

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITOR'S REPORTS**

**JUNE 30, 2014**

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT  
TABLE OF CONTENTS**

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	<u>Page</u>
<b>Independent Auditor's Report</b>	
<b>Management's Discussion and Analysis (MD&amp;A)</b>	3
<b>Financial Statements:</b>	
Statement of Net Position	14
Statement of Activities	15
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	19
Statement of Fiduciary Net Position – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	21
Notes to Financial Statements	22
<b>Required Supplementary Information other than MD&amp;A:</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	41
Schedule of Funding Progress – Other Postemployment Benefits	43
<b>Other Supplementary Information:</b>	
Schedules of Change from Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund	44
Schedule of Project Expenditures – Capital Projects Fund	45
Net Investment in Capital Assets	46
<b>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 <i>Government Auditing Standards</i></b>	



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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Port Jefferson Union Free School District

**Report on Financial Statements**

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

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

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

***Auditor's Responsibility***

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

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

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

***Opinions***

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

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## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 3 through 13 and 41 through 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Boards, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

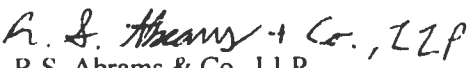
### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Port Jefferson Union Free School District's basic financial statements. The other supplementary financial information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements.

The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014 on our consideration of Port Jefferson Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Port Jefferson Union Free School District's internal control over financial reporting and compliance.

  
R.S. Abrams & Co., LLP  
Islandia, NY  
October 6, 2014

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Port Jefferson Union Free School District's discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014 in comparison with the year ended June 30, 2013, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

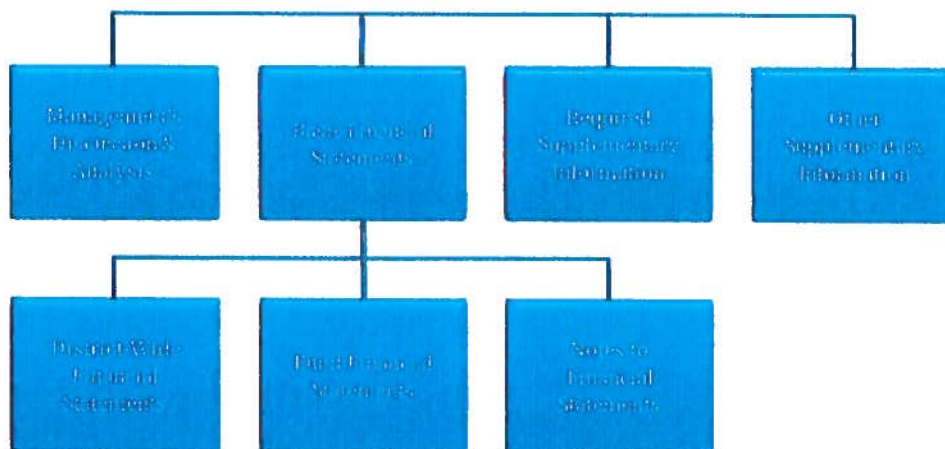
**1. FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2014 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, decreased by \$849,269. This was due to an excess of expenses over revenues based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$41,230,320. Of this amount, \$1,313,135 was offset by program charges for services and grants. General revenues of \$39,067,916 amount to 97% of total revenues, and were not adequate to cover the balance of program expenses.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$2,683,036. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- The budget for the 2014-15 school year in the amount of \$40,326,848 was approved by the voters on May 20, 2014. The budget presented to the taxpayers showed a 2.6% spending increase from the prior year budget.

**2. OVERVIEW OF THE FINANCIAL STATEMENTS**

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



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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**A. District-Wide Financial Statements**

The district-wide financial statements present the governmental activities of the District and 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 and deferred inflows of resources, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities:

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

**B. Fund Financial Statements**

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

Governmental Funds

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

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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

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

Fiduciary Funds

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

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

**A. Net Position**

The District's total net position decreased by \$849,269 between fiscal year 2014 and 2013. A summary of the District's Statements of Net Position is as follows:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Current and Other Assets	\$ 19,325,787	\$ 16,072,321	\$ 3,253,466	20.24 %
Capital Assets, Net	<u>15,038,661</u>	<u>16,063,619</u>	<u>(1,024,958)</u>	(6.38)%
<b>Total Assets</b>	<b><u>34,364,448</u></b>	<b><u>32,135,940</u></b>	<b><u>2,228,508</u></b>	<b>6.93 %</b>
Current and Other Liabilities	3,057,660	2,311,015	746,645	32.31 %
Long-Term Liabilities	8,907,097	9,827,762	(920,665)	(9.37)%
Net Other Postemployment Benefits Obligation	<u>21,133,361</u>	<u>17,875,373</u>	<u>3,257,988</u>	18.23 %
<b>Total Liabilities</b>	<b><u>33,098,118</u></b>	<b><u>30,014,150</u></b>	<b><u>3,083,968</u></b>	<b>10.28 %</b>
Deferred Inflows of Resources	<u>1,049,451</u>	<u>1,055,642</u>	<u>(6,191)</u>	(0.59)%
<b>Net Position</b>				
Net Investment in Capital Assets	9,038,661	8,923,619	115,042	1.29 %
Restricted	11,689,929	9,875,459	1,814,470	18.37 %
Unrestricted (Deficit)	<u>(20,511,711)</u>	<u>(17,732,930)</u>	<u>(2,778,781)</u>	15.67 %
<b>Total Net Position</b>	<b><u>\$ 216,879</u></b>	<b><u>\$ 1,066,148</u></b>	<b><u>\$ (849,269)</u></b>	<b>(79.66)%</b>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

Current and other assets increased by \$3,253,466 during the year. The District's cash position increased by \$3,176,161 as the District generated positive cash flow from operations during the year.

Capital Assets, net decreased during the year by \$1,024,958. The current year depreciation expense of \$1,476,815 was offset by equipment purchases and capital project expenditures totaling \$451,857.

Current and other liabilities increased by \$746,645, mainly due to an increase in amount due to the teachers' retirement system, as the contribution rate increased from 11.84% in 2013 to 16.25% in 2014.

Long-term liabilities decreased by \$920,665, principally due to the repayment of \$1,140,000 of serial bond principal.

Net other postemployment benefits (OPEB) obligation increased by \$3,257,988, as compared to the prior year. This increase is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 13 "Postemployment Benefits", provides additional information.

The net investment in capital assets, relates to the investment in capital assets at cost such as land; construction in progress; buildings and improvements; site improvements; and, furniture and equipment, net of depreciation and related debt. This number increased over the prior year as follows:

	Increase (Decrease)
Capital asset additions, net of write-off of construction in progress of \$1,734	\$ 451,857
Principal debt reduction of construction bonds	1,140,000
Depreciation expense	(1,476,815)
	\$ 115,042

The restricted amount of \$11,689,929 relates to the District's reserves. This number increased over the prior year by \$1,814,470 as follows:

Board approved increases of reserve balances	\$ 1,785,000
Interest earned on reserves	29,470
	\$ 1,814,470

The unrestricted amount decreased by \$2,778,781 during the year. As of June 30, 2014, this component of net position is in a deficit position of \$20,511,711. This deficit is the result of the District recording a liability for \$21,133,361 as of June 30, 2014 to provide health care insurance coverage to retired employees. This liability remains 100% unfunded as the law does not allow school districts to reserve funds to cover this future obligation. This balance does not include the District's reserves, which are classified as restricted.



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**B. Changes in Net Position**

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 629,005	\$ 514,295	\$ 114,710	22.30 %
Operating Grants & Contributions	684,130	694,914	(10,784)	(1.55)%
Capital Grants & Contributions		10,874	(10,874)	(100.00)%
General Revenues				
Property Taxes and STAR	33,610,268	32,451,039	1,159,229	3.57 %
State Sources	3,074,415	2,972,430	101,985	3.43 %
Other	2,383,233	2,788,481	(405,248)	(14.53)%
Total Revenues	<u>40,381,051</u>	<u>39,432,033</u>	<u>949,018</u>	2.41 %
<b>Expenses</b>				
General Support	6,164,421	6,002,855	161,566	2.69 %
Instruction	32,632,534	31,092,259	1,540,275	4.95 %
Pupil Transportation	1,945,295	2,058,242	(112,947)	(5.49)%
Debt Service - Interest	277,756	321,512	(43,756)	(13.61)%
Food Service Program	210,314	219,422	(9,108)	(4.15)%
Total Expenses	<u>41,230,320</u>	<u>39,694,290</u>	<u>1,536,030</u>	3.87 %
Increase / (Decrease) in Net Position	<u>\$ (849,269)</u>	<u>\$ (262,257)</u>	<u>\$ (587,012)</u>	223.83 %

The District's net position decreased \$849,269 and \$262,257 for the years ended June 30, 2014 and 2013, respectively.

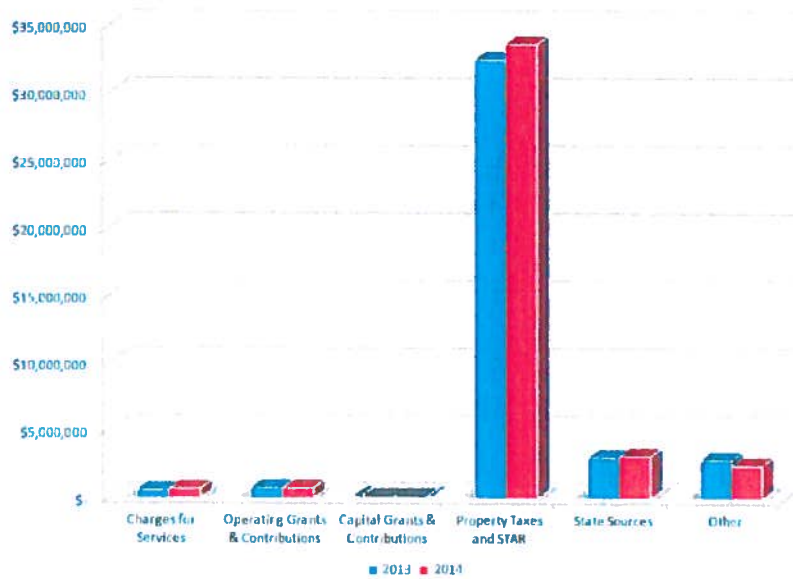
The District's revenues increase by \$949,018 or 2.41%. Property tax and STAR revenue increased \$1,159,229, which was within the 2% tax cap legislation and charges for services increased by \$114,710 mainly due to an increase in health services received from other districts. Other revenues decreased as the District received one time reimbursements in the prior year for costs previously paid for the summer handicapped and Chapter 4201 programs:

The District's expenses for the year increased by \$1,536,030, which was an increase of 3.87%. Total employee benefits increased by \$933,136, or 7.6% over the prior year. The majority of this increase was allocated to instruction.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 83% and 82% of the total for the years ended June 30, 2014 and 2013, respectively). Instructional expenses is the largest category of expenses incurred (i.e., 79% and 78% of the total for the years ended June 30, 2014 and 2013, respectively).

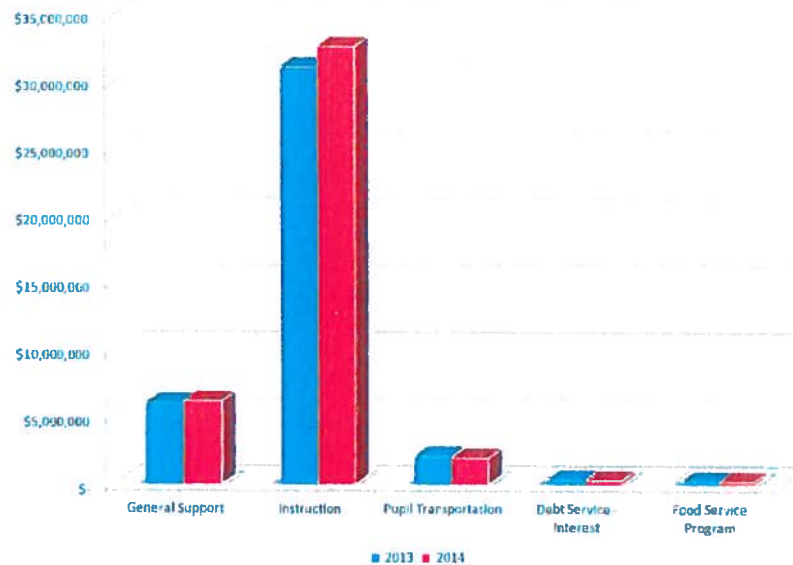
**PORT JEFFERSON UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)**

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



	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Property Taxes and STAR	State Sources	Other
<b>2013</b>	1.3%	1.8%	0.0%	82.3%	7.5%	7.1%
<b>2014</b>	1.6%	1.7%	0.0%	83.2%	7.6%	5.9%

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
<b>2013</b>	15.1%	78.3%	5.2%	0.8%	0.6%
<b>2014</b>	15.0%	79.1%	4.7%	0.7%	0.5%

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

At June 30, 2014, the District's governmental funds reported a combined fund balance of \$14,838,304 which is an increase of \$2,450,223 over the prior year. This increase is due to an excess of revenues over expenditures based on the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
<b>General Fund</b>			
Restricted:			
Workers' compensation	\$ 1,786,213	\$ 1,530,711	\$ 255,502
Unemployment insurance	1,596,825	1,342,002	254,823
Retirement contribution	2,764,064	1,971,976	792,088
Employee benefit accrued liability	2,736,741	2,228,730	508,011
Assigned:			
Unappropriated fund balance	1,235,306	402,384	832,922
Unassigned: Fund balance	<u>1,612,543</u>	<u>1,572,853</u>	<u>39,690</u>
	<u>11,731,692</u>	<u>9,048,656</u>	<u>2,683,036</u>
<b>School Lunch Fund</b>			
Nonspendable: Inventory	14	121	(107)
Unassigned: Fund balance (deficit)	<u>(11,259)</u>	<u>(1,383)</u>	<u>(9,876)</u>
	<u>(11,245)</u>	<u>(1,262)</u>	<u>(9,983)</u>
<b>Debt Service Fund</b>			
Restricted: Debt service	<u>2,806,086</u>	<u>2,802,040</u>	<u>4,046</u>
<b>Capital Projects Fund</b>			
Assigned: Unappropriated fund balance	<u>311,771</u>	<u>538,647</u>	<u>(226,876)</u>
 Total Fund Balance	 <u>\$ 14,838,304</u>	 <u>\$ 12,388,081</u>	 <u>\$ 2,450,223</u>

**A. General Fund**

The general fund operated at a \$2,683,036 profit during the year, an increase of \$180,991 over the prior year. Actual revenues increased by \$979,612 due to an increase in real property tax revenue of \$1,143,280. All other sources of revenue decreased \$163,668 from the prior year. Actual expenditures increased by \$798,621 as increases in instructional programs and employee benefits totaling \$1,360,076 were offset by a \$585,000 reduction in the amount transferred to the capital projects fund.

**B. School Lunch Fund**

The net change in the school lunch fund – fund balance is a decrease of \$9,983, which was the operating loss incurred during the year.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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**C. Debt Service Fund**

The net change in the debt service fund – fund balance is an increase of \$4,046, which is the interest income earned during the year. The District will use this reserve to offset future debt principal and interest payments.

**D. Capital Projects Fund**

The net change in the capital projects fund – fund balance is a decrease of \$226,876, which was the amount of expenditures incurred on current capital projects.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2013-14 Budget**

The District's general fund adopted budget for the year ended June 30, 2014 was \$39,321,267. This amount was increased by encumbrances carried forward from the prior year in the amount of \$402,384 and budget revisions totaling \$29,650, for a total final budget of \$39,753,301.

The budget was funded through a combination of revenues and appropriated fund balance. The majority of this funding source was \$33,610,133 in estimated property taxes and STAR.

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

The general fund's unassigned fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves, appropriations to fund the subsequent year's budget, encumbrances and amounts classified as nonspendable. 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	\$ 1,572,853
Revenues Over Budget	178,881
Expenditures and Encumbrances Under Budget	1,671,233
Transfers to Reserves	(1,785,000)
Interest Allocated to Reserves	<u>(25,424)</u>
Closing Unassigned Fund Balance	<u>\$ 1,612,543</u>

**Opening Unassigned Fund Balance**

The \$1,572,853 shown in the table is the portion of the District's June 30, 2013 fund balance that was retained as unassigned. This was 4% of the District's 2013-14 approved operating budget of \$39,321,267, and is within the maximum unassigned fund balance permitted by law.

**Revenues Over Budget**

The District's actual revenues exceeded the amount estimated by \$178,881. The District realized \$211,870 of unanticipated revenue from charges for services, medicaid reimbursements and federal sources.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

Expenditures and Encumbrances Under Budget

The District's expenditures and encumbrances totaling \$38,082,068 were \$1,671,233 less than budgeted. Some of the factors contributing to this positive variance were the favorable settlement of five labor contracts, a reduction in BOCES services, a decrease in the transportation contract based on a lower than expected consumer price index and savings on high cost special education students leaving the District.

Transfers to Reserves

Pursuant to resolutions by the Board of Education, the District transferred \$1,785,000 to the following reserves to set aside funds to cover future District expenditures:

Reserve for:

Workers' compensation	\$ 250,000
Unemployment insurance	250,000
Retirement contribution	785,000
Employee benefit accrued liability	<u>500,000</u>
	<u>\$ 1,785,000</u>

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2014 was \$1,612,543. This amount equals 4% of the 2014-15 voter approved budget and is within the 4% statutory limit.

**6. CAPITAL ASSETS AND DEBT ADMINISTRATION**

**A. Capital Assets**

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

	<u>2014</u>	<u>2013</u>	Increase (Decrease)
Land	\$ 171,241	\$ 171,241	\$ -
Construction work in progress	1,098,680	873,538	225,142
Buildings and improvements	12,520,661	13,894,900	(1,374,239)
Furniture and equipment	<u>1,248,079</u>	<u>1,123,940</u>	124,139
Capital assets, net	<u>\$ 15,038,661</u>	<u>\$ 16,063,619</u>	<u>\$ (1,024,958)</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**B. Debt Administration**

At June 30, 2014, the District had total bonds payable of \$6,000,000. The bonds were issued for school building improvements. The decrease in outstanding debt represents principal payments. There were no new issuances of long-term debt during the year ended June 30, 2014. A summary of the outstanding debt at June 30, 2014 and 2013 is as follows:

Issue Date	Interest Rate	2014	2013	Increase (Decrease)
2006	4% - 4.375%	\$ 1,400,000	\$ 1,600,000	\$ (200,000)
2008	3% - 4%	1,700,000	2,340,000	(640,000)
2008	3.5% - 4%	2,900,000	3,200,000	(300,000)
		<u>\$ 6,000,000</u>	<u>\$ 7,140,000</u>	<u>\$ (1,140,000)</u>

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

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

**A. Subsequent Year's Budget**

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 20, 2014, for the year ending June 30, 2015, is \$40,326,848, which is an increase of \$1,005,581 over the prior year's budget.

The tax certiorari proceeding initiated by the Long Island Power Authority to challenge their property tax assessment has not been settled. The results of such a challenge can have a considerable effect on the District's residential property taxes and future school district budgets.

**B. Future Budgets**

Significant increases in costs of employee benefits, particularly retirement system contributions and health insurance, the property tax cap, uncertainty in state aid and federal funds and the outcome of the Long Island Power Authority tax certiorari proceeding could greatly impact the District's future budgets.

**C. Tax Cap**

Chapter 97 of the 2011 Laws of New York limits, for a five year period, the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation starting with the 2012-13 fiscal year. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. Based on the law, the District's tax levy cap for 2014-15 is 1.43%. The \$481,930 increase in the 2014-15 levy is compliant with the tax cap.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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**D. Property Tax Freeze**

New York State recently enacted a law to effectively "freeze" property taxes for two years on the primary residences of homeowners with annual incomes at or below \$500,000 in school districts and local governments that stay within the tax cap. Qualifying homeowners will receive a credit, which will be distributed in the form of a check from New York State, up to the calculated amount of the tax cap. The program also requires the school districts and local governments in the second year to develop or participate in the development of a state approved government efficiency plan that will achieve savings for taxpayers. The law is effective for school districts starting with the 2014-15 school year and homeowners will receive refund checks in the fall of 2014. This program will provide an incentive for the District to be tax cap compliant.

**8. CONTACTING THE DISTRICT**

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

Mr. Sean Leister  
Assistant Superintendent for Business  
Port Jefferson Union Free School District  
550 Scraggy Hill Road  
Port Jefferson, NY 11777

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Statement of Net Position**  
June 30, 2014

**ASSETS**

Cash		
Unrestricted	\$	6,159,637
Restricted		11,689,929
Receivables		
Accounts receivable		34,040
Due from state and federal		651,852
Due from other governments		392,800
Inventory		14
Prepays		397,515
Capital assets:		
Not being depreciated		1,269,921
Being depreciated, net of accumulated depreciation		<u>13,768,740</u>
Total Assets		<u>34,364,448</u>

**LIABILITIES**

Payables		
Accrued liabilities		240,024
Accrued interest on bonds payable		13,903
Due to other funds		26,456
Due to other governments		42,044
Due to teachers' retirement system		2,440,153
Due to employees' retirement system		148,826
Compensated absences payable		136,934
Unearned credits		
Collections in advance		9,320
Long-term liabilities		
Due and payable within one year		
Bonds payable		1,135,000
Compensated absences payable		200,000
Due and payable after one year		
Bonds payable		4,865,000
Compensated absences payable		2,644,772
Workers' compensation liabilities		62,325
Net other postemployment benefits obligation		<u>21,133,361</u>
Total Liabilities		<u>33,098,118</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred revenues		<u>1,049,451</u>
Total Deferred Inflows of Resources		<u>1,049,451</u>

**NET POSITION**

Net investment in capital assets		<u>9,038,661</u>
Restricted		
Workers' compensation		1,786,213
Unemployment insurance		1,596,825
Retirement contribution		2,764,064
Employee benefit accrued liability		2,736,741
Debt service		<u>2,806,086</u>
		<u>11,689,929</u>
Unrestricted (deficit)		<u>(20,511,711)</u>
Total Net Position	\$	<u>216,879</u>



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Statement of Activities**  
For The Year Ended June 30, 2014

		Program Revenues		
Expenses	Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position	
<b>FUNCTIONS/PROGRAMS</b>				
General support	\$ 6,164,421	\$	\$	\$ (6,164,421)
Instruction	32,632,534	472,130	632,693	(31,527,711)
Pupil transportation	1,945,295			(1,945,295)
Debt service - interest	277,756			(277,756)
Food service program	210,314	156,875	51,437	(2,002)
	<u>\$ 41,230,320</u>	<u>\$ 629,005</u>	<u>\$ 684,130</u>	<u>(39,917,185)</u>
<b>GENERAL REVENUES</b>				
Real property taxes				32,372,329
Other tax items				2,570,927
Use of money and property				821,459
Forfeitures				1,121
Sale of property and compensation for loss				846
Miscellaneous				183,827
State sources				3,074,415
Medicaid reimbursement				42,992
				<u>39,067,916</u>
Total General Revenues				<u>39,067,916</u>
Change in Net Position				(849,269)
Total Net Position - Beginning of Year				<u>1,066,148</u>
Total Net Position - End of Year				<u>\$ 216,879</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2014

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash						
Unrestricted	\$ 5,159,529	\$ 684,650	\$ 3,295		\$ 312,163	\$ 6,159,637
Restricted	9,543,256				2,146,673	11,689,929
Receivables						
Accounts receivable	32,740	1,300				34,040
Due from other funds	577,130		540	2,806,086		3,383,756
Due from state and federal	111,996	530,472	9,384			651,852
Due from other governments	392,800					392,800
Inventory			14			14
<b>Total Assets</b>	<b>\$ 15,817,451</b>	<b>\$ 1,216,422</b>	<b>\$ 13,233</b>	<b>\$ 2,806,086</b>	<b>\$ 2,458,836</b>	<b>\$ 22,312,028</b>
<b>LIABILITIES</b>						
Payables						
Accrued liabilities	\$ 239,933		\$ 91		\$ 2,147,065	\$ 240,024
Due to other funds	32,507	1,215,641	15,000			3,410,213
Due to other governments	41,977		67			42,044
Due to teachers' retirement system	2,440,153					2,440,153
Due to employees' retirement system	148,826					148,826
Compensated absences payable	136,934					136,934
Unearned credits						
Collections in advance			9,320			9,320
<b>Total Liabilities</b>	<b>3,040,330</b>	<b>1,215,641</b>	<b>24,478</b>	<b>-</b>	<b>2,147,065</b>	<b>6,427,514</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred revenues	1,045,429	781				1,046,210
<b>Total Deferred Inflows of Resources</b>	<b>1,045,429</b>	<b>781</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,046,210</b>
<b>FUND BALANCES (DEFICIT)</b>						
Nonspendable: Inventory			14			14
Restricted:						
Workers' compensation	1,786,213					1,786,213
Unemployment insurance	1,596,825					1,596,825
Retirement contribution	2,764,064					2,764,064
Employee benefit accrued liability	2,736,741					2,736,741
Debt service				2,806,086		2,806,086
Assigned:						
Unappropriated fund balance	1,235,306				311,771	1,547,077
Unassigned: Fund balance (deficit)	1,612,543		(11,259)			1,601,284
<b>Total Fund Balances (Deficit)</b>	<b>11,731,692</b>	<b>-</b>	<b>(11,245)</b>	<b>2,806,086</b>	<b>311,771</b>	<b>14,838,304</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 15,817,451</b>	<b>\$ 1,216,422</b>	<b>\$ 13,233</b>	<b>\$ 2,806,086</b>	<b>\$ 2,458,836</b>	<b>\$ 22,312,028</b>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
June 30, 2014

Total Governmental Fund Balances (Deficit) \$ 14,838,304

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

Grant revenues received are deferred in the governmental funds until the related expenditures are incurred; however, they are recorded as current revenue in the Statement of Activities.

State legislative grant	\$	26,928	
Local grants		<u>781</u>	27,709

Expenditures that are recorded in the governmental fund that effect future periods are recorded as prepaid expenditures in the Statement of Net Position. 397,515

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

Original cost of capital assets		36,193,226	
Accumulated depreciation		<u>(21,154,565)</u>	15,038,661

Premiums received on bonds are recorded as revenue in the governmental funds in the year received. However, the premium is recorded as a deferred inflow of resources in the Statement of Net Position and amortized over the life of the related bond issue.

Total bond premium		(61,904)	
Less: accumulated amortization		<u>30,955</u>	(30,949)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Accrued interest on bonds payable		(13,903)	
Bonds payable		(6,000,000)	
Compensated absences payable		(2,844,772)	
Workers' compensation liabilities		(62,325)	
Net other postemployment benefits obligation		<u>(21,133,361)</u>	<u>(30,054,361)</u>

Total Net Position \$ 216,879

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Governmental Funds**  
For The Year Ended June 30, 2014

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$ 32,372,329	\$	\$	\$	\$	\$ 32,372,329
Other tax items	2,570,927					2,570,927
Charges for services	472,130					472,130
Use of money and property	809,018		2,204	4,046		815,268
Forfeitures	1,121					1,121
Sale of property and compensation for loss	846					846
Miscellaneous	181,200	1,124	2,627			184,951
State sources	3,047,487	214,450	2,903			3,264,840
Medicaid reimbursement	42,992					42,992
Federal sources	31,748	386,495	48,534			466,777
Sales - school lunch			156,875			156,875
<b>Total Revenues</b>	<b>39,529,798</b>	<b>602,069</b>	<b>213,143</b>	<b>4,046</b>	<b>-</b>	<b>40,349,056</b>
<b>EXPENDITURES</b>						
General support	4,532,921					4,532,921
Instruction	19,177,651	650,671				19,828,322
Pupil transportation	1,887,207					1,887,207
Employee benefits	9,778,837					9,778,837
Debt service						
Principal	1,140,000					1,140,000
Interest	281,544					281,544
Cost of sales			223,126			223,126
Capital outlay					226,876	226,876
<b>Total Expenditures</b>	<b>36,798,160</b>	<b>650,671</b>	<b>223,126</b>	<b>-</b>	<b>226,876</b>	<b>37,898,833</b>
Excess (Deficiency) of Revenues Over Expenditures	2,731,638	(48,602)	(9,983)	4,046	(226,876)	2,450,223
<b>OTHER FINANCING SOURCES AND (USES)</b>						
Operating transfers in		48,602				48,602
Operating transfers (out)	(48,602)					(48,602)
<b>Total Other Financing Sources and (Uses)</b>	<b>(48,602)</b>	<b>48,602</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>2,683,036</b>	<b>-</b>	<b>(9,983)</b>	<b>4,046</b>	<b>(226,876)</b>	<b>2,450,223</b>
<b>Fund Balances (Deficit) - Beginning of Year</b>	<b>9,048,656</b>		<b>(1,262)</b>	<b>2,802,040</b>	<b>538,647</b>	<b>12,388,081</b>
<b>End of Year</b>	<b>\$ 11,731,692</b>	<b>\$ -</b>	<b>\$ (11,245)</b>	<b>\$ 2,806,086</b>	<b>\$ 311,771</b>	<b>\$ 14,838,304</b>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and**  
**Changes in Fund Balances to the Statement of Activities**  
**For The Year Ended June 30, 2014**

Net Change in Fund Balances		\$ 2,450,223
Amounts reported for governmental activities in the Statement of Activities are different because:		
<u>Long-Term Revenue and Expense Differences</u>		
In the Statement of Activities, certain operating revenues are measured by the amounts earned during the year. In the governmental funds, however, revenue for these items are measured by the amount of financial resources provided (essentially, the amounts actually received).		
Local grant revenue	\$ (1,124)	
State legislative grant	26,928	
Expenditures for insurance are recorded in the governmental fund when paid; however, the expense is recorded in the Statement of Activities in the period that it relates to. Prepaid insurance increased from June 30, 2013 to June 30, 2014.		
		27,006
Bond premiums are recorded as revenue in the governmental funds when received; however, the revenue is recorded in the Statement of Activities over the life of the bonds.		
		6,191
Certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, but are expensed in the Statement of Activities.		
Increase in compensated absences payable	(175,847)	
Increase in workers' compensation claims liability	(43,488)	
Increase in net other postemployment benefits obligation	<u>(3,257,988)</u>	(3,418,322)
<u>Capital Related Differences</u>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeded capital outlays in the period.		
Capital outlays	451,857	
Depreciation expense	<u>(1,476,815)</u>	(1,024,958)
<u>Long-Term Debt Transactions Differences</u>		
Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		
Repayment of bond principal		1,140,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2013 to June 30, 2014.		
		<u>3,788</u>
		<u>1,143,788</u>
Change in Net Deficit of Governmental Activities		<u>\$ (849,269)</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position -**  
**Fiduciary Funds**  
June 30, 2014

	Agency	Private Purpose Trust
<b>ASSETS</b>		
Cash	\$ 67,265	\$ 15,522
Due from other funds	26,782	
Total Assets	\$ 94,047	\$ 15,522
 <b>LIABILITIES</b>		
Extraclassroom activity balances	\$ 51,816	\$
Due to other funds		325
Other liabilities	42,231	
Total Liabilities	\$ 94,047	325
 <b>NET POSITION</b>		
Restricted for scholarships		\$ 15,197

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Position -**  
**Fiduciary Funds**  
For The Year Ended June 30, 2014

	Private Purpose Trust
<b>ADDITIONS</b>	
Contributions	\$ 11,413
Investment earnings	
Interest	58
Total Additions	11,471
 <b>DEDUCTIONS</b>	
Scholarships and awards	12,130
Change in Net Position	(659)
Net Position - Beginning of Year	15,856
Net Position - End of Year	\$ 15,197

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of seven members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The financial reporting entity is based on criteria set forth by GASB. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

Extraclassroom Activity Funds

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

**B. Joint Venture**

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



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

**C. Basis of Presentation**

District-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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***Debt Service Fund*** - accounts for the accumulation of resources and the payment of principal and interest on long-term general obligation debt of governmental activities.

***Capital Projects Fund*** - is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

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

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

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

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

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

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

**E. Real Property Taxes**

Calendar

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

Enforcement

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**F. Restricted Resources**

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

**G. Interfund Transactions**

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include transfers to provide financing or other services. This includes the transfer of unrestricted general fund revenues to finance various programs that the District must account for in other funds in accordance with budgetary authorizations.

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

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

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

**H. Use of Estimates**

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

**I. Cash and Cash Equivalents/Investments**

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

Investments are reported at fair value, based on quoted market prices.

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**J. Receivables**

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

**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.

Purchases of inventoriable 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. Under the consumption method, a current asset for the inventory and/or prepaid item 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 inventory and prepaids do not constitute available spendable resources.

**L. Capital Assets**

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

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

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	\$ 15,000	30 years
Furniture and equipment	2,000	5-20 years
Land improvements	15,000	30 years
Vehicles	2,000	8 years

**M. Collections in Advance**

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**N. Deferred Revenues**

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

**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 contractually receive a payment based on unused accumulated sick leave. Certain collectively bargained agreements require these termination payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

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

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the fund financial statements, a liability is reported only for payments due for unused compensated absences for those employees that have obligated themselves to separate from service with the District by June 30<sup>th</sup>.

**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 Sections 403(b) and 457.

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**Q. Short-Term Debt**

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

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

**R. Equity Classifications**

District-Wide Statements

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

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

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

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

Fund Statements

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

*Nonspendable* – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of inventories, prepaids and the long-term portion of loans receivable.

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

*Workers' Compensation Reserve*

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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*Unemployment Insurance Reserve*

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

*Retirement Contribution Reserve*

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

*Employee Benefit Accrued Liability Reserve*

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

*Restricted for Debt Service*

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

*Restricted for Scholarships*

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

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

**Fund Balance Classification**

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

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

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned)

The expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the assigned fund balance to the extent that there is an assignment and then from the unassigned fund balance.

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

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

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

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

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



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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Capital Related Differences

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

Long-Term Debt Transaction Differences

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

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

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

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

Appropriations are adopted at the program line item level.

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

Expenditures to support the continued implementation of the middle and high school lacrosse teams - funded by a donation.	\$ 12,000
Appropriation established to participate in the STEM program at SUNY Stony Brook - funded by a legislative grant.	<u>17,650</u>
	<u>\$ 29,650</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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Budgets are adopted annually on a basis consistent with GAAP.

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

**B. Encumbrances**

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

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

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

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

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

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

**5. PARTICIPATION IN BOCES**

During the year ended June 30, 2014, the District was billed \$1,579,108 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$201,495. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**6. DUE FROM STATE AND FEDERAL**

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

General Fund	
New York State - excess cost aid	\$ 111,818
New York State - general aid	<u>178</u>
	111,996
Special Aid Fund	
Federal and state grants	530,472
School Lunch Fund	
Federal & state food service program reimbursements	<u>9,384</u>
	<u>\$ 651,852</u>

**7. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2014 in the amount of \$392,800 consists of amounts due from other school districts for tuition and health services in the amount of \$304,917 and \$87,883 due from BOCES.

**8. CAPITAL ASSETS**

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

	Balance <u>June 30, 2013</u>	Additions	Reductions	Balance <u>June 30, 2014</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 171,241	\$	\$	\$ 171,241
Construction work in progress	<u>873,538</u>	<u>226,876</u>	<u>(1,734)</u>	<u>1,098,680</u>
Total capital assets not being depreciated	<u>1,044,779</u>	<u>226,876</u>	<u>(1,734)</u>	<u>1,269,921</u>
Capital assets being depreciated				
Buildings and improvements	32,716,124			32,716,124
Furniture and equipment	<u>1,987,885</u>	<u>226,715</u>	<u>(7,419)</u>	<u>2,207,181</u>
Total capital assets being depreciated	<u>34,704,009</u>	<u>226,715</u>	<u>(7,419)</u>	<u>34,923,305</u>
Less accumulated depreciation for:				
Buildings and improvements	18,821,224	1,374,239		20,195,463
Furniture and equipment	<u>863,945</u>	<u>102,576</u>	<u>(7,419)</u>	<u>959,102</u>
Total accumulated depreciation	<u>19,685,169</u>	<u>1,476,815</u>	<u>(7,419)</u>	<u>21,154,565</u>
Total capital assets, being depreciated, net	<u>15,018,840</u>	<u>(1,250,100)</u>	-	<u>13,768,740</u>
Capital assets, net	<u>\$ 16,063,619</u>	<u>\$ (1,023,224)</u>	<u>\$ (1,734)</u>	<u>\$ 15,038,661</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

Depreciation expense was charged to governmental functions as follows:

General support	\$ 34,979
Instruction	1,437,103
Food service program	<u>4,733</u>
 Total depreciation expense	 <u>\$ 1,476,815</u>

**9. INTERFUND TRANSACTIONS**

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 577,130	\$ 32,507	\$	\$ 48,602
Special Aid Fund		1,215,641	48,602	
School Lunch Fund	540	15,000		
Debt Service Fund	2,806,086			
Capital Projects Fund		2,147,065		
Total Governmental Funds	<u>3,383,756</u>	<u>3,410,213</u>	<u>48,602</u>	<u>48,602</u>
Fiduciary Funds	<u>26,782</u>	<u>325</u>		
 Total	 <u>\$ 3,410,538</u>	 <u>\$ 3,410,538</u>	 <u>\$ 48,602</u>	 <u>\$ 48,602</u>

The District typically transfers from the general fund to the special aid fund and the capital projects fund in accordance with the general fund budget.

**10. SHORT-TERM DEBT**

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

	Maturity	Stated Interest Rate	Balance June 30, 2013	Issued	Redeemed	Balance June 30, 2014
TAN	6/26/2014	0.45%	<u>\$</u>	<u>\$ 6,000,000</u>	<u>\$ (6,000,000)</u>	<u>\$</u>

Interest on short-term debt for the year was \$17,900.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**11. LONG-TERM LIABILITIES**

**A. Changes**

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

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 7,140,000	\$	\$ (1,140,000)	\$ 6,000,000	\$ 1,135,000
Other long-term liabilities					
Compensated absences	2,668,925	175,847		2,844,772	200,000
Workers' compensation	18,837	142,381	(98,893)	62,325	
	<u>\$ 9,827,762</u>	<u>\$ 318,228</u>	<u>\$ (1,238,893)</u>	<u>\$ 8,907,097</u>	<u>\$ 1,335,000</u>

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

**B. Bonds Payable**

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2014
Construction serial bond	2006	6/1/2021	4% - 4.375%	\$ 1,400,000
Construction serial bond	2008	6/1/2019	3% - 4%	1,700,000
Construction serial bond	2008	6/15/2023	3.5% - 4%	2,900,000
				<u>\$ 6,000,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,135,000	\$ 223,153	\$ 1,358,153
2016	1,120,000	181,963	1,301,963
2017	650,000	148,394	798,394
2018	650,000	122,863	772,863
2019	645,000	97,150	742,150
2020 - 2023	1,800,000	166,250	1,966,250
Total	<u>\$ 6,000,000</u>	<u>\$ 939,773</u>	<u>\$ 6,939,773</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**C. Interest Expense**

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

Interest paid	\$ 263,644
Less interest accrued in the prior year	(17,691)
Plus interest accrued in the current year	<u>13,903</u>
Total interest expense on long-term debt	<u>\$ 259,856</u>

**12. PENSION PLANS**

**A. General Information**

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

**B. Provisions and Administration**

Teachers' Retirement System

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

Employees' Retirement System

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

**C. Funding Policies**

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to NYSERS or 3.5% of their salary to NYSTRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

required to contribute at an actuarially determined rate based on salaries paid. For the NYSTRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the fiscal year ended June 30. For the NYSERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYSERS' fiscal year ending March 31.

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

Year	NYSTRS	NYSERS
2014	\$ 2,313,223	\$ 545,222
2013	1,659,326	598,836
2012	1,614,280	451,428

**D. Tax Sheltered Annuities**

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2014, totaled \$20,941 and \$858,114, respectively.

**E. Deferred Compensation Plan**

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2014 totaled \$27,941.

**13. POSTEMPLOYMENT BENEFITS**

**A. Plan Description**

The District provides postemployment health care insurance coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the New York State Health Insurance Program - Empire Plan. The District implemented GASB 45 prospectively in this transition year of implementation. The Plan does not issue a stand-alone financial report.

**B. Funding Policy**

The District and the retired employee share the cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums mature (come due for payment). For the year ended June 30, 2014, the District recognized a general fund expenditure of \$2,090,367 for 219 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the "pay as you go" method.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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

Annual required contribution (ARC)	\$ 5,562,032
Interest on net OPEB obligation	893,769
Adjustment to ARC	<u>(1,107,446)</u>
Annual OPEB cost (expense)	5,348,355
Contributions made	<u>(2,090,367)</u>
Increase in net OPEB obligation	3,257,988
Net OPEB obligation - beginning of year	<u>17,875,373</u>
Net OPEB obligation - end of year	<u>\$ 21,133,361</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 5,348,355	39.1%	\$ 21,133,361
June 30, 2013	5,120,306	37.9%	17,875,373
June 30, 2012	5,631,710	31.8%	14,696,322

**D. Funded Status and Funding Progress**

As of July 1, 2013, the most recent valuation date derived from estimates from the previous actuarial valuation dated July 1, 2012, the plan was 0% funded. The actuarial accrued liability for benefits was \$59,547,050 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$59,547,050. The covered payroll (annual payroll of active employees covered by the plan) was \$15,831,379, and the ratio of the UAAL to the covered payroll was 376%.

Actuarial valuations of an ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**E. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5% discount rate and for medical inflation an ultimate healthcare cost trend rate of 4.24%. The UAAL is being amortized over 30 years using an interest rate equal to the funding rate of 5%.

**14. RISK MANAGEMENT**

**A. General Information**

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

**B. Risk Retention**

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unreported claims which were incurred on or before year end but not reported (IBNR). Claims activity is summarized below:

	2013	2014
Unpaid claims at beginning of year	\$ 46,500	\$ 18,837
Incurred claims and claim adjustment expenses	61,108	142,381
Claim payments	(88,771)	(98,893)
Unpaid claims at year end	\$ 18,837	\$ 62,325

**C. Public Entity Risk Pool**

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**15. COMMITMENTS AND CONTINGENCIES**

**A. Encumbrances**

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

Assigned: Unappropriated Fund Balance:	
General Fund	
General Support	\$ 1,037,955
Instruction	196,579
Transportation	<u>772</u>
	1,235,306
Special Aid Fund	
Instruction	5,628
Capital Projects Fund	
Capital projects	<u>132,287</u>
	<u>\$ 1,373,221</u>

**B. Grants**

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

**C. Litigation**

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

**D. Operating Leases**

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$70,320. The minimum remaining operating lease payments are as follows:

Fiscal Year Ending June 30,	Amount
2015	<u>\$ 30,437</u>

**16. SUBSEQUENT EVENTS**

On July 1, 2014, the District entered into an operating lease for five copy machines. The term of the lease is four years and the monthly rental payment is \$3,471.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
For The Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
<b>REVENUES</b>				
<b>Local Sources</b>				
Real property taxes	\$ 32,280,821	\$ 32,372,194	\$ 32,372,329	\$ 135
Other tax items	2,638,979	2,547,606	2,570,927	23,321
Charges for services	335,000	335,000	472,130	137,130
Use of money and property	820,000	820,000	809,018	(10,982)
Forfeitures			1,121	1,121
Sale of property and compensation for loss			846	846
Miscellaneous	127,500	139,500	181,200	41,700
<b>Total Local Sources</b>	<b>36,202,300</b>	<b>36,214,300</b>	<b>36,407,571</b>	<b>193,271</b>
<b>State Sources</b>	<b>3,118,967</b>	<b>3,136,617</b>	<b>3,047,487</b>	<b>(89,130)</b>
<b>Medicaid Reimbursement</b>			<b>42,992</b>	<b>42,992</b>
<b>Federal Sources</b>			<b>31,748</b>	<b>31,748</b>
<b>Total Revenues</b>	<b>39,321,267</b>	<b>39,350,917</b>	<b>39,529,798</b>	<b>\$ 178,881</b>
<b>APPROPRIATED FUND BALANCE</b>				
Prior Year's Encumbrances	402,384	402,384		
<b>Total Appropriated Fund Balance</b>	<b>402,384</b>	<b>402,384</b>		
<b>Total Revenues and Appropriated Fund Balance</b>	<b>\$ 39,723,651</b>	<b>\$ 39,753,301</b>		

**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.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund (Continued)**  
For The Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
<b>EXPENDITURES</b>					
<b>General Support</b>					
Board of education	\$ 37,635	\$ 45,435	\$ 37,049	\$ 1,532	\$ 6,854
Central administration	338,044	361,971	333,113	15,267	13,591
Finance	563,050	559,722	534,739	4,751	20,232
Staff	275,063	264,463	189,857		74,606
Central services	3,364,073	4,325,225	3,068,525	1,011,405	245,295
Special Items	401,184	392,684	369,638	5,000	18,046
<b>Total General Support</b>	<b>4,979,049</b>	<b>5,949,500</b>	<b>4,532,921</b>	<b>1,037,955</b>	<b>378,624</b>
<b>Instruction</b>					
Instruction, administration & improvement	1,604,382	1,666,713	1,560,303	5,786	100,624
Teaching - regular school Programs for students	10,217,552	10,243,054	10,122,698	56,166	64,190
with disabilities	4,620,632	4,647,863	4,196,943	62,739	388,181
Occupational education	198,606	198,606	127,331		71,275
Teaching - special schools	12,000	12,000	-		12,000
Instructional media	1,086,120	1,245,136	1,133,427	43,592	68,117
Pupil services	2,076,046	2,157,485	2,036,949	28,296	92,240
<b>Total Instruction</b>	<b>19,815,338</b>	<b>20,170,857</b>	<b>19,177,651</b>	<b>196,579</b>	<b>796,627</b>
Pupil Transportation	2,126,610	2,053,506	1,887,207	772	165,527
Employee Benefits	11,159,010	10,086,379	9,778,837		307,542
<b>Debt Service</b>					
Principal	1,140,000	1,140,000	1,140,000		-
Interest	503,644	304,457	281,544		22,913
<b>Total Debt Service</b>	<b>1,643,644</b>	<b>1,444,457</b>	<b>1,421,544</b>	<b>-</b>	<b>22,913</b>
<b>Total Expenditures</b>	<b>39,723,651</b>	<b>39,704,699</b>	<b>36,798,160</b>	<b>1,235,306</b>	<b>1,671,233</b>
<b>OTHER USES</b>					
Operating transfers out	-	48,602	48,602		-
<b>Total Expenditures and Other Uses</b>	<b>\$ 39,723,651</b>	<b>\$ 39,753,301</b>	<b>36,846,762</b>	<b>\$ 1,235,306</b>	<b>\$ 1,671,233</b>
<b>Net Change in Fund Balances</b>			<b>2,683,036</b>		
<b>Fund Balances - Beginning of Year</b>			<b>9,048,656</b>		
<b>Fund Balances - End of Year</b>			<b>\$ 11,731,692</b>		

**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.

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Schedule of Funding Progress - Other Postemployment Benefits**  
 June 30, 2014

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrual Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2012	\$ -	\$ 56,828,708	\$ 56,828,708	0%	\$ 15,963,195	356.0%
July 1, 2010	-	54,583,834	54,583,834	0%	17,262,199	316.2%
January 1, 2008	-	52,215,100	52,215,100	0%	14,624,000	357.1%

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Schedules of Change from Adopted Budget to Final Budget**  
**and the Real Property Tax Limit - General Fund**  
For The Year Ended June 30, 2014

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 39,321,267
Additions:		
Prior year's encumbrances		<u>402,384</u>
Original Budget		39,723,651
Budget revision		<u>29,650</u>
Final Budget		<u><u>\$ 39,753,301</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2014-15 voter-approved expenditure budget		<u><u>\$ 40,326,848</u></u>
Maximum allowed (4% of 2014-15 budget)		<u><u>\$ 1,613,074</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 1,235,306	
Unassigned fund balance	<u>1,612,543</u>	
		\$ 2,847,849
Less:		
Encumbrances	<u>1,235,306</u>	
Total adjustments		<u>1,235,306</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		<u><u>\$ 1,612,543</u></u>
Actual Percentage		4.00%

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Schedule of Project Expenditures -**  
**Capital Projects Fund**  
For The Year Ended June 30, 2014

PROJECT TITLE	Budget June 30, 2013	Budget June 30, 2014	Expenditures			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2014	
			Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total		
Elcvator	\$ 136,479	\$ 136,479	\$ -	\$ -	\$ -	\$ 136,479	\$ -	\$ -	\$ 136,479	\$ 136,479	\$ 136,479	
HS Track	122,797	122,797	121,890		121,890	907			122,797	122,797	907	
HS Electric	198,524	198,524	193,824		193,824	4,700		198,524		198,524	4,700	
Elementary Electric	118,979	118,979	85,724		85,724	33,255		118,979		118,979	33,255	
Elementary Electric Phase II	403,200	403,200	367,810		367,810	35,390		392,320	10,880	403,200	35,390	
Technology	27,217	27,217	26,291		26,291	926		27,217		27,217	926	
Music	3,402	3,402	3,485		3,485	(83)		3,402		3,402	(83)	
Tech Ed	585,000	585,000	194,671	226,876	421,547	163,453			585,000	585,000	163,453	
	<u>\$ 1,595,598</u>	<u>\$ 1,595,598</u>	<u>\$ 993,695</u>	<u>\$ 226,876</u>	<u>\$ 1,220,571</u>	<u>\$ 375,027</u>	<u>\$ -</u>	<u>\$ 740,442</u>	<u>\$ 855,156</u>	<u>\$ 1,595,598</u>	<u>375,027</u>	
											Less: Unrealized Grant Revenue	(63,256)
											Fund Balance - June 30, 2014	<u>\$ 311,771</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Net Investment in Capital Assets**  
June 30, 2014

Capital assets, net	<u>\$ 15,038,661</u>
Deduct:	
Short-term portion of bonds payable	1,135,000
Long-term portion of bonds payable	<u>4,865,000</u>
	<u>6,000,000</u>
Net investment in capital assets	<u><u>\$ 9,038,661</u></u>





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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  
Port Jefferson Union Free School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the fiduciary funds of Port Jefferson Union Free School District, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Port Jefferson Union Free School District's basic financial statements, and have issued our report thereon dated October 6, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Port Jefferson 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 Port Jefferson Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Port Jefferson Union Free School District's internal control.

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*R. S. Abrams & Co., LLP*

R.S. Abrams & Co., LLP

Islandia, NY

October 6, 2014