds	\$32,620,000	\$36,060,000	(\$3,440,000)
Energy performance debt	10,600,872	11,287,906	(687,034)
	\$43,220,872	\$47,347,906	(\$4,127,034)

7. FACTORS BEARING ON THE DISTRICT’S FUTURE

A) On September 12, 2014 the District retired \$7,700,000 in bond anticipation notes by issuing serial bonds with a par value of \$7,525,000 and premium of \$328,656.

	Amount	Rate	Premium
Bonds	\$7,525,000	2%-3%	\$328,656

B) The general fund budget for the 2014-2015 school year was approved by the voters in the amount of \$192,496,924. This is an increase of \$4,541,059 or 2.42% from the previous year’s budget. The increase was primarily due to increase in personnel and employee benefits costs.

C) The NYS Legislature has introduced and 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, 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.

D) New York State recently enacted a law to effectively “freeze” property taxes for two years on the primary residences of homeowners with annual incomes at or below \$500,000 in school districts and local governments that stay within the tax cap. Qualifying homeowners will receive

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

a credit, which will be distributed in the form of a check from New York State, up to the calculated amount of the tax cap. The program also requires the school districts and local governments in the second year to develop or participate in the development of a state approved government efficiency plan that will achieve savings for taxpayers. The law is effective for school districts starting with the 2014-2015 school year and homeowners will receive refund checks in the fall of 2014. This program will provide an incentive for the District to be tax cap compliant.

- E) The Patient Protection and Affordable Care Act or more commonly referred to as the Affordable Care Act was enacted into law on March 23, 2010. Beginning in 2015, the mandate requires large employers (generally those with fifty (50) or more full-time equivalent employees) to either offer affordable health coverage to full-time employees and their dependents, or pay a penalty if the employer fails to offer affordable health coverage, and at least one full-time employee receives a premium tax credit to help purchase coverage through an Affordable Insurance Exchange. It is anticipated that implementation of this law will increase the health insurance costs for the District.

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 POSITION
JUNE 30, 2014

ASSETS	
Cash	
Unrestricted	\$35,444,691
Restricted	35,059,966
Receivables	
State and federal aid	9,850,375
Due from other governments	2,775,709
Due from fiduciary funds	41,640
Accounts receivable	45,002
Inventories	
	12,106
Capital assets, net	
Not being depreciated	15,045,261
Being depreciated, net of accumulated depreciation	66,720,366
DEFERRED OUTFLOW OF RESOURCES	
Deferred charge on refunding	606,196
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
	<u>\$165,601,312</u>
LIABILITIES	
Payables	
Accounts payable	\$2,168,637
Accrued liabilities	12,986,420
Accrued interest payable	681,489
Retainage payable	8,078
Due to other governments	1,838,669
Due to teachers' retirement system	13,429,373
Due to employees' retirement system	1,420,359
Compensated absences payable	1,531,250
Note payable	
Bond anticipation note payable	7,700,000
Unearned credits	
Collections in advance	62,211
Long-term liabilities	
Due and payable within one year	
Bonds payable	3,135,000
Energy performance debt	708,182
Due to employees' retirement system	90,976
Compensated absences payable	1,166,000
Due and payable after one year	
Bonds payable	29,485,000
Energy performance debt	9,892,690
Compensated absences payable	47,113,548
Net OPEB obligation	79,979,489
Workers compensation claims payable	2,311,338
TOTAL LIABILITIES	
	<u>215,708,709</u>
DEFERRED INFLOWS OF RESOURCES	
Gain on defeasance	3,795,684
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
	<u>219,504,393</u>
NET POSITION	
Net investment in capital assets	
	27,757,844
Restricted	
Workers' compensation	1,815,800
Employee benefit accrued liability	10,558,305
Retirement contribution	15,004,736
Capital	7,502,368
Property loss and liability	76,180
Unrestricted (deficit)	<u>(116,618,314)</u>
TOTAL NET POSITION (DEFICIT)	
	<u>(53,903,081)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
	<u>\$165,601,312</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
FUNCTIONS / PROGRAMS				
General support	\$30,998,858			(\$30,998,858)
Instruction	163,145,092	\$1,675,655	\$7,127,031	(154,342,406)
Pupil transportation	9,570,696			(9,570,696)
Debt service - interest	1,428,647			(1,428,647)
Food service program	5,825,294	612,644	3,521,734	(1,690,916)
TOTAL FUNCTIONS AND PROGRAMS	<u>\$210,968,587</u>	<u>\$2,288,299</u>	<u>\$10,648,765</u>	<u>(198,031,523)</u>
GENERAL REVENUES				
Real property taxes				78,114,011
Other tax items - including STAR reimbursement				13,052,318
Use of money & property				426,155
Sale of property & compensation for loss				799,184
Miscellaneous				752,221
Interfund revenue				61,046
State sources				92,390,729
Medicaid reimbursement				388,924
TOTAL GENERAL REVENUES				<u>185,984,588</u>
CHANGE IN NET POSITION				(12,046,935)
NET POSITION - BEGINNING OF YEAR				(39,751,540)
PRIOR PERIOD ADJUSTMENT				<u>(2,104,606)</u>
NET POSITION - BEGINNING, AS RESTATED				<u>(41,856,146)</u>
TOTAL NET POSITION - END OF YEAR				<u><u>(\$53,903,081)</u></u>

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

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$34,499,106	\$857,254	\$41,407	\$46,924	\$35,444,691
Restricted	34,957,389			102,577	35,059,966
Receivables					
State and federal aid	3,817,846	4,271,225	297,874	1,463,430	9,850,375
Due from other governments	2,775,709				2,775,709
Due from other funds	8,654,257				8,654,257
Accounts receivable	39,600	528	4,874		45,002
Inventories			12,106		12,106
TOTAL ASSETS	\$84,743,907	\$5,129,007	\$356,261	\$1,612,931	\$91,842,106
LIABILITIES					
Payables					
Accounts payable	\$1,833,214	\$113,503	\$7,023	\$214,897	\$2,168,637
Accrued liabilities	12,173,145	525,194	288,081		12,986,420
Retainage Payable				8,078	8,078
Due to other governments	1,838,489		180		1,838,669
Due to other funds		4,490,310	772,906	3,349,401	8,612,617
Due to teachers' retirement system	13,429,373				13,429,373
Due to employees' retirement system	1,420,359				1,420,359
Compensated absences	1,531,250				1,531,250
Notes payable					
Bond anticipation notes payable				7,700,000	7,700,000
Unearned credits					
Collections in advance	6,262		3,050	52,899	62,211
TOTAL LIABILITIES	32,232,092	5,129,007	1,071,240	11,325,275	49,757,614
DEFERRED INFLOWS OF RESOURCES					
New York State Supplemental Aid	337,660				337,660
Foster Tuition	929,969				929,969
TOTAL DEFERRED INFLOWS OF RESOURCES	1,267,629	-	-	-	1,267,629
FUND BALANCES					
Nonspendable					
Advances	727,085				727,085
Inventories			12,106		12,106
Restricted					
Workers' compensation	1,815,800				1,815,800
Employee benefit accrued liability	10,558,305				10,558,305
Retirement contribution	15,004,736				15,004,736
Capital	7,502,368				7,502,368
Property loss and liability	76,180				76,180
Unspent bond proceeds				102,577	102,577
Assigned					
Appropriated	7,550,000				7,550,000
Unappropriated	494,191				494,191
Unassigned (deficit)	7,515,521		(727,085)	(9,814,921)	(3,026,485)
TOTAL FUND BALANCES	51,244,186	-	(714,979)	(9,712,344)	40,816,863
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$84,743,907	\$5,129,007	\$356,261	\$1,612,931	\$91,842,106

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Governmental Fund Balances \$40,816,863

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

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

Original cost of capital assets	\$124,593,831	
Accumulated depreciation	<u>(42,828,204)</u>	81,765,627

Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Deferred outflows of resources - Loss on refunding	606,196
Deferred inflows of resources - Premium	<u>(3,795,684)</u>

Deferred inflows of resources-supplemental aid and foster tuition. The Statement of Net Position recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual.

1,267,629

Payables, that are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Accrued interest payable	(681,489)
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Long-term liabilities 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 consisted of:

Bonds payable	(32,620,000)	
Energy performance debt	(10,600,872)	
Due to employees' retirement system	(90,976)	
Compensated absences payable	(48,279,548)	
Workers compensation claims payable	(2,311,338)	
Net OPEB obligation	<u>(79,979,489)</u>	<u>(173,882,223)</u>

Total Net Position (deficit) (\$53,903,081)

CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$78,114,011				\$78,114,011
Other tax items - including STAR reimbursement	13,052,318				13,052,318
Charges for services	1,750,921				1,750,921
Use of money and property	426,050		\$105		426,155
Sale of property and compensation for loss	799,184				799,184
Miscellaneous	745,545		6,676		752,221
Interfund revenues	61,046				61,046
Local sources		\$63,042			63,042
State sources	90,927,299	2,971,966	125,857	\$1,463,430	95,488,552
Medicaid reimbursement	388,924				388,924
Federal sources		4,092,023	3,183,150		7,275,173
Surplus food			212,727		212,727
Sales			612,644		612,644
TOTAL REVENUES	186,265,298	7,127,031	4,141,159	1,463,430	198,996,918
EXPENDITURES					
General support	21,330,462				21,330,462
Instruction	96,566,295	6,456,428			103,022,723
Pupil transportation	9,570,696				9,570,696
Employee benefits	48,759,859	916,550			49,676,409
Debt service - principal	4,527,034				4,527,034
Debt service - interest	1,570,563				1,570,563
Cost of sales			4,439,779		4,439,779
Capital outlay				2,846,226	2,846,226
TOTAL EXPENDITURES	182,324,909	7,372,978	4,439,779	2,846,226	196,983,892
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,940,389	(245,947)	(298,620)	(1,382,796)	2,013,026
OTHER FINANCING SOURCES AND (USES)					
Bond anticipation notes redeemed from appropriations				400,000	400,000
Operating transfers in		245,947	900,000		1,145,947
Operating transfers (out)	(1,145,947)				(1,145,947)
TOTAL OTHER FINANCING SOURCES AND (USES)	(1,145,947)	245,947	900,000	400,000	400,000
NET INCREASE (DECREASE)	2,794,442	-	601,380	(982,796)	2,413,026
FUND BALANCES - BEGINNING OF YEAR	50,554,350		(1,316,359)	(8,729,548)	40,508,443
PRIOR PERIOD ADJUSTMENT	(2,104,606)				(2,104,606)
FUND BALANCES - BEGINNING OF YEAR, AS RESTATED	48,449,744	0	(1,316,359)	(8,729,548)	38,403,837
FUND BALANCES - END OF YEAR	\$51,244,186	\$ -	(\$714,979)	(\$9,712,344)	\$40,816,863

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

Net Change in Fund Balances	\$2,413,026
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.	(5,670,725)
Deferred inflows of resources - The Statement of Net Position recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual.	(75,266)
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, 2013 to June 30, 2014 changed by	(300,526)
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.	90,976
Long-Term Debt Transactions	
Repayment of bond, ban and energy performance debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities	4,527,034
Proceeds from the redemption of bond anticipation notes is an other funding source in the governmental funds, it increases a liability in the Statement of Net Position and does not affect the Statement of Activities.	(400,000)
Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and this requires the use of current 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, 2013 to June 30, 2014 changed by	(252,660)
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.	(13,078,828)
Governmental funds report the premiums, discounts and similar items on the refunded debt when the debt is first issued. These amounts are deferred and amortized in the Statement of Activities. Amortization for the fiscal year ended June 30, 2014 was	394,576
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 Position and allocated over their useful lives as annual depreciation expense in the Statement of Activities	
Capital outlays	\$2,990,119
Depreciation expense	(2,684,661)
	305,458
Change in Net Position of Governmental Activities	(\$12,046,935)

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

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash - Restricted	\$6,830	\$296,928
Due from trust and agency	3,252	
Due from special aid fund		1,864,738
Due from other agencies		103
TOTAL ASSETS	<u>\$10,082</u>	<u>\$2,161,769</u>
LIABILITIES		
Extraclassroom activity funds		\$118,286
Due to private purpose trust fund		3,252
Due to general fund		1,906,378
Other liabilities		133,853
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$2,161,769</u>
NET POSITION		
Restricted for scholarships	<u>\$10,082</u>	
TOTAL NET POSITION	<u>\$10,082</u>	

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

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Interest and earnings	\$5
TOTAL ADDITIONS	<u>5</u>
DEDUCTIONS	
Scholarships and awards	2,000
TOTAL DEDUCTIONS	<u>2,000</u>
CHANGE IN NET POSITION	(1,995)
NET POSITION - BEGINNING OF YEAR	<u>12,077</u>
NET POSITION - END OF YEAR	<u><u>\$10,082</u></u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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* and GASB Statement 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*. 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 entity is included in the District’s reporting entity.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 Position – Fiduciary Fund.

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.

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.

The District reports the following fiduciary funds:

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.

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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 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) Real 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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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F) Restricted resources:

When an expense is incurred for purposes for which both restricted and unrestricted net position 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 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 Position for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables 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 compensated absences, workers compensation claims, other post-employment benefits, potential contingent liabilities and useful lives of capital 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. Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves and debt agreements.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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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 inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

A reserve for these non-liquid assets (inventories) has been recognized in the school lunch fund as non-spendable under GASB Statement No.54 to signify that a portion of fund balance is not available for other subsequent expenditures.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-Wide and Fund Financial Statements. These items are reported as assets on the Statement of Net Position or Balance Sheet using the consumption method. 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. The District had no prepaid items at June 30, 2014.

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
Land Improvement	\$25,000	Straight-line	20 years
Furniture & Equipment	\$5,000	Straight-line	5-20 years

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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M) Collections in advance:

Collections in advance 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 collections in advance is removed and revenues are recorded.

In the fund level statements, collections in advance consist of amounts received in advance in the general fund for employee insurance receipts and the summer program. Collections in advance include amounts for pre-paid student meals in the cafeteria fund and premium on bond anticipation notes in the capital projects fund.

N) Deferred outflows/inflows of resources:

A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. The District reported \$606,196 of deferred outflows of resources at June 30, 2014, representing the financial effect of deferred charge on the advance refunding of general obligation serial bonds. A deferred outflow of resources results from the difference in the net carrying value of refunded debt over its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. In the Statement of Net Position, the District reported \$3,795,684 of deferred inflow of resources at June 30, 2014, representing the financial effect of a deferred revenue on the advance refunding of general obligation serial bonds. A deferred inflow of resources results from the difference in the net carrying value of refunded debt over its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

O) 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. Certain collective bargain agreements require these termination payments to be paid in the form of non-elective contributions to the employee's 403B Plan.

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.

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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.

P) Other benefits:

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

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

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if District employees are eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the governmental funds as the liabilities for premiums mature (come due for payment). In the District-Wide Statements, the cost of postemployment health insurance coverage is recognized on the accrual basis of accounting in accordance with GSB Statement No. 45.

Q) Short-term debt:

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

The District may issue 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.

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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.

R) 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 Position.

S) Equity Classifications:

i) District-Wide Financial Statements

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

Net investment in capital assets consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets, net of any unexpensed proceeds and including any unamortized items (discounts, premiums, gain on refunding).

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

ii) Fund 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:

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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 \$12,106 and \$727,085 in the general fund for advances to cover the cumulative deficit in the school lunch fund.

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 classified the following as restricted:

Workers' Compensation Reserve

Workers' compensation reserve (GML §6-j), this 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.

Employee Benefit Accrued Liability Reserve

Employee benefit accrued liability reserve (GML §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.

Retirement Contribution Reserve

Retirement contribution reserve (GML §6-r), this must be used for financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the funds must be provided to the Board. The reserve is accounted for in the general fund restricted fund balance.

Capital Reserve

Capital reserve (GM §3651), this must be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal

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notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the general fund under restricted fund balance.

Property Loss Reserve and Liability Reserve

Property loss reserve and liability reserve (GM§1709(8) (c)), this must be 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.

Restricted for Unspent Bond Proceeds

Unspent bond proceeds are recorded as restricted fund balance because they are subject to external constraints contained in the debt agreement. This restricted fund balance is accounted for in the capital projects fund.

Restricted for Scholarships

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

- (1) **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, 2014.
- (2) **Assigned fund balance** – Includes amounts that subject to a purpose constraints that represents an intended use established by the District’s Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance includes an amount appropriated to partially fund the subsequent year’s budget. Assigned fund balance also includes Board designations and encumbrances not classified as restricted or committed at the end of the fiscal year.
- (3) **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.

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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.

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 (i.e. expenditures related to reserves) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balances shall be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

T) Future Changes in Accounting Standards

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*, effective for fiscal years ending June 30, 2015.

GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for fiscal years ending June 30, 2015.

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*, effective for fiscal years ending June 30, 2015.

The District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

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.

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

Total fund balances of the District's governmental funds differ from "net assets" of governmental activities reported in the Statement of Net Position. The difference primarily results from additional long-term economic focus of the Statement of Position 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 Balances and the Statement of Activities fall into one of the four broad categories. The amounts shown below represent:

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 Position.

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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A) Budgets:

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

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. Supplemental appropriations that occurred during the fiscal year are shown on Supplemental Schedule #3.

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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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C) Deficit fund balance

At June 30, 2014, the school lunch fund and the capital projects fund have fund balance deficits (unassigned) of \$727,085 and \$9,814,921, 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 in prior years.

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.

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.

Restricted cash:

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash at June 30, 2014 included \$35,059,966 within the governmental funds for capital projects and general reserve purposes and \$303,758 in the fiduciary funds.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
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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 \$85,563,236 which consists of \$45,763,000 in repurchase agreements, \$7,625,000 in U.S. Treasury Securities, and \$32,175,236 in collateralized bank deposits with various interest rate and due dates.

At June 30, 2014 the District held \$269,854 in investments consisting of various investments in securities issued by the United States and its agencies. The following amounts are included as cash:

Fund	Carrying Amount
General fund	\$217,235
Capital projects fund	52,619
	\$269,854

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).

NOTE 5 – PARTICIPATION IN BOCES:

During the year, the District was billed \$14,649,331 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$2,464,488 . 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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 6 – STATE AND FEDERAL AID RECEIVABLES:

State and federal aid receivables at June 30, 2014 consisted of the following:

Description	General Fund	Special Aid Fund	School Lunch Fund	Capital Fund	Total
State aid-general aid	\$1,181,629				1,181,629
State aid-excess cost	2,544,097				2,544,097
Federal medicaid	92,120				92,120
State & local grants		\$2,612,165			2,612,165
Federal grants		1,659,060			1,659,060
State Aid-Capital Project				1,463,430	1,463,430
Milk-federal			\$869		869
Snack-federal			2,400		2,400
Breakfast-federal			118,848		118,848
Lunch-federal			149,350		149,350
Breakfast - state			15,239		15,239
Lunch - state			11,168		11,168
Total	<u>\$3,817,846</u>	<u>\$4,271,225</u>	<u>\$297,874</u>	<u>\$1,463,430</u>	<u>\$9,850,375</u>

District management has deemed these amounts to be fully collectible.

NOTE 7 – DUE FROM OTHER GOVERNMENTS:

Due from other governments in the general fund at June 30, 2014 consisted of the following:

Foster tuition	\$929,969
Health services to non-resident students	75,697
County of Suffolk Pre-School Billing	470,283
Boces Aid	1,204,943
Brentwood SD--Charges for Services	8,547
Town of Islip	86,270
Total	<u>\$2,775,709</u>

District management has deemed these amounts to be fully collectible.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 8 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities				
Land	\$539,650			\$539,650
Construction in progress	11,667,463	\$2,838,148		14,505,611
Total nondepreciable historical cost	<u>12,207,113</u>	<u>2,838,148</u>	-	<u>15,045,261</u>
Building & building improvement	100,451,444			100,451,444
Furniture and equipment	5,924,437	135,171	(14,400)	6,045,208
Land improvement	3,035,118	16,800		3,051,918
Total depreciable historical cost	<u>109,410,999</u>	<u>151,971</u>	<u>(14,400)</u>	<u>109,548,570</u>
Less accumulated depreciation:				
Building & building improvement	35,437,416	1,857,792		37,295,208
Furniture and equipment	3,063,902	711,003	(14,400)	3,760,505
Land improvement	1,656,625	115,866		1,772,491
Total accumulated depreciation	<u>40,157,943</u>	<u>2,684,661</u>	<u>(14,400)</u>	<u>42,828,204</u>
Total capital assets, being depreciated, net	<u>69,253,056</u>	<u>(2,532,690)</u>	0	<u>66,720,366</u>
Total capital assets, net	<u>\$81,460,169</u>	<u>\$305,458</u>	\$ -	<u>\$81,765,627</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$2,476,879
General support	191,382
Food service	<u>16,400</u>
	<u>\$2,684,661</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 9 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General fund	\$8,654,257			\$1,145,947
Special aid fund		\$4,490,310	\$245,947	
School lunch fund		772,906	900,000	
Capital projects fund		3,349,401		
Total government activities	8,654,257	8,612,617	1,145,947	1,145,947
Agency fund	1,864,738	1,909,630		
Fiduciary private purpose fund	3,252			
Totals	<u>10,522,247</u>	<u>\$10,522,247</u>	<u>\$1,145,947</u>	<u>\$1,145,947</u>

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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 10 – DUE TO OTHER GOVERNMENTS

Due to other governments at June 30, 2014 consisted of the following:

General Fund

Due to NYS governmental agencies	\$26,657
Due to Suffolk County governmental agencies	91,693
Due to Town of Islip	5,743
Due to BOCES & local public schools	1,714,396
Total General Fund	<u>1,838,489</u>

School Lunch Fund

Due to NYS department of taxation	<u>180</u>
Total School Lunch Fund	<u>180</u>

Total All Funds	<u><u>\$1,838,669</u></u>
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NOTE 11 - SHORT-TERM DEBT

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

	Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
BAN	9/12/2013	1.00%	\$8,100,000		\$8,100,000	\$ -
BAN	9/12/2014	1.00%		\$7,700,000		7,700,000
TAN	6/26/2014	0.75%		4,000,000	4,000,000	-
			<u>\$8,100,000</u>	<u>\$11,700,000</u>	<u>\$12,100,000</u>	<u>\$7,700,000</u>

Interest on short-term debt for the year amounted to \$96,358.

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.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Total</u>
Interest paid	\$108,778
Less interest accrued in the prior year	(31,500)
Plus interest accrued in the current year	19,080
Total expense	<u>\$96,358</u>

NOTE 12-LIABILITIES

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government activities:					
Bonds payable	\$36,060,000		\$3,440,000	\$32,620,000	\$3,135,000
Energy performance debt	11,287,906		687,034	10,600,872	708,182
Subtotal	<u>47,347,906</u>	\$ -	<u>4,127,034</u>	<u>43,220,872</u>	<u>3,843,182</u>
Other and non current liabilities:					
Due to employees' retirement system	181,952		90,976	90,976	90,976
Compensated absences payable	42,608,823	7,295,773	1,625,048	48,279,548	1,166,000
Net OPEB obligation	66,900,661	18,888,246	5,809,418	79,979,489	
Workers' compensation claims payable	2,010,812	9,816,549	9,516,023	2,311,338	
Subtotal	<u>111,702,248</u>	<u>36,000,568</u>	<u>17,041,465</u>	<u>130,661,351</u>	<u>1,256,976</u>
Total long-term liabilities	<u>\$159,050,154</u>	<u>\$36,000,568</u>	<u>\$21,168,499</u>	<u>\$173,882,223</u>	<u>\$5,100,158</u>

The general fund has typically been used to liquidate long-term liabilities such as due to employees' retirement system compensated absences, net other post employment benefits, workers' compensation and bonds payable.

Refer to Note 14 D) for a detailed disclosure for due to employees' retirement system.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

A) Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Refunding-Serial Bond	5/17/2013	7/15/2023	2.0 - 5.0%	\$27,245,000
Serial Bond	9/13/2012	9/1/2028	4.20%	4,700,000
Serial Bond	5/29/2008	6/15/2018	3.13 - 3.50%	675,000
				<u>\$32,620,000</u>

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

Fiscal Year Ended June 30	Principal	Interest	Total
2015	\$3,135,000	\$ 1,339,694	\$ 4,474,694
2016	3,210,000	1,240,481	4,450,481
2017	3,345,000	1,109,875	4,454,875
2018	3,410,000	960,550	4,370,550
2019	3,480,000	804,800	4,284,800
2020-2024	14,640,000	1,622,975	16,262,975
2025-2028	1,400,000	117,600	1,517,600
	<u>\$ 32,620,000</u>	<u>\$ 7,195,975</u>	<u>\$ 39,815,975</u>

B) Energy performance debt

Energy performance debt is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Energy Performance Debt	7/15/2011	10/15/2026	3.05%	\$10,600,872
				<u>\$10,600,872</u>

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	\$708,182	\$318,468	\$1,026,650
2016	729,981	296,669	1,026,650
2017	752,451	274,200	1,026,651
2018	775,612	251,038	1,026,650
2019	799,486	227,164	1,026,650
2020-2024	4,382,076	751,176	5,133,252
2025-2027	2,453,084	113,541	2,566,625
	<u>\$10,600,872</u>	<u>\$2,232,256</u>	<u>12,833,128</u>

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

	Total
Interest paid	\$1,474,205
Less interest accrued in the prior year	(325,727)
Plus interest accrued in the current year	594,943
Less amortization of deferred amounts	(411,132)
Total expense	<u>\$1,332,289</u>

In the prior year, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 13 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

- A) The deferred inflows of resources on the District-Wide Financial Statements represent New York State supplemental aid and foster tuition amounts.
- B) The deferred charge on refunding and the gain on defeasance pertaining to the 2013 refunding are recorded in the District-Wide Financial Statements as deferred outflows/inflows of resources at June 30, 2014 consisted of the following:

Deferred charge on refunding 6/30/13	\$681,189	Bond Premium 6/30/13	\$4,265,253
Amortization current year	(74,993)	Deferred amounts on refunding	(469,569)
Deferred charge on refunding 6/30/14	\$606,196	Gain on defeasance 6/30/14	\$3,795,684

The deferred charge on refunding of the advanced refunding and the gain on defeasance are being amortized on the District-Wide Financial Statements using the straight-line method over 12 years, the time to maturity of the refunded bonds, at the point of refunding.

NOTE 14 – PENSION PLANS

A) **General information:**

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

B) **Provisions and administration:**

i) **Teachers’ Retirement System**

The New York State Teachers’ Retirement Board administers NYSTRS. The System provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System issues a publicly available financial report that contains financial statements and required supplementary

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, Office of the State Comptroller, 110 State Street, Albany, New York 12244 or accessed at www.osc.state.ny.us/retire/publications/index.php.

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.

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>
2013 - 2014	\$4,799,127	\$8,227,224
2012 - 2013	4,261,894	8,378,084
2011 - 2012	2,734,150	7,133,777

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

D) Retirement Incentive:

The District is obligated for retirement incentives as follows:

	<u>ERS</u>
Chapter 260 of the Laws of 2004	<u>\$90,976</u>
	<u>\$90,976</u>

The District was allowed to amortize the pension expense that exceeded 7% of payroll in 2005 for ten years. The final payment will be made in the next fiscal year.

E) Tax Sheltered Annuities:

The District has adopted a 403 (b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2014, totaled \$13,500 and \$3,840,336 respectively.

F) Deferred Compensation Plan:

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2014 totaled \$880,298.

NOTE 15 – POST EMPLOYMENT (HEALTH INSURANCE) BENEFITS

A) Plan Description:

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 2014, the District contributed \$5,809,418 to the Plan. Plan members receiving benefits contributed either a fixed annual amount ranging between \$200 and \$800 or 0% - 12% of the health insurance premium.

C) Annual OPEB Cost and Net OPEB Obligation:

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

Annual OPEB Cost and Net OPEB Obligation

Annual required contribution	\$20,162,941
Interest	2,700,775
Adjustment to Annual Required Contribution	<u>(3,975,470)</u>
Annual OPEB Cost (expense)	18,888,246
Contributions Made	<u>(5,809,418)</u>
Increase in net OPEB obligation	13,078,828
Net obligation beginning of year	<u>66,900,661</u>
Net obligation end of year	<u><u>\$79,979,489</u></u>

The District's annual OPEB Cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the two preceding years, was as follows:

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<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, 2014	\$18,888,246	\$5,809,418	31%	\$79,979,489
June 30, 2013	19,209,752	5,768,303	30%	66,900,661
June 30, 2012	20,379,518	5,795,749	28%	53,459,212

D) Funded Status and Funding Progress:

As of July 1, 2012, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability for benefits was \$215,386,254 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$215,386,254. The covered payroll (annual payroll of active employees covered by the Plan) was \$67,373,393 and the ratio of the UAAL to the covered payroll was 320%.

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, 2012 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 9% initially, reduced by decrements of .5% to an ultimate rate of 5% over 8 years. The UAAL is being amortized using the level percent amortization of payroll method over an open period of 30 years.

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014, the District has incurred but unpaid claims liability in the amount of \$2,311,338 and has a restricted general lance for workers' compensation in the amount of \$1,815,800. Claims activity is summarized below:

	<u>2014</u>	<u>2013</u>
Unpaid claims at beginning of year	\$2,010,812	\$2,286,783
Incurred claims and claim adjustment expenses	9,816,549	959,015
Claims payments	<u>(9,516,023)</u>	<u>(1,234,986)</u>
Unpaid claims at year end	<u><u>\$2,311,338</u></u>	<u><u>\$2,010,812</u></u>

NOTE 17 – 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, 2014**

See Note 19 Prior Period Adjustment for information regarding the District's case against the New York State Education Department.

C) Operating Leases:

The District leases various equipment under non-cancelable leases. Lease expense for the fiscal year was approximately \$315,993. The following is a summary of obligations of government activities under operating lease payments:

Fiscal Year Ended June 30,	Total
2015	\$229,178
2016	164,538
2017	164,538
2018	164,538
2019	86,124
Total lease payments	\$808,916

NOTE 18 – ASSIGNED FUND BALANCE:

A) Assigned: Appropriated:

The amount of \$7,550,000 has been appropriated as the amount estimated to fund the general fund budget for the year ending June 30, 2015.

B) Assigned: Encumbered:

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

Assigned: Unappropriated Fund Balance	
General Fund	
General Support	\$86,659
Instruction	407,532
	494,191
School lunch Fund	
Equipment	37,766
Total Assigned: Unappropriated Fund Balance	\$531,957

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 19 – PRIOR PERIOD AJUSTMENT

Section 31 of Chapter 57 of the Laws of 2012 provides for amnesty for late filed construction final cost reports. Under this provision, rather than losing all aid associated with projects, a late filing penalty is assessed. By Memorandum and Order dated October 30, 2014, the Appellate Division found that the District would be allowed to receive building aid but would be subject to the 2012 Amnesty Legislation that imposes a penalty provision. The total estimated loss of building aid will be \$5,460,000. The June 2014 State aid payment was reduced by \$2,104,606 as a lump sum recoupment of prior year revisions through June 30, 2013. This recoupment was reported as a prior period adjustment in the general fund and as a prior period adjustment on the District-Wide Statement of Activities. The balance of payments due will be recouped on an amortized basis from future aid payments. The final recoupment payment scheduled to be made is in fiscal year 2023-24.

NOTE 20 – SUBSEQUENT EVENTS

- A. The District issued serial bonds with a par value of \$7,525,000, a premium of \$328,656 and a good faith deposit of \$75,250 on September 12, 2014 for the following:

<u>Amount</u>	<u>Rate</u>	<u>Premium</u>
\$7,525,000	2-3%	\$328,656

SUPPLEMENTARY INFORMATION

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<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	\$88,688,197	\$78,111,671	\$78,114,011	\$2,340
Other real property tax items	1,750,000	13,052,318	13,052,318	
Charges for services	4,070,000	1,409,082	1,750,921	341,839
Use of money & property		438,419	426,050	(12,369)
Sale of property & compensation for loss	100,000	764,500	799,184	34,684
Miscellaneous		762,207	745,545	(16,662)
Interfund revenues		70,000	61,046	(8,954)
State Sources				
Basic formula	89,932,668	65,099,232	66,072,655	973,423
Excess cost aid		11,008,394	11,008,394	
Lottery grant		10,402,068	10,402,068	
BOCES aid		2,464,488	2,464,488	
Tuition		97,852	97,852	
Textbook aid		418,760	418,760	
Computer software aid		209,611	209,611	
Library A/V loan program aid		42,425	42,425	
Other state aid		189,838	211,046	21,208
Federal Sources				
Medicaid reimbursement	415,000	415,000	388,924	(26,076)
TOTAL REVENUES AND OTHER SOURCES	184,955,865	184,955,865	\$186,265,298	\$1,309,433
Appropriated Fund Balance	3,000,000	3,000,000		
Appropriated Reserves	445,890	1,445,890		
TOTAL REVENUES & APPROPRIATED FUND BALANCE	\$188,401,755	\$189,401,755		

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 BALANCES-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<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	\$72,000	\$54,200	\$52,118		\$2,082
Central administration	715,018	471,123	456,700	\$7,549	6,874
Finance	2,038,982	1,942,470	1,870,627	47,225	24,618
Staff	871,758	841,210	834,701	4,715	1,794
Central services	17,536,143	17,276,275	16,840,514	27,170	408,591
Special items	1,296,000	1,289,600	1,275,802		13,798
Instructional					
Instruction, adm. & imp.	7,329,385	7,204,514	6,583,282	73,423	547,809
Teaching - regular school	50,241,743	49,567,587	48,443,737	67,000	1,056,850
Programs for children with handicapping conditions	28,708,413	29,179,372	28,904,215		275,157
Occupational education	1,516,062	1,711,703	1,590,804	45,023	75,876
Teaching special schools	668,500	921,925	904,549		17,376
Instructional media	2,585,666	3,063,693	2,785,746	201,465	76,482
Pupil services	7,412,287	7,704,166	7,353,962	20,621	329,583
Pupil transportation	10,538,719	9,924,613	9,570,696		353,917
Community services	5,000	5,000			5,000
Employee benefits	48,286,552	50,817,867	48,759,859		2,058,008
Debt service principal	4,590,735	4,527,035	4,527,034		1
Debt service - interest	2,353,792	1,570,984	1,570,563		421
TOTAL EXPENDITURES	<u>186,766,755</u>	<u>188,073,337</u>	<u>182,324,909</u>	<u>494,191</u>	<u>5,254,237</u>
Other Financing Uses					
Transfers to other funds	<u>1,635,000</u>	<u>1,328,418</u>	<u>1,145,947</u>		<u>182,471</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$188,401,755</u>	<u>\$189,401,755</u>	<u>183,470,856</u>	<u>\$494,191</u>	<u>\$5,436,708</u>
Change in fund balances			2,794,442		
Fund balances - beginning of year			<u>50,554,350</u>		
Fund balances - beginning of year Prior Period Adjustment			(2,104,606)		
Fund balances - end of year			<u>\$51,244,186</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, 2014**

Valuation Date	Actuarial		Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
	Value of Assets	Accrued Liability				
July 1, 2012	\$0	\$215,386,254	\$215,386,254	0%	\$67,373,393	320%
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 THE REAL PROPERTY TAX LIMIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$187,955,865
Add: Prior year's encumbrances	<u>445,890</u>
Original Budget	188,401,755
Budget revision:	
Appropriated Reserves:	
Employee Benefits Accrued Liability Reserve	<u>1,000,000</u>
Final Budget	<u><u>\$189,401,755</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

Next year's voter approved budget	<u><u>\$192,496,924</u></u>
2014-15 voter approved expenditure budget	
Maximum allowed (4% of the 2014-2015 budget)	<u><u>\$7,699,877</u></u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law:	
Unrestricted fund balance:	
Assigned fund balance	\$8,044,191
Unassigned fund balance	<u>7,515,521</u>
Total unrestricted fund balance	\$15,559,712
Less:	
Appropriated fund balance	7,550,000
Encumbrances included in assigned fund balance	<u>494,191</u>
Total adjustments	<u>8,044,191</u>
General fund fund Balance Subject to Section 1318 of Real Property Tax Law	<u><u>\$7,515,521</u></u>
Actual percentage	3.90%

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

Project Title	Original Appropriation	Revised Appropriation	Expenditures to Date			Unexpended Balance	Proceeds of Obligations	Methods of Financing		Total	Fund Balance June 30, 2014
			Prior Year's	Current Year	Total			State Aid	Local Sources		
Library bond proceeds	\$1,500,000	\$1,500,000	\$1,500,000		\$1,500,000	\$ -	\$1,500,000			\$1,500,000	\$0
Non-aidable	511,467	511,467	408,890		408,890	102,577	511,467			511,467	102,577
Capital project	16,800,000	16,800,000	14,344,143	\$2,014,938	16,359,081	440,919	5,000,000	1,525,448	850,000	7,375,448	(8,983,633) *
Capital project	24,890,000	24,890,000		831,288	831,288	24,058,712				-	(831,288)
Energy Performance Contract	11,690,610	11,690,610	11,690,610		11,690,610		11,690,610			11,690,610	-
TOTAL	\$55,392,077	\$55,392,077	\$27,943,643	\$2,846,226	\$30,789,869	\$24,602,208	\$18,702,077	\$1,525,448	\$850,000	\$21,077,525	(\$9,712,344)

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

**CENTRAL ISLIP UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2014**

Capital assets, net		\$81,765,627
Add:		
Unamortized deferred charge		606,196
Deduct:		
Bond anticipation note payable		7,700,000
Short-term portion of bonds payable	\$3,135,000	
Long-term portion of bonds payable	29,485,000	
Less: unspent bond proceeds	<u>(102,577)</u>	32,517,423
Unamortized gain on defeasance		3,795,684
Short-term portion of energy performance debt	708,182	
Long-term portion of energy performance debt	<u>9,892,690</u>	<u>10,600,872</u>
Net investment in capital assets		<u><u>\$27,757,844</u></u>

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

To the Board of Education
Central Islip Union Free School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the fiduciary funds of Central Islip Union Free School District, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Central Islip Union Free School District's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

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

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

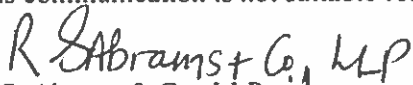
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


R.S. Abrams & Co., LLP
Islandia, NY
October 31, 2014