

**NORTHPORT – EAST NORTHPORT
UNION FREE SCHOOL DISTRICT**

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

June 30, 2013

NORTHPORT – EAST NORTHPORT UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Northport - East Northport Union Free School District
Northport, 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 Northport - East Northport Union Free School District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Changes in Accounting Principles

As described in Note 1T to the financial statements, "New Accounting Standards", the District has adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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 19 and 52 through 53, 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 Northport - East Northport Union Free School District's basic financial statements. The other supplementary information on pages 54 through 56 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 September 30, 2013 on our consideration of the Northport - East Northport Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northport - East Northport Union Free School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

September 30, 2013

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

The following is a discussion and analysis of the Northport-East Northport Union Free School District's (the "District") financial performance for the year ended June 30, 2013. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

The District crafts its budget by balancing the financial responsibilities of the current year and anticipating unknown financial responsibilities of future years. The District budgets very prudently with known predictable costs and forecasts even more cautiously on future estimated costs such as retirement, health insurance, special education and utility costs, based on a thorough assessment of prior history of expenditures and the current economic conditions. In addition, the District maximizes savings throughout the year whenever possible in areas such as reduced overtime and reduction of positions through attrition.

When the District successfully reduces costs, these savings are then utilized to lower the tax levy and fund reserves for future costs as indicated in the financial highlights below.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2013 are as follows:

The general fund adopted budget, the only fund with a legally adopted budget, as approved by the voters on May 15, 2012, for the year ending June 30, 2013, is \$153,941,712. This is an increase of \$2,762,954 or 1.83% over the previous year's budget and an increase of \$9,501,614 or 6.58% over the previous year's actual expenditures. As illustrated in the table below, although the budget increase from 2011-2012 to 2012-2013 was 1.83%, the actual expenditure increase for the same period of time was 6.11%.

<u>Fiscal Year</u>	<u>Adopted Budget</u>	<u>Actual Expenditures</u>
2011-2012	\$151,178,758	\$144,440,099
2012-2013	\$153,941,712	\$153,268,936
2012-2013 Dollar Increase	\$2,762,954	\$8,828,837
2012-2013 Percent Increase	1.83%	6.11%

The 2012-2013 adopted budget, as approved by the voters on May 15, 2012 is adjusted for various items during the year. The final adjusted budget for the year ending June 30, 2013 is \$158,487,781. This difference of \$4,546,069 reflects the following adjustments: (1) roll-over of prior year (2011-2012) encumbrances of \$1,373,444; (2) voter approval in September 2012 to use general fund unassigned fund balance in the amount of \$1,595,000 for specific capital projects; (3) voter approval in May 2013 to use capital reserve funds for specific capital projects in the amount of \$1,105,000; (4) use of funds from the Employee Benefit Accrued Liability Reserve in the amount of \$271,446 for payouts to retirees; and (5) insurance recoveries and donations received by the Board of Education from various sources in the amount of \$201,179.

The 2012-2013 financial statements reflect actual revenues over the budgeted amount and actual expenditures and encumbrances under the budgeted amount. The budgetary savings of \$4,664,633 and how that savings was utilized is illustrated in the following table.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL HIGHLIGHTS (continued)

Key financial highlights for fiscal year 2013 are as follows: (continued)

Revenues over budget	\$ 344,344
Expenditures and encumbrances under budget	4,320,289
Total budgetary savings (revenues + expenditures)	4,664,633
Transfer to Capital Reserve (established September 2012)	(1,000,000)
Transfer to Employee Retirement Reserve	(1,050,000)
Transfer to Nonspendable	(188,620)
Transfer interest earnings to reserve funds	(38,166)
Transfer to assigned fund balance to lower the tax levy	(3,300,000)
Transfer from unassigned fund balance	912,153
Balance of budgetary savings	\$ -0-

The 2012-2013 revenues were over budget by \$344,344, primarily due to the following items: (1) TAN premium revenue; (2) additional state aid revenue, specifically excess cost aid; and (3) revenue received from other school districts for special education services provided to students that have been parentally placed in non-public schools. It is important to note that although the District received additional revenues, the District did not receive approximately \$175,000 in Medicare Part D Revenue. This federal subsidy ceased effective January 1, 2013.

During the 2012-2013 fiscal year, the TAN premium of \$366,000 was recorded as revenue. A bulletin released by the Office of the State Comptroller in July 2013 provided guidance to local governments, including school districts, on the accounting treatment for premiums received upon the issuance of Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs). The District TAN for the 2012-2013 fiscal year was in the amount of \$30 million. The accounting treatment previously used by the District was to net the premium received against the interest payment. This accounting treatment lowered the interest expenditure. The State Comptroller has stated that a premium received upon the issuance of a TAN should be treated the same as a premium issued for long-term debt, or as an "other financing source". The accounting treatment recommended by the State Comptroller records the total amount of the premium received as revenue.

The 2012-2013 expenditures and encumbrances were under budget by \$4,320,289, primarily due to the following items: (1) actual utility costs were less than anticipated; (2) actual special education costs for tuition, transportation, nurses and staff were less than budgeted; (3) actual salary costs were less than expected due to employee retirements and the reduction in staff through attrition; (4) actual health insurance costs were less than anticipated due to a lower premium increase by NYSHIP (New York State Health Insurance Plan) than the projected budgeted increase; (5) debt service principal and interest expense were less than budgeted due to the refunding of the District's outstanding serial bonds; and (6) employer pension costs were less than budgeted due to decreases in actual salary costs.

During the 2012-2013 fiscal year, the District transferred \$182,375 from the capital projects fund to the general fund. This transfer was comprised of unexpended funds from various completed capital projects. These projects had been funded with general fund appropriations. The excess funds were transferred back to the general fund and recorded as revenue in the 2012-2013 fiscal year. As capital projects continue to be completed, any unspent funds will be transferred to either the general fund or the Capital Reserve Fund, depending on the source of the funding for the capital project.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL HIGHLIGHTS (continued)

- During the 2012-2013 fiscal year, the District issued \$17,310,000 of general obligation refunding bonds. In May of 2000, the voting community approved a bond referendum in the amount of \$30,557,995 for the purpose of providing additional classrooms, science laboratories and other instructional spaces for students at Northport High School, Northport Middle School and East Northport Middle School. In June of 2003, the voting community approved a bond referendum in the amount of \$6,090,115 for new gymnasium bleachers at East Northport Middle School and roof replacements at Bellerose and Norwood Elementary Schools, the Laurel Avenue (William J. Brosnan) School and East Northport Middle School. The District had two outstanding bond issues associated with the approval of these referendums. Serial bonds totaling \$24,500,000 were issued on April 1, 2004 and serial bonds totaling \$9,000,000 were issued on August 1, 2005. At the time of the Board's refunding resolution, \$15,695,000 of the \$24,500,000 bond issue and \$6,620,000 of the \$9,000,000 bond issue were outstanding. The District's debt service fund included unspent bond proceeds in the amount of \$596,778 (\$191,177 from the May 2000 proposition and \$405,601 from the June 2003 proposition). In connection with the refunding of the serial bonds, the debt service fund was liquidated and an equity contribution was made to the escrow account. The refunding has reduced total debt service payments through 2025-2026 by a total of \$2.5 million. See Note 11 for further detail.
- In February 2013, Moody's Investors Service affirmed the District's Aa2 rating on its general obligation debt. The School District was required to secure a rating in order to refund the 2004 and 2005 serial bonds.
- The general fund total fund balance, as reflected on the balance sheet in the fund financial statements, decreased by \$4,982,485, from \$31,547,709 to \$26,565,224. This was due to a deficiency of revenues and other sources under expenditures and other uses. This decrease is illustrated in the table below.

Fund Balance as of June 30, 2012	\$31,547,709
<u>INCREASES TO FUND BALANCE -</u>	
Reserve for Prepaids	\$145,447
Reserve for Advances (School Lunch Fund)	43,173
Reserve for Unemployment Insurance	2,623
Reserve for Insurance	134
TOTAL INCREASES TO FUND BALANCE	\$191,377
<u>DECREASES TO FUND BALANCE -</u>	
Reserve for Capital	(\$100,518)
Employee Benefit Accrued Liability Reserve	(385,442)
Workers' Compensation Reserve	(494,176)
Retirement Contribution Reserve	(735,901)
Assigned Fund Balance (reduces the tax levy)	(475,784)
Assigned Fund Balance (roll-over prior year encumbrances)	(474,888)
Unassigned Fund Balance	(2,507,153)
TOTAL DECREASES TO FUND BALANCE	(\$5,173,862)
Fund Balance as of June 30, 2013	\$26,565,224

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL HIGHLIGHTS (continued)

The decrease of \$2,507,153 in the unassigned fund balance is attributable to the September 19, 2012 capital projects referendum. At the end of the 2010-2011 fiscal year, the District accrued \$1,970,784 for UTN (United Teachers of Northport) negotiations. The UTN contract expired June 30, 2010 and the parties were in negotiations at the close of the 2010-2011 fiscal year. The UTN and the District reached an agreement and signed a Memorandum of Agreement on May 15, 2012. The terms of the new contract called for a "hard freeze" (0% increase and no step increment) in 2010-2011. The June 30, 2011 accrual for \$1,970,784 became a source of revenue that resulted in an increase to the District's unassigned fund balance during the final months of the 2011-2012 fiscal year. The Board of Education addressed this additional revenue by adopting a Board resolution to present to the qualified voters of the District two propositions: Proposition #1 authorized the expenditure of \$1,595,000 from the District's unassigned fund balance for specific capital projects. Proposition #2 authorized the establishment of a new 10 year Capital Reserve Fund known as the "Capital Reserve II Fund" for the purpose of future capital improvements. This Capital Reserve Fund can be funded from surplus monies in the District's unassigned fund balance, if such monies are available. This proposition authorized the transfer of \$1,000,000 from the 2011-2012 unassigned fund balance to the Capital Reserve II Fund. The District has utilized capital reserve funds since 1987 to repair, maintain and improve its ten buildings. The referendum took place on September 19, 2012; both propositions successfully passed by more than an 80% majority.

The amount of the unassigned fund balance as of June 30, 2013 is \$6,235,130. This is 3.98% of the District's 2013-2014 approved operating budget of \$156,596,051. The District is in compliance with the New York State Real Property Tax Law §1318 limit, which restricts the unassigned fund balance to an amount not greater than 4% of the District's budget for the upcoming school year. Maintaining the maximum unassigned fund balance provides financial protection for unforeseen expenditures or revenue shortfalls and helps to ensure that adequate cash flow is available for operating expenses.

At the end of the 2012-2013 fiscal year, the District funded the Retirement Contribution Reserve in the amount of \$1,050,000. The Retirement Contribution Reserve (General Municipal Law §6-r) was established by Board of Education resolution on June 21, 2010. This reserve can be used to pay for District expenses to the New York State and Local Employees' Retirement System. The reserve was established and funded to alleviate the anticipated high increases in the employer contribution rates. Funding of this reserve during 2009-2010 (\$4,405,000) and 2010-2011 (\$3,600,000) was accomplished through unexpended budgetary appropriations. It was during 2009-2010 and 2010-2011 that the District was the recipient of American Recovery and Reinvestment Act (ARRA) of 2009 funds. Since 2011-2012, the District has appropriated \$5,350,000 (\$1,750,000 appropriated in 2011-2012, \$1,800,000 appropriated in 2012-2013 and \$1,800,000 budgeted to be appropriated in 2013-2014) from this reserve to achieve tax levy increases of 2% or less. Although New York State Comptroller Thomas P. DiNapoli has stated that fiscal year 2014-2015 will be the final year that employer contribution rates will reflect the market loss of 2008-2009, there has been no indication that rates will drop to the levels experienced in the late 1990's and early 2000's. The New York State and Local Employees' Retirement System recently provided a projected invoice for 2014-2015 in the amount of \$3.1 million. This is approximately \$200,000 less than the 2013-2014 invoice of \$3.3 million. Given the decline in the balance in the Retirement Contribution Reserve (a total of \$5,350,000 appropriated as source of revenue since 2011-2012) and the uncertainty surrounding the degree and rapidity of the possible decline in employer contribution rates, the Board of Education approved the 2012-2013 funding of this reserve. Replenishing this reserve will continue to enable the District to use the reserve as a source of revenue to lower the tax levy in future years.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL HIGHLIGHTS (continued)

Reserve funds continue to be appropriated as sources of revenue in the 2013-2014 budget to lower the tax levy of the district. A total of \$2,550,000 from reserve funds will be appropriated as a revenue source in the 2013-2014 budget, including the Retirement Contribution Reserve (\$1,800,000), the Workers' Compensation Reserve (\$500,000), the Employee Benefit Accrued Liability Reserve (\$125,000) and the Unemployment Insurance Reserve (\$125,000). The combination of appropriated reserves (\$2,550,000) and assigned fund balance (\$3,300,000) reflects a total of \$5,850,000 in District funds appropriated to lower the 2013-2014 tax levy. During the last two fiscal years (2011-2012 and 2012-2013), reserve funds were not replenished at the rate at which they were used. Fiscal year 2012-2013 is the first year since 2004-2005 that the District has an operating deficit. This deficit is the result of using reserve funds to lower the tax levy. Due to the operating deficit, the district was unable to replenish reserve funds at the rate at which they have been used.

Chapter 97 of the Laws of 2011 established a tax levy limit that affected all local governments, most school districts and independent taxing entities such as library, fire and water districts. The law has been referred to as the 2% property tax cap. Under this law, the growth in the property tax levy is capped at 2% or the rate of inflation, whichever is less, with some exceptions. School districts have the ability to override the cap by obtaining a super majority, or 60% approval by the District's budget voters. The District's 2013-2014 projected tax levy is under 2% for the fifth consecutive year; however, it has been necessary to utilize District reserve funds in order to be in compliance with the tax levy limit while maintaining instructional programs and staff.

The District established and funded allowable reserves in anticipation of the 2% property tax cap and the pending LIPA tax certiorari on the Northport Power Plant. Reserve funds provide the District with a legal channel to save money for future needs. As part of the District's long range financial plan, these incremental savings have helped to alleviate the financial impact of the 2% property tax cap. There has not been a settlement with LIPA regarding its pending tax certiorari. The Northport Power Plant currently pays approximately \$49.5 million in taxes to the Northport-East Northport School District. The plant's assessed valuation represents approximately 37.4% of the total assessed valuation of the School District. A reduction in the school taxes paid by LIPA would cause a shift in the tax burden to the District's residential tax base and could impact future budgets. The impact would be contingent upon the amount of LIPA's property tax assessment reduction.

On the district-wide financial statements, total net position decreased by \$10,850,022 or 52% to \$9,902,127 for the year ended June 30, 2013, compared to \$20,752,149 at June 30, 2012. The reduction in net position is primarily the result of the increase in the other postemployment benefits accrual. See Note 14 for further detail.

The District's net other postemployment benefits obligation amounted to \$46,664,005 as of June 30, 2013, which is an increase of \$8,993,434 over the prior year amount. See Note 14 for further detail.

On the district-wide financial statements, the District's expenses for the year totaled \$163,134,058. Of this amount, \$4,692,570 was offset by program charges for services and operating grants. General revenues of \$147,591,466 amount to 97% of total revenues, and were not adequate to cover the balance of program expenses.

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.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

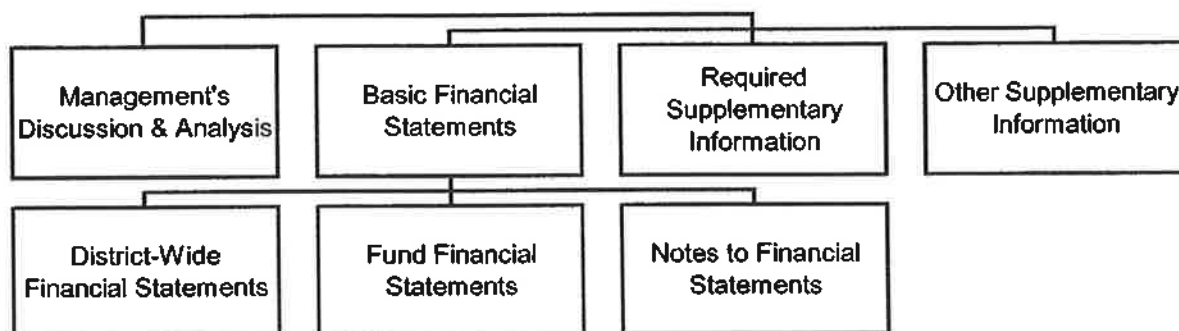


Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

Figure A-1 Major Features of the District-Wide and Fund Financial Statements			
	Fund Financial Statements		
	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

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 liabilities, with the difference between the two 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. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

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 that they become measurable, funded through available resources and payable within a current 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.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

Governmental Funds (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 a separate Statement of Fiduciary Net Position. The fiduciary activities have been excluded from the District's district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Condensed Statement of Net Position

	<u>6/30/2013</u>	<u>6/30/2012</u>	<u>Change</u>	<u>Percent Change</u>
Current and other assets	\$ 47,678,193	\$ 49,942,403	\$ (2,264,210)	-4.5%
Capital assets, net	<u>55,210,699</u>	<u>56,563,486</u>	<u>(1,352,787)</u>	-2.4%
Total assets	<u>102,888,892</u>	<u>106,505,889</u>	<u>(3,616,997)</u>	-3.4%
Other liabilities	14,922,932	14,640,749	282,183	1.9%
Non-current liabilities	<u>78,063,833</u>	<u>71,112,991</u>	<u>6,950,842</u>	9.8%
Total liabilities	<u>92,986,765</u>	<u>85,753,740</u>	<u>7,233,025</u>	8.4%
Net position:				
Net investment in capital assets	34,064,926	32,100,942	1,963,984	6.1%
Restricted	16,748,608	18,609,457	(1,860,849)	-10.0%
Unrestricted (deficit)	<u>(40,911,407)</u>	<u>(29,958,250)</u>	<u>(10,953,157)</u>	36.6%
Total net position	<u>\$ 9,902,127</u>	<u>\$ 20,752,149</u>	<u>\$ (10,850,022)</u>	-52.3%

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Condensed Statement of Net Position (continued)

Current and other assets decreased by \$2,264,210, as compared to the prior year. The decrease is primarily related to the decrease in due from other governments as compared to the prior year.

Capital assets, net decreased by \$1,352,787, as compared to the prior year. This decrease was primarily the result of depreciation expense during the year. The accompanying Notes to Financial Statements, Note 8 "Capital Assets" provides additional information.

Other liabilities increased by \$282,183, as compared to the prior year. This increase was primarily related to an increase in accrued liabilities and amounts due to the Teachers' Retirement System. This increase was offset by a decrease in accounts payable at year end.

Noncurrent liabilities increased by \$6,950,842, as compared to the prior year. This increase was primarily in connection with the increase of the other postemployment benefits accrual. The increase was offset by the refunding of serial bonds. See note 11 for additional information.

The net investment in capital assets relates to the investment in capital assets at cost such as - buildings and improvements, and furniture and equipment, net of depreciation and related debt. This increased over the prior year by \$1,963,984 due to capital acquisitions net of current year's depreciation plus current year bond principal payments.

The restricted net position at June 30, 2013 is \$16,748,608 and is comprised of the District's reserves as seen in the fund balance section on the balance sheet - governmental funds.

The unrestricted net deficit of \$40,911,407 increased from the prior year by \$10,953,157 due mainly to the other postemployment benefit accrual during the year. The deficit balance of unrestricted net position does not necessarily indicate stress. The deficit balance of unrestricted net position is primarily the result of the \$46 million long-term liability for health care benefits for District retirees. This liability is 100% unfunded as the law does not permit school districts to reserve for this future obligation.

The District's total net position decreased by \$10,850,022 or 52% to \$9,902,127 for the year ended June 30, 2013, compared to \$20,752,149 at June 30, 2012.

Changes in Net Position from Operating Results

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

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in Net Position from Operating Results (continued)

	<u>6/30/2013</u>	<u>6/30/2012</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenues				
Program revenues:				
Charges for services	\$ 1,855,861	\$ 1,993,317	\$ (137,456)	-6.9%
Operating grants	2,836,709	3,727,100	(890,391)	-23.9%
General revenues:				
Property taxes and STAR	133,274,541	131,445,879	1,828,662	1.4%
Other tax items	2,563	3,289	(726)	-22.1%
State aid	11,855,068	10,904,822	950,246	8.7%
Federal aid - medicaid reimbursement	44,668	57,000	(12,332)	-21.6%
Other	2,414,626	4,139,153	(1,724,527)	-41.7%
Total revenues	<u>152,284,036</u>	<u>152,270,560</u>	<u>13,476</u>	<u>0.0%</u>
Expenses				
General support	20,431,273	19,707,770	723,503	3.7%
Instruction	131,344,019	127,626,067	3,717,952	2.9%
Pupil transportation	8,109,461	8,233,489	(124,028)	-1.5%
Community services	538,365	515,502	22,863	4.4%
Debt service - interest	1,120,395	1,170,889	(50,494)	-4.3%
School lunch program	1,590,545	1,553,123	37,422	2.4%
Total expenses	<u>163,134,058</u>	<u>158,806,840</u>	<u>4,327,218</u>	<u>2.7%</u>
Decrease in net position	<u>\$ (10,850,022)</u>	<u>\$ (6,536,280)</u>	<u>\$ (4,313,742)</u>	<u>66.0%</u>

The District's net position decreased by \$10,850,022 for the year ended June 30, 2013. The District's net position decreased by \$6,536,280 for the year ended June 30, 2012.

The District's revenues increased by \$13,476 for the year ended June 30, 2013.

The District's expenses increased by \$4,327,218 or 2.7% for the year ended June 30, 2013. There were two major contributing factors to this increase: an increase in negotiated employee salaries and an increase in employee benefits, particularly pension costs.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in Net Position from Operating Results (continued)

As indicated on the pie charts that follow, property taxes and STAR is the largest component of revenues recognized, representing 87.5% of the total revenues for the year ended June 30, 2013. Instruction expenses are the largest category of expenses incurred at 80.5% of the total expenses for the year ended June 30, 2013.

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

Table A-4: Sources of Revenues for Fiscal Year 2013

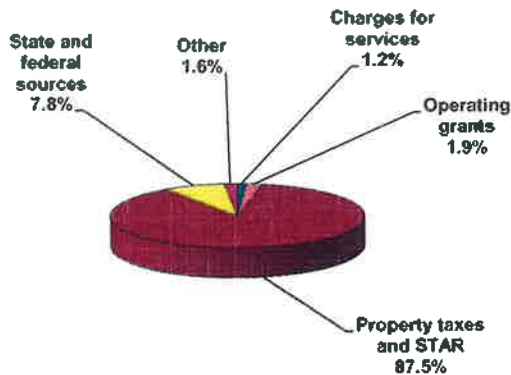
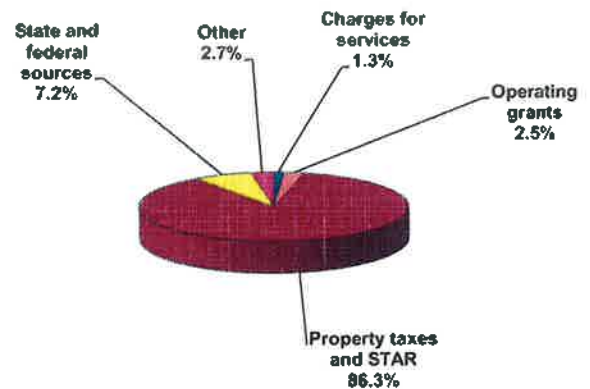


Table A-4: Sources of Revenues for Fiscal Year 2012



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

Table A-5: Expenses for Fiscal Year 2013

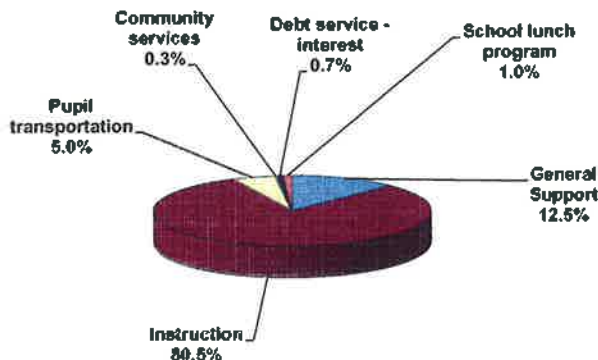
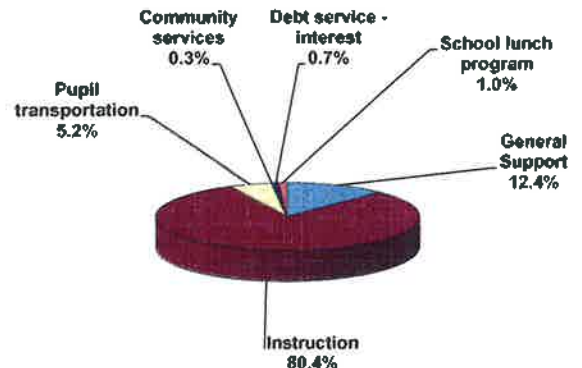


Table A-5: Expenses for Fiscal Year 2012



NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

At June 30, 2013, the District's governmental funds reported a combined fund balance of \$32,597,714, which is a decrease of \$525,831 from the prior year. A summary of the change in fund balance by fund is as follows:

	<u>6/30/2013</u>	<u>6/30/2012</u>	<u>Increase (Decrease)</u>
General Fund			
Nonspendable:			
Advances	\$ 141,830	\$ 98,657	\$ 43,173
Prepays	1,542,685	1,397,238	145,447
Restricted:			
Capital	1,273,922	1,374,440	(100,518)
Unemployment Insurance	965,144	962,521	2,623
Insurance	49,316	49,182	134
Employee Benefit			
Accrued Liability	3,777,403	4,162,845	(385,442)
Workers' Compensation	2,143,288	2,637,464	(494,176)
Retirement Contribution	6,237,950	6,973,851	(735,901)
Assigned	4,198,556	5,149,228	(950,672)
Unassigned	6,235,130	8,742,283	(2,507,153)
	<u>26,565,224</u>	<u>31,547,709</u>	<u>(4,982,485)</u>
School Lunch Fund			
Nonspendable:			
Inventory	59,641	36,544	23,097
Unassigned (deficit)	(201,471)	(135,201)	(66,270)
	<u>(141,830)</u>	<u>(98,657)</u>	<u>(43,173)</u>
Debt Service Fund			
Restricted:			
Debt service	-0-	596,778	(596,778)
	<u>-0-</u>	<u>596,778</u>	<u>(596,778)</u>
Capital Projects Fund			
Restricted:			
Capital	2,301,585	1,852,376	449,209
Assigned	3,872,735		3,872,735
Unassigned (deficit)		(774,661)	774,661
	<u>6,174,320</u>	<u>1,077,715</u>	<u>5,096,605</u>
Total Fund Balance	<u>\$ 32,597,714</u>	<u>\$ 33,123,545</u>	<u>\$ (525,831)</u>

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS (continued)

General Fund

The general fund fund balance decreased by \$4,982,485. The District had anticipated losses with appropriated reserves and fund balance at the beginning of the year of \$7,574,228. This amount was increased by \$1,595,000 per Proposition 1 on September 19, 2012 to transfer funds to the capital projects fund for various projects. This decrease was reduced by budgetary savings. When the budget was prepared, actual costs were lower than anticipated for employee salaries, health insurance costs and interest expense. Health insurance premium increases from NYSHIP were lower than predicted. Debt service interest expense, the actual cost of borrowing money, was lower due to a favorable interest rate environment.

School Lunch Fund

The school lunch fund balance decreased by \$43,173 as compared to the prior year. The total operating deficit in the school lunch fund as of June 30, 2013 is \$141,830. A contributing factor of this deficit is the increase in employer retirement costs. These costs have increased by 144% since 2007-2008. The Healthy Hunger-Free Kids Act (HHFKA) of 2010 enacted new federal nutrition standards for school meals. These standards require that school districts serve meals that are healthy and well-balanced. Calories and portion sizes must be limited, fruit and vegetable servings must be increased and lean protein choices must be offered. During the 2012-2013 school year, the New York State Education Department conducted an on-site review of the District's Child Nutrition Program. This review confirmed that the District was in compliance with the new federal standards and was entitled to receive an additional performance based reimbursement of 6 cents per reimbursable lunch. The general fund will continue to subsidize the school lunch fund in 2013-2014 by an interfund transfer of \$200,000. The Board of Education approved an increase in the cost of elementary and secondary lunches to \$2.25 and \$2.50, respectively for the 2013-2014 school year. Management continues to evaluate ways to improve the program that will result in an elimination of the deficit.

Debt Service Fund

The debt service fund balance decreased by \$596,778 as compared to prior year. The District utilized these funds when several bonds were refunded during the year to reduce future debt service requirements.

Capital Projects Fund

The capital projects fund balance increased by \$5,096,605. There were several transfers to and from the capital fund totaling \$4,300,000 and \$182,375, respectively. Expenditures totaling \$938,557 were made for East Northport Middle School boilers and field irrigation, front stair replacement at the William J. Brosnan School and architectural fees for several projects awaiting New York State Education Department approval. The combination of these transactions resulted in an increase in the fund balance. A detailed schedule of project expenditures is included in the Other Supplementary Information section of the financial statements.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

2012-13 Budget

The District's general fund adopted budget for the year ended June 30, 2013, was \$153,941,712. This amount was increased by encumbrances carried forward from the prior year in the amount of \$1,373,444, and various budget revisions resulting in additional increases of \$3,172,625 for a total final budget of \$158,487,781.

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 appropriations to fund the subsequent year's budget. It is this balance that is commonly referred to as the "fund balance". The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening, Unassigned Fund Balance	\$ 8,742,283
Revenues Over Budget	344,344
Expenditures and Encumbrances Under Budget	4,320,289
Transfer to Reserves (Restricted)	(2,088,166)
Transfer to Nonspendable	(188,620)
Appropriation - Capital Proposition September 19, 2012	(1,595,000)
Assigned - Appropriated for 2013-14 Budget	(3,300,000)
Closing, Unassigned Fund Balance	<u>\$ 6,235,130</u>

Opening, Unassigned Fund Balance

The \$8,742,283 shown in the table is the portion of the District's June 30, 2012 fund balance that was reported as unassigned. This was 5.68% of the District's 2012-13 approved operating budget of \$153,941,712.

Revenues Over Budget

The 2012-13 final budget for revenues was \$147,942,107. Actual revenues received for the year were \$148,286,451. The excess of actual revenues over estimated or budgeted revenues amounted to \$344,344. The District recognized more revenues than anticipated in the following areas: charges for services; premium on obligations; and state aid. Revenues over budget contribute directly to the change in the unassigned portion of the general fund - fund balance from June 30, 2012 to June 30, 2013.

Expenditures and Encumbrances Under Budget

The 2012-13 final budget for expenditures and transfers, including prior year open encumbrances and budget revisions amounted to \$158,487,781. Actual expenditures and transfers as of June 30, 2013 were \$153,268,936, and outstanding encumbrances were \$898,556. Combined, the expenditures plus encumbrances for 2012-13 were \$154,167,492. The final budget was under-expended by \$4,320,289. Budget categories which contributed significantly to the under-expenditure of \$4,320,289 are: (1) salaries (approximately \$1.3 million),

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights (continued)

Expenditures and Encumbrances Under Budget (continued)

(2) employee health insurance (approximately \$375,000), (3) programs for children receiving special education services (approximately \$365,000), (4) utility costs (approximately \$360,000), (5) long-term bond principal and interest costs (approximately \$165,000) and (6) contract transportation costs (approximately \$340,000). Expenditures and current year encumbrances under budget contribute directly to the change in the unassigned portion of the general fund - fund balance from June 30, 2012 to June 30, 2013.

Transfer to Reserves (Restricted)

Monies transferred from budget lines within the general fund operations into required reserves such as the workers' compensation reserve, the unemployment insurance reserve, capital reserve and the retirement contribution reserve do not affect the combined nonspendable, restricted, assigned and unassigned fund balance unless, and until, these monies are actually expended. The transfers do, however, reduce the District's discretion regarding the use of these transferred monies, and thus, reduce the unassigned portion of the fund balance by the amount of the transfer. The \$2,088,166 in the table above reflects the net interest transferred into the reserves of \$38,166, plus transfers of \$1,000,000 into the capital reserve and \$1,050,000 into the retirement contribution reserve.

Transfer to Nonspendable

Monies transferred from budget lines within the general fund operations into nonspendable such as advances and prepaids do not affect the combined nonspendable, restricted, assigned and unassigned fund balance. The transfers do, however, reduce the District's unassigned portion of the fund balance by the amount of the transfer. The \$188,620 in the table above reflects the net transfers to advances and prepaids.

Appropriation of Unassigned Fund Balance

On September 19, 2012 a capital projects proposition was approved and \$1,595,000 was transferred to the capital projects fund.

Assigned - Appropriated Fund Balance

The District has chosen to use \$3,300,000 of its available June 30, 2013 fund balance to partially fund its 2013-14 approved operating budget.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2013-14 fiscal year with an unassigned fund balance of \$6,235,130. This is a decrease of \$2,507,153 as compared to the prior year. This was 3.98% of the District's 2013-14 approved operating budget of \$156,596,051. The District's unassigned fund balance was in compliance with the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested in a broad range of capital assets, including land, buildings and improvements, and furniture and equipment. The net decrease in capital assets is due to capital additions less depreciation recorded for the year ended June 30, 2013. A summary of the District's capital assets, net of depreciation, at June 30, 2013 and 2012 is as follows:

Category	6/30/2013	6/30/12	% Change
Land	\$ 1,336,364	\$ 1,336,364	0.0%
Construction-in-progress	998,814	1,484,286	-32.7%
Buildings and improvements	49,258,980	49,994,563	-1.5%
Site improvements	1,509,821	1,635,830	-7.7%
Furniture, equipment and vehicles	2,106,720	2,112,443	-0.3%
Totals	<u>\$ 55,210,699</u>	<u>\$ 56,563,486</u>	-2.4%

Capital additions for the year ended June 30, 2013 were \$1,282,393. Depreciation expense for the year totaled \$2,635,180.

Debt Administration

The District's latest underlying, long-term credit rating issued in February 2013 from Moody's Investors Service, Inc. is Aa2. The District's total outstanding indebtedness currently does not exceed its debt limit, which is defined as 10% of the full valuation of the taxable real property within the District.

At June 30, 2013, the District had total bonds payable of \$21,130,000. The 2004 and 2005 bonds were issued for various school improvements. The 2006 bond was issued to advance refund prior years' bonds issued for capital improvements. The 2013 Series A and B bonds were used to partially advance refund the 2004 and 2005 bond issuances. The decrease in outstanding general obligation bonds represents scheduled principal payments.

A summary of the long-term debt at June 30, 2013 and 2012 is as follows:

Category	6/30/13	6/30/12	% Change
General obligation bonds	\$ 21,130,000	\$ 24,440,000	-13.5%
Other postemployment benefits payable	46,664,005	37,670,571	23.9%
Compensated absences	6,084,257	6,059,916	0.4%
Workers' compensation claims payable	4,169,798	2,919,960	42.8%
Capital lease payable	15,773	22,544	-30.0%
Totals	<u>\$ 78,063,833</u>	<u>\$ 71,112,991</u>	9.8%

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 21, 2013, for the year ending June 30, 2014, is \$156,596,051. This is an increase of \$2,654,339 or 1.72% over the previous year's adopted budget and an increase of \$3,327,115 or 2.17% over the previous year's actual expenditures.

The 2013-2014 budget reflects increases for operating expenses, including contractual salary and employee benefits including ERS and TRS employer contributions which are expected to increase and health insurance premiums.

The District's adopted budget reflects non-property tax revenues at an increase of \$362,948 from the current year's estimate. The adopted budget reflects an increase in property tax revenues of 1.98%. The assigned - appropriated fund balance applied to the June 30, 2014 budget to reduce taxes in the amount of \$3,300,000 is a decrease of \$475,784 as compared to current year. The District has also appropriated \$2,425,000 of reserved fund balances to be applied to the June 30, 2014 budget to further reduce taxes.

New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities and most school districts. For fiscal years beginning in 2012 and lasting through at least June 15, 2016, no school district is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however there are permitted exceptions and adjustments. School districts can exceed the tax levy limit only by a 60% favorable vote by District's budget voters. The 1.98% increase in the property tax levy is in compliance with Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions.

The Long Island Power Authority has initiated a tax certiorari proceeding to challenge their property tax assessment. The results of such a challenge could have a considerable impact on the District's residential property taxes and future school district budgets. The Northport Power Plant currently pays approximately \$49.5 million in taxes to the Northport-East Northport School District. The plant's assessed valuation represents approximately 37.4% of the total assessed valuation of the School District. A reduction in the school taxes paid by LIPA would cause a shift in the tax burden to the District's residential tax base and could impact future budgets. The impact would be contingent upon the amount of LIPA's property tax assessment reduction. Any award of back taxes payable to LIPA as a result of the proceeding would be the responsibility of the County of Suffolk.

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:

Northport – East Northport Union Free School District
ATTN: Kathleen Molander
Assistant Superintendent for Business
P.O. Box 210
Northport, New York 11768
(631) 262-6632

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

ASSETS

Cash	\$ 41,815,773
Receivables:	
Due from state and federal	3,766,551
Due from other governments	267,778
Due from fiduciary funds	194,952
Other	30,813
Inventories	59,641
Prepaid expenditures	1,542,685
	<hr/>
Total Current Assets	47,678,193
	<hr/>
Non-depreciable capital assets	2,335,178
Depreciable capital assets, net of depreciation	52,875,521
	<hr/>
Total Non-Current Assets	55,210,699
	<hr/>
Total Assets	102,888,892

LIABILITIES

Accounts payable	3,150,047
Accrued liabilities	1,445,259
Due to other governments	180,066
Bond interest and matured bonds	213,040
Due to teachers' retirement system	8,345,514
Due to employees' retirement system	828,930
Compensated absences	341,223
Deferred revenue	418,853
Non-current liabilities	
Due and payable within one year:	
General obligation bonds payable	2,210,000
Capital leases payable	7,484
Compensated absences payable	486,741
Workers' compensation claims payable	487,644
Due and payable after one year:	
General obligation bonds payable	18,920,000
Capital leases payable	8,289
Compensated absences payable	5,597,516
Workers' compensation claims payable	3,682,154
Other postemployment benefits payable	46,664,005
	<hr/>
Total Liabilities	92,986,765

NET POSITION

Net investment in capital assets	34,064,926
Restricted	16,748,608
Unrestricted (deficit)	(40,911,407)
	<hr/>
Total Net Position	\$ 9,902,127

See Notes to Financial Statements.

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS				
General support	\$ 20,431,273			\$ (20,431,273)
Instruction	131,344,019	\$ 833,402	\$ 2,517,506	(127,993,111)
Pupil transportation	8,109,461			(8,109,461)
Community service	538,365			(538,365)
Debt service - interest	1,120,395			(1,120,395)
School lunch program	1,590,545	1,022,459	319,203	(248,883)
Total Functions and Programs	<u>\$ 163,134,058</u>	<u>\$ 1,855,861</u>	<u>\$ 2,836,709</u>	<u>(158,441,488)</u>
GENERAL REVENUES				
Real property taxes				123,352,172
School tax relief reimbursement				9,922,369
Other tax items				2,563
Use of money and property				273,641
Sale of property and compensation for loss				101,798
State aid				11,855,068
Federal aid - medicaid reimbursement				44,668
Miscellaneous				<u>2,039,187</u>
Total General Revenues				<u>147,591,466</u>
Change in Net Position				(10,850,022)
Total Net Position - Beginning of year				<u>20,752,149</u>
Total Net Position - End of year				<u>\$ 9,902,127</u>

See Notes to Financial Statements.

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash	\$ 39,104,667	\$ 2,293,471	\$ 209,714		\$ 207,921	\$ 41,815,773
Receivables:						
State and federal	1,420,618	1,086,221	18,533		1,241,179	3,766,551
Due from other governments	267,778					267,778
Due from other funds	5,604,328	539,683	19,110		4,948,909	11,113,030
Due from fiduciary funds	194,952					194,952
Other	5,337	1,700	23,776			30,813
Inventories			59,641			59,641
Prepaid expenditures	1,542,685					1,542,685
Total Assets	\$ 48,140,365	\$ 3,921,075	\$ 330,774	\$ -0-	\$ 6,399,009	\$ 58,791,223
LIABILITIES						
Accounts payable	\$ 3,042,862	\$ 34,516	\$ 20,162		\$ 52,507	\$ 3,150,047
Accrued liabilities	1,378,318	8,220	58,721			1,445,259
Due to other funds	6,947,176	3,795,921	369,933			11,113,030
Due to other governments	173,530	6,383	153			180,066
Due to teachers' retirement system	8,345,514					8,345,514
Due to employees' retirement system	828,930					828,930
Compensated absences	341,223				172,182	341,223
Deferred revenues	517,588	76,035	23,635			789,440
Total Liabilities	21,575,141	3,921,075	472,604		224,689	26,193,509
FUND BALANCES (DEFICIT)						
Nonspendable:			59,641			59,641
Inventory	141,830					141,830
Advances	1,542,685					1,542,685
Prepaids						
Restricted:						
Capital	1,273,922				2,301,585	3,575,507
Unemployment insurance	965,144					965,144
Insurance	49,316					49,316
Employee Benefit Accrued Liability	3,777,403					3,777,403
Workers' Compensation	2,143,288					2,143,288
Retirement Contribution	6,237,950				3,872,735	6,237,950
Assigned	4,198,556					8,071,291
Unassigned (deficit)	6,235,130		(201,471)			6,033,659
Total Fund Balances (deficit)	26,565,224	-0-	(141,830)	\$ -0-	6,174,320	32,597,714
Total Liabilities and Fund Balances	\$ 48,140,365	\$ 3,921,075	\$ 330,774	\$ -0-	\$ 6,399,009	\$ 58,791,223

See Notes to Financial Statements.

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2013

Total Governmental Fund Balances	\$	32,597,714
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Amounts reported for governmental activities in
the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Capital assets - non-depreciable	\$	2,335,178	
Capital assets - depreciable		96,388,177	
Accumulated depreciation		<u>(43,512,656)</u>	55,210,699

Current and long-term liabilities are not due and payable in
the current period and therefore are not reported in the funds:

Accrued interest payable		(213,040)	
General obligation bonds payable		(21,130,000)	
Capital lease debt		(15,773)	
Other postemployment benefits payable		(46,664,005)	
Compensated absences payable		(6,084,257)	
Workers' compensation claims payable		<u>(4,169,798)</u>	(78,276,873)

Revenue that was deferred on the fund statements because it
does not meet the availability criteria under the modified accrual
basis of accounting is not deferred in the Statement of Net Position.

		<u>370,587</u>
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Net Position of Governmental Activities	\$	<u><u>9,902,127</u></u>
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NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 123,352,172					\$ 123,352,172
School tax relief reimbursement	9,922,369					9,922,369
Other tax items	2,563					2,563
Charges for services	1,031,008					1,031,008
Use of money and property	273,511		\$ 130			273,641
Sale of property and compensation for loss	91,752		10,046			101,798
State aid	11,855,068	\$ 853,344	20,723		\$ 1,917,537	14,646,672
Sales - school lunch			962,663			962,663
Miscellaneous	1,164,965	10,828	59,796			1,235,589
Federal aid - medicare reimbursement	44,668	1,653,334	208,396			1,961,730
Federal aid			90,084			90,084
Surplus food						
Total Revenues	147,738,076	2,517,506	1,351,838		1,917,537	153,524,957
EXPENDITURES						
General support	15,202,958					15,202,958
Instruction	86,822,605	2,858,414				89,681,019
Pupil transportation	7,402,723	261,809				7,664,532
Community service	402,572					402,572
Employee benefits	34,908,614		306,539			35,215,153
Debt service						
Principal	2,211,771					2,211,771
Interest	1,214,976			\$ 185,770		1,214,976
Bond issuance costs						185,770
Cost of sales			1,288,472			1,288,472
Capital outlay					938,557	938,557
Total Expenditures	148,166,219	3,120,223	1,595,011	185,770	938,557	154,005,780
Excess (Deficiency) of Revenues Over (Under) Expenditures	(428,143)	(602,717)	(243,173)	(185,770)	978,980	(480,823)
OTHER FINANCING SOURCES AND (USES)						
Proceeds of refunding bonds				17,310,000		17,310,000
Payment to refunded bond escrow agent				(19,760,199)		(19,760,199)
Premium on obligations	366,000			2,039,191		2,405,191
Operating transfers in	182,375	602,717	200,000		4,300,000	5,285,092
Operating transfers (out)	(5,102,717)				(182,375)	(5,285,092)
Total Other Sources (Uses)	(4,554,342)	602,717	200,000	(411,008)	4,117,625	(45,008)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(4,982,485)	-0-	(43,173)	(596,778)	5,096,605	(525,831)
Fund balance (deficit) - Beginning of year	31,547,709	-0-	(98,657)	586,778	1,077,715	33,123,545
Fund balance (deficit) - End of year	\$ 26,565,224	\$ -0-	\$ (141,830)	\$ -0-	\$ 6,174,320	\$ 32,597,714

See Notes to Financial Statements.

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Net Changes in Fund Balances - Total Governmental Funds		\$ (525,831)
Amounts reported for governmental activities in the Statement of Activities are different because:		
<u>Long-term revenue and expense differences</u>		
Revenues currently reported in the governmental funds statement that were previously reported as revenues in the Statement of Activities are not reported currently in the Statement of Activities.		
State aid	\$ (1,917,537)	
Charges for services	(197,606)	(2,115,143)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Other postemployment benefits payable	(8,993,434)	
Compensated absences payable	(24,341)	
Workers' compensation payable	(1,249,838)	(10,267,613)
<u>Capital related differences</u>		
Governmental funds report capital outlays as expenditures while in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Capital Outlay	1,282,393	
Depreciation expense	(2,635,180)	(1,352,787)
<u>Long-term debt transaction differences</u>		
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the Statement of Net Position. Proceeds from the issuance of debt provides current financial resources to the governmental funds, but incurring debt increases long-term liabilities in the Statement of Net Position.		
Issuance of debt	(17,310,000)	
Repayment of bond principal	20,620,000	
Repayment of capital lease principal	6,771	3,316,771
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. Accrued interest decreased from June 30, 2012 to June 30, 2013.		94,581
Change in Net Position of Governmental Activities		<u>\$ (10,850,022)</u>

See Notes to Financial Statements.

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

	<u>Private Purpose Trusts</u>	<u>Agency</u>
ASSETS		
Cash	\$ 55,440	\$ 1,255,310
Due from other governments		<u>147</u>
Total Assets	<u>55,440</u>	<u>\$ 1,255,457</u>
LIABILITIES		
Due to governmental funds		\$ 194,952
Extraclassroom activity balances		285,427
Other liabilities		<u>775,078</u>
Total Liabilities		<u>\$ 1,255,457</u>
NET POSITION		
Reserved for scholarships	<u>55,440</u>	
Total Net Position	<u>\$ 55,440</u>	

See Notes to Financial Statements.

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2013

	<u>Private Purpose Trusts</u>
ADDITIONS	
Gifts and contributions	\$ 16,634
Investment earnings	<u>134</u>
Total Additions	<u>16,768</u>
 DEDUCTIONS	
Scholarships and awards	<u>17,895</u>
Total Deductions	<u>17,895</u>
Change in Net Position	(1,127)
Net Position - Beginning of year	<u>56,567</u>
Net Position - End of year	<u><u>\$ 55,440</u></u>

See Notes to Financial Statements.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Northport-East Northport Union Free School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the District are as described below:

A. Reporting Entity

The District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of nine 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 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 is a brief description of certain entities included in the District's reporting entity.

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 - Agency 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 one of many participating school districts in the Board of Cooperative Educational Services of Western Suffolk ("BOCES"). 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. There is no authority or process by which a school district can terminate its status as a BOCES participant.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Joint Venture (continued)

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

A BOCES' budget is comprised of separate budgets for administrative, program, and capital costs. Each participating district's share of administrative and capital cost is determined by resident public school district enrollment as defined in New York State Education Law, §1950(4)(b)(7). In addition, participating 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 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.

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

Fund Financial Statements

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

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Governmental Funds:

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

Special Revenue Funds – This fund accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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

School Lunch Fund – This fund is used to account for the activities of the school lunch operations.

Debt Service Fund – This fund accounts for the accumulation of resources that are restricted for the payment of principal and interest on general long-term debt obligations.

Capital Projects Fund – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition, construction, or major repair of capital facilities.

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

Private Purpose Trust Funds - These funds are used to account for trust arrangements in which scholarship benefits are provided for students and in which net position-restricted-permanent principals are held in perpetuity, and income generated is used for annual third-party awards and scholarships for students. Established criteria govern the use of the funds. Members of the District or representatives of the donors may serve on committees to oversee benefits.

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

D. Basis of Accounting and Measurement Focus

The district-wide and fiduciary fund financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. 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.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting and Measurement Focus (continued)

The fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 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, capital leases payable, claims and judgments, compensated absences, and other postemployment benefits, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

E. 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. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of depreciation, other postemployment benefits, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

F. Cash and Cash Equivalents/Investments

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

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

G. Real Property Taxes

Real property taxes are levied annually by the Board of Education no later than November 1st and become a lien on December 1st. Taxes are collected by the Town of Huntington and then remitted to the District from December to June.

Uncollected real property taxes are the responsibility of the County of Suffolk. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District in June.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Restricted Resources

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

I. Receivables

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

J. 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.

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

K. Inventories and Prepaid Items

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis or in the case of surplus food donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. These inventories are accounted for on the consumption method. A portion of fund balance has been classified as nonspendable to indicate that this does not constitute available spendable resources.

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

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. These items are reported as assets on the Statement of Net Position or Balance Sheet using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed. A portion of fund balance has been classified as nonspendable to indicate that this does not constitute available spendable resources.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building and improvements	\$ 1,000	Straight line	20-50 years
Site improvements	\$ 1,000	Straight line	20 years
Furniture, equipment and vehicles	\$ 1,000	Straight line	5-20 years

M. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District did not have any items qualifying for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District did not have any items qualifying for reporting in this category.

N. Deferred Revenues

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

O. 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 collective bargaining agreements require these termination payments to be paid in the form of non-elective contributions into the employee's 403(b) plan

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Vested Employee Benefits (continued)

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 required time periods.

The liability has been calculated using the vesting method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year end.

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

P. Other Benefits

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

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

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 general fund, in the year paid. Other postemployment benefits costs are measured and disclosed using the accrual basis of accounting in the district-wide financial statements. See Note 14.

Q. Short-Term Debt

The District may issue revenue anticipation notes (RAN) and tax anticipation notes (TAN), in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RANs and TANs represent a liability that will be extinguished by the use of expendable, available resources of the fund. One TAN was issued and repaid during the year ended June 30, 2013.

The District may issue bond anticipation notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as a liability of the fund what 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. No BANs were outstanding at June 30, 2013.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Workers' compensation claims and compensated absences that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent they have matured. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

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

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 acquisition, constructions or improvements of those assets.

Restricted net position - 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 net position - reports the balance of net position that does not meet the definition of the above two classifications and is deemed to be available for general use by the District.

Fund Statements

In the fund basis statements there are four classifications of fund balance used by the District:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form, not available within a year, or legally or contractually required to be maintained intact. Nonspendable fund balance includes the inventory recorded in the school lunch fund of \$59,641, advances in the general fund for amounts due from the school lunch fund that will not be paid within a year of \$141,830 and prepaids in the general fund of \$1,542,685.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Equity Classifications (continued)

Restricted - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has established the following restricted fund balances:

Capital

According to Education Law §3651, must be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the general fund and capital fund under Restricted Fund Balance.

Unemployment Insurance

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 60 days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the general fund under Restricted Fund Balance.

Insurance

According to General Municipal Law §6-n, must be used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action and funded by budgetary appropriations or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. This reserve is accounted for in the general fund under Restricted Fund Balance.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Equity Classifications (continued)

Employee Benefit Accrued Liability

According to General Municipal Law §6-p, must be used for the payment of accrued employee benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the general fund under Restricted Fund Balance.

Workers' Compensation

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

Retirement Contribution

Retirement contribution reserve (GML §6-r) is used for the purpose of financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detail report of the operations and condition of the fund must be provided to the Board. The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. This reserve is accounted for in the general fund under Restricted Fund Balance.

Assigned - Includes amounts that are constrained by the District's intent to be used for specific purposes, but are not restricted. Assigned fund balance includes encumbrances reported in the general fund in the amount of \$898,556 and \$3,300,000 applied to the June 30, 2014 budget to reduce taxes. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund.

Unassigned - Includes all other general fund amounts that do not meet the definition of the above three classifications and are deemed to be available for general use by the District. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Equity Classifications (continued)

Order of Use of Fund Balance

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. Expenditures incurred in the unrestricted fund balances shall be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

T. New Accounting Standards

The District has adopted all current statements of the GASB that are applicable. At June 30, 2013, the District implemented the following standards issued by GASB:

GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

GASB 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and amends the net asset reporting provisions by incorporating deferred inflows and outflows into the definitions of the residual measure and by renaming that measure as net position, rather than net assets.

U. Future Changes in Accounting Standards

GASB has issued Statement 65, *Items Previously Reported as Assets and Liabilities*, effective for the year ending June 30, 2014.

GASB has issued Statement 66, *GASB Technical Corrections – 2012 – an Amendment of Statements 10 and 62*, effective for the year ending June 30, 2014.

GASB has issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*, effective for the year ending June 30, 2015.

GASB has issued Statement 69, *Government Combinations and Disposals of Government Operations*, effective for the year ending June 30, 2015.

GASB has issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending June 30, 2015.

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

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

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

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS (continued)

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 additional 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 Balance vs. Statement of Activities

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balance 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 for the sale of capital assets reported on fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the fund statements and depreciation expense on those items as recorded in the Statement of Activities.

Long-Term Debt Transaction Differences

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The District's 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.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

A. Budgets (continued)

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

Contingent expenditures funded by donations, insurance recoveries and other revenue	\$ 201,179
Voter approved Proposition 1 on September 19, 2012, transfer to capital for various improvements	1,595,000
Voter approved Proposition 2 on May 21, 2013, transfer to capital for various improvements	1,105,000
Compensated absences payout funded by employee benefit accrued liability reserve	<u>271,446</u>
Total	<u>\$ 3,172,625</u>

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

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 amounts assigned in the general fund fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

C. Fund Deficit

School Lunch Fund

The school lunch fund has a deficit fund balance of \$141,830. The District is currently determining the future method of eliminating the deficit.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

4. DEPOSITS WITH FINANCIAL INSTITUTIONS

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

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 either:

- 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 Districts' bank balances that were not covered by Federal deposit insurance were exposed to custodial credit risk as described above.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2013, the District was billed \$10,011,195 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,289,060. Financial statements for BOCES are available from the BOCES administrative offices at 507 Deer Park Road, P.O. Box 8007, Huntington Station, New York 11746-9007.

6. DUE FROM STATE AND FEDERAL

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

General Fund:		School Lunch Fund:	
Excess Cost Aid	\$ 838,125	School Lunch Reimbursements	\$ 15,929
BOCES Aid	582,493	BOCES Aid	2,604
Total General Fund	<u>\$ 1,420,618</u>	Total School Lunch Fund	<u>\$ 18,533</u>
		Capital Projects Fund:	
		EXCEL Aid	<u>\$ 1,241,179</u>
Special Aid Fund:		Total Due From State and Federal	<u>\$ 3,766,551</u>
Federal and State Grants	<u>\$ 1,086,221</u>		

7. DUE FROM OTHER GOVERNMENTS

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

General Fund:	
Tuition from other Districts	<u>\$ 267,778</u>
Agency Fund	
Taxes receivable	<u>\$ 147</u>
Total Due From Other Governments	<u>\$ 267,925</u>

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

8. CAPITAL ASSETS

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

	Balance July 1, 2012	Additions	Retirements/ Reclassifications	Balance June 30, 2013
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 1,336,364			\$ 1,336,364
Construction in progress	1,484,286	\$ 938,557	\$ (1,424,029)	998,814
Total nondepreciable assets	<u>2,820,650</u>	<u>938,557</u>	<u>(1,424,029)</u>	<u>2,335,178</u>
Capital assets that are depreciated:				
Buildings and improvements	84,055,238	1,424,017		85,479,255
Site improvements	3,037,002			3,037,002
Furniture, equipment and vehicles	7,735,087	343,848	(207,015)	7,871,920
Total depreciable assets	<u>94,827,327</u>	<u>1,767,865</u>	<u>(207,015)</u>	<u>96,388,177</u>
Less accumulated depreciation:				
Buildings and improvements	34,060,675	2,159,600		36,220,275
Site improvements	1,401,172	126,009		1,527,181
Furniture, equipment and vehicles	5,622,644	349,571	(207,015)	5,765,200
Total accumulated depreciation	<u>\$ 41,084,491</u>	<u>\$ 2,635,180</u>	<u>\$ (207,015)</u>	<u>43,512,656</u>
Total capital assets, net				<u>\$ 55,210,699</u>
Depreciation expense was charged to governmental functions as follows:				
General support				\$ 407,228
Instruction				2,125,465
Pupil Transportation				90,722
Community service				8,983
School Lunch				2,782
Total governmental activities depreciation expense				<u>\$ 2,635,180</u>

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The District's policy is to record an impairment loss in the period when the District determines that the carrying amount of the asset will not be recoverable. At June 30, 2013, the District has not recorded any such impairment losses.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

9. INTERFUND TRANSACTIONS

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

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	\$ 5,604,328	\$ 6,947,176	\$ 182,375	\$ 5,102,717
Special Aid Fund	539,683	3,795,921	602,717	
School Lunch Fund	19,110	369,933	200,000	
Capital Projects Fund	4,949,909		4,300,000	182,375
	<u>11,113,030</u>	<u>11,113,030</u>	<u>\$ 5,285,092</u>	<u>\$ 5,285,092</u>
General Fund	194,952			
Agency Fund		194,952		
	<u>\$ 11,307,982</u>	<u>\$ 11,307,982</u>		

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Position.

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

All interfund payables are expected to be repaid within one year, except for \$141,830 payable to the general fund from the school lunch fund. The general fund has established a Nonspendable – Advance in fund balance to account for the long-term receivable.

The District typically transfers from the general fund to the special aid fund, school lunch fund and the capital projects fund in accordance with the general fund budget. The transfer to the special aid fund was for the District's share of the cost for the summer handicapped program and 4201 program. The transfer to the school lunch fund was to fund current and prior year losses. The transfer to the capital projects fund was for District-wide improvements. The transfer to the general fund from the capital projects fund was to move excess funds from completed projects back to the general fund.

10. SHORT-TERM DEBT

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

	Balance July 1, 2012	Issued	Redeemed	Balance June 30, 2013
TAN matured 6/27/13 at 2.00%	\$ -0-	\$ 30,000,000	\$ 30,000,000	\$ -0-

Interest paid on short-term debt for the year was \$415,000. The premium received for the year was \$366,000 resulting in a net interest cost of \$49,000.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

11. LONG-TERM DEBT

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Non-current liabilities due within one year</u>	<u>Non-current liabilities due in more than one year</u>
Governmental activities:						
Bonds and Notes Payable:						
General obligation bonds	\$ 24,440,000	\$ 17,310,000	\$ 20,620,000	\$ 21,130,000	\$ 2,210,000	\$ 18,920,000
Other liabilities:						
Other postemployment benefits payable	37,670,571	12,869,889	3,876,455	46,664,005		46,664,005
Compensated absences	6,059,916	493,009	468,668	6,084,257	486,741	5,597,516
Workers' compensation	2,919,960	2,233,117	983,279	4,169,798	487,644	3,682,154
Capital lease payable	22,544		6,771	15,773	7,484	8,289
Total noncurrent liabilities	<u>\$ 71,112,991</u>	<u>\$ 32,906,015</u>	<u>\$ 25,955,173</u>	<u>\$ 78,063,833</u>	<u>\$ 3,191,869</u>	<u>\$ 74,871,964</u>

The general fund has typically been used to liquidate compensated absences, workers' compensation, and other postemployment benefits when they become due.

Existing serial bond obligations:

<u>Description of Issue</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at 6/30/13</u>
Serial bond - refunding	August 2006	2016	3.88-5.00%	\$ 1,325,000
Serial bond	August 2005	2016	4.00%	1,235,000
Serial bond	April 2004	2014	4.25%	1,360,000
Serial bond - refunding	February 2013	2022	2.00-4.00%	12,335,000
Serial bond - refunding	February 2013	2026	2.00-4.00%	4,875,000
				<u>\$ 21,130,000</u>

The following is a summary of debt service requirements:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30, 2014	\$ 2,210,000	\$ 739,756	\$ 2,949,756
2015	2,265,000	656,550	2,921,550
2016	2,305,000	589,425	2,894,425
2017	1,885,000	509,700	2,394,700
2018	1,935,000	452,925	2,387,925
2019-2023	8,875,000	1,217,850	10,092,850
2024-2026	1,655,000	101,100	1,756,100
Total	<u>\$ 21,130,000</u>	<u>\$ 4,267,306</u>	<u>\$ 25,397,306</u>

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

11. LONG-TERM DEBT (continued)

Interest on long-term debt for the year ended June 30, 2013 was composed of:

Interest paid	\$ 799,976
Less: interest accrued in the prior year	(307,621)
Plus: interest accrued in the current year	213,040
Total interest expense on long-term debt	<u>\$ 705,395</u>

Advance Refunding of Bonds

On February 27, 2013, the District issued Series A and Series B Refunding Serial Bonds in the amount of \$17,310,000. The Series A refunding bonds, in the amount of \$12,435,000, with interest rates of 2.00% to 4.00% and a final maturity of April 1, 2022, were used to advance refund \$13,030,000 of the 2004 serial bonds, with interest rates of 4.00% to 4.50% and a final maturity of April 1, 2022. The Series B refunding bonds, in the amount of \$4,875,000, with interest rates of 2.00% to 4.00% and a final maturity of August 1, 2025, were used to advance refund \$5,385,000 of the 2005 serial bonds, with interest rates of 4.00% to 4.25% and a final maturity of August 1, 2025.

The net proceeds of \$19,760,199 (the par amount of the bonds plus a premium of \$2,039,191, and the District's contributions of \$596,778 less underwriter's fees and other issuance costs of \$185,770) were used to buy State and Local Government Securities.

Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 and 2005 serial bonds. As a result, the refunded portion of these bonds is considered to be defeased and the liability for those bonds has been removed from the government-wide financial statements. At June 30, 2013, the amount of outstanding defeased bonds totaled \$18,415,000. The 2004 and 2005 serial bonds are callable on April 1, 2014 and August 1, 2015 respectively, and will be satisfied by the escrow agent at that time.

The District advance refunded the 2004 and 2005 serial bonds to reduce its total debt service payments over the next twelve years by \$2,486,626 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$1,686,239.

The following is a summary of capital lease requirements:

Fiscal year ended June 30, 2014	\$ 9,200
2015	<u>9,200</u>
Total minimum lease payments	18,400
Less: amounts representing interest	<u>2,627</u>
	<u>\$ 15,773</u>

The District has purchased various assets that are being financed over five years at interest rates of 4.00% and 14.40%. The assets and related obligations are accounted for in the government-wide financial statements and are included in the summary for capital assets Note 8. The cost of the equipment, which is included in furniture, equipment and vehicles, is \$37,602 and accumulated depreciation as of June 30, 2013 is \$9,305.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

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 offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

B. Provisions and Administration

Teachers' Retirement System

The NYSTRS is administered by the New York State Teachers' Retirement Board. The System 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 for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

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

C. Funding Policies

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

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

<u>Year</u>	<u>NYSTRS</u>	<u>NYSERS</u>
2012-2013	\$ 7,861,665	\$ 2,808,664
2011-2012	7,254,049	2,364,775
2010-2011	5,444,138	1,841,885

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

13. OTHER PENSION PLANS

Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2013, totaled \$10,000 and \$4,254,378, respectively.

14. OTHER POSTEMPLOYMENT BENEFITS

In the District-wide financial statements, the cost of other postemployment benefits (OPEB), like the cost of pension benefits, generally should be associated with the period in which the cost occurs, rather than in the future year when it will be paid. The District recognizes the costs of other postemployment benefits in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, which commenced with the June 30, 2009 liability.

Plan Description

The District provides postemployment health insurance benefits to eligible retirees and their covered dependents. The District contributes between 35% and 85% towards the cost of the insurance premiums. The District also reimburses eligible retirees and their spouse 100% of the Medicare Part B premiums. The benefits provided to employees upon retirement are based upon provisions in various contracts that the District has in place with different classifications of employees. All employees are eligible once they have attained the age of 55 and have at least 5 years of service with the District. Upon death of a retiree, the District will only continue the Medicare Part B reimbursement for the surviving spouse.

The number of participants as of July 1, 2012, the effective date of the OPEB valuation, is as follows:

	<u>Participants</u>	<u>Spouses</u>
Active employees	1,058	
Retired employees	635	41
Total	<u>1,693</u>	<u>41</u>

There have been no significant changes in the number of employees or the type of coverage since the valuation date.

Funding Policy

For the District's OPEB Plan, contribution requirements of the plan members and the District are established by the Board of Education. The District's annual (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The District currently pays for other postemployment benefits on a pay-as-you-go basis.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

14. OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual Other Postemployment Benefit Cost

For the year ended June 30, 2013, the District's annual other postemployment benefits cost was \$12,869,889. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$3,876,455 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$8,993,434 for the year ended June 30, 2013.

	<u>Total</u>
Retired employees	\$ 68,151,086
Active employees	<u>73,249,059</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 141,400,145</u>

The following table shows the components of the District's other postemployment benefits liability:

Annual required contribution (ARC)	\$ 13,458,203
Interest on beginning Net OPEB obligation	1,506,823
Less: Adjustments to ARC	<u>(2,095,137)</u>
Annual OPEB cost	12,869,889
Less: Contributions for the year ended June 30, 2013	<u>(3,876,455)</u>
Increase in other postemployment benefits liability	8,993,434
Other postemployment benefits liability at June 30, 2012	<u>37,670,571</u>
Other postemployment benefits liability at June 30, 2013	<u>\$ 46,664,005</u>

The District's annual OPEB cost, the percent of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and two preceding years are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percent of annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 13,572,746	26.8%	\$ 28,055,742
June 30, 2012	13,417,545	28.3%	37,670,571
June 30, 2013	12,869,889	30.1%	46,664,005

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

14. OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2012 is as follows:

<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
\$ -0-	\$ 141,400,145	\$ 141,400,145	0.0%	\$ 74,943,094	188.7%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial Methods and Assumptions

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 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, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the liabilities were computed using the projected unit credit cost method, using the level dollar amortization method on an open basis to amortize the initial unfunded liability. The maximum allowed period of 30 years was used. The remaining amortization period at June 30, 2013 was twenty-five years. The actuarial assumptions utilized a 4.0% discount rate. The valuation assumes a 10.0% healthcare cost trend increase for the year ended 2013 and reduced decrements to a rate of 5% after ten years.

15. COMPENSATED ABSENCES

District employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave, subject to certain limitations.

Estimated vacation, sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the Statement of Net Position. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. As of June 30, 2013, the value of the accumulated vacation time and sick leave was \$6,425,480, of which \$341,223 is recorded as compensated absences in the general fund.

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

16. RISK MANAGEMENT

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.

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 claims that have been incurred, but not reported (IBNR).

Claim liabilities are discounted at an estimated interest rate of 3%, and are calculated considering the effect of inflation, recent claim settlement trends including frequency and amounts of payouts, and other economic and social factors. The District has not purchased any annuity contracts with regard to its workers' compensation claims. Changes in the balances of claim liabilities for workers' compensation during the past two fiscal years are as follows:

	<u>2013</u>	<u>2012</u>
Unpaid claims at beginning of year	\$ 2,919,960	\$ 2,078,255
Incurred claims and claim adjustments	2,233,117	1,648,835
Claim payments	<u>(983,279)</u>	<u>(807,130)</u>
Unpaid claims at year end	<u>\$ 4,169,798</u>	<u>\$ 2,919,960</u>

17. FUND BALANCES – ASSIGNED: APPROPRIATED FOR SUBSEQUENT YEAR'S BUDGET

The amount of \$3,300,000 has been assigned as the amount to be appropriated to reduce taxes for the year ending June 30, 2014.

18. FUND BALANCES – RESTRICTED: APPROPRIATED RESERVES

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

Employee benefit accrued liability	\$ 125,000
Workers' compensation	500,000
Retirement contributions	<u>1,800,000</u>
	<u>\$ 2,425,000</u>

19. COMMITMENTS AND CONTINGENCIES

A. Grants

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

NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2013

19. COMMITMENTS AND CONTINGENCIES (continued)

B. 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.

C. Long Island Power Authority Tax Certiorari

The Long Island Power Authority (LIPA) has initiated a tax certiorari proceeding to challenge their property tax assessment. The results of such a challenge could have a considerable impact on the District's residential property taxes and future school district budgets. The Northport Power Plant currently pays approximately \$49.5 million in taxes to the Northport-East Northport School District. The plant's assessed valuation represents approximately 37.4% of the total assessed valuation of the School District. A reduction in the school taxes paid by LIPA would cause a shift in the tax burden to the District's residential tax base and could impact future budgets. The impact would be contingent upon the amount of LIPA's property tax assessment reduction. Any award of back taxes payable to LIPA as a result of the proceeding would be the responsibility of the County of Suffolk.

D. Operating Leases

The District leases various equipment under operating leases. Total rental expenditures on such leases for the fiscal year ended June 30, 2013, were \$288,059. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 288,059
2015	13,379
2016	13,379
2017	8,061
2018	4,116
	<u>\$ 326,994</u>

E. Encumbrances

At June 30, 2013, the District encumbered the following amounts:

Restricted:

Capital Projects Fund	
Capital Projects	<u>\$ 210,057</u>

Assigned:

General Fund	
General Support	573,672
Instruction	321,794
Pupil Transportation	<u>3,090</u>
	898,556
Capital Projects Fund	
Capital Projects	<u>233,262</u>

Total Encumbrances	<u>\$ 1,341,875</u>
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NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual		Variance With Final Budget
REVENUES					
Local Sources:					
Real property taxes	\$ 123,473,939	\$ 123,351,570	\$ 123,352,172	\$	602
School tax relief reimbursement	9,800,000	9,922,369	9,922,369		-0-
Other tax items	-0-	-0-	2,563		2,563
Charges for services	925,000	929,616	1,031,008		101,392
Use of money and property	311,500	311,500	273,511		(37,989)
Sale of property and compensation for loss	164,500	183,293	91,752		(91,541)
Miscellaneous	1,212,060	1,389,830	1,164,965		(224,865)
Total Local Sources	135,886,999	136,088,178	135,838,340		(249,838)
State aid	11,484,400	11,484,400	11,855,068		370,668
Federal aid - medicaid reimbursement	25,000	25,000	44,668		19,668
Total Revenues	147,396,399	147,597,578	147,738,076		140,498
OTHER FINANCING SOURCES					
Premium on obligations	-0-	-0-	366,000		366,000
Transfers from other funds	344,529	344,529	182,375		(162,154)
Total Financing Sources	344,529	344,529	548,375		203,846
Appropriated fund balance	5,149,228	6,744,228			
Appropriated reserves	2,425,000	3,801,446			
Total Revenues, Other Financing Sources and Appropriated Fund Balance	\$ 155,315,156	\$ 158,487,781	148,286,451		\$ 344,344
EXPENDITURES					
General Support					
Board of education	\$ 271,881	\$ 256,342	241,922	\$ 33	\$ 14,387
Central administration	339,585	347,085	341,561	3,082	2,442
Finance	1,242,004	1,247,236	1,072,557	56,946	117,733
Staff	1,075,399	1,093,606	918,380	800	174,426
Central services	12,621,458	12,795,152	11,571,877	511,302	711,973
Special items	1,125,329	1,089,050	1,056,661	1,509	30,890
Total General Support	16,675,666	16,828,471	15,202,958	573,672	1,051,841
Instruction					
Instruction, administration and improvement	6,608,720	6,387,453	6,132,053	8,075	247,325
Teaching - regular school	47,419,662	50,328,970	49,812,630	264,541	251,799
Programs for children with handicapping conditions	18,368,375	18,998,801	18,531,904	35,394	429,503
Occupational education	361,911	363,800	363,800		-0-
Teaching - special school	723,272	606,272	496,175	2,652	107,445
Instructional media	3,929,365	3,962,542	3,883,838	7,255	71,449
Pupil services	7,791,480	8,030,686	7,602,205	3,877	424,604
Total Instruction	85,202,785	88,676,524	86,822,605	321,794	1,532,125
Pupil Transportation					
Community Services	8,312,881	7,910,555	7,402,723	3,090	504,742
Employee Benefits	443,611	443,611	402,572		41,039
Debt Service - Principal	38,255,406	35,776,096	34,908,814		867,482
Debt Service - Interest	2,136,102	2,233,672	2,211,771		21,901
	1,988,705	1,516,135	1,214,976		301,159
Total Expenditures	153,015,156	153,385,064	148,166,219	898,556	4,320,289
OTHER FINANCING USES					
Transfers to other funds	2,300,000	5,102,717	5,102,717		-0-
Total Expenditures and Other Uses	\$ 155,315,156	\$ 158,487,781	153,268,936	\$ 898,556	\$ 4,320,289
Net change in fund balance			(4,982,485)		
Fund balance - beginning			31,547,709		
Fund balance - ending			\$ 26,565,224		

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.

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)

June 30, 2013

Actuarial Valuation Date July 1,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
2012	\$ -	\$ 141,400,145	\$ 141,400,145	0.0%	\$ 74,943,094	188.7%
2010	\$ -	\$ 139,435,886	\$ 139,435,886	0.0%	\$ 73,344,131	190.1%
2008	\$ -	\$ 128,931,768	\$ 128,931,768	0.0%	\$ 62,088,076	207.7%

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND THE REAL PROPERTY TAX LIMIT - GENERAL FUND
For the Year Ended June 30, 2013

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 153,941,712
Add: Prior year's encumbrances	<u>1,373,444</u>
Original budget	155,315,156
Budget revision	<u>3,172,625</u>
Final budget	<u><u>\$ 158,487,781</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2013-14 voter-approved expenditure budget	<u><u>\$ 156,596,051</u></u>
Maximum allowed (4% of 2013-14 budget)	<u><u>\$ 6,263,842</u></u>

General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law:

Unrestricted fund balance:			
Assigned fund balance	\$ 4,198,556		
Unassigned fund balance	<u>6,235,130</u>	<u>\$ 10,433,686</u>	
Less:			
Appropriated fund balance	\$ 3,300,000		
Encumbrances	<u>898,556</u>	<u>4,198,556</u>	
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law:		<u><u>\$ 6,235,130</u></u>	
Actual Percentage			3.98%

PROJECT TITLE

NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT
OTHER SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
For the Year Ended June 30, 2013

Capital assets, net			\$ 55,210,699
Deduct:			
Short-term portion of bonds payable	\$ 2,210,000		
Long-term portion of bonds payable	18,920,000		
Short-term portion of capital lease payable	7,484		
Long-term portion of capital lease payable	<u>8,289</u>	<u>(21,145,773)</u>	
Net Investment in capital assets			<u>\$ 34,064,926</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
Northport - East Northport Union Free School District
Northport, 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 Northport - East Northport Union Free School District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 30, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 Northport - East Northport Union Free School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Northport - East Northport Union Free School District in a separate letter dated September 30, 2013.

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

September 30, 2013

