



**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULES WITH  
INDEPENDENT AUDITOR'S REPORTS**

**June 30, 2013**

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
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**CULLEN & DANOWSKI, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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October 17, 2013

To the Board of Education  
Half Hollow Hills Central School District  
Dix Hills, New York

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Half Hollow Hills Central School District (District) as of and for the year ended June 30, 2013, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

During our audit we noted certain opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions. This letter does not affect our report dated October 17, 2013 on the financial statements of the Half Hollow Hills Central School District.

The accompanying comments and recommendations are intended solely for the use and information of the Board of Education, Audit Committee, management, others you deem appropriate within the District, and any governmental authorities you need to share this information with. It is not intended for use by anyone other than these specified parties.

Very truly yours,

*Cullen & Danowski, LLP*

Cullen & Danowski, LLP

**STATUS OF PRIOR YEAR COMMENTS**

**Worker's Compensations**

The Governmental Accounting Standards Board (GASB) requires municipalities to provide financial statements disclosures concerning their self insurance programs; some of the required disclosures, such as amounts of incurred but not reported claims, are actuarially determined.

During our previous audit, we noted that the District is self-insured for workers' compensation claims; however, the District did not obtain the necessary actuarial information needed to meet the reporting requirements.

*Current Status:* Corrected. During the current year, the District engaged an actuary to prepare the information needed for compliance with the disclosure requirements of GASB Statement No. 10 Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.

**Accounts Payable Process**

During the year end closing process, the District records expenditures and the related accounts payable for outstanding invoices and open purchase orders where the goods and services ordered were received prior to year end. The District has implemented procedures to record accounts payable in the Finance Manager accounting system through the use of journal entries based in a listing prepared by the accounts payable clerks and the conversion feature built into the accounting software.

During our prior year audit, we noted that duplicate accounts payable were recorded at year end. Purchase orders converted to accounts payable using the conversion feature in the accounting software were also included in the manual listing prepared by the accounts payable clerks.

*Current Status:* Corrected. The District implemented review procedures to record year end accounts payable balances and develop safeguards to avoid duplicate entries.

**Annual Financial Report (Form ST-3) Filing**

Districts are required to file the Annual Financial Report (Form ST-3) with the New York State Education Department. When the ST-3 is filed prior to the completion of the audit, the report should be amended, if necessary.

During our prior year audit, we noted that the information reported on the ST-3 for the year ended June 30, 2011 does not agree to the information presented on the audited financial statements for the same period.

*Current Status:* Corrected. We noted significant improvement in the ST-3 filings compared to the audited financial statements.

**Bank Reconciliations and Escrow Bank Account**

All District bank accounts should be included in the monthly treasurer's report. In addition, periodic review and reconciliation of financial records by someone independent of the processing and recording of the transactions is an effective internal control. Reconciliation prepared should also be reviewed by management to ensure that they were performed appropriately.

During our prior year audit, we noted that the District's escrow bank account related to the energy performance contract is not being included in the monthly treasurer's report. In addition, we noted that bank reconciliations prepared by the District's Treasurer are not independently reviewed.

*Current Status:* Corrected. The District included the energy performance escrow bank account on the monthly treasurer's report. In addition, the District Supervisor of Accounting is now reviewing monthly bank reconciliations.

**Year End Closing Process**

The District must exercise control over the maintenance of its accounting records. The maintenance of its accounting records includes, but is not limit to, recording of adjusting journal entries during the year and at year end in order to close the books.

During our prior year audits, we noted that the District did not prepare all of the adjusting journal entries required to close the books at year end. As a result, we proposed audit adjustment journal entries necessary to complete the year end close. All of the entries we proposed were accepted and recorded by the District.

*Current Status:* Corrected. During the current year audit, the District prepared the year end adjusting entries necessary to close the book.

**Compensated Absences**

The District has a liability for compensated absences, which are primarily unused sick days payable upon retirement based on contractual agreements. Management's estimate of the liability for compensated absences should be based on historical information regarding employees who have separated from the District and their terminal payout amounts, in order to determine the probability and amount of future payouts.

During our prior year audit, we noted that the compensation absence liability calculation is not independently reviewed.

*Current Status:* Corrected. The District has established a procedure to have the compensated absences liability calculation independently reviewed.

**Extraclassroom Activity Funds**

The extraclassroom activity funds are the depository of student money. The New York State Education Department publishes the *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*. These guidelines recommend procedures for organizing these activities, controlling receipts and disbursements, as well as recording and reporting transactions.

During our previous audits, we noted the following:

- Interest is not allocated to the various clubs
- Some clubs had no activity for the year
- Some of the cash receipts and disbursements lacked student involvement
- Clubs do not reconcile club records to the central treasurer's records on a regular basis
- Sales tax is not collected in certain schools

*Current Status:* Unchanged. We continue to recommend that the District develop procedures to ensure compliance with state guidelines and correct the above findings.

### **CURRENT YEAR COMMENTS**

#### **Authorized Check Signers**

On an annual basis, the Board of Education appoints individuals who they designate to be authorized to sign checks on behalf of the District. Typically, a Treasurer and a designee in their absences are authorized to sign checks.

During the current year audit, we noted that an individual listed as a signatory with the bank had not been approved by the Board of Education; however, this individual was approved at the July 9, 2013 reorganization meeting.

We recommend that the District establish a procedure to ensure that all signatories on District bank accounts are approved timely by the Board of Education.

#### **Segregation of Duties – User Permissions**

The District uses the Finance Manager software package to maintain their accounting records. The software allows the District to establish permissions for each user based on each individual's job description. This permits the District to strengthen internal controls by segregating duties electronically.

During our current year review of user permissions, we noted the following:

- A former payroll clerk still has access in payroll module although she is no longer involved in the payroll processing.
- Multiple employees in payroll and accounting have the ability to input employee information which typically is handled by human resources.
- The accounting supervisor has the ability to increase purchase orders, input employee information, update vendors and input cash receipts and budget transfers in Finance Manager, which are not part of her job position at the District.

We recommend that the District review user permissions in Finance Manager and try to restrict, as much as possible, to only those tasks that are necessary for the employee to carry out their job responsibilities.

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October 17, 2013

To the Board of Education and Audit Committee  
Half Hollow Hills Central School District  
Dix Hills, New York

We have audited the financial statements of the governmental activities; each major fund and the fiduciary funds of the Half Hollow Hills Central School District (District) for the year ended June 30, 2013, and have issued our report thereon dated October 17, 2013. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated July 1, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Our Responsibility for Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in our report and we have no professional obligation to perform procedures to corroborate such other information. In the event the financial statements are incorporated into a printed document, please forward a printer's proof for our approval before final production.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 2, 2013.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, "Changes in Accounting Principles", the District has adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of June 30, 2013. No other new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- Useful Life of Capital Assets - Management's estimate of the useful life of capital assets is based on the historical asset life information for District capital assets and industry standards, in order to determine the value and period of time over which individual capital assets are to be depreciated.
- Compensated Absences Liability - Management's estimate of the liability for compensated absences is based on historical information regarding employees who have separated from the District and their terminal payout amounts, in order to determine the probability and amount of future payouts to employees for vested accumulated sick, vacation and/or leave terminal payouts.
- Actuarial Assumptions and Methods Underlying OPEB Liability - Management's acceptance of various actuarial assumptions and methods underlying the calculation of the District's OPEB liability is based on the actuarial valuation prepared by the District's actuary.
- Actuarial Assumptions and Methods Underlying Workers' Compensation Liability - Management's acceptance of various actuarial assumptions and methods underlying the calculation of the District's workers' compensation liability is based on the actuarial valuation prepared by the District's actuary.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.



## Half Hollow Hills Central School District

For the Year Ended June 30, 2013

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### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Attached adjusting journal entries represent the adjustments correcting misstatements that we proposed (which were accepted and recorded by the District). In our judgment, none of misstatements, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

Also attached are proposed audit adjustments correcting misstatements that the District did not record. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2013.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Other Audit Finding or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education, Audit Committee and management of Half Hollow Hills Central School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Cullen & Danowski, LLP*

Cullen & Danowski, LLP

Half Hollow Hills Central School District  
 Adjusting Journal Entries  
 June 30, 2013

| Account  | Description  | Debit      | Credit     |
|--|--|------------|------------|
| <b>Adjusting Journal Entry #1</b>  |  |            |            |
| To reclassify textbook aid to proper account code at 6/30/13.  |  |            |            |
| A.4090.3102.000  | State Sources/Lottery Aid                          | 153,435.00 |            |
| A.4090.3260.000  | State Sources/Textbook Aid                         |            | 153,435.00 |
| <b>Adjusting Journal Entry #2</b>  |  |            |            |
| To liquidate encumbrance and record accounts payable for 12/13 special education tuition at 6/30/13. |  |            |            |
| A.3305.0915.001  | Assigned: Unappropriated/ Encumbrances             | 120,000.00 |            |
| A.5080.2250.480  | Program - Handicapped Children/Textbooks           | 120,000.00 |            |
| A.2000.0600.000  | Accounts Payable                                   |            | 120,000.00 |
| A.3310.0917.000  | Unassigned: Fund Balance                           |            | 120,000.00 |
| <b>Adjusting Journal Entry #3</b>  |  |            |            |
| To defer 11/12 foster tuition billings billed in 12/13 based on collectability at 6/30/13.           |  |            |            |
| A.4030.2230.000  | Charges for Services/Day School Tuition-Other Dist | 148,261.22 |            |
| A.2500.0691.000  | Deferred Revenues                                  |            | 148,261.22 |
| <b>Adjusting Journal Entry #4</b>  |  |            |            |
| To reverse foster tuition recorded in revenue in current year when it was recognized in prior year.  |  |            |            |
| A.4030.2230.000  | Charges for Services/Day School Tuition-Other Dist | 158,726.39 |            |
| A.1040.0440.000  | Due from Other Governments/Other Governments       |            | 158,726.39 |
| <b>Adjusting Journal Entry #5</b>  |  |            |            |
| To record accounts payable in the Special Aid Fund at 6/30/13.                                       |  |            |            |
| F.1035.0410.000  | Due from State & Federal                           | 22,036.92  |            |
| F.5070.2110.400  | Teaching - Regular School/Contractual & Other      | 13,196.92  |            |
| F.5080.2250.400  | Program - Handicapped Children/Contractual & Other | 8,840.00   |            |
| F.2000.0600.000  | Accounts Payable                                   |            | 22,036.92  |
| F.4100.4289.000  | Federal Sources/Other Federal Aid                  |            | 22,036.92  |
| <b>Adjusting Journal Entry #6</b>  |  |            |            |
| To adjust due from State and Federal in the School Lunch Fund at 6/30/13.                            |  |            |            |
| C.4100.3190.000  | Federal Sources/Lunch Aid                          | 81,879.00  |            |
| C.1035.0410.000  | Due from State & Federal                           |            | 81,879.00  |
| <b>Adjusting Journal Entry #7</b>  |  |            |            |
| To adjust surplus food revenue for diverted amount at 6/30/13.                                       |  |            |            |
| C.5155.2860.410  | Food Service Program/Food Purchases                | 5,996.92   |            |
| C.4110.4190.000  | Surplus Food/Surplus Food                          |            | 5,996.92   |
| <b>Adjusting Journal Entry #8</b>  |  |            |            |
| To adjust supplies inventory per workpaper at 6/30/13.   |  |            |            |
| C.3010.0806.000  | Nonspendable: Inventory                            | 5,971.14   |            |
| C.1060.0445.000  | Inventories/Supplies                               |            | 5,971.14   |
| C.5155.2860.410  | Food Service Program/Food Purchases                | 5,971.14   |            |
| C.3310.0917.000  | Unassigned: Fund Balance                           |            | 5,971.14   |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**

**Statement of Net Position**

June 30, 2013

**ASSETS**

|  |                        |
|--|------------------------|
| Cash   | \$ 48,445,589          |
| Receivables  |                        |
| Accounts receivable                                | 172,278                |
| Due from other funds                               | 2,241,645              |
| Due from state and federal                         | 3,377,024              |
| Due from other governments                         | 3,433,770              |
| Inventories  | 53,796                 |
| Capital assets:                                    |                        |
| Not being depreciated                              | 2,689,169              |
| Being depreciated, net of accumulated depreciation | <u>126,989,057</u>     |
| <br>Total Assets                                   | <br><u>187,402,328</u> |

**DEFERRED OUTFLOWS OF RESOURCES**

|   |                      |
|---|----------------------|
| Deferred charges on advanced refunding of bonds | <u>1,924,518</u>     |
| <br>Total Deferred Outflows of Resources        | <br><u>1,924,518</u> |

**LIABILITIES**

|  |                        |
|--|------------------------|
| Payables                                     |                        |
| Accounts payable                             | 2,580,785              |
| Accrued liabilities                          | 888,056                |
| Due to other governments                     | 241                    |
| Due to teachers' retirement system           | 11,497,526             |
| Due to employees' retirement system          | 1,249,387              |
| Unearned credits                             |                        |
| Collections in advance                       | 81,220                 |
| Long-term liabilities                        |                        |
| Due and payable within one year              |                        |
| Bonds payable, net                           | 5,591,401              |
| Installment purchase debt payable            | 885,283                |
| Compensated absences payable                 | 1,400,000              |
| Workers' compensation liabilities            | 1,100,000              |
| Due and payable after one year               |                        |
| Bonds payable, net                           | 54,694,120             |
| Installment purchase debt payable            | 13,502,561             |
| Compensated absences payable                 | 15,684,800             |
| Workers' compensation liabilities            | 4,491,822              |
| Net other postemployment benefits obligation | <u>59,820,830</u>      |
| <br>Total Liabilities                        | <br><u>173,468,032</u> |

**NET POSITION**

|                                  |                          |
|----------------------------------|--------------------------|
| Net investment in capital assets | 56,929,379               |
| Restricted                       | 24,140,647               |
| Unrestricted (deficit)           | <u>(65,211,212)</u>      |
| <br>Total Net Position           | <br><u>\$ 15,858,814</u> |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**

**Statement of Activities**

For The Year Ended June 30, 2013

|  |                       | <u>Program Revenues</u>         |                             | <u>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Position</u> |
|--|-----------------------|---------------------------------|-----------------------------|--|
|  | <u>Expenses</u>       | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants</u> |  |
| <b>PROGRAMS/FUNCTIONS</b>                  |                       |                                 |                             |  |
| General support                            | \$ 23,756,516         | \$                              | \$                          | \$ (23,756,516)  |
| Instruction                                | 190,416,807           | 1,242,703                       | 4,663,218                   | (184,510,886)  |
| Pupil transportation                       | 14,953,144            |                                 |                             | (14,953,144)   |
| Community service                          | 171,444               |                                 |                             | (171,444)  |
| Debt service - interest                    | 3,320,889             |                                 |                             | (3,320,889)  |
| Food service program                       | 3,391,166             | 2,545,349                       | 847,685                     | 1,868  |
|  | <u>\$ 236,009,966</u> | <u>\$ 3,788,052</u>             | <u>\$ 5,510,903</u>         | <u>(226,711,011)</u>   |
| <b>GENERAL REVENUES</b>                    |                       |                                 |                             |  |
| Real property taxes                        |                       |                                 |                             | 169,706,847  |
| Other tax items                            |                       |                                 |                             | 15,963,558   |
| Use of money and property                  |                       |                                 |                             | 396,354  |
| Sale of property and compensation for loss |                       |                                 |                             | 283,891  |
| Miscellaneous                              |                       |                                 |                             | 986,759  |
| State sources                              |                       |                                 |                             | 25,301,449   |
| Medicaid reimbursement                     |                       |                                 |                             | <u>12,736</u>  |
| Total General Revenues                     |                       |                                 |                             | <u>212,651,594</u>   |
| Change in Net Position                     |                       |                                 |                             | (14,059,417)   |
| Total Net Position - Beginning of year     |                       |                                 |                             | <u>29,918,231</u>  |
| Total Net Position - End of year           |                       |                                 |                             | <u>\$ 15,858,814</u>   |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2013

|   | General              | Special<br>Aid      | School<br>Lunch     | Debt<br>Service   | Capital<br>Projects | Total<br>Governmental<br>Funds |
|---|----------------------|---------------------|---------------------|-------------------|---------------------|--------------------------------|
| <b>ASSETS</b>   |                      |                     |                     |                   |                     |                                |
| Cash  | \$ 45,286,621        | \$ 42,551           | \$ 1,704,049        | \$ 366,333        | \$ 1,046,035        | \$ 48,445,589                  |
| Receivables   |                      |                     |                     |                   |                     |                                |
| Accounts receivable   | 168,475              |                     | 3,803               |                   |                     | 172,278                        |
| Due from other funds  | 6,356,910            | 1,082,428           | 187,360             | 451,989           | 800,452             | 8,879,139                      |
| Due from state and federal  | 1,427,122            | 1,934,677           | 15,225              |                   |                     | 3,377,024                      |
| Due from other governments  | 3,433,770            |                     |                     |                   |                     | 3,433,770                      |
| Inventories   |                      |                     | 53,796              |                   |                     | 53,796                         |
| Total Assets  | <u>\$ 56,672,898</u> | <u>\$ 3,059,656</u> | <u>\$ 1,964,233</u> | <u>\$ 818,322</u> | <u>\$ 1,846,487</u> | <u>\$ 64,361,596</u>           |
| <b>LIABILITIES</b>  |                      |                     |                     |                   |                     |                                |
| Payables  |                      |                     |                     |                   |                     |                                |
| Accounts payable  | \$ 2,558,655         | \$ 22,037           | \$ 93               | \$                | \$                  | \$ 2,580,785                   |
| Accrued liabilities   | 317,194              |                     |                     |                   |                     | 317,194                        |
| Due to other funds  | 1,058,467            | 3,028,044           | 1,428,128           |                   | 1,122,855           | 6,637,494                      |
| Due to other governments  |                      |                     | 241                 |                   |                     | 241                            |
| Due to teachers' retirement system                                    | 11,497,526           |                     |                     |                   |                     | 11,497,526                     |
| Due to employees' retirement system                                   | 1,249,387            |                     |                     |                   |                     | 1,249,387                      |
| Unearned credits  |                      |                     |                     |                   |                     |                                |
| Collections in advance  |                      | 9,575               | 71,645              |                   |                     | 81,220                         |
| Total Liabilities   | <u>16,681,229</u>    | <u>3,059,656</u>    | <u>1,500,107</u>    | <u>-</u>          | <u>1,122,855</u>    | <u>22,363,847</u>              |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                  |                      |                     |                     |                   |                     |                                |
| Deferred revenues   | <u>1,761,753</u>     |                     |                     |                   |                     | <u>1,761,753</u>               |
| Total Deferred Inflows of Resources                                   | <u>1,761,753</u>     | <u>-</u>            | <u>-</u>            | <u>-</u>          | <u>-</u>            | <u>1,761,753</u>               |
| <b>FUND BALANCES</b>  |                      |                     |                     |                   |                     |                                |
| Nonspendable: Inventory   |                      |                     | 53,796              |                   |                     | 53,796                         |
| Restricted:   |                      |                     |                     |                   |                     |                                |
| Workers' compensation   | 2,504,104            |                     |                     |                   |                     | 2,504,104                      |
| Unemployment insurance  | 1,090,126            |                     |                     |                   |                     | 1,090,126                      |
| Retirement contribution   | 8,590,528            |                     |                     |                   |                     | 8,590,528                      |
| Property loss   | 487,210              |                     |                     |                   |                     | 487,210                        |
| Liability   | 18,056               |                     |                     |                   |                     | 18,056                         |
| Employee benefit accrued liability                                    | 10,632,301           |                     |                     |                   |                     | 10,632,301                     |
| Debt service  |                      |                     |                     | 818,322           |                     | 818,322                        |
| Assigned:   |                      |                     |                     |                   |                     |                                |
| Appropriated fund balance   | 5,250,000            |                     |                     |                   |                     | 5,250,000                      |
| Unappropriated fund balance   | 527,990              |                     | 410,330             |                   | 723,632             | 1,661,952                      |
| Unassigned: Fund balance  | <u>9,129,601</u>     |                     |                     |                   |                     | <u>9,129,601</u>               |
| Total Fund Balances   | <u>38,229,916</u>    | <u>-</u>            | <u>464,126</u>      | <u>818,322</u>    | <u>723,632</u>      | <u>40,235,996</u>              |
| Total Liabilities, Deferred Inflows of<br>Resources and Fund Balances | <u>\$ 56,672,898</u> | <u>\$ 3,059,656</u> | <u>\$ 1,964,233</u> | <u>\$ 818,322</u> | <u>\$ 1,846,487</u> | <u>\$ 64,361,596</u>           |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
June 30, 2013

|  |                      |                      |
|--|----------------------|----------------------|
| Total Governmental Fund Balances   |                      | \$ 40,235,996        |
| Amounts reported for governmental activities in the Statement of Net Position are different because:   |                      |                      |
| Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.   |                      | 1,761,753            |
| The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. |                      |                      |
| Original cost of capital assets  | \$ 245,844,358       |                      |
| Accumulated depreciation   | <u>(116,166,132)</u> |                      |
|  |                      | 129,678,226          |
| Deferred charges on advanced refunding of bonds are not reported on the Balance Sheet, but are reflected on the Statement of Net Position and amortized over the life of the related bonds.  |                      |                      |
| Total deferred charges on advanced refunding of bonds  | 1,978,446            |                      |
| Accumulated amortization   | <u>(53,928)</u>      |                      |
|  |                      | 1,924,518            |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:   |                      |                      |
| Accrued interest on bonds payable  | (570,862)            |                      |
| Bonds payable, net   | (60,285,521)         |                      |
| Installment purchase debt payable  | (14,387,844)         |                      |
| Compensated absences payable   | (17,084,800)         |                      |
| Workers' compensation liabilities  | (5,591,822)          |                      |
| Net other postemployment benefits obligation   | <u>(59,820,830)</u>  |                      |
|  |                      | <u>(157,741,679)</u> |
| Total Net Position   |                      | <u>\$ 15,858,814</u> |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Governmental Funds**  
For The Year Ended June 30, 2013

|   | General              | Special<br>Aid   | School<br>Lunch   | Debt<br>Service   | Capital<br>Projects | Total<br>Governmental<br>Funds |
|---|----------------------|------------------|-------------------|-------------------|---------------------|--------------------------------|
| <b>REVENUES</b>                                     |                      |                  |                   |                   |                     |                                |
| Real property taxes                                 | \$ 169,706,847       | \$               | \$                | \$                | \$                  | \$ 169,706,847                 |
| Other tax items                                     | 15,329,696           |                  |                   |                   |                     | 15,329,696                     |
| Charges for services                                | 1,101,964            |                  |                   |                   |                     | 1,101,964                      |
| Use of money and property                           | 395,642              |                  | 527               | 185               |                     | 396,354                        |
| Sale of property and<br>compensation for loss       | 260,025              |                  | 23,866            |                   |                     | 283,891                        |
| Miscellaneous                                       | 894,068              | 65,023           | 494               |                   | 92,691              | 1,052,276                      |
| Interfund revenues                                  | 1,233                |                  |                   |                   |                     | 1,233                          |
| State sources                                       | 25,301,449           | 1,757,138        | 48,996            |                   |                     | 27,107,583                     |
| Federal sources                                     | 146,991              | 2,694,066        | 611,646           |                   |                     | 3,452,703                      |
| Medicaid reimbursement                              | 12,736               |                  |                   |                   |                     | 12,736                         |
| Surplus food  |                      |                  | 187,043           |                   |                     | 187,043                        |
| Sales - school lunch                                |                      |                  | 2,544,855         |                   |                     | 2,544,855                      |
| <b>Total Revenues</b>                               | <b>213,150,651</b>   | <b>4,516,227</b> | <b>3,417,427</b>  | <b>185</b>        | <b>92,691</b>       | <b>221,177,181</b>             |
| <b>EXPENDITURES</b>                                 |                      |                  |                   |                   |                     |                                |
| General support                                     | 17,582,358           | 41,088           |                   | 225,420           |                     | 17,848,866                     |
| Instruction   | 119,886,126          | 4,699,493        |                   |                   |                     | 124,585,619                    |
| Pupil transportation                                | 12,494,479           | 315,248          |                   |                   |                     | 12,809,727                     |
| Community service                                   | 114,710              |                  |                   |                   |                     | 114,710                        |
| Employee benefits                                   | 52,470,932           |                  | 521,754           |                   |                     | 52,992,686                     |
| Debt service  |                      |                  |                   |                   |                     |                                |
| Principal   |                      |                  |                   | 5,610,242         |                     | 5,610,242                      |
| Interest  | 69,914               |                  |                   | 3,175,304         |                     | 3,245,218                      |
| Cost of sales                                       |                      |                  | 2,815,402         |                   |                     | 2,815,402                      |
| Capital outlay                                      |                      |                  |                   |                   | 2,124,125           | 2,124,125                      |
| <b>Total Expenditures</b>                           | <b>202,618,519</b>   | <b>5,055,829</b> | <b>3,337,156</b>  | <b>9,010,966</b>  | <b>2,124,125</b>    | <b>222,146,595</b>             |
| Excess of Revenues<br>Over (Under) Expenditures     | 10,532,132           | (539,602)        | 80,271            | (9,010,781)       | (2,031,434)         | (969,414)                      |
| <b>OTHER FINANCING SOURCES AND (USES)</b>           |                      |                  |                   |                   |                     |                                |
| Proceeds from debt                                  |                      |                  |                   | 34,040,000        |                     | 34,040,000                     |
| Premium on obligations                              |                      |                  |                   | 5,258,866         |                     | 5,258,866                      |
| Payments to escrow agent                            |                      |                  |                   | (39,073,446)      |                     | (39,073,446)                   |
| Operating transfers in                              |                      | 539,602          |                   | 8,878,237         | 800,000             | 10,217,839                     |
| Operating transfers (out)                           | (10,125,148)         |                  |                   |                   | (92,691)            | (10,217,839)                   |
| <b>Total Other Financing Sources<br/>and (Uses)</b> | <b>(10,125,148)</b>  | <b>539,602</b>   | <b>-</b>          | <b>9,103,657</b>  | <b>707,309</b>      | <b>225,420</b>                 |
| <b>Net Change in Fund Balances</b>                  | <b>406,984</b>       | <b>-</b>         | <b>80,271</b>     | <b>92,876</b>     | <b>(1,324,125)</b>  | <b>(743,994)</b>               |
| <b>Fund Balances - Beginning of year</b>            | <b>37,822,932</b>    | <b>-</b>         | <b>383,855</b>    | <b>725,446</b>    | <b>2,047,757</b>    | <b>40,979,990</b>              |
| <b>Fund Balances - End of year</b>                  | <b>\$ 38,229,916</b> | <b>\$ -</b>      | <b>\$ 464,126</b> | <b>\$ 818,322</b> | <b>\$ 723,632</b>   | <b>\$ 40,235,996</b>           |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and**  
**Changes in Fund Balances to the Statement of Activities**  
For The Year Ended June 30, 2013

Net Change in Fund Balances \$ (743,994)

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

Long-Term Revenue and Expense Differences

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

Change in deferred revenue \$ 774,601

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

|  |                     |              |
|--|---------------------|--------------|
| Increase in compensated absences payable                 | (897,137)           |              |
| Increase in workers' compensation liabilities            | (2,431,410)         |              |
| Increase in net other postemployment benefits obligation | <u>(11,416,684)</u> |              |
|  |                     | (13,970,630) |

Capital Related Differences

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

|                      |                    |             |
|----------------------|--------------------|-------------|
| Capital outlays      | 2,978,280          |             |
| Depreciation expense | <u>(7,857,645)</u> |             |
|                      |                    | (4,879,365) |

Long-Term Debt Transaction Differences

Proceeds from the issuance of refunding bonds is an other funding source in the governmental funds, but it increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. Also, governmental funds report the effect of premiums when debt is first issued whereas these amounts are deferred and amortized in the Statement of Activities.

(39,298,866)

Payment to escrow agent is an expenditure in the governmental funds, but it decreases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

39,073,446

The elimination of prior year deferred bond issuance costs in accordance with the implementation of GASB Statement No. 65 and the amortization of the deferred charges on the advanced refunding of bonds, net of the amortization of the deferred premium, increases interest expense in the Statement of Activities.

(9,388)

Repayment of long-term 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.

5,610,242

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2012 to June 30, 2013.

159,138

5,534,572

Change in Net Position of Governmental Activities

\$ (14,059,417)



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position -**  
**Fiduciary Funds**  
June 30, 2013

|                                  | <u>Agency</u>       | <u>Private<br/>Purpose<br/>Trust</u> |
|----------------------------------|---------------------|--------------------------------------|
| <b>ASSETS</b>                    |                     |                                      |
| Cash                             | \$ 4,047,445        | \$ 403,101                           |
| Total Assets                     | <u>\$ 4,047,445</u> | <u>403,101</u>                       |
| <br><b>LIABILITIES</b>           |                     |                                      |
| Extraclassroom activity balances | \$ 428,516          |                                      |
| Due to other funds               | 2,241,645           |                                      |
| Other liabilities                | <u>1,377,284</u>    |                                      |
| Total Liabilities                | <u>\$ 4,047,445</u> | <u>-</u>                             |
| <br><b>NET POSITION</b>          |                     |                                      |
| Restricted for scholarships      |                     | <u>\$ 403,101</u>                    |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Position -**  
**Fiduciary Funds**  
For The Year Ended June 30, 2013

|                                  | Private<br>Purpose<br>Trust |
|----------------------------------|-----------------------------|
| <b>ADDITIONS</b>                 |                             |
| Contributions                    | \$ 15,813                   |
| Investment earnings              |                             |
| Interest                         | <u>829</u>                  |
| Total Additions                  | <u>16,642</u>               |
| <br><b>DEDUCTIONS</b>            |                             |
| Scholarships and awards          | <u>24,700</u>               |
| Change in Net Position           | (8,058)                     |
| Net Position - Beginning of year | <u>411,159</u>              |
| Net Position - End of Year       | <u><u>\$ 403,101</u></u>    |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of 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 financial reporting entity is based on criteria set forth by GASB. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

**Extraclassroom Activity Funds**

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management. The District reports these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Position - Fiduciary Fund. Separate audited financial statements of the extraclassroom activity funds can be found at the District's Business Office.

**B. Joint Venture**

The District is a component district in the Second Supervisory District of the Suffolk Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section §1950 of the Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section §119-n(a) of the General Municipal Law. A BOCES budget is comprised of separate budgets for

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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administrative, program, and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment as defined in Education Law, Section §1950(4)(b)(7). There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate.

**C. Basis of Presentation**

**District-wide Financial Statements**

The Statement of Net Position and the Statement of Activities present information about the overall governmental financial activities of the District, except for fiduciary activities. Eliminations have been made to minimize the double counting of interfund transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenues, and other exchange and nonexchange transactions. Program specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

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

**Fund Financial Statements**

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category, governmental and fiduciary, are presented. The emphasis of fund financial statements is on major governmental funds as defined by GASB, each displayed in a separate column. The District's financial statements reflect the following major fund categories:

***Governmental Funds:***

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

***Special Aid Fund*** - is used to account for the proceeds of specific revenue sources such as federal and state grants that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed by either governments that provide the funds or outside parties.

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

***Debt Service Fund*** - accounts for the accumulation of resources and the payment of principal and interest on long-term general obligation debt of governmental activities. It is also used to account for the advance refunding of a portion of the District's outstanding serial bonds.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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

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

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

**D. Measurement Focus and Basis of Accounting**

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

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and other postemployment benefits, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**E. Real Property Taxes**

Calendar

Real property taxes are levied annually by the Board no later than November 1st and become a lien on December 1<sup>st</sup>. Taxes are collected by the Towns of Huntington and Babylon and remitted to the District from December to June.

Enforcement

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

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**F. Restricted Resources**

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

**G. Interfund Transactions**

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditure and revenues to provide financing or other services.

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

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

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

**H. Use of Estimates**

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

**I. Cash and Cash Equivalents**

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

**J. Receivables**

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

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**K. Inventories**

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 donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market.

Purchases of inventorable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

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

**L. Capital Assets**

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

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

|                                   | <u>Capitalization<br/>Threshold</u> | <u>Estimated<br/>Useful Life</u> |
|-----------------------------------|-------------------------------------|----------------------------------|
| Buildings and improvements        | \$ 2,000                            | 50 years                         |
| Site improvements                 | 2,000                               | 20 years                         |
| Furniture, equipment and vehicles | 2,000                               | 5-20 years                       |

**M. Deferred Outflows of Resources**

Deferred outflows of resources represents the amount of deferred charges on advanced refunding of bonds that is being amortized over the remaining lives of the bonds.

**N. Collections in Advance**

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

**O. Deferred Revenues**

Deferred revenues are reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. These amounts are recorded as deferred inflows of resources. In subsequent periods, when the availability criterion is met, deferred revenues are reclassified as revenues. In the District-wide financial statements, deferred revenues are generally treated as revenues.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**P. Vested Employee Benefits – Compensated Absences**

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

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

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

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability has been calculated using the 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 terms of the collective bargaining agreements and individual employment contracts 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.

**Q. Other Benefits**

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

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

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

**R. Short-Term Debt**

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

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



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**S. 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 fund financial statements only to the extent they have matured. 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 and payable within one year or due and payable after one year in the Statement of Net Position.

**T. Equity classifications**

District-wide statements

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

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

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

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

Fund Statements

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

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

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

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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*Workers' Compensation Reserve*

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

*Unemployment Insurance Reserve*

Unemployment Insurance Reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the general fund.

*Retirement Contribution Reserve*

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

*Property Loss Reserve and Liability Reserve*

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

*Employee Benefit Accrued Liability Reserve*

Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds 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. The reserve is accounted for in the general fund.

*Restricted for Debt Service*

Unexpended balances of proceeds of borrowings for capital projects; interest and earnings from investing proceeds of obligations, and premium and accrued interest are recorded in the debt service fund and held until appropriated for debt payments. These restricted amounts are accounted for in the debt service fund.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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*Restricted for Scholarships*

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

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

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

**Fund Balance Classification**

Any portion of fund balance may be applied or transferred for a specific purpose by law, voter approval if required by law or by formal action of the Board of Education if voter approval is not required. Amendments or modification to the applied or transferred fund balance must also be approved by formal action of the Board of Education.

The Board of Education shall delegate the authority to assign fund balance, for encumbrance purposes, to the person(s) to whom it has delegated the authority to sign purchase orders.

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

**2. CHANGES IN ACCOUNTING PRINCIPLES**

**A. GASB Statement No. 63**

GASB released GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was implemented by the District during the year ended June 30, 2013. GASB 63 requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. Deferred outflows and inflows relate to service concession agreements and certain derivative transactions. In addition, it amends certain provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related pronouncements to report the difference between assets plus deferred outflow and liabilities plus deferred inflows as net position rather than net assets.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**B. GASB Statement No. 65**

GASB released GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, which was implemented by the District during the year ended June 30, 2013. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

**3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE DISTRICT-WIDE STATEMENTS**

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic resource measurement focus of the District-wide statements, compared with the current financial resource measurement focus of the governmental funds.

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

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

**B. Statement of Revenues, Expenditures and Changes in Fund Balances vs. Statement of Activities**

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities fall into one of three broad categories.

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because the issuance of long-term debt provides current financial resources to governmental funds, but is recorded as a liability in the Statement of Net Position. In addition, both interest and principal payments are recorded as expenditures in the fund statements when due and payable, whereas interest expense is recorded in the Statement of Activities as it accrues, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

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

The voters of the District approved the proposed appropriation budget for the general fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. During the year, the Board of Education approved supplemental appropriations in the total amount of \$104,141 for contingent expenditures, which were funded by insurance recoveries of \$78,306 and donations of \$25,835.

Budgets are adopted annually on a basis consistent with GAAP.

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

**B. Encumbrances**

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as part of other assigned, unappropriated fund balance, unless classified as restricted or committed, 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.

**5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

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

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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

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

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

**6. PARTICIPATION IN BOCES**

During the year ended June 30, 2013, the District was billed \$7,905,674 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,179,439. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, Dix Hills, NY 11746.

**7. DUE FROM STATE AND FEDERAL**

Due from state and federal at June 30, 2013 consisted of:

|  |                     |
|--|---------------------|
| General Fund   |                     |
| New York State aid - excess cost aid                     | \$ 889,152          |
| BOCES aid  | 527,990             |
| Medicaid reimbursement                                   | 9,980               |
|  | <u>1,427,122</u>    |
| Special Aid Fund   |                     |
| State and federal grants                                 | 1,934,677           |
| School Lunch Fund  |                     |
| State and federal food service<br>program reimbursements | <u>15,225</u>       |
|  | <u>\$ 3,377,024</u> |

**8. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2013 consists of:

|                             |                     |
|-----------------------------|---------------------|
| General Fund                |                     |
| Tuition and health services | \$ 1,460,519        |
| PILOT payments              | <u>1,973,251</u>    |
|                             | <u>\$ 3,433,770</u> |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**9. CAPITAL ASSETS**

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

|  | Balance<br>June 30, 2012 | Additions     | Reductions      | Balance<br>June 30, 2013 |
|--|--------------------------|---------------|-----------------|--------------------------|
| Governmental activities                        |                          |               |                 |                          |
| Capital assets not being depreciated           |                          |               |                 |                          |
| Land   | \$ 2,629,860             | \$            | \$              | \$ 2,629,860             |
| Construction in progress                       | 15,225,659               | 59,308        | (15,225,658)    | 59,309                   |
| Total capital assets<br>not being depreciated  | 17,855,519               | 59,308        | (15,225,658)    | 2,689,169                |
| Capital assets being depreciated               |                          |               |                 |                          |
| Buildings and improvements                     | 198,197,940              | 17,301,681    |                 | 215,499,621              |
| Site improvements                              | 7,470,475                | 30,000        |                 | 7,500,475                |
| Vehicles                                       | 7,733,456                | 420,152       | (415,065)       | 7,738,543                |
| Furniture and equipment                        | 12,761,841               | 392,797       | (738,088)       | 12,416,550               |
| Total capital assets<br>being depreciated      | 226,163,712              | 18,144,630    | (1,153,153)     | 243,155,189              |
| Less accumulated depreciation for:             |                          |               |                 |                          |
| Buildings and improvements                     | 93,057,836               | 6,099,338     |                 | 99,157,174               |
| Site improvements                              | 2,548,442                | 363,232       |                 | 2,911,674                |
| Vehicles                                       | 5,327,104                | 907,549       | (807,733)       | 5,426,920                |
| Furniture and equipment                        | 8,528,258                | 487,526       | (345,420)       | 8,670,364                |
| Total accumulated depreciation                 | 109,461,640              | 7,857,645     | (1,153,153)     | 116,166,132              |
| Total capital assets<br>being depreciated, net | 116,702,072              | 10,286,985    | -               | 126,989,057              |
| Capital assets, net                            | \$ 134,557,591           | \$ 10,346,293 | \$ (15,225,658) | \$ 129,678,226           |

Depreciation expense was charged to governmental functions as follows:

|                            |              |
|----------------------------|--------------|
| General support            | \$ 258,057   |
| Instruction                | 6,949,140    |
| Pupil transportation       | 596,438      |
| Food service               | 54,010       |
| Total depreciation expense | \$ 7,857,645 |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**10. INTERFUND TRANSACTIONS**

Interfund balances and activities at June 30, 2013, are as follows:

|                          | Interfund    |              |               |               |
|--------------------------|--------------|--------------|---------------|---------------|
|                          | Receivable   | Payable      | Transfers In  | Transfers Out |
| General Fund             | \$ 6,356,910 | \$ 1,058,467 | \$            | \$ 10,125,148 |
| Special Aid Fund         | 1,082,428    | 3,028,044    | 539,602       |               |
| School Lunch Fund        | 187,360      | 1,428,128    |               |               |
| Debt Service Fund        | 451,989      |              | 8,878,237     |               |
| Capital Projects Fund    | 800,452      | 1,122,855    | 800,000       | 92,691        |
| Total Governmental Funds | 8,879,139    | 6,637,494    | 10,217,839    | 10,217,839    |
| Fiduciary Fund           |              | 2,241,645    |               |               |
| Total                    | \$ 8,879,139 | \$ 8,879,139 | \$ 10,217,839 | \$ 10,217,839 |

The District typically transfers from the general fund to the special aid fund, debt service fund and the capital projects fund in accordance with the general fund budget. The transfer to the special aid fund was for the District's share of the cost for the summer handicapped program. The transfer to the debt service fund was for the payment of principal and interest on long-term outstanding indebtedness. The transfer to the capital projects fund was to fund capital improvements.

**11. SHORT-TERM DEBT**

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

|     | Maturity | Interest Rate | Balance June 30, 2012 | Issued        | Redeemed        | Balance June 30, 2013 |
|-----|----------|---------------|-----------------------|---------------|-----------------|-----------------------|
| TAN | 6/27/13  | 1.00%         | \$                    | \$ 43,000,000 | \$ (43,000,000) | \$                    |

Interest on short-term debt for the year was \$69,914.

**12. LONG-TERM LIABILITIES**

The following table summarizes the changes in governmental activities in long-term liabilities, excluding other postemployment benefits, for the year ended June 30, 2013:

|                                     | Balance June 30, 2012 | Additions     | Reductions      | Balance June 30, 2013 | Amounts Due Within One Year |
|-------------------------------------|-----------------------|---------------|-----------------|-----------------------|-----------------------------|
| <b>Long-term debt:</b>              |                       |               |                 |                       |                             |
| Bonds payable                       | \$ 62,975,000         | \$ 34,040,000 | \$ (41,845,000) | \$ 55,170,000         | \$ 4,830,000                |
| Add: Deferred premium on refunding  | -                     | 5,115,521     |                 | 5,115,521             | 761,401                     |
|                                     | 62,975,000            | 39,155,521    | (41,845,000)    | 60,285,521            | 5,591,401                   |
| Installment purchase debt           | 15,248,086            | -             | (860,242)       | 14,387,844            | 885,283                     |
|                                     | 78,223,086            | 39,155,521    | (42,705,242)    | 74,673,365            | 6,476,684                   |
| <b>Other long-term liabilities:</b> |                       |               |                 |                       |                             |
| Compensated absences                | 16,187,663            | 897,137       |                 | 17,084,800            | 1,400,000                   |
| Workers' compensation               | 3,160,412             | 3,217,124     | (785,714)       | 5,591,822             | 1,100,000                   |
|                                     | \$ 97,571,161         | \$ 43,269,782 | \$ (43,490,956) | \$ 97,349,987         | \$ 8,976,684                |

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



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

Bonds payable are comprised of the following:

| Description                | Issue Date | Final Maturity | Interest Rate | Outstanding at June 30, 2013 |
|----------------------------|------------|----------------|---------------|------------------------------|
| Serial Bonds               |            |                |               |                              |
| District-wide construction | 2004       | 2015           | 3.50% - 4.25% | \$ 2,010,000                 |
| District-wide construction | 2005       | 2015           | 4.00% - 4.75% | 2,455,000                    |
| Refunding Bond             | 2007       | 2021           | 3.78% - 4.35% | 15,015,000                   |
| District-wide construction | 2008       | 2023           | 3.50% - 4.00% | 1,650,000                    |
| Refunding Bond Series A    | 2013       | 2025           | 3.50% - 4.00% | 23,470,000                   |
| Refunding Bond Series B    | 2013       | 2024           | 3.50% - 4.00% | 10,570,000                   |
|                            |            |                |               | <u>\$ 55,170,000</u>         |

The following is a summary of debt service requirements:

| Fiscal Year Ending June 30, | Principal            | Interest             | Total                |
|-----------------------------|----------------------|----------------------|----------------------|
| 2014                        | \$ 4,830,000         | \$ 2,270,947         | \$ 7,100,947         |
| 2015                        | 5,000,000            | 2,122,650            | 7,122,650            |
| 2016                        | 5,025,000            | 1,920,850            | 6,945,850            |
| 2017                        | 5,130,000            | 1,736,863            | 6,866,863            |
| 2018                        | 5,320,000            | 1,544,644            | 6,864,644            |
| 2019-2023                   | 25,005,000           | 4,122,656            | 29,127,656           |
| 2024-2025                   | 4,860,000            | 244,775              | 5,104,775            |
| Total                       | <u>\$ 55,170,000</u> | <u>\$ 13,963,385</u> | <u>\$ 69,133,385</u> |

Installment purchase debt is comprised of the following:

| Description                 | Issue Date | Final Maturity | Interest Rate | Outstanding at June 30, 2013 |
|-----------------------------|------------|----------------|---------------|------------------------------|
| Energy performance contract | 12/7/2010  | 7/15/2026      | 2.89%         | <u>\$ 14,387,844</u>         |

The following is a summary of maturing debt service requirements for installment purchase debt:

| Fiscal Year Ending June 30, | Principal            | Interest            | Total                |
|-----------------------------|----------------------|---------------------|----------------------|
| 2014                        | \$ 885,283           | \$ 409,458          | \$ 1,294,741         |
| 2015                        | 911,052              | 383,690             | 1,294,742            |
| 2016                        | 937,572              | 357,169             | 1,294,741            |
| 2017                        | 964,863              | 329,878             | 1,294,741            |
| 2018                        | 992,949              | 301,792             | 1,294,741            |
| 2019-2023                   | 5,415,500            | 1,058,205           | 6,473,705            |
| 2024-2027                   | 4,280,625            | 250,969             | 4,531,594            |
| Total                       | <u>\$ 14,387,844</u> | <u>\$ 3,091,161</u> | <u>\$ 17,479,005</u> |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

On February 15, 2013, the District issued \$34,040,000 in general obligation bonds with interest rates from 3.00-5.00% to advance refund \$37,095,000 of outstanding serial bonds (2003 Serial Bond-\$9,945,000, 2004 Serial Bond-\$11,370,000 and 2005 Serial Bond-\$15,780,000) with an average interest rate of 4%. The net proceeds of \$39,073,446 (including a premium of \$5,258,866 and after payment of \$225,420 in underwriting fees, insurance and other issuance costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements. The economic gain (loss) on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$3,744,202. The principal on the 2003 Serial Bonds was called on May 13, 2013. The outstanding principal balance of the defeased bonds is \$27,150,000 at June 30, 2013. The defeased 2004 and 2005 serial bonds are callable August 15, 2014 and April 15, 2015 respectively, and will be paid by the escrow agent at that time.

The District is amortizing deferred charges on the advanced refunding and a refunding bond premium. The bond premium amortization is netted against the bonds payable and is calculated on a weighted average basis over the respective bond term, as applicable. The future net amortization is as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Deferred<br/>Premium</u> | <u>Deferred<br/>Charge</u> | <u>Total</u>        |
|------------------------------------|-----------------------------|----------------------------|---------------------|
| 2014                               | \$ 761,401                  | \$ (286,448)               | \$ 474,953          |
| 2015                               | 744,378                     | (280,044)                  | 464,334             |
| 2016                               | 701,736                     | (264,001)                  | 437,735             |
| 2017                               | 632,060                     | (237,788)                  | 394,272             |
| 2018                               | 560,235                     | (210,767)                  | 349,468             |
| 2019-2023                          | 1,620,586                   | (609,683)                  | 1,010,903           |
| 2024-2025                          | 95,125                      | (35,787)                   | 59,338              |
| Total                              | <u>\$ 5,115,521</u>         | <u>\$ (1,924,518)</u>      | <u>\$ 3,191,003</u> |

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

|  |                     |
|--|---------------------|
| Interest paid  | \$ 3,175,304        |
| Less interest accrued in the prior year  | (730,000)           |
| Plus interest accrued in the current year  | 570,862             |
| Plus current year bond issuance costs  | 225,420             |
| Plus amortization of deferred amounts from bond refundings (current year and prior year) | <u>9,388</u>        |
| Total  | <u>\$ 3,250,974</u> |

### **13. PENSION PLANS**

#### **A. General Information**

The District participates in the New York State Teachers' Retirement System (NYSTRS) and the New York State and Local Employees' Retirement System (NYSERS). These are cost-sharing multiple employer, public employee retirement systems. The systems 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.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**B. Provisions and Administration**

Teachers' Retirement System

The NYSTRS is administered by the New York State Teachers' Retirement Board. The NYSTRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the state of New York. The NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

The NYSERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Office of the State Comptroller, 110 State Street, Albany, NY 12244.

**C. Funding Policies**

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to NYSTRS or 3.5% of their salary to NYSERS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. For the NYSERS, the Comptroller shall certify annually the rates expressed as proportions of members' payroll annually, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, rates are established annually for NYSTRS by the New York State Teachers' Retirement Board.

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 District's share of the required contributions for the current year and two preceding years were

| <u>Year</u> | <u>NYSTRS</u> | <u>NYSERS</u> |
|-------------|---------------|---------------|
| 2013        | \$ 10,790,484 | \$ 4,806,958  |
| 2012        | 9,353,515     | 4,307,681     |
| 2011        | 7,754,344     | 3,020,050     |

**D. Tax Sheltered Annuities**

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2013, totaled \$1,113,865 and \$4,453,302, respectively.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**E. 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, 2013 totaled \$907,568.

**14. POSTEMPLOYMENT BENEFITS**

**A. Plan Description**

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

**B. Funding Policy**

The District assumes its share of the cost of premiums, which ranges from 60% – 85%, and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as payments are made. For the year ended June 30, 2013, the District recognized a general fund expenditure of approximately \$9,066,536 for insurance premiums for 1,005 currently enrolled retirees and surviving spouses. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the “pay as you go” method.

**C. Annual OPEB Cost and Net OPEB Obligation**

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

|   |                                 |
|---|---------------------------------|
| Annual required contribution (ARC)      | \$ 20,123,327                   |
| Interest on net OPEB obligation         | 2,178,187                       |
| Adjustment to ARC                       | <u>(1,818,294)</u>              |
| Annual OPEB cost (expense)              | 20,483,220                      |
| Contributions made                      | <u>(9,066,536)</u>              |
| <br>Increase in net OPEB obligation     | <br>11,416,684                  |
| Net OPEB obligation - beginning of year | <u>48,404,146</u>               |
| <br>Net OPEB obligation - end of year   | <br><u><u>\$ 59,820,830</u></u> |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013 and the two preceding years are as follows:

| <u>Fiscal<br/>Year Ended</u> | <u>Annual<br/>OPEB Cost</u> | <u>Percentage of<br/>Annual OPEB<br/>Cost Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|------------------------------|-----------------------------|---|--------------------------------|
| June 30, 2013                | \$ 20,483,220               | 44.3%   | \$ 59,820,830                  |
| June 30, 2012                | 24,741,000                  | 39.8%   | 48,404,146                     |
| June 30, 2011                | 23,491,900                  | 36.8%   | 33,518,246                     |

**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 \$253,946,573 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$253,946,573. The covered payroll (annual payroll of active employees covered by the plan) was \$106,594,570, and the ratio of the UAAL to the covered payroll was 238%.

Actuarial valuations of an ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress following the notes to the financial statements presents multi-year trend information about whether the actuarial 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 for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012, actuarial valuation, the level percent amortization method was used. The actuarial assumptions included a 4.5% discount rate and for medical inflation an ultimate healthcare cost trend rate of 5%. The UAAL is being amortized to increase over time as projected payrolls increase. The remaining amortization period at June 30, 2013, was 25 years.

**15. RISK MANAGEMENT**

**A. General Information**

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

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**B. Risk Retention**

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 and unreported claims which were incurred on or before year end but not reported (IBNR). Claims activity is summarized below:

|   | <u>2012</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| Unpaid claims at beginning of year            | \$ 1,178,396        | \$ 3,160,412        |
| Incurred claims and claim adjustment expenses | 2,984,281           | 3,217,124           |
| Claim payments                                | <u>(1,002,265)</u>  | <u>(785,714)</u>    |
| Unpaid claims at year end                     | <u>\$ 3,160,412</u> | <u>\$ 5,591,822</u> |

**C. Public Entity Risk Pool**

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

**16. RESTRICTED FUND BALANCE - APPROPRIATED RESERVES**

The District expects to appropriate the following amounts from reserves, which are reported in the June 30, 2013 restricted fund balances, to fund the budget and reduce taxes for the year ending June 30, 2014:

|                                    |                     |
|------------------------------------|---------------------|
| Workers' Compensation              | \$ 300,000          |
| Unemployment Insurance             | 50,000              |
| Retirement Contributions           | 2,600,000           |
| Employee Benefit Accrued Liability | <u>1,300,000</u>    |
|                                    | <u>\$ 4,250,000</u> |

**17. ASSIGNED APPROPRIATED FUND BALANCE**

The amount of \$5,250,000 as been appropriated to reduce taxes for the year ending June 30, 2014.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Continued)**

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**18. COMMITMENTS AND CONTINGENCIES**

**A. Encumbrances**

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2013, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance:

|                       |                   |
|-----------------------|-------------------|
| General Fund          |                   |
| General support       | \$ 354,316        |
| Instruction           | 145,151           |
| Transportation        | 28,398            |
| Employee benefits     | 125               |
|                       | <u>527,990</u>    |
| School Lunch Fund     |                   |
| School lunch          | 7,394             |
| Capital Projects Fund |                   |
| Capital projects      | 16,539            |
|                       | <u>\$ 551,923</u> |

**B. 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.

**C. Litigation**

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

**D. Operating Leases**

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$269,346. The minimum remaining operating lease payments are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u>     |
|------------------------------------|-------------------|
| 2014                               | \$ 258,973        |
| 2015                               | 248,698           |
| 2016                               | 100,845           |
| 2017                               | 71,496            |
| 2018                               | 29,790            |
|                                    | <u>\$ 709,802</u> |

**19. SUBSEQUENT EVENTS**

On October 1, 2013, the District issued tax anticipation notes with an effective net interest rate of 0.18% in the amount of \$43,500,000, which are due June 26, 2014.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
For The Year Ended June 30, 2013

|   | Original<br>Budget | Final<br>Budget | Actual         | Final Budget<br>Variance with<br>Actual |
|---|--------------------|-----------------|----------------|---|
| <b>REVENUES</b>                                 |                    |                 |                |   |
| <b>Local Sources</b>                            |                    |                 |                |   |
| Real property taxes                             | \$ 172,306,191     | \$ 169,705,937  | \$ 169,706,847 | \$ 910                                  |
| Other tax items                                 | 12,821,879         | 15,422,133      | 15,329,696     | (92,437)                                |
| Charges for services                            | 1,106,128          | 1,106,128       | 1,101,964      | (4,164)                                 |
| Use of money and property                       | 201,500            | 201,500         | 395,642        | 194,142                                 |
| Forfeitures                                     | 500                | 500             |                | (500)                                   |
| Sale of property and<br>compensation for loss   | 90,000             | 168,306         | 260,025        | 91,719                                  |
| Miscellaneous                                   | 730,000            | 755,835         | 894,068        | 138,233                                 |
| Interfund revenues                              |                    |                 | 1,233          | 1,233                                   |
| Total Local Sources                             | 187,256,198        | 187,360,339     | 187,689,475    | 329,136                                 |
| State Sources                                   | 25,162,101         | 25,162,101      | 25,301,449     | 139,348                                 |
| Federal Sources                                 |                    |                 | 146,991        | 146,991                                 |
| Medicaid Reimbursement                          |                    |                 | 12,736         | 12,736                                  |
| Total Revenues                                  | 212,418,299        | 212,522,440     | 213,150,651    | \$ 628,211                              |
| <b>APPROPRIATED FUND BALANCE</b>                |                    |                 |                |   |
| Prior Years' Surplus                            | 5,250,000          | 5,250,000       |                |   |
| Prior Year's Encumbrances                       | 348,030            | 348,030         |                |   |
| Appropriated Reserves                           | 4,250,000          | 4,250,000       |                |   |
| Total Appropriated Fund Balance                 | 9,848,030          | 9,848,030       |                |   |
| Total Revenues and<br>Appropriated Fund Balance | \$ 222,266,329     | \$ 222,370,470  |                |   |

**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.



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund (Continued)**  
For The Year Ended June 30, 2013

|   | Original<br>Budget | Final<br>Budget | Actual        | Year End<br>Encumbrances | Final Budget<br>Variance with<br>Actual<br>& Encumbrances |
|---|--------------------|-----------------|---------------|--------------------------|---|
| <b>EXPENDITURES</b>                                   |                    |                 |               |                          |   |
| General Support                                       |                    |                 |               |                          |   |
| Board of education                                    | \$ 143,798         | \$ 143,798      | \$ 108,299    | \$                       | \$ 35,499   |
| Central administration                                | 484,107            | 485,845         | 474,102       | 2,707                    | 9,036   |
| Finance   | 1,621,825          | 1,609,587       | 1,490,099     | 33,324                   | 86,164  |
| Staff   | 1,092,543          | 1,213,748       | 1,075,193     | 71,765                   | 66,790  |
| Central services                                      | 14,906,849         | 14,812,064      | 12,594,979    | 246,520                  | 1,970,565   |
| Special items   | 1,886,129          | 1,886,129       | 1,839,686     |                          | 46,443  |
| Total General Support                                 | 20,135,251         | 20,151,171      | 17,582,358    | 354,316                  | 2,214,497   |
| Instruction   |                    |                 |               |                          |   |
| Instruction, administration<br>& improvement          | 8,827,016          | 8,832,427       | 8,609,334     | 3,341                    | 219,752   |
| Teaching - regular school                             | 70,166,552         | 71,064,332      | 69,580,204    | 94,180                   | 1,389,948   |
| Programs for children<br>with handicapping conditions | 27,389,588         | 27,135,104      | 26,306,776    | 3,767                    | 824,561   |
| Occupational education                                | 771,470            | 771,470         | 749,000       |                          | 22,470  |
| Teaching - special school                             | 537,797            | 533,297         | 456,021       | 731                      | 76,545  |
| Instructional media                                   | 4,155,908          | 4,258,103       | 4,049,359     | 31,413                   | 177,331   |
| Pupil services  | 10,356,568         | 10,363,571      | 10,135,432    | 11,719                   | 216,420   |
| Total Instruction                                     | 122,204,899        | 122,958,304     | 119,886,126   | 145,151                  | 2,927,027   |
| Pupil Transportation                                  | 14,115,436         | 14,194,180      | 12,494,479    | 28,398                   | 1,671,303   |
| Community Services                                    | 77,751             | 118,065         | 114,710       |                          | 3,355   |
| Employee Benefits                                     | 54,947,446         | 54,163,204      | 52,470,932    | 125                      | 1,692,147   |
| Debt Service  |                    |                 |               |                          |   |
| Interest  | 825,000            | 660,398         | 69,914        |                          | 590,484   |
| Total Expenditures                                    | 212,305,783        | 212,245,322     | 202,618,519   | 527,990                  | 9,098,813   |
| <b>OTHER USES</b>                                     |                    |                 |               |                          |   |
| Operating transfers out                               | 9,960,546          | 10,125,148      | 10,125,148    |                          | -   |
| Total Expenditures and Other Uses                     | \$ 222,266,329     | \$ 222,370,470  | 212,743,667   | \$ 527,990               | \$ 9,098,813  |
| Net Change in Fund Balance                            |                    |                 | 406,984       |                          |   |
| Fund Balance - Beginning of Year                      |                    |                 | 37,822,932    |                          |   |
| Fund Balance - End of Year                            |                    |                 | \$ 38,229,916 |                          |   |

**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.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Schedule of Funding Progress for Other Postemployment Benefits (OPEB)**  
June 30, 2013

| Valuation Date  | Actuarial Value of Assets | Accrued Liability | Unfunded Actuarial Accrual Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|-----------------|---------------------------|-------------------|---|--------------|-----------------|---|
| July 1, 2012    | \$ -                      | \$ 253,946,573    | \$ 253,946,573                              | 0%           | \$ 106,594,570  | 238%                                    |
| January 1, 2011 | -                         | 274,807,800       | 274,807,800                                 | 0%           | 115,098,000     | 239%                                    |
| January 1, 2009 | -                         | 214,385,800       | 214,385,800                                 | 0%           | 107,495,233     | 199%                                    |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Schedules of Change from Adopted Budget to Final Budget**  
**and the Real Property Tax Limit - General Fund**  
For The Year Ended June 30, 2013

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

|                           |                              |
|---------------------------|------------------------------|
| Adopted Budget            | \$ 221,918,299               |
| Additions:                |                              |
| Prior year's encumbrances | <u>348,030</u>               |
| Original Budget           | 222,266,329                  |
| Budget revisions          | <u>104,141</u>               |
| Final Budget              | <u><u>\$ 222,370,470</u></u> |

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

|   |                              |
|---|------------------------------|
| 2013-14 voter-approved expenditure budget                             | <u><u>\$ 228,254,916</u></u> |
| Maximum allowed (4% of 2013-14 budget)                                | <u><u>\$ 9,130,197</u></u>   |
| General Fund Fund Balance Subject to § 1318 of Real Property Tax Law: |                              |
| Unrestricted fund balance:  |                              |
| Assigned fund balance   | \$ 5,777,990                 |
| Unassigned fund balance   | <u>9,129,601</u>             |
|   | \$ 14,907,591                |
| Less:   |                              |
| Appropriated fund balance   | 5,250,000                    |
| Encumbrances  | <u>527,990</u>               |
| Total adjustments   | <u>5,777,990</u>             |
| General Fund Fund Balance Subject to § 1318 of Real Property Tax Law: | <u><u>\$ 9,129,601</u></u>   |
| Actual Percentage   | 4.00%                        |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Schedule of Project Expenditures -**  
**Capital Projects Fund**  
For The Year Ended June 30, 2013

| PROJECT TITLE                     | Budget               |                      | Expenditures         |                     |                      | Unexpended<br>Balance | Methods of Financing       |                   |                     |                      | Fund<br>Balance<br>June 30, 2013 |
|-----------------------------------|----------------------|----------------------|----------------------|---------------------|----------------------|-----------------------|----------------------------|-------------------|---------------------|----------------------|----------------------------------|
|                                   | June 30, 2012        | June 30, 2013        | Prior<br>Years       | Current<br>Year     | Total                |                       | Proceeds of<br>Obligations | Grant Aid         | Local Sources       | Total                |                                  |
| MA ADA Bathrooms                  | \$ 177,637           | \$ 177,637           | \$ 167,998           | \$                  | \$ 167,998           | \$ 9,639              | \$                         | \$                | \$ 177,637          | \$ 177,637           | \$ 9,639                         |
| SH Paving, Fencing, Playground    | 481,726              | 481,726              | 480,798              |                     | 480,798              | 928                   |                            |                   | 481,726             | 481,726              | 928                              |
| CW Bathroom renovations           | 222,637              | 222,637              | 208,465              |                     | 208,465              | 14,172                |                            |                   | 222,637             | 222,637              | 14,172                           |
| WH Windows/Doors                  | 780,896              | 780,896              | 768,176              |                     | 768,176              | 12,720                | 780,896                    |                   |                     | 780,896              | 12,720                           |
| District Wide EPC                 | 16,400,000           | 16,400,000           | 15,195,753           | 1,204,243           | 16,399,996           | 4                     | 15,403,312                 | 996,688           |                     | 16,400,000           | 4                                |
| Sunquam Roof Replacement - I      | 782,000              | 747,500              | 746,045              |                     | 746,045              | 1,455                 |                            |                   | 747,500             | 747,500              | 1,455                            |
| Candlewood Roof                   |                      | 34,500               |                      | 34,500              | 34,500               | -                     |                            |                   | 34,500              | 34,500               | -                                |
| Sunquam Roof Replacement - II     | 800,000              | 800,000              | 29,904               | 769,462             | 799,366              | 634                   |                            |                   | 800,000             | 800,000              | 634                              |
| FP Roof and Fuel Tank Repair      |                      | 400,000              |                      | 14,508              | 14,508               | 385,492               |                            |                   | 400,000             | 400,000              | 385,492                          |
| Sunquam Roof Replacement - III    |                      | 116,000              |                      | 91,112              | 91,112               | 24,888                |                            |                   | 116,000             | 116,000              | 24,888                           |
| HSE Track and Locker Room Repairs |                      | 109,000              |                      | 3,953               | 3,953                | 105,047               |                            |                   | 109,000             | 109,000              | 105,047                          |
| Natatorium                        |                      | 175,000              |                      | 6,347               | 6,347                | 168,653               |                            |                   | 175,000             | 175,000              | 168,653                          |
| Totals                            | <u>\$ 19,644,896</u> | <u>\$ 20,444,896</u> | <u>\$ 17,597,139</u> | <u>\$ 2,124,125</u> | <u>\$ 19,721,264</u> | <u>\$ 723,632</u>     | <u>\$ 16,184,208</u>       | <u>\$ 996,688</u> | <u>\$ 3,264,000</u> | <u>\$ 20,444,896</u> | <u>\$ 723,632</u>                |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**Net Investment in Capital Assets**  
For The Year Ended June 30, 2013

|   |                       |
|---|-----------------------|
| Capital assets, net                             | <u>\$ 129,678,226</u> |
| Add:  |                       |
| Unamortized bond issuance costs                 | <u>1,924,518</u>      |
| Deduct:   |                       |
| Premium on bonds payable                        | (5,115,521)           |
| Short-term portion of bonds payable             | (4,830,000)           |
| Long-term portion of bonds payable              | (50,340,000)          |
| Short-term portion of installment purchase debt | (885,283)             |
| Long-term portion of installment purchase debt  | <u>(13,502,561)</u>   |
|   | <u>(74,673,365)</u>   |
| Net investment in capital assets                | <u>\$ 56,929,379</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  
Half Hollow Hills Central School District  
Dix Hills, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the Half Hollow Hills Central School District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 17, 2013.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Half Hollow Hills Central 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cullen & Danowski, LLP*

October 17, 2013







EXTRACLASROOM ACTIVITY FUNDS  
FINANCIAL STATEMENT WITH  
INDEPENDENT AUDITOR'S REPORT

June 30, 2013

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**EXTRACLASROOM ACTIVITY FUNDS**  
June 30, 2013

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Half Hollow Hills Central School District  
Dix Hills, New York

We have audited the accompanying Statement of Cash Receipts and Disbursements of the Half Hollow Hills Central School District's (District) extraclassroom activity funds for the year ended June 30, 2013, and the related note to the financial statement.

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1.B. Management is also responsible for 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 an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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

### **Basis for Qualified Opinion**

The records of the extraclassroom activity funds of the Half Hollow Hills Central School District were not adequate to permit the application of adequate auditing procedures to indicate whether all receipts were recorded.

### **Qualified Opinion**

In our opinion, except for the effect of any adjustments that might have been necessary had we been able to perform adequate auditing procedures in regard to the receipts referred to in the Basis for Qualified Opinion paragraph, the financial statement referred to in the first paragraph presents fairly, in all material respects, the cash transactions of the extraclassroom activity funds of the Half Hollow Hills Central School District for the year ended June 30, 2013, on the basis of accounting described in Note 1.B.

### **Basis of Accounting**

We draw attention to Note 1.B. of the financial statement, which describes the basis of accounting. This financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

*Cullen & Danowski, LLP*

October 17, 2013

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**EXTRACLASSROOM ACTIVITY FUNDS**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**For the Year Ended June 30, 2013**

|  | Cash<br>Balance<br><u>June 30, 2012</u> | Receipts<br>and<br><u>Transfers</u> | Disbursements<br>and<br><u>Transfers</u> | Cash<br>Balance<br><u>June 30, 2013</u> |
|--|---|-------------------------------------|--|---|
| <b>CLUBS</b>                           |   |                                     |  |   |
| <b>Half Hollow Hills HS East</b>       |   |                                     |  |   |
| Class of 2012                          | \$ 34,493                               | \$ -                                | \$ 34,493                                | \$ -                                    |
| Class of 2013                          | 763                                     | 79,902                              | 46,724                                   | 33,941                                  |
| Class of 2014                          | 690                                     | 19,084                              | 17,717                                   | 2,057                                   |
| Class of 2015                          | 761                                     | 2,280                               | 707                                      | 2,334                                   |
| Class of 2016                          | -                                       | 1,372                               | 440                                      | 932                                     |
| Academic Team                          | 389                                     | 1,321                               | 1,374                                    | 336                                     |
| African American Society               | 1,035                                   | 668                                 | 300                                      | 1,403                                   |
| Amnesty International                  | 1,419                                   | 1,087                               |  | 2,506                                   |
| Animal Friends                         | 321                                     | 235                                 | 500                                      | 56                                      |
| Architecture Club                      | 4,458                                   | 3,334                               | 7,666                                    | 126                                     |
| Art Honor Society                      | 1,351                                   | 2,359                               | 2,258                                    | 1,452                                   |
| Astronomy Club                         | 1,353                                   |                                     |  | 1,353                                   |
| Business Honor Society                 | 405                                     | 15                                  |  | 420                                     |
| Cheerleading                           | 15                                      | 3,296                               | 2,844                                    | 467                                     |
| Constitution Club                      | 2,592                                   | 821                                 |  | 3,413                                   |
| DECA                                   | 1,843                                   | 16,450                              | 17,507                                   | 786                                     |
| Drama                                  | 7,747                                   | 1,722                               | 3,579                                    | 5,890                                   |
| Fashion Club                           | 6                                       |                                     |  | 6                                       |
| FBLA                                   | 87                                      |                                     |  | 87                                      |
| Film Club                              | 945                                     | 333                                 | 494                                      | 784                                     |
| French Club                            | 926                                     |                                     | 634                                      | 292                                     |
| Future Educators                       | 104                                     | 85                                  | 67                                       | 122                                     |
| HHH East Music                         | 10,394                                  | 13,130                              | 14,531                                   | 8,993                                   |
| Ichthus Club                           | 26                                      |                                     |  | 26                                      |
| Indian American Club                   | 638                                     |                                     | 261                                      | 377                                     |
| Interact                               | 2,927                                   | 4,017                               | 1,972                                    | 4,972                                   |
| Italian Club                           | 1,414                                   |                                     | 437                                      | 977                                     |
| Key Club                               | 1,305                                   | 436                                 | 785                                      | 956                                     |
| Kickline                               | 1,048                                   | 3,475                               | 3,672                                    | 851                                     |
| Musical                                | 8,572                                   | 14,403                              | 12,544                                   | 10,431                                  |
| Music Honor Society                    | 1,791                                   | 3,175                               | 4,562                                    | 404                                     |
| National French Honor Society          | 1,039                                   |                                     |  | 1,039                                   |
| National Honor Society                 | 6,090                                   | 1,890                               | 2,202                                    | 5,778                                   |
| National Spanish Honor Society         | 1,837                                   |                                     |  | 1,837                                   |
| Pegasus                                | 6,408                                   |                                     | 40                                       | 6,368                                   |
| Performing Arts                        | 263                                     |                                     |  | 263                                     |
| Research Club                          | 4,000                                   |                                     |  | 4,000                                   |
| SADD                                   | 1,170                                   | 246                                 | 45                                       | 1,371                                   |
| School Store                           | 34,509                                  | 13,760                              | 16,565                                   | 31,704                                  |
| Science Explorers                      | 40                                      | 31                                  |  | 71                                      |
| Science Olympiads                      | 309                                     |                                     | 180                                      | 129                                     |
| Spanish Club                           | 2,707                                   |                                     |  | 2,707                                   |
| Speech & Debate                        | 23                                      | 16,103                              | 15,857                                   | 269                                     |
| Student Government                     | 32,039                                  | 20,328                              | 19,312                                   | 33,055                                  |
| Thespian                               | 2,307                                   | 3,703                               | 4,478                                    | 1,532                                   |
| Thunderbird                            | 92                                      | 177                                 | 125                                      | 144                                     |
| Yearbook                               | 24                                      | 43,398                              | 2,015                                    | 41,407                                  |
| <b>Total Half Hollow Hills HS East</b> | <u>182,675</u>                          | <u>272,636</u>                      | <u>236,887</u>                           | <u>218,424</u>                          |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**EXTRACLASSROOM ACTIVITY FUNDS**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS, (Continued)**  
**For the Year Ended June 30, 2013**

|  | Cash<br>Balance<br><u>June 30, 2012</u> | Receipts<br>and<br><u>Transfers</u> | Disbursements<br>and<br><u>Transfers</u> | Cash<br>Balance<br><u>June 30, 2013</u> |
|--|---|-------------------------------------|--|---|
| <b>CLUBS (cont'd)</b>                  |   |                                     |  |   |
| <b>Half Hollow Hills HS West</b>       |   |                                     |  |   |
| Class of 2011                          | 1,509                                   | 940                                 |  | 2,449                                   |
| Class of 2012                          | 5,574                                   | 2,757                               | 6,621                                    | 1,710                                   |
| Class of 2013                          | 2,868                                   | 53,325                              | 39,310                                   | 16,883                                  |
| Class of 2014                          | 3,211                                   | 6,085                               | 4,902                                    | 4,394                                   |
| AASO                                   | 398                                     | 1,492                               | 1,575                                    | 315                                     |
| Art Club                               | 76                                      |                                     |  | 76                                      |
| Art Honor Society                      | 1,705                                   | 566                                 | 802                                      | 1,469                                   |
| Asian Club                             | 450                                     |                                     |  | 450                                     |
| Athletes Helping Athletes              | 1,313                                   | 895                                 | 1,492                                    | 716                                     |
| Cheerleaders                           | 1,139                                   | 8,369                               | 5,710                                    | 3,798                                   |
| Chess Club                             | -                                       |                                     |  | -                                       |
| Chorus West                            | 509                                     |                                     | 340                                      | 169                                     |
| Colts R Us                             | 169                                     |                                     |  | 169                                     |
| Computer Club                          | 159                                     |                                     |  | 159                                     |
| DECA                                   | 1,474                                   | 28,192                              | 27,355                                   | 2,311                                   |
| Debate                                 | 350                                     | 570                                 | 350                                      | 570                                     |
| Environmental Club                     | 2,394                                   |                                     |  | 2,394                                   |
| FBLA                                   | 3,030                                   | 3,595                               | 3,144                                    | 3,481                                   |
| French Club                            | 171                                     | 155                                 | 275                                      | 51                                      |
| Future Educators                       | -                                       | 90                                  |  | 90                                      |
| Ichthus Club                           | 58                                      | 1,580                               | 1,470                                    | 168                                     |
| Interact                               | 1,065                                   | 336                                 | 450                                      | 951                                     |
| Italian Club                           | 80                                      |                                     |  | 80                                      |
| Key Club                               | 988                                     | 2,439                               | 2,719                                    | 708                                     |
| Kickline                               | 1,772                                   | 28,612                              | 28,278                                   | 2,106                                   |
| Mentathalon                            | 841                                     | 290                                 | 883                                      | 248                                     |
| Mock Trial                             | -                                       | 125                                 | 125                                      | -                                       |
| National Honor Society                 | 3,287                                   | 1,895                               | 1,692                                    | 3,490                                   |
| Robotics                               | 1,664                                   | 24,855                              | 16,217                                   | 10,302                                  |
| SADD                                   | 1,184                                   | 490                                 | 554                                      | 1,120                                   |
| School Newspaper                       | 76                                      | 1,160                               | 1,200                                    | 36                                      |
| Science Olympiad                       | -                                       | 1,092                               | 592                                      | 500                                     |
| School Store                           | 8,867                                   | 32,945                              | 26,561                                   | 15,251                                  |
| Spanish Honor Society                  | 48                                      | 1,144                               | 1,164                                    | 28                                      |
| Step                                   | 147                                     |                                     |  | 147                                     |
| Student Senate                         | 3,101                                   | 3,488                               | 3,683                                    | 2,906                                   |
| Symphonic Band                         | 1,080                                   |                                     |  | 1,080                                   |
| TAP                                    | 1,314                                   | 1,357                               | 2,128                                    | 543                                     |
| Theatre West                           | 2,024                                   | 6,757                               | 6,120                                    | 2,661                                   |
| Tri M                                  | 7,062                                   | 16,647                              | 20,797                                   | 2,912                                   |
| Varsity Club                           | -                                       |                                     |  | -                                       |
| Westhespians                           | 2,387                                   | 385                                 | 1,753                                    | 1,019                                   |
| Yearbook                               | 15,421                                  | 45,495                              | 37,102                                   | 23,814                                  |
| Zakat                                  | -                                       | 1,246                               | 1,000                                    | 246                                     |
| <b>Total Half Hollow Hills HS West</b> | <u>78,965</u>                           | <u>279,369</u>                      | <u>246,364</u>                           | <u>111,970</u>                          |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**EXTRACLASROOM ACTIVITY FUNDS**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS, (Continued)**  
**For the Year Ended June 30, 2013**

|  | Cash<br>Balance<br><u>June 30, 2012</u> | Receipts<br>and<br>Transfers | Disbursements<br>and<br>Transfers | Cash<br>Balance<br><u>June 30, 2013</u> |
|--|---|------------------------------|-----------------------------------|---|
| <b>CLUBS (cont'd)</b>                  |   |                              |                                   |   |
| <b>Candlewood Middle School</b>        |   |                              |                                   |   |
| Danceline                              | -                                       | 5,572                        | 5,477                             | 95                                      |
| Dramatic Arts                          | 9,102                                   | 9,589                        | 6,129                             | 12,562                                  |
| Eighth Grade                           | 13,412                                  | 36,343                       | 29,667                            | 20,088                                  |
| National Jr Honor Society              | 676                                     | -                            | 417                               | 259                                     |
| Service Club                           | 1,967                                   | 886                          | 876                               | 1,977                                   |
| Seventh Grade                          | 1,089                                   | -                            | -                                 | 1,089                                   |
| Sixth Grade                            | 444                                     | -                            | -                                 | 444                                     |
| Student Council                        | 16,803                                  | 4,691                        | 5,465                             | 16,029                                  |
| Yearbook                               | 14,814                                  | 6,622                        | 4,195                             | 17,241                                  |
| <b>Total Candlewood Middle School</b>  | <u>58,307</u>                           | <u>63,703</u>                | <u>52,226</u>                     | <u>69,784</u>                           |
| <b>West Hollow Middle School</b>       |   |                              |                                   |   |
| Dramatic Arts                          | 19,045                                  | 18,384                       | 16,371                            | 21,058                                  |
| Environmental                          | 18                                      | 500                          |                                   | 518                                     |
| Hi-Tech                                | 10                                      |                              |                                   | 10                                      |
| National Junior Honor Society          | 1,141                                   | 1,077                        | 1,122                             | 1,096                                   |
| SADD                                   | 33                                      |                              |                                   | 33                                      |
| School Store                           | (190)                                   | 16,560                       | 15,681                            | 689                                     |
| Student Council                        | 6,586                                   | 57,171                       | 59,718                            | 4,039                                   |
| Yearbook                               | 906                                     | 8,116                        | 8,127                             | 895                                     |
| <b>Total West Hollow Middle School</b> | <u>27,549</u>                           | <u>101,808</u>               | <u>101,019</u>                    | <u>28,338</u>                           |
| <b>Grand Total</b>                     | <u>\$ 347,496</u>                       | <u>\$ 717,516</u>            | <u>\$ 636,496</u>                 | <u>\$ 428,516</u>                       |

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**EXTRACLASSROOM ACTIVITY FUNDS**  
**NOTE TO FINANCIAL STATEMENT**  
June 30, 2013

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The extraclassroom activity funds represent funds of the students of the Half Hollow Hills Central School District (District). Although the extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management, the Board of Education exercises general oversight of these funds. Based on this criterion, the extraclassroom activity funds are included in the District's reporting entity. The District reports these assets held by it as agent for the extraclassroom organizations in an agency fund in the Statement of Fiduciary Net Position – Fiduciary Funds.

**B. Basis of Accounting**

The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, the only asset recognized is cash, and no liabilities are recognized. All transactions are recognized as either cash receipts or disbursements, and noncash transactions are not recognized. The cash basis differs from generally accepted accounting principles primarily because receivables and payables, inventory, long-lived assets, and accrued income and expenses, which would be recognized under accounting principles generally accepted in the United States of America, and which may be material in amount, are not recognized in the accompanying financial statement.





Half Hollow Hills Central School District  
Proposed Journal Entries  
June 30, 2013

| Account  | Description   | Debit     | Credit    |
|--|---|-----------|-----------|
| <b>Proposed Journal Entry #1</b>   |   |           |           |
| To record additional receivable at year end for actual PPT and health services billings made after year end for service through 6/30/13. |   |           |           |
| A.1040.0440.000  | Due from Other Governments/Other Governments        | 64,698.22 |           |
| A.4030.2230.001  | Charges for Services/Tuition District of Location   |           | 64,247.14 |
| A.4030.2280.000  | Charges for Services/Health Services for Other Dist |           | 451.08    |

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Half Hollow Hills Central School District  
Dix Hills, New York

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Half Hollow Hills Central School District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the Half Hollow Hills Central School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Changes in Accounting Principles***

As described in Note 2 to the financial statements, "Changes in Accounting Principles", the District has adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of June 30, 2013.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 3 through 13 and 43 through 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Half Hollow Hills Central School District's basic financial statements. The other supplementary information on pages 46 through 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2013 on our consideration of the Half Hollow Hills Central School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Half Hollow Hills Central School District's internal control over financial reporting and compliance.

*Cullen & Danowski, LLP*

October 17, 2013

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

The Half Hollow Hills Central School District's discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013 in comparison with the year ended June 30, 2012, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

**1. FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2013 are as follows:

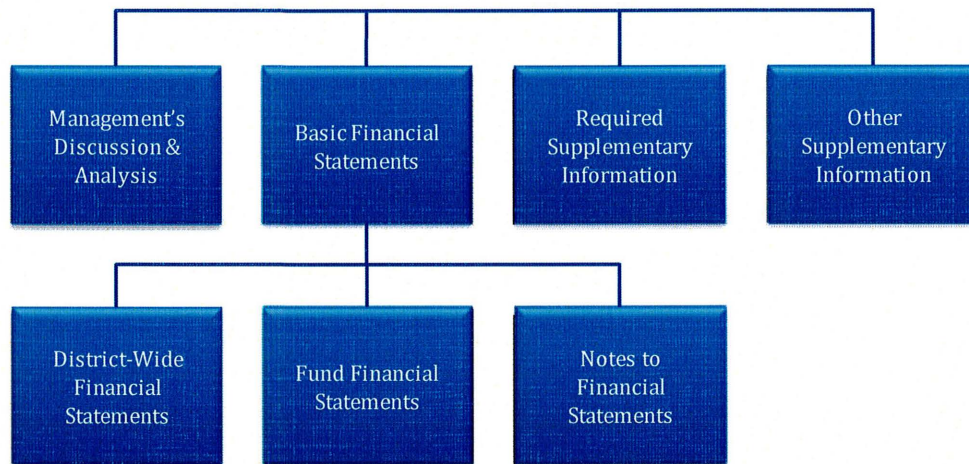
- The general fund's total fund balance, including assigned and unassigned balances, increased by \$406,984 to \$38,229,916.
- Total revenues in the general fund were \$213,150,651 and the expenditures, including operating transfers to other funds, totaled \$212,743,667.
- The District's total net position, as reflected in the district-wide financial statements is \$15,858,814, a decrease of \$14,059,417.
- The District's operating revenues and expenses for the year, as reflected in the district-wide financial statements, were \$221,950,549 and \$236,009,966, respectively.
- The District received operating grants during the year of \$5,510,903, a decrease of \$1,930,289 from the prior year. The decrease can be attributed to the expiration of funding under the American Recovery and Reinvestment Act of 2009 (ARRA) related to education jobs funds of \$1,437,310 and the New York State Energy Research and Development Authority (NYSERDA) of \$433,924.
- In February 2013, the District refunded significant portions of serial bonds issued in 2003, 2004 and 2005. The principal balance of the new bonds at June 30, 2013 is \$34,040,000. The present value of the aggregate savings to the District provided by the refunding is \$3,744,202.
- The budget for the 2013-14 school year in the amount of \$228,254,916 was approved by the voters on May 21, 2013.
- The District aggressively and consistently managed its expenses throughout the year to ensure its year-end results created a strong foundation for entering into the 2013-14 school year, knowing that the District would be under even further financial constraints.
- Ongoing reductions to the State and Federal governments' financial commitment to the students of the District in the form of State Aid and grants create additional financial strain on the District's general fund budget. Combining the loss of funding in this area along with the constraints put on districts by the Property Tax Levy Cap creates a challenging financial environment for the District.
- As described in Note 2 to the financial statements, "Changes in Accounting Principles", the District has adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of June 30, 2013.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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**2. OVERVIEW OF THE FINANCIAL STATEMENTS**

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



**A. District-wide Financial Statements**

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

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

The Statement of Net Position

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

The Statement of Activities

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

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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**B. Fund Financial Statements**

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

**Governmental Funds**

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

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

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

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

**Fiduciary Funds**

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

**3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**A. Net Position**

The District's total net position decreased by \$14,059,417 between fiscal year 2013 and 2012. A summary of the District's Statement of Net Position is as follows:

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

|   | 2013                 | 2012                 | Increase<br>(Decrease) | Percentage<br>Change |
|---|----------------------|----------------------|------------------------|----------------------|
| Current and Other Assets                        | \$ 57,724,102        | \$ 58,008,262        | \$ (284,160)           | (0.49)%              |
| Capital Assets, Net                             | <u>129,678,226</u>   | <u>134,557,591</u>   | <u>(4,879,365)</u>     | (3.63)%              |
| Total Assets                                    | <u>187,402,328</u>   | <u>192,565,853</u>   | <u>(5,163,525)</u>     | (2.68)%              |
| Deferred Outflows of Resources                  | <u>1,924,518</u>     | <u>1,924,518</u>     | <u>1,924,518</u>       | 100.00 %             |
| Current and Other Liabilities                   | 16,297,215           | 16,672,315           | (375,100)              | (2.25)%              |
| Long-Term Liabilities                           | 97,349,987           | 97,571,161           | (221,174)              | (0.23)%              |
| Net Other Postemployment<br>Benefits Obligation | <u>59,820,830</u>    | <u>48,404,146</u>    | <u>11,416,684</u>      | 23.59 %              |
| Total Liabilities                               | <u>173,468,032</u>   | <u>162,647,622</u>   | <u>10,820,410</u>      | 6.65 %               |
| Net Position                                    |                      |                      |                        |                      |
| Net Investment in Capital Assets                | 56,929,379           | 57,650,275           | (720,896)              | (1.25)%              |
| Restricted                                      | 24,140,647           | 24,073,615           | 67,032                 | 0.28 %               |
| Unrestricted (deficit)                          | <u>(65,211,212)</u>  | <u>(51,805,659)</u>  | <u>(13,405,553)</u>    | 25.88 %              |
| Total Net Position                              | <u>\$ 15,858,814</u> | <u>\$ 29,918,231</u> | <u>\$ (14,059,417)</u> | (46.99)%             |

At June 30, 2013, the District's total net position is \$15,858,814, which is a decrease of \$14,059,417 or 46.99% from the prior year.

Current and other assets decreased during the year by \$284,160. Decreases in restricted cash resulting from spending on the District's energy performance contract and due from state and federal was offset by an increase in amounts due from other governments.

Capital assets, net decreased during the year by \$4,879,365. The District capitalized \$2,978,280 of construction costs and equipment purchases, which was offset by depreciation expense in the amount of \$7,857,645.

Deferred outflows of resources represents the amount of deferred charges from the bond refunding that is being amortized over the remaining term of the bonds, in accordance with GASB Statement No. 65.

Current and other liabilities decreased from the prior year by \$375,100, principally due to the decrease in compensated absences payable as retiree payouts were made before year end.

Long-term liabilities decreased by \$221,174, principally due to the repayment of principal on long-term debt obligations, net of the reporting impact related to the bond refunding, and offset by an increase in workers' compensation liabilities based on an actuary study performed in the current year in accordance with GASB Statement No. 10.

Net other postemployment benefits obligation increased by \$11,416,684 as the current OPEB cost exceeded contributions in accordance with GASB Statement No. 45. The accompanying Notes to Financial Statements, Note 14 "Postemployment Benefits" provides additional information.



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

The net investment in capital assets is calculated by taking the total cost of all asset acquisitions, net of accumulated depreciation and subtracting the amount of outstanding debt used for construction. The total cost of these asset acquisitions includes expenditures to purchase land, construct and improve buildings and purchase vehicles, equipment and furniture to support District operations.

The restricted amount of \$24,140,647 relates to the District's reserves and other restricted amounts. This amount increased over the prior year by \$67,032 as year-end transfers into the reserves of \$4,176,000, interest allocated to reserves of \$48,156, and surplus earned in the debt service fund of \$92,876 exceeded the use of \$4,250,000 of reserves to fund the 2012-13 budget.

The unrestricted (deficit) increased by \$13,405,553 during the year to a deficit position of \$65,211,212. The District's assets are not sufficient to cover unfunded liabilities such as the net other postemployment benefits obligations. Currently, there is no provision in the law to permit the District to fund OPEB by any means other than the "pay as you go" method.

**B. Changes in Net Position**

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2013 and 2012 is as follows:

|                          | <u>2013</u>            | <u>2012</u>            | <u>Increase<br/>(Decrease)</u> | <u>Percentage<br/>Change</u> |
|--------------------------|------------------------|------------------------|--------------------------------|------------------------------|
| <b>Revenues</b>          |                        |                        |                                |                              |
| Program Revenues         |                        |                        |                                |                              |
| Charges for Services     | \$ 3,788,052           | \$ 4,317,296           | \$ (529,244)                   | (12.26)%                     |
| Operating Grants         | 5,510,903              | 7,441,192              | (1,930,289)                    | (25.94)%                     |
| General Revenues         |                        |                        |                                |                              |
| Property Taxes and STAR  | 182,307,101            | 178,148,658            | 4,158,443                      | 2.33 %                       |
| State Sources            | 25,301,449             | 24,083,419             | 1,218,030                      | 5.06 %                       |
| Other                    | 5,043,044              | 5,434,006              | (390,962)                      | (7.19)%                      |
| Total Revenues           | <u>221,950,549</u>     | <u>219,424,571</u>     | <u>2,525,978</u>               | 1.15 %                       |
| <b>Expenses</b>          |                        |                        |                                |                              |
| General Support          | 23,756,516             | 25,316,874             | (1,560,358)                    | (6.16)%                      |
| Instruction              | 190,416,807            | 187,722,816            | 2,693,991                      | 1.44 %                       |
| Pupil Transportation     | 14,953,144             | 15,859,074             | (905,930)                      | (5.71)%                      |
| Community Service        | 171,444                | 166,112                | 5,332                          | 3.21 %                       |
| Debt Service - Interest  | 3,320,889              | 3,418,398              | (97,509)                       | (2.85)%                      |
| Food Service Program     | 3,391,166              | 3,507,461              | (116,295)                      | (3.32)%                      |
| Total Expenses           | <u>236,009,966</u>     | <u>235,990,735</u>     | <u>19,231</u>                  | 0.01 %                       |
| Decrease in Net Position | <u>\$ (14,059,417)</u> | <u>\$ (16,566,164)</u> | <u>\$ 2,506,747</u>            | (15.13)%                     |

The change in net position represents the District's operating loss on the accrual basis of accounting. For the year ended June 30, 2013, the loss was \$14,059,417 compared to a \$16,566,164 loss in the prior year.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

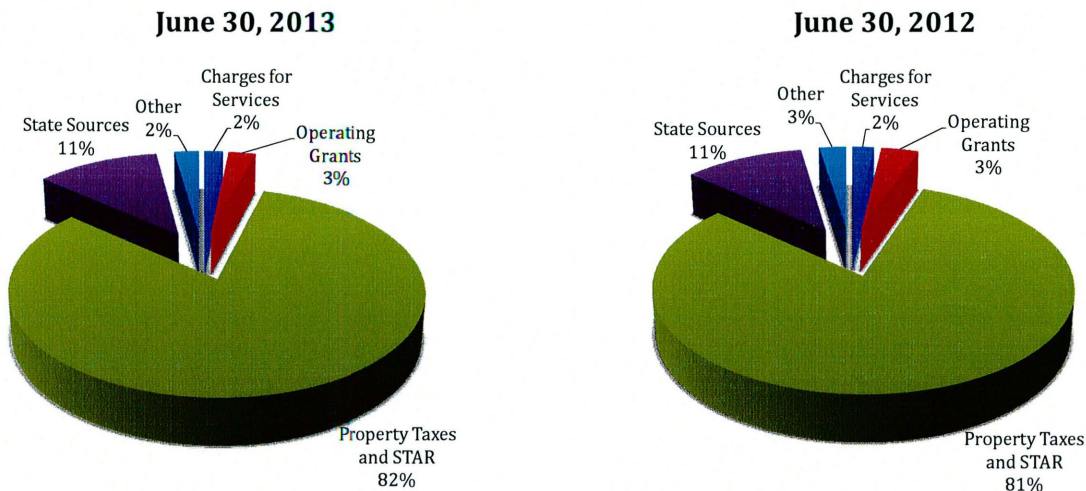
The District's revenues increased by \$2,525,978 or 1.15%. The major factors that contributed to the increase were:

- Property taxes and STAR revenues increased by \$4,158,443.
- The District received \$1,930,289 less in operating grants as federal funding was eliminated under the American Recovery and Reinvestment Act related to education jobs funds and NYSERDA.
- Revenue from state sources increased by \$1,218,030.

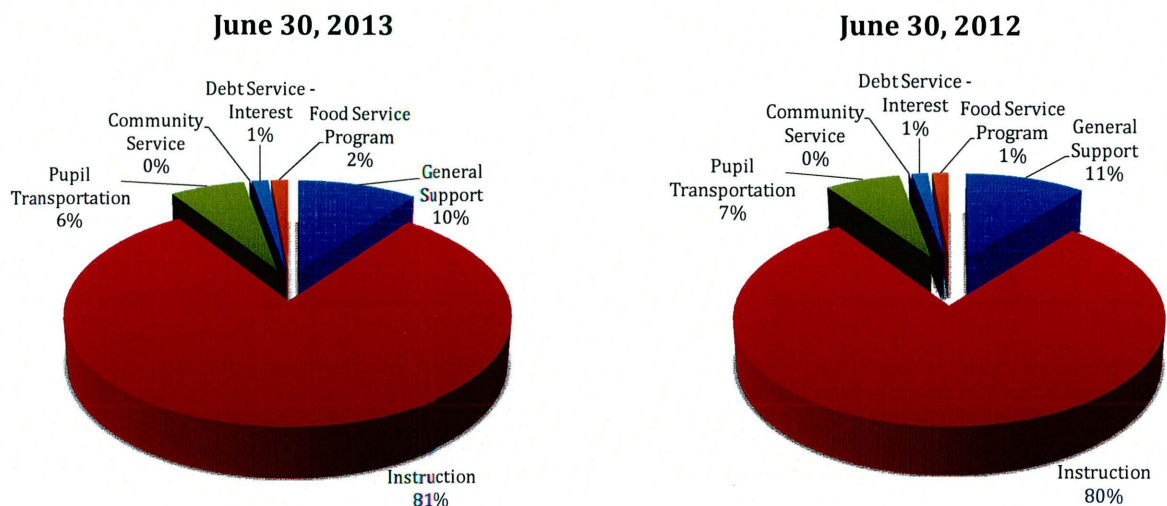
The District's expenses increased by \$19,231 to \$236,009,966 during the year.

As indicated on the pie charts that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 82% and 81% of the total for the years 2013 and 2012, respectively). Instructional expense is the largest category of expenses incurred (i.e., 81% and 80% of the total for the years 2013 and 2012, respectively).

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



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



**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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**D. Capital Projects Fund**

The net change in the capital projects fund – fund balance is a decrease of \$1,324,125, due to expenditures incurred on capital projects of \$2,124,125 in excess of an \$800,000 transfer from the general fund.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2012-2013 Budget**

The District's general fund adopted budget for the year ended June 30, 2013 was \$221,918,299. This amount was increased by encumbrances carried forward from the prior year in the amount of \$348,030 and budget revisions of \$104,141, for a total final budget of \$ 222,370,470.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$182,306,191 in estimated property taxes and STAR.

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

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

|  |                            |
|--|----------------------------|
| Opening, Unassigned Fund Balance           | \$ 8,876,733               |
| Revenues Over Budget                       | 628,211                    |
| Expenditures and Encumbrances Under Budget | 9,098,813                  |
| Interest Allocated to Reserves             | (48,156)                   |
| Transfers to Reserves                      | (4,176,000)                |
| Appropriated for June 30, 2014 Budget      | <u>(5,250,000)</u>         |
| Closing, Unassigned Fund Balance           | <u><u>\$ 9,129,601</u></u> |

**Opening, Unassigned Fund Balance**

The \$8,876,733 shown in the table is the portion of the District's June 30, 2012 fund balance that was retained as unassigned. This was 4.0% of the District's 2012-13 approved operating budget of \$221,918,299. It is the maximum unassigned fund balance permitted by law.

**Revenues Over Budget**

The District's actual revenues of \$213,150,651 exceeded the amounts estimated by \$628,211 for use of money and property, state sources, federal sources, and miscellaneous income.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

Expenditures and Encumbrances Under Budget

The District's expenditures and encumbrances totaling \$213,271,657 were \$9,098,813 less than budgeted. The District realized savings in central services, instruction expenditures, pupil transportation and employee benefits.

Transfers to Reserves

Pursuant to Board of Education resolution, the District transferred \$1,000,000 into each of the reserves for workers' compensation, unemployment and employee benefit accrued liability. In addition, they transferred \$1,176,000 into the retirement contribution reserve for a total amount transferred of \$4,176,000 to replenish balances for amounts utilized and to provide new funding.

Appropriated Fund Balance

The District has chosen to use \$5,250,000 of its available June 30, 2013 fund balance to partially fund its 2013-14 approved operating budget. As such, the June 30, 2013 unassigned fund balance must be reduced by this amount.

Closing Unassigned Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2013-14 fiscal year with an unassigned fund balance of \$9,129,601. This is an increase of \$252,868 over the unassigned fund balance from the prior year as of June 30, 2013. This unassigned portion is at the 4.0% statutory maximum, indicating stability in the District's management of its general fund unassigned fund balance.

**6. CAPITAL ASSET AND DEBT ADMINISTRATION**

**A. Capital Assets**

At June 30, 2013, the District had invested in a broad range of capital assets, as indicated in the table below. A summary of the District's capital assets, net of depreciation at June 30, 2013 and 2012 is as follows:

|                            | 2013                  | 2012                  | Increase<br>(Decrease) |
|----------------------------|-----------------------|-----------------------|------------------------|
| Land                       | \$ 2,629,860          | \$ 2,629,860          | \$ -                   |
| Construction in progress   | 59,309                | 15,225,659            | (15,166,350)           |
| Buildings and improvements | 116,342,447           | 105,140,104           | 11,202,343             |
| Site improvements          | 4,588,801             | 4,922,033             | (333,232)              |
| Vehicle                    | 2,311,623             | 2,406,352             | (94,729)               |
| Furniture and equipment    | 3,746,186             | 4,233,583             | (487,397)              |
| Capital assets, net        | <u>\$ 129,678,226</u> | <u>\$ 134,557,591</u> | <u>\$ (4,879,365)</u>  |

**B. Debt Administration**

At June 30, 2013, the District had total bonds payable (par value) of \$55,170,000. The bonds were issued for school building improvements. The decrease in outstanding debt represent principal payments of \$4,750,000 plus the net effect of advance refunding \$37,095,000 of serial bonds by issuing \$34,040,000 of refunding bonds. See Notes to Financial Statements, Note 12 "Long-Term Liabilities" for additional information. A summary of the outstanding debt at June 30, 2013 and 2012 is as follows:

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

| Issue<br>Date | Interest<br>Rate | 2013                 | 2012                 | Increase<br>(Decrease) |
|---------------|------------------|----------------------|----------------------|------------------------|
| 2003          | 3.50% - 4.38%    | \$                   | \$ 10,730,000        | \$ (10,730,000)        |
| 2004          | 3.50% - 4.25%    | 2,010,000            | 14,325,000           | (12,315,000)           |
| 2005          | 4.00% - 4.75%    | 2,455,000            | 19,390,000           | (16,935,000)           |
| 2007          | 3.78% - 4.35%    | 15,015,000           | 16,745,000           | (1,730,000)            |
| 2008          | 3.50% - 4.00%    | 1,650,000            | 1,785,000            | (135,000)              |
| 2013          | 3.50% - 4.00%    | 23,470,000           |                      | 23,470,000             |
| 2013          | 3.50% - 4.00%    | <u>10,570,000</u>    |                      | <u>10,570,000</u>      |
|               |                  | <u>\$ 55,170,000</u> | <u>\$ 62,975,000</u> | <u>\$ (7,805,000)</u>  |

At June 30, 2013, the District had \$14,387,844 outstanding on the energy performance contract payable. Principal payments during the year were \$860,242. The debt is payable through 2026 including interest at 2.89%.

Included in the District's long-term liabilities are the estimated amounts due for compensated absences, workers' compensation liability, and net other postemployment benefits obligation. The compensated absence liability of \$17,084,800 is based on employment contracts. The workers' compensation liability, in the amount of \$5,591,822 is based on actuary study in accordance with GASB Statement No. 10. The net other postemployment benefit obligation is based on an actuarially determined amount in accordance with GASB Statement No. 45 in the amount of \$59,820,830.

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa1. The District's total outstanding indebtedness currently does not exceed its debt limit. The debt limit is 10% of the full valuation of the taxable real property within the District.

## **7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

### **A. Subsequent Year's Budget**

Even with a proposed budget which included significant budget reductions, the District was successful in securing an overwhelmingly voter-approved budget for the 2013-14 school year thanks, in part, to its proactive efforts to keep residents informed about the progression of information related to the new Property Tax Levy Cap Legislation. Residents were actively engaged in one-on-one as well as large-scale public discussions regarding this new legislation and its impact on the development of the 2013-14 school year budget very early on in the budget cycle.

The District was required to make reductions to its 2013-14 school year budget in order to remain within its formula-generated property tax levy increase percent. These reductions were widespread in that they impacted both instructional as well as non-instructional programs.

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 21, 2013, for the year ending June 30, 2014, is \$228,254,916. This is an increase of \$6,336,617 or 2.86% over the previous year's budget. The District appropriated fund balance of \$5,250,000 and reserves of \$4,250,000 to help fund the June 30, 2014 budget.

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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The District continues to utilize both its restricted and assigned fund balances to reduce the financial burden which the local taxpayers feel. While use of these appropriations as a funding source is a necessary tool during these economic times, the District joins its peers across the State in fighting for appropriate and real mandate relief. Without such relief, the District will need to continue reducing programs and services in subsequent budget years.

**B. Tax Cap**

Chapter 97 of the 2011 Laws of New York limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation effective for the 2012-13 fiscal year. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. The District's tax levy for the 2013-14 fiscal year is within the limits established by state law.

**C. Future Budgets**

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

**8. CONTACTING THE DISTRICT**

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

Ms. Anne Marie Marrone Caliendo  
Assistant Superintendent Finance and Facilities  
Half Hollow Hills Central School District  
525 Half Hollow Road  
Dix Hills, New York 11746