



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

June 30, 2014

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
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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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 3 through 13 and 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 20, 2014 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 20, 2014

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, 2014 in comparison with the year ended June 30, 2013, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

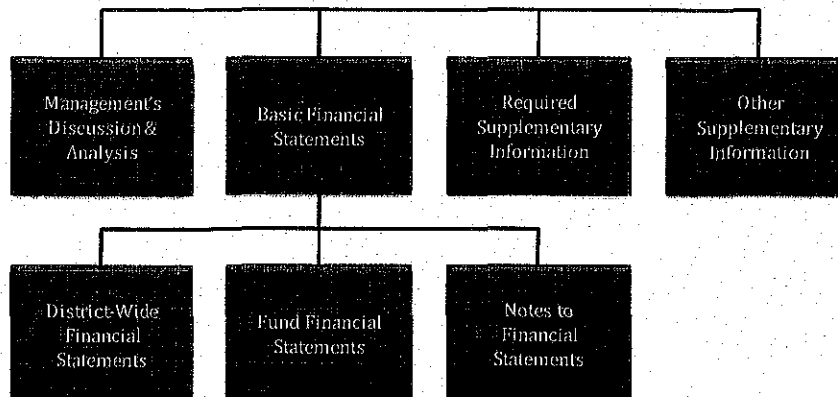
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2014 are as follows:

- The general fund's total fund balance, including assigned and unassigned balances, increased by \$3,313,970 to \$41,543,886.
- Total revenues in the general fund were \$220,062,413 and the expenditures, including operating transfers to other funds, totaled \$216,748,443.
- The District's total net position, as reflected in the district-wide financial statements is \$5,170,160, a decrease of \$10,688,654.
- The District's operating revenues and expenses for the year, as reflected in the district-wide financial statements, were \$227,907,817 and \$238,596,471, respectively.
- The District received operating grants during the year of \$5,347,966, a decrease of \$162,937 from the prior year. The decrease can be attributed to a reduction in instructional grants in the amount of \$168,919.
- The budget for the 2014-15 school year in the amount of \$234,216,849 was approved by the voters on May 20, 2014.
- 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 2014-15 school year, knowing that the District would be under even further financial constraints, as employee benefit costs continue to rise and property tax increase are limited by the property tax cap. These constraints create a challenging financial environment for the District.

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:



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

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.

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.

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

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

The District 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 separate statements. The fiduciary activities have been excluded from the District's district-wide financial statements because the District cannot use these assets to finance its operations.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position decreased by \$10,688,654 between fiscal year 2014 and 2013. A summary of the District's Statements of Net Position is as follows:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Current and Other Assets	\$ 66,680,822	\$ 57,724,102	\$ 8,956,720	15.52 %
Capital Assets, Net	<u>122,347,476</u>	<u>129,678,226</u>	<u>(7,330,750)</u>	(5.65)%
Total Assets	<u>189,028,298</u>	<u>187,402,328</u>	<u>1,625,970</u>	0.87 %
Deferred Outflows of Resources	<u>1,638,070</u>	<u>1,924,518</u>	<u>(286,448)</u>	(14.88)%
Current and Other Liabilities	21,135,924	16,297,215	4,838,709	29.69 %
Long-Term Liabilities	91,945,644	97,349,987	(5,404,343)	(5.55)%
Net Other Postemployment Benefits Obligation	<u>72,414,640</u>	<u>59,820,830</u>	<u>12,593,810</u>	21.05 %
Total Liabilities	<u>185,496,208</u>	<u>173,468,032</u>	<u>12,028,176</u>	6.93 %
Net Position				
Net Investment in Capital Assets	55,788,865	56,929,379	(1,140,514)	(2.00)%
Restricted	25,916,989	24,140,647	1,776,342	7.36 %
Unrestricted (deficit)	<u>(76,535,694)</u>	<u>(65,211,212)</u>	<u>(11,324,482)</u>	17.37 %
Total Net Position	<u>\$ 5,170,160</u>	<u>\$ 15,858,814</u>	<u>\$ (10,688,654)</u>	(67.40)%

At June 30, 2014, the District's total net position is \$5,170,160, which is a decrease of \$10,688,654 or 67.40% from the prior year.

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

Current and other assets increased during the year by \$8,956,720. This increase is primarily due to an increase of \$10,298,773 in the District's cash position as a result of current year operations, net of a \$1,144,825 decrease in amounts due from other governments.

Capital assets, net decreased during the year by \$7,330,750. The District capitalized \$1,017,642 of construction costs and equipment purchases, which was offset by depreciation expense in the amount of \$8,348,392.

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 increased \$4,838,709, as compared to the prior year. The increase is primarily due to increases in accrued liabilities of \$814,353 and the District's required contribution to the New York State Teachers' Retirement System of \$3,751,989.

Long-term liabilities decreased by \$5,404,343, principally due to the repayment of principal on long-term debt obligations, net of the reporting impact related to the bond refunding, in the amount of \$6,476,684 offset by an increase in compensated absences of \$1,572,750.

Net other postemployment benefits (OPEB) obligation increased by \$12,593,810, as compared to the prior year. This increase is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 13 "Postemployment Benefits", provides additional information.

The net investment in capital assets is 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 \$25,916,989 relates to the District's reserves and other restricted amounts. This amount increased over the prior year by \$1,776,342 as year-end transfers into the reserves of \$6,000,000, and interest allocated to reserves of \$30,155, was offset by the current year deficit in the debt service fund of \$3,813 and use of \$4,250,000 of reserves to fund the 2013-14 budget.

The unrestricted (deficit) increased by \$11,324,482 during the year to a deficit position of \$76,535,694. 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 STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2014 and 2013 is as follows:

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

	2014	2013	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 4,140,897	\$ 3,788,052	\$ 352,845	9.31 %
Operating Grants	5,347,966	5,510,903	(162,937)	(2.96)%
General Revenues				
Property Taxes and STAR	187,719,487	182,307,101	5,412,386	2.97 %
State Sources	26,168,373	25,301,449	866,924	3.43 %
Other	4,531,094	5,043,044	(511,950)	(10.15)%
Total Revenues	<u>227,907,817</u>	<u>221,950,549</u>	<u>5,957,268</u>	2.68 %
Expenses				
General Support	24,494,140	23,756,516	737,624	3.10 %
Instruction	193,049,523	190,416,807	2,632,716	1.38 %
Pupil Transportation	15,239,940	14,953,144	286,796	1.92 %
Community Service	171,354	171,444	(90)	(0.05)%
Debt Service - Interest	2,280,622	3,320,889	(1,040,267)	(31.32)%
Food Service Program	3,360,892	3,391,166	(30,274)	(0.89)%
Total Expenses	<u>238,596,471</u>	<u>236,009,966</u>	<u>2,586,505</u>	1.10 %
Decrease in Net Position	<u>\$ (10,688,654)</u>	<u>\$ (14,059,417)</u>	<u>\$ 3,370,763</u>	(23.98)%

The change in net position represents the District's operating loss on the accrual basis of accounting. For the year ended June 30, 2014, the loss was \$10,688,654 compared to a \$14,059,417 loss in the prior year.

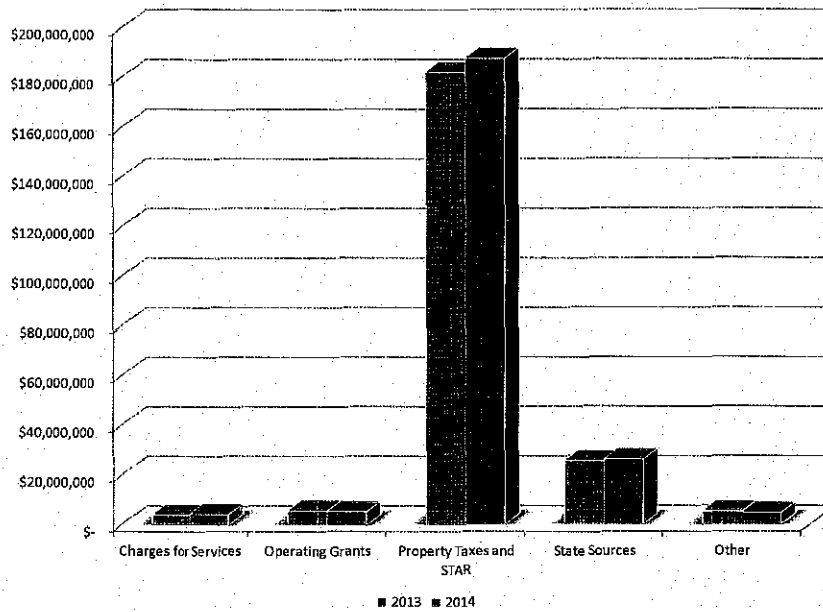
The District's revenues increased \$5,957,268 or 2.68%, principally as increases of property taxes and STAR of \$5,412,386 and state sources of \$866,924 were offset by a decrease in other revenues of \$511,950.

The District's expenses increased \$2,586,505 or 1.10%. The increase in the general support and instructional areas of \$737,624 and \$2,632,716, respectively, were primarily the result of increases in monthly utility charges and contractually required employee benefits. The increase was mitigated by a decrease in debt service interest of \$1,040,267 as the District refunded a significant portion of outstanding serial bonds in February 2013.

As indicated on the graphs that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 82.4% and 82.1% of the total for the years 2014 and 2013, respectively). Instruction expense is the largest category of expenses incurred (i.e., 80.8% and 80.7% of the total for the years 2014 and 2013, respectively).

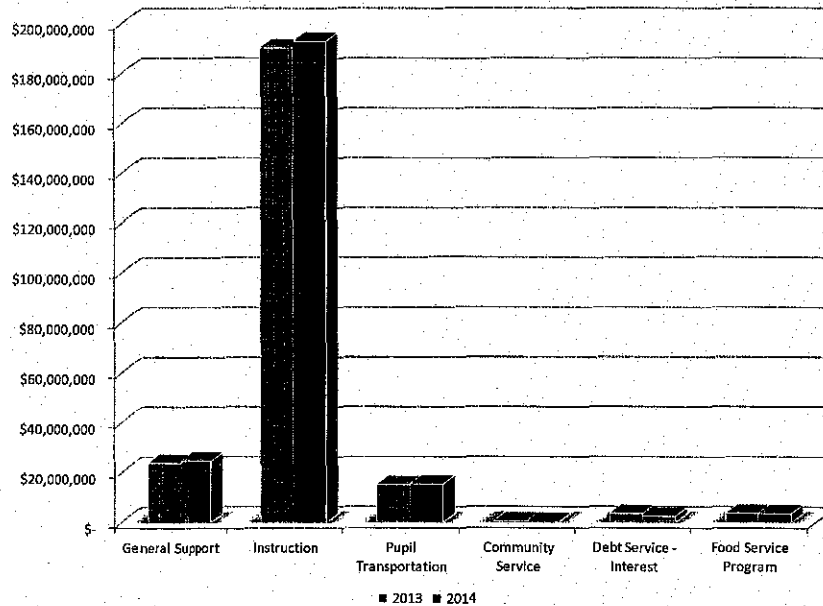
**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



	Charges for Services	Operating Grants	Property Taxes and STAR	State Sources	Other
2013	1.7%	2.5%	82.1%	11.4%	2.3%
2014	1.8%	2.3%	82.4%	11.5%	2.0%

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



	General Support	Instruction	Pupil Transportation	Community Service	Debt Service - Interest	Food Service Program
2013	10.1%	80.7%	6.3%	0.1%	1.4%	1.4%
2014	10.3%	80.8%	6.4%	0.1%	1.0%	1.4%

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

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2014, the District's governmental funds reported a combined fund balance of \$44,237,585, which is an increase of \$4,001,589 over the prior year. A summary of the change in fund balance by fund is as follows:

	2014	2013	Increase (Decrease)
General Fund			
Restricted:			
Workers' compensation	\$ 3,207,580	\$ 2,504,104	\$ 703,476
Unemployment insurance	2,041,845	1,090,126	951,719
Retirement contribution	7,999,975	8,590,528	(590,553)
Property loss	487,978	487,210	768
Liability	18,084	18,056	28
Employee benefit accrued liability	11,347,018	10,632,301	714,717
Assigned:			
Appropriated fund balance	6,467,822	5,250,000	1,217,822
Unappropriated fund balance	604,907	527,990	76,917
Unassigned: Fund balance	9,368,677	9,129,601	239,076
	<u>41,543,886</u>	<u>38,229,916</u>	<u>3,313,970</u>
School Lunch Fund			
Nonspendable: Inventory	51,537	53,796	(2,259)
Assigned: Unappropriated fund balance	405,319	410,330	(5,011)
	<u>456,856</u>	<u>464,126</u>	<u>(7,270)</u>
Debt Service Fund			
Restricted: Debt service	814,509	818,322	(3,813)
Capital Projects Fund			
Restricted: Unspent debt proceeds		16,539	(16,539)
Assigned: Unappropriated fund balance	1,422,334	707,093	715,241
	<u>1,422,334</u>	<u>723,632</u>	<u>698,702</u>
 Total Fund Balance	 <u>\$ 44,237,585</u>	 <u>\$ 40,235,996</u>	 <u>\$ 4,001,589</u>

A. General Fund

The net change in the general fund - fund balance is an increase of \$3,313,970 compared to an increase of \$406,984 in the prior year. Revenues increased \$6,911,762 (3.24%) over the prior year. Increases in property taxes (\$5,412,386) and state aid (\$866,924) accounted for 91% of the revenue increase. Expenditures and other financing uses increased by \$4,004,776. The pension contribution expenditure for teachers' retirement increased by \$3,874,135 as the contribution rate went from 11.84% of covered salaries in 2013 to 16.25% in 2014.

B. School Lunch Fund

The net change in the school lunch fund - fund balance is a decrease of \$7,270, which was the operating loss of the food service program. In the prior year, the school lunch fund operated at a \$80,271 profit. Lunch and a la carte sales increased by \$88,307 over prior year amounts.

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

C. Debt Service Fund

The net change in the debt service fund – fund balance is a decrease of \$3,813.

D. Capital Projects Fund

The net change in the capital projects fund – fund balance is an increase of \$698,702, as a \$1,000,000 transfer from the general fund exceeded expenditures incurred on capital projects of \$301,298.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2013-2014 Budget

The District's general fund adopted budget for the year ended June 30, 2014 was \$228,254,916. This amount was increased by encumbrances carried forward from the prior year in the amount of \$527,990 and budget revisions of \$205,277, for a total final budget of \$228,988,183.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$187,717,454 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 and encumbrances. 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	\$ 9,129,601
Revenues Over Budget	1,102,220
Expenditures and Encumbrances Under Budget	11,634,833
Interest Allocated to Reserves	(30,155)
Transfers to Reserves	(6,000,000)
Appropriated for June 30, 2014 Budget	<u>(6,467,822)</u>
Closing, Unassigned Fund Balance	<u><u>\$ 9,368,677</u></u>

Opening, Unassigned Fund Balance

The \$9,129,601 shown in the table is the portion of the District's June 30, 2013 fund balance that was retained as unassigned. This was 4.0% of the District's 2013-14 approved operating budget of \$228,254,916. It is the maximum unassigned fund balance permitted by law.

Revenues Over Budget

The District's 2013-14 final budget for revenues was \$218,960,193. Actual revenues for the year exceeded estimates by \$1,102,220. This change contributes directly to the change in general fund unassigned fund balance from June 30, 2013 to June 30, 2014.

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

Expenditures and Encumbrances Under Budget

The 2013-14 final budget for expenditures, including prior year encumbrances and budget revisions was \$228,988,183. Actual expenditures as of June 30, 2014 were \$216,718,443 and outstanding encumbrances were \$604,907. Combined, the expenditures plus encumbrances for 2013-14 were \$217,353,350. The final budget was under expended by \$11,634,833. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2013 to June 30, 2014.

Transfers to Reserves

Pursuant to Board of Education resolution, the District transferred \$1,000,000 to both the workers' compensation and unemployment reserves. In addition, it transferred \$2,000,000 into the employee benefit accrued liability and the retirement contribution reserves for a total amount transferred of \$6,000,000 to replenish balances for amounts utilized and to provide new funding. Additionally, interest earnings of \$30,155 were allocated to the reserves.

Appropriated Fund Balance

The District has chosen to use \$6,467,822 of its available June 30, 2014 fund balance to partially fund its 2014-15 approved operating budget. As such, the June 30, 2014 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the table, the unassigned fund balance at June 30, 2014 was \$9,368,677. This amount equals 4% of the 2014-15 budget and is at the 4% statutory limit.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

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

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Land	\$ 2,629,860	\$ 2,629,860	\$ -
Construction in progress	360,607	59,309	301,298
Buildings and improvements	109,747,180	116,342,447	(6,595,267)
Site improvements	4,224,945	4,588,801	(363,856)
Vehicle	1,843,197	2,311,623	(468,426)
Furniture and equipment	3,541,687	3,746,186	(204,499)
Capital assets, net	<u>\$ 122,347,476</u>	<u>\$ 129,678,226</u>	<u>\$ (7,330,750)</u>

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

B. Debt Administration

At June 30, 2014, the District had total bonds payable (par value) of \$50,340,000. The bonds were issued for school building improvements, or the refunding of bonds originally issued for school building improvements. The decrease in outstanding debt represents current year principal payments. A summary of the outstanding debt at June 30, 2014 and 2013 is as follows:

Issue Date	Interest Rate	2014	2013	Increase (Decrease)
2004	3.50% - 4.25%	\$ 1,025,000	\$ 2,010,000	\$ (985,000)
2005	4.00% - 4.75%	1,250,000	2,455,000	(1,205,000)
2007	3.78% - 4.35%	13,280,000	15,015,000	(1,735,000)
2008	3.50% - 4.00%	1,510,000	1,650,000	(140,000)
2013	3.50% - 4.00%	22,730,000	23,470,000	(740,000)
2013	3.50% - 4.00%	10,545,000	10,570,000	(25,000)
		<u>\$ 50,340,000</u>	<u>\$ 55,170,000</u>	<u>\$ (4,830,000)</u>

At June 30, 2014, the District had \$13,502,561 outstanding on the energy performance contract payable. Principal payments during the year were \$885,283. 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 \$18,657,550 is based on employment contracts. The workers' compensation liability, in the amount of \$5,091,413 is based on an actuarial study in accordance with GASB Statement No. 10. The net other postemployment benefit obligation is an actuarially determined amount in accordance with GASB Statement No. 45 in the amount of \$72,414,640.

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

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 20, 2014, for the year ending June 30, 2015, is \$234,216,849. This is an increase of \$5,961,933 or 2.61% over the previous year's budget. The increase is principally in the instruction and employee benefit areas of the budget.

The District budgeted revenues other than property taxes and STAR at a \$1,562,851 increase. This increase is principally due to estimated increases in state aid and federal aid. Additionally, the assigned, appropriated fund balance is a \$1,217,822 increase over the previous year. A property tax levy increase of 1.69% was needed to meet the revenue shortfall and cover the increase in projected expenditures.

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

B. Tax Cap

Chapter 97 of the 2011 Laws of New York limits, for a five year period, the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation starting with the 2012-13 fiscal year. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. Based on the law, the District's tax levy cap for 2014-15 is 2.34%. The 1.69% increase in the 2014-15 levy is compliant with the tax cap.

C. Future Budgets

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

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

Statement of Net Position

June 30, 2014

ASSETS

Cash	
Unrestricted	\$ 32,827,373
Restricted	25,916,989
Receivables	
Accounts receivable	120,449
Due from other funds	2,301,460
Due from state and federal	3,174,069
Due from other governments	2,288,945
Inventories	51,537
Capital assets:	
Not being depreciated	2,990,467
Being depreciated, net of accumulated depreciation	<u>119,357,009</u>
Total Assets	<u>189,028,298</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges on advance refunding of bonds	<u>1,638,070</u>
Total Deferred Outflows of Resources	<u>1,638,070</u>

LIABILITIES

Payables	
Accounts payable	2,397,891
Accrued liabilities	1,702,409
Due to other governments	939
Due to teachers' retirement system	15,249,515
Due to employees' retirement system	1,694,093
Unearned credits	
Collections in advance	91,077
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	5,744,378
Installment purchase debt payable	911,052
Compensated absences payable	935,000
Workers' compensation liabilities	1,100,000
Due and payable after one year	
Bonds payable, net	48,949,742
Installment purchase debt payable	12,591,509
Compensated absences payable	17,722,550
Workers' compensation liabilities	3,991,413
Net other postemployment benefits obligation	<u>72,414,640</u>
Total Liabilities	<u>185,496,208</u>

NET POSITION

Net investment in capital assets	<u>55,788,865</u>
Restricted	
Workers' compensation	3,207,580
Unemployment insurance	2,041,845
Retirement contribution	7,999,975
Property loss	487,978
Liability	18,084
Employee benefit accrued liability	11,347,018
Debt service	<u>814,509</u>
	<u>25,916,989</u>
Unrestricted (deficit)	<u>(76,535,694)</u>
Total Net Position	<u>\$ 5,170,160</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

Statement of Activities

For The Year Ended June 30, 2014

		<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS/PROGRAMS				
General support	\$ 24,494,140	\$	\$	\$ (24,494,140)
Instruction	193,049,523	1,680,360	4,494,299	(186,874,864)
Pupil transportation	15,239,940			(15,239,940)
Community service	171,354			(171,354)
Debt service - interest	2,280,622			(2,280,622)
Food service program	3,360,892	2,460,537	853,667	(46,688)
	<u>\$ 238,596,471</u>	<u>\$ 4,140,897</u>	<u>\$ 5,347,966</u>	<u>(229,107,608)</u>
GENERAL REVENUES				
Real property taxes				174,939,452
Other tax items				15,750,898
Use of money and property				200,406
Sale of property and compensation for loss				799,424
Miscellaneous				560,401
State sources				<u>26,168,373</u>
Total General Revenues				<u>218,418,954</u>
Change in Net Position				(10,688,654)
Total Net Position - Beginning of year				<u>15,858,814</u>
Total Net Position - End of year				<u>\$ 5,170,160</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT

Balance Sheet - Governmental Funds

June 30, 2014

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 28,204,057	\$	\$ 2,890,515	\$	\$ 1,732,801	\$ 32,827,373
Restricted	25,549,170			367,819		25,916,989
Receivables						
Accounts receivable	116,070		4,379			120,449
Due from other funds	14,939,149	634,219	11,221	8,846,378	801,807	25,232,774
Due from state and federal	1,721,070	1,392,342	60,657			3,174,069
Due from other governments	2,288,945					2,288,945
Inventories			51,537			51,537
Total Assets	<u>\$ 72,818,461</u>	<u>\$ 2,026,561</u>	<u>\$ 3,018,309</u>	<u>\$ 9,214,197</u>	<u>\$ 2,534,608</u>	<u>\$ 89,612,136</u>
LIABILITIES						
Payables						
Accounts payable	\$ 2,348,685	\$ 42,202	\$ 7,004	\$	\$	\$ 2,397,891
Accrued liabilities	1,062,960	9,116	46,193			1,118,269
Due to other funds	9,027,869	1,961,118	2,430,365	8,399,688	1,112,274	22,931,314
Due to other governments			939			939
Due to teachers' retirement system	15,249,515					15,249,515
Due to employees' retirement system	1,694,093					1,694,093
Unearned credits						
Collections in advance		14,125	76,952			91,077
Total Liabilities	<u>29,383,122</u>	<u>2,026,561</u>	<u>2,561,453</u>	<u>8,399,688</u>	<u>1,112,274</u>	<u>43,483,098</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred revenues	<u>1,891,453</u>					<u>1,891,453</u>
Total Deferred Inflows of Resources	<u>1,891,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,891,453</u>
FUND BALANCES						
Nonspendable: Inventories			51,537			51,537
Restricted:						
Workers' compensation	3,207,580					3,207,580
Unemployment insurance	2,041,845					2,041,845
Retirement contribution	7,999,975					7,999,975
Property loss	487,978					487,978
Liability	18,084					18,084
Employee benefit accrued liability	11,347,018					11,347,018
Debt service				814,509		814,509
Assigned:						
Appropriated fund balance	6,467,822					6,467,822
Unappropriated fund balance	604,907		405,319		1,422,334	2,432,560
Unassigned: Fund balance	<u>9,368,677</u>					<u>9,368,677</u>
Total Fund Balances	<u>41,543,886</u>	<u>-</u>	<u>456,856</u>	<u>814,509</u>	<u>1,422,334</u>	<u>44,237,585</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 72,818,461</u>	<u>\$ 2,026,561</u>	<u>\$ 3,018,309</u>	<u>\$ 9,214,197</u>	<u>\$ 2,534,608</u>	<u>\$ 89,612,136</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2014

Total Governmental Fund Balances	\$ 44,237,585
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.	1,891,453
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The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.

Original cost of capital assets	\$ 246,173,680	
Accumulated depreciation	<u>(123,826,204)</u>	
		122,347,476

Deferred charges on the advance refunding of bonds are not reported on the Balance Sheet, but are reflected on the Statement of Net Position and amortized over the life of the related bonds.

Deferred charges on advance refunding	1,924,518	
Less: Accumulated amortization	<u>(286,448)</u>	
		1,638,070

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	(584,140)	
Bonds payable, net	(54,694,120)	
Installment purchase debt payable	(13,502,561)	
Compensated absences payable	(18,657,550)	
Workers' compensation liabilities	(5,091,413)	
Net other postemployment benefits obligation	<u>(72,414,640)</u>	
		<u>(164,944,424)</u>

Total Net Position	\$ <u>5,170,160</u>
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HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2014

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 174,939,452	\$	\$	\$	\$	\$ 174,939,452
Other tax items	15,736,207					15,736,207
Charges for services	1,565,351					1,565,351
Use of money and property	199,047		1,171	188		200,406
Sale of property and compensation for loss	799,424					799,424
Miscellaneous	560,401	6,448	3,989			570,838
Interfund revenues	1,609					1,609
State sources	26,168,373	1,835,152	46,343			28,049,868
Federal sources	92,549	2,560,150	646,516			3,299,215
Surplus food			160,808			160,808
Sales - school lunch			2,456,548			2,456,548
Total Revenues	220,062,413	4,401,750	3,315,375	188	-	227,779,726
EXPENDITURES						
General support	18,339,236	1,609				18,340,845
Instruction	120,707,840	4,646,335				125,354,175
Pupil transportation	12,542,467	339,263				12,881,730
Community service	109,978					109,978
Employee benefits	55,009,886		432,571			55,442,457
Debt service						
Principal				5,715,283		5,715,283
Interest	57,891			2,684,406		2,742,297
Cost of sales			2,890,074			2,890,074
Capital outlay					301,298	301,298
Total Expenditures	206,767,298	4,987,207	3,322,645	8,399,689	301,298	223,778,137
Excess of Revenues Over (Under) Expenditures	13,295,115	(585,457)	(7,270)	(8,399,501)	(301,298)	4,001,589
OTHER FINANCING SOURCES AND (USES)						
Operating transfers in		585,457		8,395,688	1,000,000	9,981,145
Operating transfers (out)	(9,981,145)					(9,981,145)
Total Other Financing Sources and (Uses)	(9,981,145)	585,457	-	8,395,688	1,000,000	-
Net Change in Fund Balances	3,313,970	-	(7,270)	(3,813)	698,702	4,001,589
Fund Balances - Beginning of year	38,229,916	-	464,126	818,322	723,632	40,235,996
Fund Balances - End of year	\$ 41,543,886	\$ -	\$ 456,856	\$ 814,509	\$ 1,422,334	\$ 44,237,585

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, 2014

Net Change in Fund Balances \$ 4,001,589

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 \$ 129,700

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 (1,572,750)
Increase in net other postemployment benefits obligation (12,593,810)

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in a reduction of the long-term liability and an increase in the net position.

Decrease in workers' compenstion liabilities 500,409
(13,536,451)

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 1,017,642
Depreciation expense (8,348,392)
(7,330,750)

Long-Term Debt Transaction Differences

The amortization of the deferred premium, net of the amortization of the deferred charges on the advance refunding of bonds, decreases interest expense in the Statement of Activities. 474,953

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. 5,715,283

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 increased from June 30, 2013 to June 30, 2014. (13,278)

6,176,958

Change in Net Position of Governmental Activities \$ (10,688,654)

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2014

	<u>Agency</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash	\$ 3,815,774	\$ 394,244
Total Assets	<u>\$ 3,815,774</u>	<u>394,244</u>
LIABILITIES		
Extraclassroom activity balances	\$ 394,427	
Due to other funds	2,301,460	
Other liabilities	<u>1,119,887</u>	
Total Liabilities	<u>\$ 3,815,774</u>	<u>-</u>
NET POSITION		
Restricted for scholarships		<u>\$ 394,244</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For The Year Ended June 30, 2014

	Private Purpose Trust
ADDITIONS	
Contributions	\$ 11,670
Investment earnings	
Interest	<u>852</u>
Total Additions	<u>12,522</u>
DEDUCTIONS	
Scholarships and awards	<u>22,879</u>
Change in Net Position	(10,357)
Net Position - Beginning of year	<u>404,601</u>
Net Position - End of Year	<u><u>\$ 394,244</u></u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

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

C. Basis of Presentation

District-wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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.

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

E. Real Property Taxes

Calendar

Real property taxes are levied annually by the Board no later than November 1st and become a lien on December 1st. 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)

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.

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

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)

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. Inventory is accounted for on the consumption method.

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 do not constitute available spendable resources.

L. Capital Assets

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

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

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$, 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 unamortized amount of deferred charges from a prior year's refunding of bonds that is being amortized as a component of interest expense on a weighted average basis through June 30, 2025.

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, the deferred revenues are treated as revenues.

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

P. Vested Employee Benefits – Compensated Absences

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may 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, a liability is reported only for payments due for unused compensated absences for those employees that have obligated themselves to separate from service with the District by June 30th.

Q. Other Benefits

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

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

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

R. Short-Term Debt

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

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

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

S. Equity classifications

District-wide statements

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

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

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

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

Fund Statements

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

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

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. The reserve is accounted for in the general fund.

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

Retirement Contribution Reserve

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

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. These reserves are accounted for in the general fund.

Employee Benefit Accrued Liability Reserve

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

Restricted for 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.

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 is used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted or assigned. NYS Real Property Tax Law §1318 restricts the unassigned fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.

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

Fund Balance Classification

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

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

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

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

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

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.

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

Long-Term Debt Transaction Differences

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

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

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and 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 \$205,277 for contingent expenditures, which were funded by charges for services of \$150,650, insurance recoveries of \$32,125 and donations of \$22,502.

Budgets are adopted annually on a basis consistent with GAAP.

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

B. Encumbrances

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

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

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2014, the District was billed \$8,135,452 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,272,548. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, Dix Hills, NY 11746.

6. DUE FROM STATE AND FEDERAL

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

General Fund	
New York State - excess cost aid	\$ 981,271
BOCES aid	579,471
STAR aid	<u>160,328</u>
	1,721,070
Special Aid Fund	
State and federal grants	1,392,342
School Lunch Fund	
State and federal food service program reimbursements	<u>60,657</u>
	<u>\$ 3,174,069</u>

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

7. DUE FROM OTHER GOVERNMENTS

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

General Fund	
Tuition and health services	\$ 1,640,392
PILOT payments	<u>648,553</u>
	<u>\$ 2,288,945</u>

8. CAPITAL ASSETS

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

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,629,860	\$	\$	\$ 2,629,860
Construction in progress	<u>59,309</u>	<u>301,298</u>		<u>360,607</u>
Total capital assets not being depreciated	<u>2,689,169</u>	<u>301,298</u>	-	<u>2,990,467</u>
Capital assets being depreciated				
Buildings and improvements	215,499,621		(30,895)	215,468,726
Site improvements	7,500,475			7,500,475
Vehicles	7,738,543		(631,302)	7,107,241
Furniture and equipment	<u>12,416,550</u>	<u>716,344</u>	<u>(26,123)</u>	<u>13,106,771</u>
Total capital assets being depreciated	<u>243,155,189</u>	<u>716,344</u>	<u>(688,320)</u>	<u>243,183,213</u>
Less accumulated depreciation for:				
Buildings and improvements	99,157,174	6,595,267	(30,895)	105,721,546
Site improvements	2,911,674	363,856		3,275,530
Vehicles	5,426,920	468,436	(631,312)	5,264,044
Furniture and equipment	<u>8,670,364</u>	<u>920,833</u>	<u>(26,113)</u>	<u>9,565,084</u>
Total accumulated depreciation	<u>116,166,132</u>	<u>8,348,392</u>	<u>(688,320)</u>	<u>123,826,204</u>
Total capital assets being depreciated, net	<u>126,989,057</u>	<u>(7,632,048)</u>	-	<u>119,357,009</u>
Capital assets, net	<u>\$ 129,678,226</u>	<u>\$ (7,330,750)</u>	<u>\$ -</u>	<u>\$ 122,347,476</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 205,590
Instruction	7,514,999
Pupil transportation	579,034
Food service	<u>48,769</u>
Total depreciation expense	<u>\$ 8,348,392</u>

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

9. INTERFUND TRANSACTIONS

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 14,939,149	\$ 9,027,869	\$	\$ 9,981,145
Special Aid Fund	634,219	1,961,118	585,457	
School Lunch Fund	11,221	2,430,365		
Debt Service Fund	8,846,378	8,399,688	8,395,688	
Capital Projects Fund	801,807	1,112,274	1,000,000	
Total Governmental Funds	25,232,774	22,931,314	9,981,145	9,981,145
Fiduciary Fund		2,301,460		
Total	<u>\$ 25,232,774</u>	<u>\$ 25,232,774</u>	<u>\$ 9,981,145</u>	<u>\$ 9,981,145</u>

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 program for students with disabilities. 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.

10. SHORT-TERM DEBT

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

	Maturity	Effective Interest Rate	Balance June 30, 2013	Issued	Redeemed	Balance June 30, 2014
TAN	6/26/14	0.18%	\$	\$ 43,500,000	\$ (43,500,000)	\$

Interest on short-term debt for the year was \$57,891.

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

11. LONG-TERM LIABILITIES

A. Changes

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

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
<u>Long-term debt:</u>					
Bonds payable	\$ 55,170,000	\$	\$ (4,830,000)	\$ 50,340,000	\$ 5,000,000
Add: Deferred premium on refunding	5,115,521		(761,401)	4,354,120	744,378
	60,285,521	-	(5,591,401)	54,694,120	5,744,378
Installment purchase debt	14,387,844		(885,283)	13,502,561	911,052
	74,673,365	-	(6,476,684)	68,196,681	6,655,430
<u>Other long-term liabilities:</u>					
Compensated absences	17,084,800	1,572,750		18,657,550	935,000
Workers' compensation	5,591,822	367,918	(868,327)	5,091,413	1,100,000
	<u>\$ 97,349,987</u>	<u>\$ 1,940,668</u>	<u>\$ (7,345,011)</u>	<u>\$ 91,945,644</u>	<u>\$ 8,690,430</u>

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

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2014
Serial Bonds				
District-wide construction	2004	2015	3.50% - 4.25%	\$ 1,025,000
District-wide construction	2005	2015	4.00% - 4.75%	1,250,000
Refunding Bond	2007	2021	3.78% - 4.35%	13,280,000
District-wide construction	2008	2023	3.50% - 4.00%	1,510,000
Refunding Bond Series A	2013	2025	3.50% - 4.00%	22,730,000
Refunding Bond Series B	2013	2024	3.50% - 4.00%	10,545,000
				<u>\$ 50,340,000</u>

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

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	5,460,000	1,317,494	6,777,494
2020-2024	22,630,000	2,978,937	25,608,937
2025	1,775,000	71,000	1,846,000
Total	<u>\$ 50,340,000</u>	<u>\$ 11,692,438</u>	<u>\$ 62,032,438</u>

C. Installment Purchase Debt

Installment purchase debt is comprised of the following:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2014</u>
Energy performance contract	12/7/2010	7/15/2026	2.89%	<u>\$ 13,502,561</u>

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,021,853	272,888	1,294,741
2020-2024	5,573,139	900,566	6,473,705
2025-2027	3,101,133	135,720	3,236,853
Total	<u>\$ 13,502,561</u>	<u>\$ 2,681,703</u>	<u>\$ 16,184,264</u>

D. Advance Refunding

In prior years, the District defeased certain general obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The outstanding principal balance of the defeased bonds is \$27,150,000 at June 30, 2014.

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

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

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Premium</u>	<u>Deferred Charge</u>	<u>Total</u>
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	485,865	(182,788)	303,077
2020-2024	1,209,769	(455,129)	754,640
2025	20,077	(7,553)	12,524
Total	<u>\$ 4,354,120</u>	<u>\$ (1,638,070)</u>	<u>\$ 2,716,050</u>

E. Interest Expense

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

Interest paid	\$ 2,684,406
Less interest accrued in the prior year	(570,862)
Plus interest accrued in the current year	584,140
Less amortization of deferred amounts from bond refundings	<u>(474,953)</u>
Total	<u>\$ 2,222,731</u>

12. PENSION PLANS

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

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

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

Employees' Retirement System

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

C. Funding Policies

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

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

<u>Year</u>	<u>NYSTRS</u>	<u>NYSERS</u>
2014	\$ 14,664,619	\$ 5,237,154
2013	10,790,484	4,806,958
2012	9,353,515	4,307,681

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

D. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2014, totaled \$690,002 and \$4,493,956, respectively.

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

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, 2014 totaled \$675,152.

13. 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 the liabilities for premiums mature (come due for payment). For the year ended June 30, 2014, the District recognized a general fund expenditure of approximately \$9,053,328 for insurance premiums for 948 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)	\$ 21,202,360
Interest on net OPEB obligation	2,691,937
Adjustment to ARC	<u>(2,247,159)</u>
Annual OPEB cost (expense)	21,647,138
Contributions made	<u>(9,053,328)</u>
 Increase in net OPEB obligation	 12,593,810
Net OPEB obligation - beginning of year	<u>59,820,830</u>
 Net OPEB obligation - end of year	 <u><u>\$ 72,414,640</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, 2014 and the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 21,647,138	41.8%	\$ 72,414,640
June 30, 2013	20,483,220	44.3%	59,820,830
June 30, 2012	24,741,000	39.8%	48,404,146

D. Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date (which is an updated valuation), the plan was 0% funded. The actuarial accrued liability for benefits was \$267,174,886 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$267,174,886. The covered payroll (annual payroll of active employees covered by the plan) was \$103,484,260, and the ratio of the UAAL to the covered payroll was 258%.

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

The valuation of July 1, 2013 is an update derived from estimates from the previous valuation dated July 1, 2012, based on the fact that there were no material changes to any of the benefit packages and of the cost sharing structures or the census.

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, 2013, 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 4.2%. The UAAL is being amortized to increase over time as projected payrolls increase.

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

14. RISK MANAGEMENT

A. General Information

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

B. 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>2013</u>	<u>2014</u>
Unpaid claims at beginning of year	\$ 3,160,412	\$ 5,591,822
Incurred claims and claim adjustment expenses	3,217,124	367,918
Claim payments	<u>(785,714)</u>	<u>(868,327)</u>
Unpaid claims at year end	<u>\$ 5,591,822</u>	<u>\$ 5,091,413</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.

15. RESTRICTED FUND BALANCE – APPROPRIATED RESERVES

The District expects to appropriate the following amounts from reserves, which are reported in the June 30, 2014 restricted fund balances, to fund the budget and reduce taxes for the year ending June 30, 2015:

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

16. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$6,467,822 has been appropriated to reduce taxes for the year ending June 30, 2015.

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

17. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

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

Assigned: Unappropriated Fund Balance:

General Fund	
General support	\$ 308,458
Instruction	296,054
Transportation	395
	<u>604,907</u>
School Lunch Fund	
School lunch	11
Capital Projects Fund	
Capital projects	<u>1,402,673</u>
	<u>\$ 2,007,591</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 \$260,963. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 251,085
2016	103,232
2017	73,884
2018	32,178
2019	<u>398</u>
	<u>\$ 460,777</u>

18. SUBSEQUENT EVENTS

On October 9, 2014, the District issued tax anticipation notes with an effective net interest rate of 0.14% in the amount of \$42,500,000, which are due June 25, 2015.

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, 2014

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 175,717,454	\$ 174,939,452	\$ 174,939,452	\$ -
Other tax items	15,125,831	15,903,833	15,736,207	(167,626)
Charges for services	955,000	1,105,650	1,565,351	459,701
Use of money and property	202,000	202,000	199,047	(2,953)
Sale of property and compensation for loss	90,000	122,125	799,424	677,299
Miscellaneous	320,000	342,502	560,401	217,899
Interfund revenues			1,609	1,609
Total Local Sources	192,410,285	192,615,562	193,801,491	1,185,929
State Sources	26,344,631	26,344,631	26,168,373	(176,258)
Federal Sources			92,549	92,549
Total Revenues	218,754,916	218,960,193	220,062,413	\$ 1,102,220
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	5,250,000	5,250,000		
Prior Year's Encumbrances	527,990	527,990		
Appropriated Reserves	4,250,000	4,250,000		
Total Appropriated Fund Balance	10,027,990	10,027,990		
Total Revenues and Appropriated Fund Balance	\$ 228,782,906	\$ 228,988,183		

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, 2014

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 132,853	\$ 132,853	\$ 114,616	\$	\$ 18,237
Central administration	486,814	501,914	488,034	860	13,020
Finance	1,627,890	1,612,790	1,531,193	27,345	54,252
Staff	1,126,800	1,175,565	1,103,501	19,676	52,388
Central services	15,084,665	15,088,930	13,232,662	260,577	1,595,691
Special items	1,962,482	1,962,482	1,869,230		93,252
Total General Support	20,421,504	20,474,534	18,339,236	308,458	1,826,840
Instruction					
Instruction, administration & improvement	8,536,671	8,412,824	8,168,009	8,051	236,764
Teaching - regular school	69,594,740	70,014,164	69,117,731	49,797	846,636
Programs for students with disabilities	29,433,385	29,188,945	28,182,635	144,440	861,870
Occupational education	766,500	766,500	766,500		-
Teaching - special school	295,573	293,907	242,363	718	50,826
Instructional media	4,340,133	4,362,461	4,077,880	84,225	200,356
Pupil services	10,394,966	10,432,473	10,152,722	8,823	270,928
Total Instruction	123,361,968	123,471,274	120,707,840	296,054	2,467,380
Pupil Transportation	13,528,835	13,557,196	12,542,467	395	1,014,334
Community Services	95,405	109,985	109,978		7
Employee Benefits	60,749,906	60,749,906	55,009,886		5,740,020
Debt Service					
Interest	694,400	640,143	57,891		582,252
Total Expenditures	218,852,018	219,003,038	206,767,298	604,907	11,630,833
OTHER USES					
Operating transfers out	9,930,888	9,985,145	9,981,145		4,000
Total Expenditures and Other Uses	\$ 228,782,906	\$ 228,988,183	216,748,443	\$ 604,907	\$ 11,634,833
Net Change in Fund Balance			3,313,970		
Fund Balance - Beginning of Year			38,229,916		
Fund Balance - End of Year			\$ 41,543,886		

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, 2014

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrual Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 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, 2014

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 228,254,916
Additions:	
Prior year's encumbrances	<u>527,990</u>
Original Budget	228,782,906
Budget revisions	<u>205,277</u>
Final Budget	<u><u>\$ 228,988,183</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2014-15 voter-approved expenditure budget	<u>\$ 234,216,849</u>
Maximum allowed (4% of 2014-15 budget)	<u><u>\$ 9,368,674</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	
Unrestricted fund balance:	
Assigned fund balance	\$ 7,072,729
Unassigned fund balance	<u>9,368,677</u>
	\$ 16,441,406
Less:	
Appropriated fund balance	6,467,822
Encumbrances	<u>604,907</u>
Total adjustments	<u>7,072,729</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	<u><u>\$ 9,368,677</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, 2014

PROJECT TITLE	Budget June 30, 2013	Budget June 30, 2014	Expenditures			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2014
			Prior Years	Current Year	Total		Proceeds of Obligations	Grant Aid	Local Sources	Total	
MA ADA Bathrooms	\$ 177,637	\$ 167,999	\$ 167,998	\$	\$ 167,998	\$ 1	\$	\$	\$ 167,999	\$ 167,999	\$ 1
SH Paving, Fencing, Playground	481,726	483,841	480,798		480,798	3,043			483,841	483,841	3,043
CW Bathroom renovations	222,637	208,465	208,465		208,465	-			208,465	208,465	-
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	16,399,996		16,399,996	4	15,403,312	996,688		16,400,000	4
Sunquam Roof Replacement - I	747,500	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	34,500	-
Sunquam Roof Replacement - II	800,000	800,000	799,366		799,366	634			800,000	800,000	634
FP Roof and Fuel Tank Repair	400,000	398,756	14,508	19,676	34,184	364,572			398,756	398,756	364,572
Sunquam Roof Replacement - III	116,000	91,112	91,112		91,112	-			91,112	91,112	-
HSE Track and Locker Room Repairs	109,000	106,152	3,953	48,822	52,775	53,377			106,152	106,152	53,377
Natorium	175,000	225,675	6,347	191,319	197,666	28,009			225,675	225,675	28,009
West Hollow Ceiling		1,000,000		41,481	41,481	958,519			1,000,000	1,000,000	958,519
Totals	<u>\$ 20,444,896</u>	<u>\$ 21,444,896</u>	<u>\$ 19,721,264</u>	<u>\$ 301,298</u>	<u>\$ 20,022,562</u>	<u>\$ 1,422,334</u>	<u>\$ 16,184,208</u>	<u>\$ 996,688</u>	<u>\$ 4,264,000</u>	<u>\$ 21,444,896</u>	<u>\$ 1,422,334</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2014

Capital assets, net	<u>\$ 122,347,476</u>
Add:	
Deferred charges on advance refunding of bonds	<u>1,638,070</u>
Deduct:	
Premium on bonds payable	(4,354,120)
Short-term portion of bonds payable	(5,000,000)
Long-term portion of bonds payable	(45,340,000)
Short-term portion of installment purchase debt	(911,052)
Long-term portion of installment purchase debt	<u>(12,591,509)</u>
	<u>(68,196,681)</u>
Net investment in capital assets	<u><u>\$ 55,788,865</u></u>

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

To the Board of Education
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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 20, 2014.

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 20, 2014