

**ELWOOD UNION FREE SCHOOL DISTRICT**

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

June 30, 2013

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**TABLE OF CONTENTS**

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	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<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	42
Schedule of Funding Progress – Other Postemployment Benefits	44
<b>Other Supplementary Information:</b>	
Schedules of Change from Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund	45
Schedule of Project Expenditures – Capital Projects Fund	46
Net Investment in Capital Assets	47
<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>	48

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Elwood Union Free School District  
Greenlawn, New York

### Report on the Financial Statements

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

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

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

### *Auditor's Responsibility*

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

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

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

## ***Opinions***

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

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

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

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 3 through 13 and 42 through 44, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Elwood Union Free School District's basic financial statements. The other supplementary information on pages 45 through 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013 on our consideration of the Elwood Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Elwood Union Free School District's internal control over financial reporting and compliance.

*Cullen & Danowski, LLP*

October 4, 2013

**ELWOOD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Elwood 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, 2013 in comparison with the year ended June 30, 2012, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

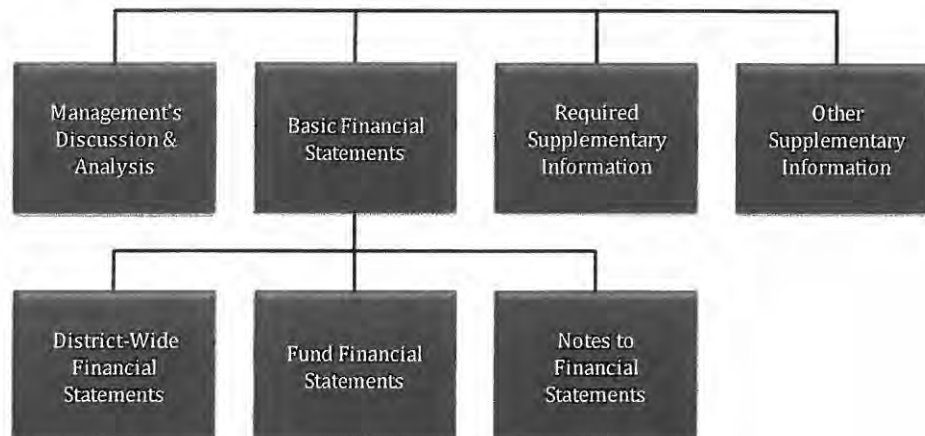
**1. FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2013 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, decreased by \$2,400,024. 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 \$58,256,909. Of this amount, \$2,844,379 was offset by program charges for services and operating and capital grants. General revenues of \$53,012,506 amount to 94.9% of total revenues.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$263,812. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- On the balance sheet, the general fund's unassigned fund balance at year end was \$2,281,411.
- The District's general fund revenues increased \$1,841,158 over the prior year, primarily due to an increase in real property tax and other tax items of \$872,302 and state aid of \$744,695.
- The District's operating expenditures and other uses in the general fund increased \$2,427,397. This was primarily due to an increase in instructional and employee benefit related expenditures.
- As described in Note 2 to the financial statements, "Changes in Accounting Principles", the District has adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of June 30, 2013.

**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:



**ELWOOD 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 deferred outflows of resources and liabilities, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities:

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

**B. Fund Financial Statements**

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

Governmental Funds

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

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

**ELWOOD 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 utilizes four individual governmental funds: general fund, special aid fund, school lunch fund and capital projects fund, each of which is considered to be a major fund and is presented separately in the fund financial statements.

Fiduciary Funds

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

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

**A. Net Position**

The District's total net position decreased by \$2,400,024 between fiscal year 2013 and 2012. A summary of the District's Statement of Net Position is as follows. The 2012 balances reflect a reclassification of \$618,067, increasing deferred outflows of resources and increasing long-term liabilities for comparative purposes to conform to the 2013 presentation, in accordance with the implementation of GASB 65, *Items Previously Reported as Assets and Liabilities*. In addition, the 2012 capital assets, net and net investment in capital assets balances have been restated to reflect an updated third party report on capital assets completed prior to 2010. This resulted in an increase to the June 30, 2012 capital assets balances of \$388,543.

	2013	Restated 2012	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 12,764,386	\$ 11,187,382	\$ 1,577,004	14.10 %
Capital Assets, Net	<u>23,469,056</u>	<u>22,567,496</u>	<u>901,560</u>	3.99 %
Total Assets	<u>36,233,442</u>	<u>33,754,878</u>	<u>2,478,564</u>	7.34 %
Deferred Outflows of Resources	<u>450,714</u>	<u>618,067</u>	<u>(167,353)</u>	(27.08)%
Current and Other Liabilities	6,504,615	4,114,935	2,389,680	58.07 %
Long-Term Liabilities	18,933,449	20,169,760	(1,236,311)	(6.13)%
Net Other Postemployment Benefits Obligation	<u>17,315,314</u>	<u>13,757,448</u>	<u>3,557,866</u>	25.86 %
Total Liabilities	<u>42,753,378</u>	<u>38,042,143</u>	<u>4,711,235</u>	12.38 %
Net Position (Deficit)				
Net Investment in Capital Assets	7,767,406	6,412,430	1,354,976	21.13 %
Restricted	2,337,505	1,484,042	853,463	57.51 %
Unrestricted (Deficit)	<u>(16,174,133)</u>	<u>(11,565,670)</u>	<u>(4,608,463)</u>	39.85 %
Total Net Position (Deficit)	<u>\$ (6,069,222)</u>	<u>\$ (3,669,198)</u>	<u>\$ (2,400,024)</u>	65.41 %

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

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Current and other assets increased by \$1,577,004, as compared to the prior year. The increase is primarily related to a larger cash balance at year end.

Capital assets increased by \$901,560, as compared to the prior year. This increase is due to capital asset additions of \$1,713,725 in excess of depreciation expense of \$812,165. The accompanying Notes to Financial Statements, Note 8 "Capital Assets/Prior Period Adjustment" provides additional information.

Deferred outflows of resources represents the amount for deferred charges from refunding of bonds that is being amortized over the remaining term of the bonds, in accordance with GASB 65.

Current and other liabilities increased by \$2,389,680, as compared to the prior year primarily as a result of increases in accounts payable of \$987,883, bond anticipation notes payable of \$1,005,000, and due to teachers' retirement system of \$244,256.

Long-term liabilities decreased by \$1,236,311 as compared to the prior year. This decrease is primarily attributable to scheduled debt service principal payments and amortization on deferred amounts on bonding refunding, offset by an increase in compensated absences.

Net other postemployment benefits obligation increased \$3,577,866 as the current OPEB cost exceeded contributions in accordance with GASB Statement No. 45. 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 by \$1,354,976.

The restricted amount of \$2,337,505 relates to the District's unemployment insurance, retirement contributions and employee benefit accrued liability reserves. This number increased over the prior year by \$853,463 due to interest revenue allocated to the reserves, and additional funding of the reserves.

The unrestricted deficit amount of \$16,174,133 relates to the balance of the District's net position (deficit). The deficit increased over the prior year by \$4,608,463.



**ELWOOD 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. The 2012 balances reflect a reclassification of \$341,173 from general revenues - other to program revenues - capital grants for comparative purposes to conform to the 2013 presentation. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 884,114	\$ 700,050	\$ 184,064	26.29 %
Operating Grants & Contributions	1,318,290	1,784,503	(466,213)	(26.13)%
Capital Grants & Contributions	641,975	341,173	300,802	88.17 %
General Revenues				
Property Taxes and STAR	40,781,818	39,934,801	847,017	2.12 %
State Sources	11,548,599	10,959,905	588,694	5.37 %
Other	682,089	673,029	9,060	1.35 %
Total Revenues	<u>55,856,885</u>	<u>54,393,461</u>	<u>1,463,424</u>	2.69 %
<b>Expenses</b>				
General Support	7,546,431	7,032,776	513,655	7.30 %
Instruction	45,959,367	43,689,601	2,269,766	5.20 %
Pupil Transportation	3,269,218	3,068,982	200,236	6.52 %
Debt Service - Interest	630,647	404,673	225,974	55.84 %
Food Service Program	851,246	844,639	6,607	0.78 %
Total Expenses	<u>58,256,909</u>	<u>55,040,671</u>	<u>3,216,238</u>	5.84 %
Decrease in Net Position	<u>\$ (2,400,024)</u>	<u>\$ (647,210)</u>	<u>\$ (1,752,814)</u>	100.00 %

The District's net position decreased by \$2,400,024 and \$647,210 for the years ended June 30, 2013 and 2012, respectively.

The District's revenues increased by \$1,463,424 or 2.69%, primarily due to:

- Property taxes and STAR revenue increases of \$847,017.
- State source revenue increase of \$588,694.

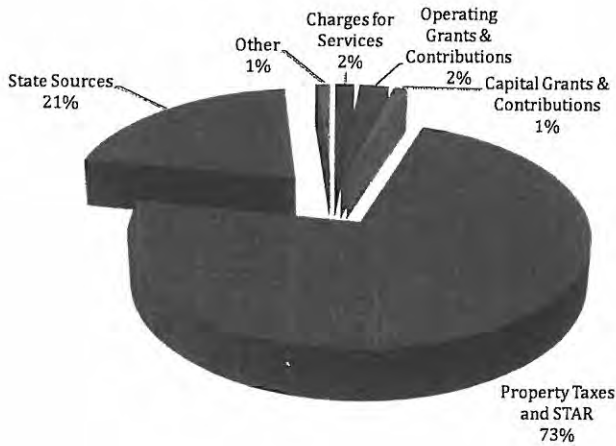
The District's expenses for the year increased by \$3,216,238 or 5.84%. This increase is primarily attributable to the increase in the Districts general support and instructional expenses.

As indicated on the pie charts that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 73% of the total for both fiscal 2013 and 2012). Instructional expenses is the largest category of expenses incurred (i.e., 79% of the total for both fiscal 2013 and 2012).

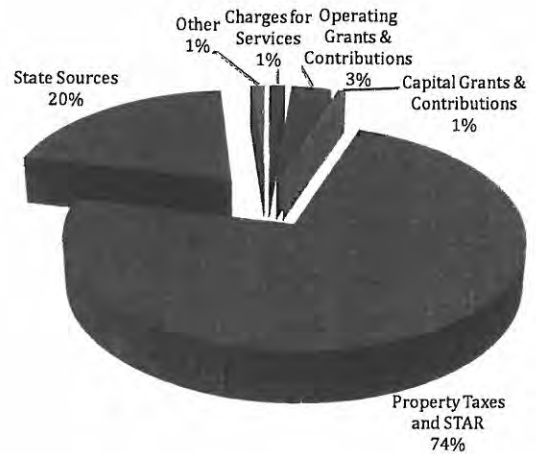
**ELWOOD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)**

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

**June 30, 2013**

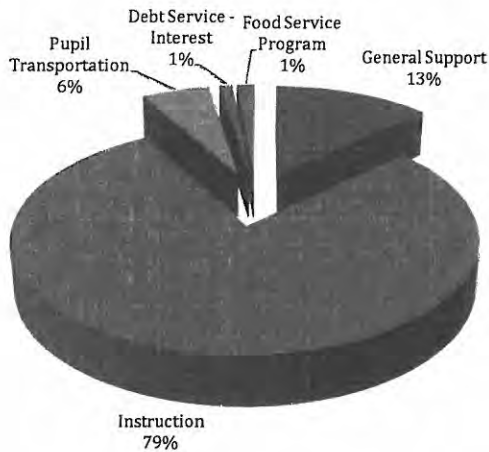


**June 30, 2012**

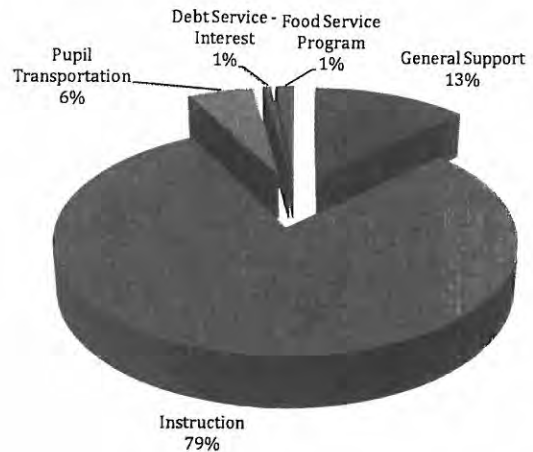


A graphic display of the distribution of expenses for the two years follows:

**June 30, 2013**



**June 30, 2012**



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

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

At June 30, 2013, the District's governmental funds reported a combined fund balance of \$4,835,308, which is a decrease of \$909,859 from the prior year. This decrease is due to an excess of expenditures over revenues based upon the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2013</u>	<u>2012</u>	Increase (Decrease)
<b>General Fund</b>			
Nonspendable: Prepaids	\$ -	\$ 477,320	\$ (477,320)
Restricted:			
Unemployment insurance	13,254	13,170	84
Retirement contribution	802,572	400,000	402,572
Employee benefit accrued liability	1,521,679	1,070,872	450,807
Assigned:			
Appropriated fund balance	1,750,000	1,750,000	-
Unappropriated fund balance	102,730	312,542	(209,812)
Unassigned: Fund balance	<u>2,281,411</u>	<u>2,183,930</u>	<u>97,481</u>
	<u>6,471,646</u>	<u>6,207,834</u>	<u>263,812</u>
<b>School Lunch Fund</b>			
Nonspendable: Inventory	27,149	29,786	(2,637)
Assigned: Unappropriated fund balance	<u>75,262</u>	<u>116,462</u>	<u>(41,200)</u>
	<u>102,411</u>	<u>146,248</u>	<u>(43,837)</u>
<b>Capital Projects Fund</b>			
Unassigned: Fund Balance (Deficit)	<u>(1,738,749)</u>	<u>(608,915)</u>	<u>(1,129,834)</u>
Total Fund Balance	<u>\$ 4,835,308</u>	<u>\$ 5,745,167</u>	<u>\$ (909,859)</u>

**A. General Fund**

The net change in the general fund – fund balance is an increase of \$263,812. This resulted from revenues in excess of expenditures. Increases to the restricted reserves include interest earned on reserves and additional reserves set aside for retirement contribution and employee benefit accrued liabilities.

Non-spendable prepaids decreased \$477,320 due to there being no year-end prepayment for health insurance.

**B. School Lunch Fund**

The net change in the school lunch fund – fund balance is a decrease of \$43,837, which was the operating loss of the food service program.

**C. Capital Projects Fund**

The net change in the capital projects fund – fund balance is a decrease of \$1,129,834, due to excess of expenditures over revenues.

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

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**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2012-13 Budget**

The District's general fund adopted budget for the year ended June 30, 2013 was \$54,621,025. This amount was increased by encumbrances carried forward from the prior year in the amount of \$312,542 and a budget revision in the amount of \$239,292 for a total final budget of \$55,172,859.

The budget was funded through a combination of revenues and appropriated fund balance. The majority of this funding source was \$40,781,668 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 the prior year's excess revenues over expenditures, net of transfers to reserves and assigned fund balance to fund the subsequent year's budget. It is this balance that is commonly referred to as the "fund balance". The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening Unassigned: Fund Balance	\$ 2,183,930
Revenues Over Budget	436,330
Expenditures and Encumbrances Under Budget	1,787,294
Transfers to Reserves and Changes in Nonspendable Fund Balance	(376,143)
Appropriated for June 30, 2014 Budget	<u>(1,750,000)</u>
Closing Unassigned: Fund Balance	<u>\$ 2,281,411</u>

Opening, Unassigned Fund Balance

The \$2,183,930 shown in the table is the portion of the District's June 30, 2012 fund balance that was retained as unassigned. This was 4.0% of the District's 2012-13 approved operating budget of \$54,621,025. This was at the maximum 4% unassigned fund balance permitted by law.

Revenues Over Budget

The 2012-13 final budget for revenues was \$53,110,317. Actual revenues received for the year were \$53,546,647, which are \$436,330 over the estimated or budgeted revenues. This revenue variance contributes to the change to the general fund unassigned fund balance from June 30, 2012 to June 30, 2013.

Expenditures and Encumbrances Under Budget

The 2012-13 final budget for expenditures, including prior year open encumbrances and budget revisions, was \$55,172,859. Actual expenditures as of June 30, 2013 were \$53,282,835 and outstanding encumbrances were \$102,730. Combined, the expenditures plus encumbrances for 2012-13 were \$53,385,565. The final budget was under expended by \$1,787,294. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2012 to June 30, 2013.

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

Transfers to Reserves and Changes in Nonspendable Fund Balance

The increase in reserves in the general fund is attributable to an increase in reserves for retirement contribution and employee benefit accrued liabilities, plus interest allocated on existing reserves in total amount of \$853,463.

The decrease in the non-spendable fund balance of \$477,320 is attributed to there being no prepayments made at year end for health insurance.

Appropriated Fund Balance

The District has chosen to use \$1,750,000 of its available June 30, 2013 fund balance to partially fund its 2013-14 approved operating budget. As such, the June 30, 2013 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the District will begin the 2013-14 fiscal year with an unassigned fund balance of \$2,281,411. This unassigned portion is 4.0% of the subsequent year's budget, which is the permissible statutory maximum.

**6. CAPITAL ASSETS AND DEBT ADMINISTRATION**

**A. Capital Assets**

At June 30, 2013, the District had invested in a broad range of capital assets, as indicated in the table below. The net increase in capital assets is due to capital additions recorded in excess of depreciation for the year ended June 30, 2013. A summary of the District's capital assets, net of depreciation at June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>As Restated 2012</u>	<u>Increase (Decrease)</u>
Land	\$ 278,950	\$ 278,950	\$ -
Construction in progress	1,711,544	130,622	1,580,922
Buildings and improvements	21,132,214	21,831,681	(699,467)
Furniture and equipment	<u>346,348</u>	<u>326,243</u>	<u>20,105</u>
Capital assets, net	<u>\$ 23,469,056</u>	<u>\$ 22,567,496</u>	<u>\$ 901,560</u>

The District's capital assets inventory report was updated during the year ended June 30, 2013. The 2012 balances have been restated to reflect additional capital assets relating to prior years, which increased capital assets \$388,543.

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

**B. Debt Administration**

At June 30, 2013, the District had total bonds payable of \$13,285,000. The District made the final payment on the 2003 bond issue during 2013. The remaining bonds were issued to advance refund previously issued bonds for school building improvements. The decrease in outstanding debt is the result of principal repayments. A summary of the outstanding debt at June 30, 2013 and 2012 is as follows:

Issue Date	Interest Rate	2013	2012	Increase (Decrease)
12/1/2003	3.125-4.000%	\$	\$ 1,460,000	\$ (1,460,000)
4/19/2012	2.00-4.00%	13,285,000	13,290,000	(5,000)
		<u>\$ 13,285,000</u>	<u>\$ 14,750,000</u>	<u>\$ (1,465,000)</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 21, 2013, for the year ending June 30, 2014, is \$57,035,292. This is an increase of \$2,414,267 or 4.42% over the previous year's adopted budget. The increase is principally in the instructional program (\$925,274) and employee benefits (\$1,572,452) areas of the budget.

A property tax increase of 3.18% was needed to cover the increase in projected expenditures, and was within the allowed tax cap.

At the time these financial statements were prepared, the District was aware of the following circumstances that could significantly affect its financial health in the future.

The economic crisis that began in the fall of 2008 continues to impact school funding and budgeting. The continued impact on State tax revenues has constricted State Aid to schools. The situation is improving, albeit at a slow pace. In addition, there are new mandates from the New York State Education Department such as Annual Professional Performance and Review for professional staff and the New Common Core Standards which must be addressed within the framework of a constricted economic resource.

**B. Future Budgets**

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

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

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**C. Tax Cap**

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

**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:

Elwood Union Free School District  
William J. Pastore  
Assistant Superintendent for Business  
100 Kenneth Avenue  
Greenlawn, New York 11740

**ELWOOD UNION FREE SCHOOL DISTRICT**

**Statement of Net Position**

June 30, 2013

**ASSETS**

Cash	
Unrestricted	\$ 9,574,696
Receivables	
Accounts receivable	194,522
Due from other funds	3,315
Due from state and federal	2,914,267
Due from other governments	50,437
Inventory	27,149
Capital assets:	
Not being depreciated	1,990,494
Being depreciated, net of accumulated depreciation	<u>21,478,562</u>
 Total Assets	 <u>36,233,442</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred bond charges	<u>450,714</u>
 Total Deferred Outflows of Resources	 <u>450,714</u>

**LIABILITIES**

Payables	
Accounts payable	1,283,270
Accrued liabilities	269,628
Due to other governments	62
Due to teachers' retirement system	2,879,071
Due to employees' retirement system	246,574
Compensated absences payable	125,440
Notes payable	
Bond anticipation	1,675,000
Unearned credits	
Collections in advance	25,570
Long-term liabilities	
Due and payable within one year	
Bonds payable, net of unamortized premium	1,615,768
Compensated absences payable	175,000
Due and payable after one year	
Bonds payable, net of unamortized premium	12,861,596
Compensated absences payable	4,281,085
Net other postemployment benefits obligation	<u>17,315,314</u>
 Total Liabilities	 <u>42,753,378</u>

**NET POSITION (DEFICIT)**

Net investment in capital assets	7,767,406
Restricted	2,337,505
Unrestricted (deficit)	<u>(16,174,133)</u>
 Net Position (Deficit)	 <u>\$ (6,069,222)</u>



**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Statement of Activities**  
For The Year Ended June 30, 2013

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Grants & Contributions Operations      Capital Grants	
<b>PROGRAMS/FUNCTIONS</b>				
General support	\$ 7,546,431	\$	\$	\$ (7,546,431)
Instruction	45,959,367	442,116	994,675	(43,880,601)
Pupil transportation	3,269,218			(3,269,218)
Debt service - interest	630,647			(630,647)
Food service program	851,246	441,998	323,615	(85,633)
<b>Total Programs and Functions</b>	<b>\$ 58,256,909</b>	<b>\$ 884,114</b>	<b>\$ 1,318,290</b>	<b>\$ (55,412,530)</b>
<b>GENERAL REVENUES</b>				
Real property taxes				35,894,526
Other tax items				4,937,729
Use of money and property				121,247
Sale of property and compensation for loss				4,201
Miscellaneous				494,152
State sources				11,548,599
Medicaid reimbursement				12,052
<b>Total General Revenues</b>				<b>53,012,506</b>
Change in Net Position				(2,400,024)
Total Net Position (Deficit) - Beginning of Year, as Restated				(3,669,198)
Total Net Position (Deficit) - End of Year				<b>\$ (6,069,222)</b>

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2013

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
<b>ASSETS</b>					
Cash					
Unrestricted	\$ 9,142,003	\$ 56,238	\$ 134,857	\$ 241,598	\$ 9,574,696
Receivables					
Accounts receivable	193,844		678		194,522
Due from other funds	1,277,499				1,277,499
Due from state and federal	1,758,572	880,129	2,876	272,690	2,914,267
Due from other governments	50,437				50,437
Inventory			27,149		27,149
Total Assets	<u>\$ 12,422,355</u>	<u>\$ 936,367</u>	<u>\$ 165,560</u>	<u>\$ 514,288</u>	<u>\$ 14,038,570</u>
<b>LIABILITIES</b>					
Payables					
Accounts payable	\$ 1,279,916	\$ 3,354	\$	\$	\$ 1,283,270
Accrued liabilities	244,946	859	834		246,639
Due to other funds		926,773	42,064	305,347	1,274,184
Due to other governments			62		62
Due to teachers' retirement system	2,879,071				2,879,071
Due to employees' retirement system	246,574				246,574
Compensated absences payable	125,440				125,440
Notes payable					
Bond anticipation				1,675,000	1,675,000
Unearned credits					
Collections in advance		5,381	20,189		25,570
Total Liabilities	<u>4,775,947</u>	<u>936,367</u>	<u>63,149</u>	<u>1,980,347</u>	<u>7,755,810</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred revenues	1,174,762			272,690	1,447,452
Total Deferred Inflows of Resources	<u>1,174,762</u>	<u>-</u>	<u>-</u>	<u>272,690</u>	<u>1,447,452</u>
<b>FUND BALANCES (DEFICIT)</b>					
Nonspendable:					
Inventory			27,149		27,149
Restricted:					
Unemployment insurance	13,254				13,254
Retirement contribution	802,572				802,572
Employee benefit accrued liability	1,521,679				1,521,679
Assigned:					
Appropriated fund balance	1,750,000				1,750,000
Unappropriated fund balance	102,730		75,262		177,992
Unassigned: Fund balance (deficit)	2,281,411			(1,738,749)	542,662
Total Fund Balances (Deficit)	<u>6,471,646</u>	<u>-</u>	<u>102,411</u>	<u>(1,738,749)</u>	<u>4,835,308</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 12,422,355</u>	<u>\$ 936,367</u>	<u>\$ 165,560</u>	<u>\$ 514,288</u>	<u>\$ 14,038,570</u>

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
June 30, 2013

Total Governmental Fund Balances		\$ 4,835,308
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.		1,447,452
Deferred bond charges from advanced refunding is not reported in the Balance Sheet, but is reflected in the Statement of Net Position and amortized over the life of the related debt.		450,714
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	\$ 46,149,722	
Accumulated depreciation	<u>(22,680,666)</u>	23,469,056
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	(22,989)	
Bonds payable, net of unamortized premium	(14,477,364)	
Compensated absences payable	(4,456,085)	
Net other postemployment benefits obligation	<u>(17,315,314)</u>	(36,271,752)
Total Net Position (Deficit)		<u>\$ (6,069,222)</u>

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Governmental Funds**  
For The Year Ended June 30, 2013

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
<b>REVENUES</b>					
Real property taxes	\$ 35,894,526	\$	\$	\$	\$ 35,894,526
Other tax items	4,937,729				4,937,729
Charges for services	442,116				442,116
Use of money and property	121,231		16		121,247
Sale of property and compensation for loss	4,201		13,238	255,106	272,545
Miscellaneous	506,082		85	40,417	546,584
Interfund revenues	20,000				20,000
State sources	11,608,710	403,991	15,506	179,448	12,207,655
Medicaid reimbursement	12,052				12,052
Federal sources		590,684	308,109		898,793
Sales - school lunch			428,675		428,675
<b>Total Revenues</b>	<b>53,546,647</b>	<b>994,675</b>	<b>765,629</b>	<b>474,971</b>	<b>55,781,922</b>
<b>EXPENDITURES</b>					
General support	5,759,432				5,759,432
Instruction	29,493,240	1,011,504			30,504,744
Pupil transportation	3,195,777	73,441			3,269,218
Employee benefits	12,652,834		75,387		12,728,221
Debt service					
Principal	1,465,000				1,465,000
Interest	626,282				626,282
Cost of sales			734,079		734,079
Capital outlay				1,604,805	1,604,805
<b>Total Expenditures</b>	<b>53,192,565</b>	<b>1,084,945</b>	<b>809,466</b>	<b>1,604,805</b>	<b>56,691,781</b>
Excess (Deficiency) of Revenues Over Expenditures	354,082	(90,270)	(43,837)	(1,129,834)	(909,859)
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Operating transfers in		90,270			90,270
Operating transfers (out)	(90,270)				(90,270)
<b>Total Other Financing Sources and (Uses)</b>	<b>(90,270)</b>	<b>90,270</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>263,812</b>	<b>-</b>	<b>(43,837)</b>	<b>(1,129,834)</b>	<b>(909,859)</b>
Fund Balances (Deficit) - Beginning of Year	6,207,834		146,248	(608,915)	5,745,167
<b>Fund Balances (Deficit) - End of Year</b>	<b>\$ 6,471,646</b>	<b>\$ -</b>	<b>\$ 102,411</b>	<b>\$ (1,738,749)</b>	<b>\$ 4,835,308</b>

**ELWOOD 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, 2013

Net Change in Fund Balances \$ (909,859)

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

Long-Term Revenue and Expense Differences

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

Change in deferred revenue \$ 94,964

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	(389,458)	
Increase in net other postemployment benefits obligation	(3,557,866)	
		(3,852,360)

Capital Related Differences

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

Capital outlays	1,713,725	
Depreciation expense	(812,165)	
		901,560

Long-Term Debt Transactions Differences

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 1,465,000

Amortization of deferred amounts on refunding (6,585)

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

	2,220	
		1,460,635

Change in Net Position (Deficit) of Governmental Activities \$ (2,400,024)

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position -**  
**Fiduciary Funds**  
June 30, 2013

	Agency	Private Purpose Trust
<b>ASSETS</b>		
Cash	\$ 115,940	\$ 44,511
Due from other funds	5,507	
Total Assets	\$ 121,447	44,511
 <b>LIABILITIES</b>		
Extraclassroom activity balances	\$ 101,783	
Due to other funds	3,315	5,507
Other liabilities	16,349	
Total Liabilities	\$ 121,447	5,507
 <b>NET POSITION</b>		
Restricted for scholarships		\$ 39,004

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Position -**  
**Fiduciary Funds**  
For The Year Ended June 30, 2013

	<u>Private Purpose Trust</u>
<b>ADDITIONS</b>	
Contributions	\$ 1,140
Investment earnings	
Interest	<u>160</u>
Total Additions	<u>1,300</u>
 <b>DEDUCTIONS</b>	
Scholarships and awards	<u>2,600</u>
Change in Net Position	(1,300)
Net Position - Beginning of Year	<u>40,304</u>
Net Position - End of Year	<u><u>\$ 39,004</u></u>

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Elwood 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 five members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

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

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

Extraclassroom Activity Funds

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

**B. Joint Venture**

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



**ELWOOD 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. Program specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

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

Fund Financial Statements

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

**Governmental Funds:**

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

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

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

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

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

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***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 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 October 15<sup>th</sup> and become a lien on December 1<sup>st</sup>. Taxes are collected by the Town of Huntington and remitted to the District from December to June.

Enforcement

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

**ELWOOD 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, 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.

**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.

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

**K. Inventories**

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis or in the case of surplus food donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. 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.

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

**L. Capital Assets**

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

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

	Capitalization Threshold	Estimated Useful Life
Buildings and improvements	\$ 15,000	25-50 years
Furniture and equipment	5,000	8-20 years

**M. Deferred Outflows of Resources**

Deferred outflows of resources represents the amount of deferred charges from prior refunding of bonds that is being amortized over the remaining lives of the bonds, in accordance with GASB 65.

**N. Collections in Advance**

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

**O. Deferred Revenues**

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

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

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

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may 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 termination method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the fund financial statements only the amount of matured liabilities is accrued within the general fund based upon expendable and available financial resources.

**Q. Other Benefits**

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

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

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

**R. Short-Term Debt**

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

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

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

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**S. Accrued Liabilities and Long-Term Obligations**

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

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

**T. Equity Classifications**

District-Wide Statements

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

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

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

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

Fund Statements

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

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

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

*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

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

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funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the general fund.

*Retirement Contribution Reserve*

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

*Employee Benefit Accrued Liability Reserve*

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

*Restricted for 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.

*Unassigned* – represents the residual classification for the District's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, 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.

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

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

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

**2. CHANGES IN ACCOUNTING PRINCIPLES**

**A. GASB Statement No. 63**

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

**B. GASB Statement No. 65**

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

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

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

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

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



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

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

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

Long-Term Revenue and Expense Differences

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

Capital Related Differences

Capital related differences include the difference between proceeds 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.

**4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

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

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

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. During the year, the District had supplemental appropriations of \$239,292 due to additional revenue from state aid for grants and from gifts and donations.

**ELWOOD 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 or committed, and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

**C. Capital Projects Fund**

The capital projects fund had a deficit fund balance of \$1,738,749. This will be funded when the District obtains permanent financing for its current construction project.

**D. Inter-fund Transfers**

The District made inter-fund transfers during the year, which exceeded amounts provided in the District's budget.

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

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

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.

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

**6. PARTICIPATION IN BOCES**

During the year ended June 30, 2013, the District was billed \$3,482,336 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$619,794. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, P.O. Box 8007, Huntington Station, New York 11746-9007.

**7. DUE FROM STATE AND FEDERAL**

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

General Fund	
New York State Aid - general aid	\$ 39,938
New York State Aid - excess cost aid	303,914
New York State Aid - deferred building aid	1,132,350
BOCES aid	281,470
Federal Emergency Management Assistance	900
	<u>1,758,572</u>
Special Aid Fund: Federal and state grants	880,129
School Lunch Fund: Federal and state food service program reimbursements	2,876
Capital Projects Fund: New York State Aid - EXCEL aid	<u>272,690</u>
	<u>\$ 2,914,267</u>

**8. CAPITAL ASSETS/PRIOR PERIOD ADJUSTMENT**

During the year end June 30, 2013, it was noted that masonry projects relating to a capital project prior to 2010 had not been included in the District's third party update of capital assets until 2012-13. This had the net effect of increasing building and improvements by \$388,543 and decreasing the total net position (deficit) from (\$4,057,741) to (\$3,669,198).

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

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

	As Restated			Balance June 30, 2013
	Balance June 30, 2012	Additions	Reductions	
Governmental activities				
Capital assets not being depreciated				
Land	\$ 278,950	\$	\$	\$ 278,950
Construction in progress	130,622	1,604,805	(23,883)	1,711,544
Total capital assets not being depreciated	<u>409,572</u>	<u>1,604,805</u>	<u>(23,883)</u>	<u>1,990,494</u>
Capital assets being depreciated				
Buildings and improvements	43,051,985	59,549	(15,976)	43,095,558
Furniture and equipment	1,021,107	73,254	(30,691)	1,063,670
Total capital assets being depreciated	<u>44,073,092</u>	<u>132,803</u>	<u>(46,667)</u>	<u>44,159,228</u>
Less accumulated depreciation for:				
Buildings and improvements	21,220,304	759,016	(15,976)	21,963,344
Furniture and equipment	694,864	53,149	(30,691)	717,322
Total accumulated depreciation	<u>21,915,168</u>	<u>812,165</u>	<u>(46,667)</u>	<u>22,680,666</u>
Total capital assets, being depreciated, net	<u>22,157,924</u>	<u>(679,362)</u>	<u>-</u>	<u>21,478,562</u>
Capital assets, net	<u>\$ 22,567,496</u>	<u>\$ 925,443</u>	<u>\$ (23,883)</u>	<u>\$ 23,469,056</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 17,827
Instruction	783,241
Food service program	11,097
Total depreciation expense	<u>\$ 812,165</u>

**9. INTERFUND TRANSACTIONS**

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 1,277,499	\$	\$	\$ 90,270
Special Aid Fund		926,773	90,270	
School Lunch Fund		42,064		
Capital Projects Fund		305,347		
Total Governmental Funds	<u>1,277,499</u>	<u>1,274,184</u>	<u>90,270</u>	<u>90,270</u>
Fiduciary Funds	5,507	8,822		
Total	<u>\$ 1,283,006</u>	<u>\$ 1,283,006</u>	<u>\$ 90,270</u>	<u>\$ 90,270</u>

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

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

**10. SHORT-TERM DEBT**

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

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Balance June 30, 2012</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2013</u>
BAN	8/24/2012	0.73%	\$ 670,000	\$	\$ (670,000)	\$
BAN	8/23/2013	0.69%		1,675,000		1,675,000
TAN	6/21/2013	1.25%		13,500,000	(13,500,000)	
			<u>\$ 670,000</u>	<u>\$ 15,175,000</u>	<u>\$ (14,170,000)</u>	<u>\$ 1,675,000</u>

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

Interest paid	\$ 127,500
Less interest accrued in the prior year	(4,225)
Plus interest accrued in the current year	<u>3,994</u>
Total interest expense on short-term debt	<u>\$ 127,269</u>

**11. LONG-TERM LIABILITIES**

Long-term liability balances and activity for the year, excluding other postemployment benefits, are summarized below. The June 30, 2012 deferred amounts on bond refunding balance was increased by \$618,067 and an equal increase in deferred outflows of resources was also recognized as a result of the implementation of GASB 65.

	<u>Restated Balance June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Long-term debt:					
Bonds payable	\$ 14,750,000	\$	\$ (1,465,000)	\$ 13,285,000	\$ 1,455,000
Deferred amounts on bond refunding	<u>1,353,133</u>		<u>(160,769)</u>	<u>1,192,364</u>	<u>160,768</u>
	16,103,133		(1,625,769)	14,477,364	1,615,768
Other long-term liabilities					
Compensated absences	<u>4,066,627</u>	<u>389,458</u>		<u>4,456,085</u>	<u>175,000</u>
	<u>\$ 20,169,760</u>	<u>\$ 389,458</u>	<u>\$ (1,625,769)</u>	<u>\$ 18,933,449</u>	<u>\$ 1,790,768</u>

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

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

Bonds payable are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2013
Refunding serial bonds	4/19/2012	12/1/2020	2.00-4.00%	<u>\$ 13,285,000</u>

The following is a summary of debt service requirements:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,455,000	\$ 457,050	\$ 1,912,050
2015	1,510,000	419,850	1,929,850
2016	1,560,000	373,800	1,933,800
2017	1,615,000	318,100	1,933,100
2018	1,680,000	252,200	1,932,200
2019-2021	<u>5,465,000</u>	<u>333,700</u>	<u>5,798,700</u>
Total	<u>\$ 13,285,000</u>	<u>\$ 2,154,700</u>	<u>\$ 15,439,700</u>

The District is amortizing deferred charges on the advanced refunding and a bond refunding premium in accordance with GASB 65. The amortization is expensed on a straight-line basis over the respective bond term, as applicable. The future net amortization is as follows:

Fiscal Year Ending June 30,	Deferred Charge	Deferred Premium on Refunding	Total
2014	\$ 60,770	\$ (160,768)	\$ (99,998)
2015	60,770	(160,768)	(99,998)
2016	60,770	(160,768)	(99,998)
2017	60,770	(160,768)	(99,998)
2018	60,770	(160,768)	(99,998)
2019-2021	<u>146,864</u>	<u>(388,524)</u>	<u>(241,660)</u>
Total	<u>\$ 450,714</u>	<u>\$ (1,192,364)</u>	<u>\$ (741,650)</u>

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

Interest paid	\$ 498,782
Less interest accrued in the prior year	(20,984)
Plus interest accrued in the current year	18,995
Plus amortization of deferred charges from bond refunding	60,770
Plus elimination of bond issuance costs (GASB 65)	106,583
Less: amortization of bond refunding premium	<u>(160,768)</u>
Total interest expense on long-term debt	<u>\$ 503,378</u>

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

**12. PENSION PLANS**

**A. General Information**

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

**B. Provisions and Administration**

Teachers' Retirement System

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

Employees' Retirement System

The NYSERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Office of the State Comptroller, 110 State Street, Building, 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. For the NYSERS, the Comptroller shall certify annually the rates expressed as proportions of members' payroll annually, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, rates are established annually for NYSTRS by the New York State Teachers' Retirement Board.

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

Year	NYSTRS	NYSERS
2013	\$ 2,824,848	\$ 948,322
2012	2,471,495	684,848
2011	1,915,008	588,679

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

**D. Tax Sheltered Annuities**

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2013, totaled \$82,500 and \$1,320,515, respectively.

**E. Deferred Compensation**

The District has also established a deferred compensation plan in accordance with internal revenue code §457 for a certain employee. The District and employee did not make any contributions to this plan for fiscal 2012-13.

**13. POSTEMPLOYMENT BENEFITS**

**A. Plan Description**

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

**B. Funding Policy**

The District assumes 75-85% of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as payments are made. For the year ended June 30, 2013, the District recognized a general fund expenditure of \$2,025,570 for insurance premiums for 244 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.

**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)	\$ 5,813,283
Interest on net OPEB obligation	550,298
Adjustment to ARC	<u>(780,145)</u>
Annual OPEB cost (expense)	5,583,436
Contributions made	<u>(2,025,570)</u>
Increase in net OPEB obligation	3,557,866
Net OPEB obligation - beginning of year	<u>13,757,448</u>
Net OPEB obligation - end of year	<u><u>\$ 17,315,314</u></u>



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

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 5,583,436	36.3%	\$ 17,315,314
June 30, 2012	5,428,258	36.7%	13,757,448
June 30, 2011	5,708,777	32.9%	10,323,788

**D. Funded Status and Funding Progress**

As of July 1, 2012, the most recent actuarial valuation update, the plan was 0% funded. The actuarial accrued liability for benefits was \$62,641,232 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$62,641,232. The covered payroll (annual payroll of active employees covered by the plan) was \$27,177,049, and the ratio of the UAAL to the covered payroll was 230.49%.

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 accrued liability for benefits is increasing or decreasing over time relative to the actuarial value of plan assets.

**E. Actuarial Methods and Assumptions**

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

In the July 1, 2012, actuarial valuation update, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 8.00% initially and then reduced by 1% decrements to an ultimate rate of 5% after four years. The UAAL is being amortized using level dollar amortization. The remaining amortization period at June 30, 2013, was 29 years.

**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.

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

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**B. Public Entity Risk Pool**

The District participates in New York Schools Insurance Reciprocal (NYSIR), a non-risk-retained public entity risk pool for its District 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.

The District participates in the Nassau County Schools Cooperative Workers' Compensation Self Insured Plan (the "Workers' Compensation Plan") to insure workers' compensation claims. This is a public entity risk pool created under Article 5 of the Workers' Compensation Law, to administer claims, finance liability and manage risks related to workers' compensation claims. The District pays an annual assessment determined by the Plan's Board of Trustees. In the event that the Plan has insufficient funds to meet its obligations, the Plan's Board of Trustees may issue supplemental assessments to the Plan's members. Plan members who withdraw or are terminated from the Plan's membership will assume responsibilities for all open and unpaid claims associated with them. The Worker's Compensation Plan's total discounted liability for unbilled and open claims at June 30, 2013 was \$12,178,818 with the discount rate of 4.0%. The Workers Compensation Plan has assets of \$14,013,267 at June 30, 2013 to pay these liabilities.

**15. ASSIGNED FUND BALANCE**

**Assigned: Appropriated Fund Balance**

The amount of \$1,750,000 has been appropriated to reduce taxes for the year ending June 30, 2014.

**16. COMMITMENTS AND CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

General

The District is involved in lawsuits arising from the normal conduct of its affairs. Some of these lawsuits seek damages which may be in excess of the District's insurance coverage. The District has accrued for an estimated liabilities in excess of insurance coverage as of June 30, 2013. Other than this accrual, management does not believe any other matters exist that would have a material effect on these financial statements.

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

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**C. Operating Leases**

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$264,840. The minimum remaining operating lease payments are as follows:

Fiscal Year Ending June 30,	Amount
2014	\$ 240,026
2015	187,332
2016	114,987
2017	78,153
	\$ 620,498

**D. Encumbrances**

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

Assigned: Unappropriated fund balance	
General Fund	
General Support	\$ 44,471
Instruction	58,259
	\$ 102,730

**17. SUBSEQUENT EVENTS**

On August 22, 2013, the District issued bond anticipation notes in the amount of \$1,650,000, which are due August 22, 2014 and bear an effective interest rate of 0.45%.

On August 22, 2013, the District issued tax anticipation notes in the amount of \$12,750,000, which are due June 27, 2014 and bear an effective interest rate of 0.24%.

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
<b>REVENUES</b>				
Local Sources				
Real property taxes	\$ 35,843,939	\$ 35,894,376	\$ 35,894,526	\$ 150
Other tax items	4,988,166	4,937,729	4,937,729	-
Charges for services	161,500	161,500	442,116	280,616
Use of money and property	160,000	160,000	121,231	(38,769)
Sale of property and compensation for loss	3,500	3,500	4,201	701
Miscellaneous	125,000	269,292	506,082	236,790
Interfund revenues	20,000	20,000	20,000	-
<b>Total Local Sources</b>	<b>41,302,105</b>	<b>41,446,397</b>	<b>41,925,885</b>	<b>479,488</b>
State Sources	11,568,920	11,663,920	11,608,710	(55,210)
Medicaid Reimbursement	-	-	12,052	12,052
<b>Total Revenues</b>	<b>52,871,025</b>	<b>53,110,317</b>	<b>53,546,647</b>	<b>\$ 436,330</b>
<b>APPROPRIATED FUND BALANCE</b>				
Prior Years' Surplus	1,750,000	1,750,000		
Prior Year's Encumbrances	312,542	312,542		
<b>Total Appropriated Fund Balance</b>	<b>2,062,542</b>	<b>2,062,542</b>		
<b>Total Revenues and Appropriated Fund Balance</b>	<b>\$ 54,933,567</b>	<b>\$ 55,172,859</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.

**ELWOOD 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, 2013

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
<b>EXPENDITURES</b>					
General Support					
Board of education	\$ 41,331	\$ 42,081	\$ 36,437	\$	\$ 5,644
Central administration	350,317	345,842	340,841		5,001
Finance	741,852	727,302	717,748	5,951	3,603
Staff	418,445	432,945	421,013		11,932
Central services	3,943,550	4,098,541	3,746,968	38,520	313,053
Special items	509,713	509,713	496,425		13,288
<b>Total General Support</b>	<b>6,005,208</b>	<b>6,156,424</b>	<b>5,759,432</b>	<b>44,471</b>	<b>352,521</b>
Instruction					
Instruction, administration & improvement	2,400,862	2,540,136	2,448,973	1,766	89,397
Teaching - regular school	17,774,164	17,315,645	16,938,016	17,587	360,042
Programs for children with handicapping conditions	5,975,532	5,887,615	5,523,554	8,715	355,346
Occupational education	396,175	369,700	369,700		-
Instructional media	1,349,753	1,612,879	1,570,026	10,875	31,978
Pupil services	2,819,692	2,833,819	2,642,971	19,316	171,532
<b>Total Instruction</b>	<b>30,716,178</b>	<b>30,559,794</b>	<b>29,493,240</b>	<b>58,259</b>	<b>1,008,295</b>
Pupil Transportation	3,183,940	3,200,713	3,195,777		4,936
Employee Benefits	12,950,158	13,078,302	12,652,834		425,468
Debt Service					
Principal	1,460,000	1,465,000	1,465,000		-
Interest	583,083	626,282	626,282		-
<b>Total Debt Service</b>	<b>2,043,083</b>	<b>2,091,282</b>	<b>2,091,282</b>	<b>-</b>	<b>-</b>
<b>Total Expenditures</b>	<b>54,898,567</b>	<b>55,086,515</b>	<b>53,192,565</b>	<b>102,730</b>	<b>1,791,220</b>
<b>OTHER USES</b>					
Operating transfers out	35,000	86,344	90,270		(3,926)
<b>Total Expenditures and Other Uses</b>	<b>\$ 54,933,567</b>	<b>\$ 55,172,859</b>	<b>53,282,835</b>	<b>\$ 102,730</b>	<b>\$ 1,787,294</b>
Net Change in Fund Balances			263,812		
Fund Balances - Beginning of Year			6,207,834		
Fund Balances - End of Year			<u>\$ 6,471,646</u>		

**Note to Required Supplementary Information**

**Budget Basis of Accounting**

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Schedule of Funding Progress - Other Postemployment Benefits**  
 June 30, 2013

Valuation Date	Actuarial		Unfunded Actuarial Accrual Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	Value of Assets	Accrued Liability				
July 1, 2010	\$ -	\$ 61,751,398	\$ 61,751,398	0%	\$ 23,550,524	262.2%
July 1, 2011	-	60,065,732	60,065,732	0%	26,845,993	223.7%
July 1, 2012	-	62,641,232	62,641,232	0%	27,177,049	230.5%

**ELWOOD 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, 2013

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 54,621,025
Additions:		
Prior year's encumbrances		312,542
Original Budget		54,933,567
Budget revision		239,292
Final Budget		\$ 55,172,859

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2013-14 voter-approved expenditure budget		\$ 57,035,292
Maximum allowed (4% of 2013-14 budget)		\$ 2,281,412

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

Unrestricted fund balance:		
Assigned fund balance	\$ 1,852,730	
Unassigned fund balance	2,281,411	\$ 4,134,141
Less:		
Appropriated fund balance	1,750,000	
Encumbrances	102,730	
Total adjustments		1,852,730
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		\$ 2,281,411
Actual Percentage		4.00%

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Schedule of Project Expenditures -**  
**Capital Projects Fund**  
**For The Year Ended June 30, 2013**

PROJECT TITLE	Budget		Expenditures		Unexpended Balance	Methods of Financing			Fund Balance June 30, 2013	
	June 30, 2012	June 30, 2013	Prior Years	Current Year		Total	Proceeds of Obligations	State Aid		Local Sources
<b>District-Wide Improvements &amp; reconstruction (Manor Plains) Track Renovations</b>	\$ 1,436,857	\$ 1,436,857	\$ 1,436,857	\$	\$ 1,436,857	\$	\$	\$ 1,436,857	\$ 1,436,857	\$
Boyd 5th Grade Playground	113,121	99,683		93,800	5,883			99,683	5,883	
		53,855		53,855				53,855	53,855	
<b>Referendum approved January 31, 2007</b>										
Elwood MS Masonry	167,120	167,120	167,120			106,663	60,457		167,120	
JHGHS Masonry	233,288	233,288	221,423		11,865	147,523	85,765		233,288	11,865
<b>Referendum approved May 15, 2007</b>										
District-Wide Education Technology	410,129	410,129	416,579		(6,450)	259,019	151,110		410,129	(6,450)
Harley Avenue Fire Alarms	139,935	139,935	139,935			86,039	53,896		139,935	
JHGHS Dust Collector	40,322	40,322	34,398		5,924	25,605	14,717		40,322	
JHGHS Stage, Art, Music, Tech Rooms	45,340	45,340		45,340		45,340			45,340	
Unallocated	332,274	332,274			332,274				332,274	
<b>Referendum approved December 9, 2010</b>										
John H. Glenn High School:										
Upgrades and Renovations-Ventilation	373,003	379,003	24,415	371,086	395,501	193,042	185,961		379,003	(16,498)
Auditorium (lighting, stage rigging, etc)	38,520	38,520	2,494	18,905	21,399	26,193	12,327		38,520	17,121
Music Suite Renovations	164,352	164,352	10,754	149,840	160,594	111,755	52,597		164,352	3,758
Upgrade electric supply	55,854	55,854	3,702	56,083	59,785	34,048	21,806		55,854	(3,931)
Elwood Middle School:										
Auditorium (lighting, stage rigging, etc)	96,300	96,800	11,579	85,154	96,733	65,981	30,819		96,800	67
James H. Boyd Intermediate School:										
Upgrades and Renovations-Ventilation	109,140	101,440	7,657	92,418	100,075	74,315	27,125		101,440	1,365
Sink Renovations	102,720	73,910	7,283	44,339	51,622	54,145	19,765		73,910	22,288
Repair Lower Driveway & Replace Sidewalk	89,880	89,880	11,600	(503)	11,097	65,840	24,040		89,880	78,783
Install Driveway Lighting - Solar Light	52,002	37,002	2,893	29,927	32,820	27,104	9,898		37,002	4,182
Harley Avenue Primary School:										
Upgrades and Renovations-Ventilation	102,720	121,530	9,366	119,199	128,565	88,657	32,873		121,530	(7,035)
Renovate Lavatories	77,040	83,965	6,910	77,055	83,965	59,310	24,655		83,965	
Repair Chimney Masonry	32,100	26,718	3,105	13,708	16,813	16,445	10,273		26,718	9,905
Harley Alt Renovation		27,157		27,157	27,157	27,157			27,157	
Harley Alt Renovation		4,000		4,000	4,000	4,000			4,000	
Energy Performance Upgrades	100,000	100,000	233		233	80,081	19,919		100,000	99,767
Additional Security Cameras	50,000	51,500	3,691	47,328	51,019	51,500			51,500	481
Other Costs (Legal, Fiscal Advisor, etc)	25,000	17,000				17,000			17,000	
Varsity Baseball Field Renovation (contributions from Elwood Boosters Club)	910	910	910		910			910	910	
Hurricane Sandy repair		393,262		276,114	276,114	117,148		393,262	393,262	117,148
<b>Totals</b>	<b>\$ 4,387,927</b>	<b>\$ 4,821,606</b>	<b>\$ 2,522,904</b>	<b>\$ 1,604,805</b>	<b>\$ 4,127,709</b>	<b>\$ 1,999,036</b>	<b>\$ 838,003</b>	<b>\$ 1,984,567</b>	<b>\$ 4,821,606</b>	<b>693,897</b>

Less: EXCEL Aid not yet recognized (295,454)  
Less: Unreceived insurance proceeds from Hurricane Sandy (138,156)  
Less: Unissued Proceeds of Obligations (1,999,036)  
**\$ (1,738,749)**



**ELWOOD UNION FREE SCHOOL DISTRICT**  
**Net Investment in Capital Assets**  
For The Year Ended June 30, 2013

Capital assets, net	\$ 23,469,056
Add:	
Unamortized bond deferred charges	<u>450,714</u>
	23,919,770
Deduct:	
Bond anticipation notes	1,675,000
Short-term portion of bonds payable, inclusive of premium	1,615,768
Long-term portion of bonds payable, inclusive of premium	<u>12,861,596</u>
	<u>16,152,364</u>
Net investment in capital assets	<u>\$ 7,767,406</u>

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

To the Board of Education  
Elwood Union Free School District  
Greenlawn, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the Elwood Union Free School District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 4, 2013.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Elwood Union Free School District in a separate letter dated October 4, 2013.

## **Purpose of this Report**

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

*Cullen & Danowski, LLP*

October 4, 2013

**ELWOOD UNION FREE SCHOOL DISTRICT**

**EXTRACLASSROOM ACTIVITY FUNDS  
FINANCIAL STATEMENT WITH  
INDEPENDENT AUDITOR'S REPORTS**

June 30, 2013

ELWOOD UNION FREE SCHOOL DISTRICT  
EXTRACLASSROOM ACTIVITY FUNDS  
June 30, 2013

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Table of Contents

	<u>Page</u>
<u>Independent Auditor's Report</u>	1
<u>Financial Statement</u>	
Statement of Cash Receipts and Disbursements	2
Note to Financial Statement	4

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Elwood Union Free School District  
Greenlawn, New York

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

### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1.B. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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

### **Basis for Qualified Opinion**

The records of the extraclassroom activity funds of the Elwood Union Free School District were not adequate to permit the application of adequate auditing procedures to indicate whether all receipts were recorded.

### **Qualified Opinion**

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

### **Basis of Accounting**

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

*Cullen & Danowski, LLP*

October 4, 2013

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**EXTRACLASSROOM ACTIVITY FUNDS**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
For the Year Ended June 30, 2013

	Cash Balance <u>July 1, 2012</u>	Receipts and <u>Transfers</u>	Disbursements and <u>Transfers</u>	Cash Balance <u>June 30, 2013</u>
<b>CLUBS - HIGH SCHOOL</b>				
Class of 2012	\$ 2,710	\$ -	\$ 2,710	\$ -
Class of 2013	2,513	46,054	47,285	1,282
Class of 2014	3,806	8,307	6,434	5,679
Class of 2015	2,176	611	514	2,273
Class of 2016	-	1,930	1,586	344
Student council	9,538	13,895	11,472	11,961
Drama club	66	-	-	66
Habitat for Humanity	228	7,925	6,504	1,649
International club	40	-	-	40
Italian club	1,541	4,244	4,299	1,486
Kickline club	1,323	7,966	6,463	2,826
SADD	621	-	-	621
Mock trial club	978	-	109	869
Video club	2,803	950	1,933	1,820
Yearbook	6,795	10,303	4,926	12,172
Science olympiad	298	210	225	283
LOTE honor society	164	720	806	78
National Art Honor Society	38	175	152	61
Music club	17,728	27,480	39,063	6,145
Music production	8,465	12,550	9,727	11,288
Tri-M	441	370	277	534
Stage crew club	88	-	-	88
National honor society	4,372	2,180	2,546	4,006
Natural helpers	6,851	7,230	5,382	8,699
Operation respect	520	-	-	520
Student/Comm. Ser. Club	277	775	1,020	32
Mentoring	325	-	-	325
<b>Total High School</b>	<b>\$ 74,705</b>	<b>\$ 153,875</b>	<b>\$ 153,433</b>	<b>\$ 75,147</b>



**ELWOOD UNION FREE SCHOOL DISTRICT**  
**EXTRACLASSROOM ACTIVITY FUNDS**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (Continued)**  
**For the Year Ended June 30, 2013**

	Cash Balance <u>July 1, 2012</u>	Receipts and <u>Transfers</u>	Disbursements and <u>Transfers</u>	Cash Balance <u>June 30, 2013</u>
<b>CLUBS - MIDDLE SCHOOL</b>				
General Fund	\$ 7,776	\$ 11,350	\$ 14,817	\$ 4,309
Class of '16 (9th grade)	500	-	500	-
Class of '17 (8th grade)	1,748	10,975	12,224	499
Class of '18 (7th grade)	416	8,740	7,761	1,395
Class of '19 (6th grade)	-	305	280	25
Tri-M	2,974	3,960	4,304	2,630
Honor society	796	3,088	3,435	449
Memory book	5,586	3,757	5,585	3,758
E.M.S. school play	6,503	9,401	7,837	8,067
Y.E.S. program	117	1,110	1,056	171
Operation respect	1,197	981	829	1,349
Home and careers	-	300	-	300
Art club	-	300	60	240
Garden club	-	546	144	402
Science club	-	2,131	-	2,131
Kickline	-	3,015	2,467	548
Art honor society	-	363	-	363
	<u>27,613</u>	<u>60,322</u>	<u>61,299</u>	<u>26,636</u>
Total Middle School				
Grand Total - All Schools	<u>\$ 102,318</u>	<u>\$ 214,197</u>	<u>\$ 214,732</u>	<u>\$ 101,783</u>

ELWOOD UNION FREE SCHOOL DISTRICT  
EXTRAClassroom Activity Funds  
NOTE TO FINANCIAL STATEMENT  
June 30, 2013

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

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

**B. Basis of Accounting**

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



CULLEN & DANOWSKI, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

VINCENT D. CULLEN, CPA  
(1950 - 2013)

JAMES E. DANOWSKI, CPA  
PETER F. RODRIGUEZ, CPA  
JILL S. SANDERS, CPA  
DONALD J. HOFFMANN, CPA  
CHRISTOPHER V. REINO, CPA  
ALAN YU, CPA

October 4, 2013

To the Board of Education  
Elwood Union Free School District  
Greenlawn, New York

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Elwood Union Free School District (District) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated October 4, 2013, on the financial statements of the Elwood Union Free School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Education, Audit Committee, management, others you deem appropriate within the District, and any governmental authorities you need to share this information with. It is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Cullen & Danowski, LLP*  
Cullen & Danowski, LLP

**STATUS OF PRIOR YEAR COMMENTS**

**Review of Bank Account Reconciliations**

In prior years, it was noted that there was no evidence that monthly bank account reconciliations were being reviewed and approved by someone who was independent of the bank reconciliation process. We were informed that the bank reconciliations were being reviewed by the District's internal auditors.

Based on our discussions with management at the District, the internal auditors had agreed to review the bank reconciliations; however there was no formal evidence of their review. We were informed by the District that the internal auditors would not document their review of the bank reconciliations, since they felt it could impair their independence.

Our prior year recommendation was that the District maintain some form of documentation to support the review and approval of bank reconciliations by the internal auditors or by management.

***Current Year Update:*** During our review of the process and testing of the bank reconciliations during the current year audit, we noted that the Assistant Superintendent for Business Administration was responsible for reviewing the bank reconciliations and signing off on them. We feel this matter has been appropriately addressed and we now consider this comment closed.

**Segregation of Duties - Cash Receipts**

It was noted in prior years that there was inadequate segregation of duties within the cash receipts process. The District Treasurer was responsible for the custody, recordkeeping and reporting functions which elevate the risk that one person had too much control of a significant process.

During the prior year audit, we noted that the District added a layer of internal control by assigning a clerical employee to open the mail and log all the cash receipts, prior to giving them to the District Treasurer. This improved the internal control process over cash receipts; however, the District Treasurer was still responsible for preparing the deposit slips, inputting the cash receipts into Finance Manager, and making the deposits at the bank, and then preparing the bank reconciliations.

We previously recommended that the District properly segregate some of the Treasurer's functions within the cash receipts process to minimize the risk of one employee having too much control over this significant process and strengthen the internal controls.

***Current Year Update:*** The District has been subject to budget constraints which have affected the business office staffing for the past few years. This limited staffing and transitions that occurred at the District did not enable the district to fully address this matter in 2012-13. However, subsequent to year end, the District restructured the job responsibilities to assist the Business Office in improving internal controls in the cash receipts process for fiscal year 2013-14. We now consider this comment closed.

### User Permissions

It was noted that the Treasurer, Deputy Treasurer and Purchasing Agent all had permission to approve a purchase requisition. In addition, it was also noted that the Treasurer had unlimited access to all modules within Finance Manager.

During the prior year audits, we reviewed the permissions for the Treasurer, Deputy Treasurer and Purchasing Agent and noted that this issue still existed. We noted that the permissions for the Treasurer were still excessive with respect to the job responsibilities.

We recommended that the permissions in Finance Manager be thoroughly reviewed for the Treasurer to ensure that user permissions allowed were not too excessive given the Treasurer's job function and responsibilities.

**Current Year Update:** The District has indicated that they periodically reviewed user access permissions however, due to limited staffing and experience in the business office, they had not adjusted the user permissions for the District Treasurer during the year ending June 30, 2013. Subsequent to year end, the District hired a new part-time District Treasurer and the user permissions have been revised. We now consider this comment closed.

### District Policies – Gasoline Charges

Previously it was recommended that the District develop an updated policy and improve procedures for the tracking and monitoring for the use of gasoline credit card charges by district personnel.

During the prior year, we noted that management had indicated that they signed an exclusive agreement with the Town of Huntington to purchase gasoline as a sole provider to improve the monitoring of gasoline charges. In addition, we had noted that management did not have a formal policy update for the use of district credit cards.

**Current Year Update:** In the current year, we noted that the District has revised its use of credit card policy, which includes gasoline credit cards. The District is still in the process of reviewing the policy before it is formally finalized. In addition, the District has indicated that they are using two gasoline credit card accounts, one at Hess, and another at Texaco/Shell, to monitor and track the use of gasoline charges. We now consider this comment closed.

### Purchasing Agent

Based on prior year audits, it was noted that the Assistant Superintendent for Business was the designated Purchasing Agent. It was previously recommended that the District consider designating another individual who was independent of the business office function, as the Purchasing Agent to ensure proper segregation of duties.

**Current Year Update:** This has not been resolved due to limited staffing at the District. Given this staffing limitation, we recommend that since the Assistant Superintendent for Business continues to be the purchasing agent for the district, someone independent of the business office should review any requisitions or purchase orders that relate to the business office department.

**Extraclassroom Activity Funds**

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

During our prior year audits, we noted the following:

- Sales tax was paid for some clubs on items resold, however the District was unable to provide support to indicate if the proper amount of sales taxes was remitted to New York State.
- Some clubs were using the District's tax exemption certificate when ordering items. Extraclassroom clubs are not allowed to utilize the District's tax exempt certificate.
- Advisors could purchase items on their own personal credit card and then get approved for reimbursement.

***Current Year Update:*** We noted the following during the current year audit:

- The Sales taxes paid has not been fully addressed for extraclassroom activities. There was not enough supporting documentation for our review to determine if the correct amount of sales tax was paid in 2012-13. In addition based on inquiries made with the extraclassroom advisors, it was indicated they did not collect sales taxes for certain sales of goods during fundraisers.
- The use of the tax exempt certificate has been corrected. We now consider that comment closed.
- Advisors are still using their own personal credit cards and then getting approval for reimbursement.

We continue to recommend that the District review the New York State Education Department's guidelines, "*The Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*" to assist them in maintaining the operation of extraclassroom funds. A review of this pamphlet can assist the District in determining the extent of internal controls needed to be in compliance with these guidelines. In addition, the District should make all efforts possible to pay vendors for extraclassroom expenses directly, instead of having club advisors using their personal credit cards and requesting reimbursement.

**CURRENT YEAR COMMENT**

**Fixed Assets**

The responsibility of safeguarding the District's investment in fixed assets is important to sound fiscal management. The responsibilities can only be discharged through adequate fixed asset accounting, and conducting periodic physical inventory of all assets.

During our current year audit, we observed that the District had to restate the opening balance for fixed assets for approximately \$388,000. This was the result of a capital project, completed prior to 2010, being reflected in the 2012-13 capital assets update by the District's outside consultants (CBIZ). It appears this amount had not been previously recorded prior to 2010. As part of the control process to report fixed assets placed into service, the business office should monitor and be responsible to report the major capital project expenditures (construction in progress) that have been substantially completed and placed into service to CBIZ to ensure that the fixed asset is added to the updated inventory.

We recommend that the District monitor major capital projects that are substantially completed and placed into service and ensure they are properly reporting and monitoring that fixed assets are reflected in the updated CBIZ report annually. This will improve the tracking of fixed assets at the District.



**ELWOOD UNION FREE SCHOOL DISTRICT**  
**CORRECTIVE ACTION PLAN**

**For the year ended June 30, 2013 and to be addressed during the 2013-2014 school year**

**STATUS OF PRIOR YEAR COMMENTS**

**Review of Bank Account Reconciliations**

It was noted that there was no evidence that monthly bank account reconciliations were being reviewed and approved by someone who is independent of the bank reconciliation process. The bank reconciliations were being reviewed by the District's Internal Auditor.

The recommendation was for the District's Internal Auditor to document their review and approval of monthly bank account reconciliations.

Based on our discussion with the District, the Internal Auditors have agreed to review the bank reconciliations; however, there is no formal evidence of their review. We have been informed by management of the District that the internal auditors will not document their review of the bank reconciliations, since they feel it could impair their independence.

Although we understand the internal auditors' position, we recommend that the review of bank reconciliations be clearly documented on the bank reconciliation to provide evidence that internal controls are in place and operating as intended.

**Current Year Update:** Throughout our review of the process and testing of the bank reconciliations during the current year audit, we noted that the Assistant Superintendent for Business Administration was responsible for reviewing the bank reconciliations and signing off on them. We feel this matter has been appropriately addressed and we now consider this comment closed.

**Segregation of Duties - Cash Receipts**

It was noted in prior years that there was inadequate segregation of duties within the cash receipts process. The District Treasurer was responsible for the custody, recordkeeping and reporting functions which elevated the risk that one person had too much control of a significant process.

During the current year audit, we noted that the District added a layer of internal control by assigning a clerical person to open the mail and log the cash receipts, prior to giving them to the District Treasurer. This improved the internal control process over cash receipts; however, the District Treasurer was still responsible for the preparing of the deposit slips, inputting the cash receipts into Finance Manager, making the deposits at the bank, and then preparing the bank reconciliations.

We previously recommended that the District properly segregate some of the Treasurer's functions within the cash receipts process to minimize the risk of one employee having too much control over this significant process and strengthen the internal controls.

**Current Year Update:** The District has been subject to budget constraints which have affected the business office staffing for the past few years. This limited staffing and transitions that occurred at the District did not enable the District to fully address this matter in 2012-2013. However, subsequent to the year end, the District restructured the job responsibilities to assist the Business Office in improving internal controls in the cash receipts process for fiscal year 2013-2014. We now consider this comment closed.

### **User Permissions**

It was noted that the Treasurer, Deputy Treasurer and Purchasing Agent all had permission to approve a purchase requisition. In addition, it was also noted that the Treasurer had unlimited access to all modules within Finance Manager.

During prior year audits, we reviewed the permissions for the Treasurer, Deputy Treasurer and Purchasing Agent and noted that this issue still existed. We noted that the permissions for the Treasurer were still excessive with respect to the job responsibilities.

We recommended that the permissions in Finance Manager be thoroughly reviewed for the Treasurer to ensure that user permissions allowed were not too excessive given the Treasurer's job function and responsibilities.

**Current Year Update:** The District has indicated that they periodically reviewed user access permissions; however, due to limited staffing and experience in the Business Office, they had not adjusted the user permissions for the District Treasurer during the year ending June 30, 2013. Subsequent to year end, the District hired a new part-time District Treasurer and the user permissions have been revised. We now consider the comment closed.

### **District Policies – Gasoline Charges**

Previously it was recommended that the District develop updated policy and improve procedures for the tracking and monitoring for the use of gasoline credit card charges by district personnel.

During the prior year audit, we noted that management had indicated that the District has signed an exclusive agreement with the Town of Huntington to purchase gasoline as a sole provider to improve the monitoring of gasoline charges. In addition, we had noted that management did not have a formal policy update for the use of District credit cards.

**Current Year Update:** In the current year, we noted that the District has revised its use of credit card policy, which includes gasoline credit cards. The District is still in the process of reviewing the policy before it is formally finalized. In addition, the District has indicated that they are using two gasoline credit card accounts; one at Hess, and another at Texaco/Shell to monitor and track the use of gasoline charges. We now consider this comment closed.

### **Purchasing Agent**

Based on prior year audit, it was noted that the Assistant Superintendent for Business was the designated Purchasing Agent. It was previously recommended that the District consider designating another individual who was independent of the business function, as the Purchasing Agent to ensure proper segregation of duties.

***Current Year Update:*** This has not been resolved due to limited staffing at the District. Given this staffing limitation, we recommend that since the Assistant Superintendent for Business continues to be the purchasing agent for the District, someone independent of the Business Office should review any requisitions or purchase orders that relate to the Business Office department.

**District Response:** The District agrees with the recommendation and will have the requisition approval for business office purchase orders routed to the Assistant Superintendent for Curriculum for approval prior to being approved by the purchasing agent.

### **Extra-classroom Activity Funds**

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

During our current year audit inquiries we noted the following:

- Sales tax was paid for some clubs on items resold, however the District was unable to provide support to indicate if the proper amount of sales taxes was remitted to New York State.
- Some clubs were using the District's tax exemption certificate when ordering items. Extra-classroom clubs are not allowed to utilize the District's tax exempt certificate.
- The Middle School is not utilizing a cash receipts deposit form, when depositing funds.
- Advisors can purchase items on their own personal credit card and then get approved for reimbursement.

Current year update: We noted the following during the current year audit:

- The sales taxes paid issues have not been fully addressed for extraclassroom activities. There was not enough supporting documentation for our review to determine if the correct amount of sales tax was paid in 2012-2013. In addition, based on inquiries made with the extraclassroom advisors, it was indicated they did not collect sale taxes for certain sales of goods during fundraisers.
- The use of the tax exempt certificate has been corrected. We now consider that comment closed.
- Advisors are still using their own personal credit cards and then getting approval for reimbursement.

We continue to recommend that the District review the New York State Education Department's Guidelines, "*The Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*" to assist them in maintaining the operation of extraclassroom funds. A review of this pamphlet can assist the District in determining the extent of internal controls needed to be in compliance with these guidelines. In addition, the District should make all efforts possible to pay vendors for extraclassroom expenses directly, instead of having club advisors using their personal credit cards and requesting reimbursement.

**District Response:** The District agrees and will meet with the Principals and extraclassroom advisors and treasurers to review the audit findings and the New York State Education Department guide entitled the "*Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds.*" In addition, the John H. Glenn High School extraclassroom treasurer has recently attended training on the proper management of the extraclassroom activity funds and we are

scheduling similar training for our new District Accountant and the Elwood Middle School extraclassroom treasurer. Our new District accountant has set up a separate Federal taxpayer identification number for the Extraclassroom Activity Funds and is in the process of registering with the New York State Department of Taxation and Finance.

**ELWOOD UNION FREE SCHOOL DISTRICT**  
**CORRECTIVE ACTION PLAN**

**For the year ended June 30, 2013 and to be addressed during the 2013-2014 school year**

**CURRENT YEAR COMMENT**

**Fixed Assets**

The responsibility of safeguarding the District's investment in fixed assets is important to sound fiscal management. The responsibilities can only be discharged through adequate fixed asset accounting, and conducting periodic physical inventory of all assets.

During our current year audit, we observed that the District had to restate the opening balance for fixed assets for approximately \$388,000. This was the result of a capital project, completed prior to 2010, being reflected in the 2012-13 capital assets update by the District's outside consultants (CBIZ). It appears this amount had not been previously recorded prior to 2010. As part of the control process to report fixed assets placed into service, the Business Office should monitor and be responsible to report the major capital project expenditures (construction in progress) that have been substantially completed and placed into service to CBIZ to ensure that the fixed asset is added to the updated inventory.

We recommend that the District monitor major capital projects that are substantially completed and placed into service and ensure they are properly reporting and monitoring that fixed assets are reflected in the updated CBIZ report annually. This will improve the tracking of fixed assets in the District.

**District Response:** The District agrees and will implement these recommendations for the June 30, 2014 audit.