

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2015**

# SAG HARBOR UNION FREE SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Sag Harbor Union Free School District

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the fiduciary funds of Sag Harbor Union Free School District, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

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

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

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

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of Sag Harbor Union Free School District, as of June 30, 2015, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Change in Accounting Principle***

As described in Note 1 to the financial statements, in 2015, Sag Harbor Union Free School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress, schedule of District's proportionate share of the net pension liability, and the schedule of District's contributions on pages 1 through 17 and 62 through 66, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Boards, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

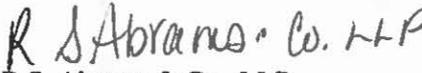
#### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015 on our consideration of Sag Harbor Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sag Harbor Union Free School District's internal control over financial reporting and compliance.

  
R.S. Abrams & Co., LLP  
Islandia, NY  
October 15, 2015

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The following is a discussion and analysis of the Sag Harbor Union Free School District's (the "District") financial performance for the fiscal year ended June 30, 2015. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-Wide and Fund Financial Statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

**1. FINANCIAL HIGHLIGHTS**

- The District's total net position, as reflected in the District-Wide Financial Statements, increased by \$2,173,904. This was due to an excess of revenues over expenses based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the District-Wide Financial Statements, totaled \$34,344,522. Of this amount \$888,913 was offset by program charges for services.
- The District received \$451,157 in operating grants to support instructional programs.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$1,554,943. This was a result of revenues exceeding actual expenditures and other financing uses.
- On the balance sheet, the general fund's unassigned fund balance at year end was \$1,502,104. This represents an increase of \$27,325 over the prior year.
- On May 17, 2011, the voters approved a capital reserve to be funded in the ultimate amount of \$5,000,000 for the purpose of financing alterations, renovations, and repairs to the District facilities. The reserve shall be funded in an amount not to exceed \$500,000 in any year during the ten year term, with such funds to be obtained from end of the year surplus funds and/or budget appropriations. On May 21, 2013 the voters authorized \$873,600 of this reserve to be transferred the capital projects fund to repair and reconstruct the elementary school roof, the high school gym roof and bleachers in the high school gym. At June 30, 2015, after the current year's funding of \$500,000, the balance in the facilities renovation capital reserve, which included interest, was \$1,629,602.
- On May 18, 2010, the voters approved a capital reserve to be funded in the ultimate amount of \$400,000 for the purpose of fleet replacement. The reserve may be funded over a ten year term with such funds to be obtained from year end surplus funds and/or budget appropriations. At June 30, 2015, after current year's funding, the balance in the fleet replacement reserve was \$400,931 which includes interest earnings.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

- The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in the District recording a net position liability of \$400,681 for the fiscal year ending June 30, 2015, for the Employees' Retirement System, and a net pension asset of \$11,748,594 for the Teachers' Retirement System. The net pension liability/(asset) is the total cost of future pension benefit payments that have already been earned, minus the value of assets available to make the benefits (the net position of the plan). The District also recorded deferred outflows and inflows related to pensions, which will be recognized in future periods.

**2. OVERVIEW OF THE FINANCIAL STATEMENTS**

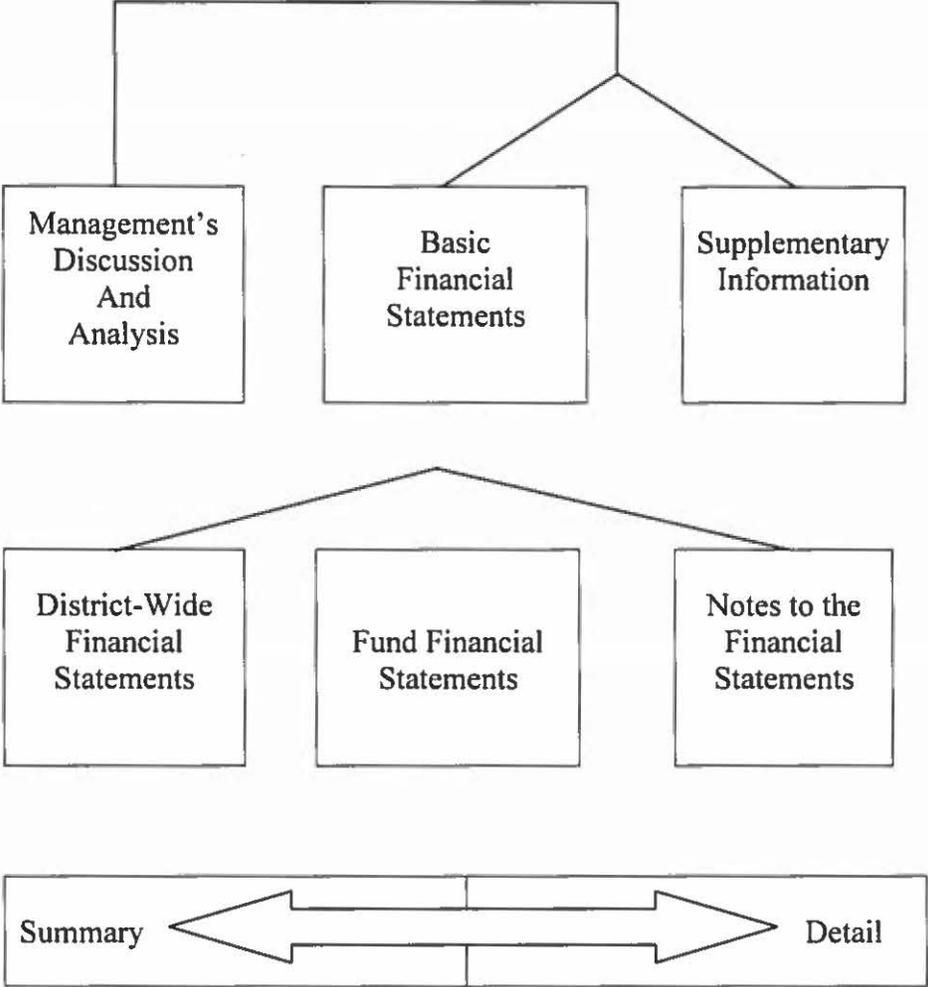
This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and optional supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-Wide Financial Statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-Wide Statements.
- The *Governmental Fund Statements* tell how basic services such as instruction and support functions were financed in the *short term* as well as what remains for future spending.
- *Fiduciary Funds Statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of District.

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Table A-1 shows how the various parts of this annual report are arranged and related to one another.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Table A-1: Organization of the District's Annual Financial Report



**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Table A-2: Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term debt included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any), both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**A. District-Wide Statements**

The District-Wide Statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflow of resources.. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-Wide Statements report the District's net position and how they have changed. Net position, the difference between the assets, deferred outflow of resources, liabilities and deferred inflows of resources, is one way to measure the financial health or position of the District.

- Over time, increases and decreases in net position is an indicator of whether the financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the District, additional non-financial factors such as changes in the District's property tax base and the condition of buildings and other facilities should be considered.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated if it does not provide or reduce current financial resources. Finally, capital assets and long-term debt are both accounted for in account groups and do not affect the fund balances.

District-Wide Statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the Statement of Net Position:

- Capitalize current outlays for capital assets;
- Report long-term debt as a liability;
- Depreciate capital assets and allocate the depreciation to the proper program/activities;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting; and
- Allocate net position balances as follows:
  - *Net investment in capital assets*;
  - *Restricted net position* are those with constraints placed on the use by external sources (creditors, grantors, contributors or laws or regulations of governments) or approved by law through constitutional provisions or enabling legislation;
  - *Unrestricted net position* is net position that does not meet any of the above restrictions.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**B. Fund Financial Statements**

The Fund Financial Statements provide more detailed information about the District's funds. Funds are accounting devices that the District uses to keep track of specific revenue sources and spending on particular programs. The funds have been established by the laws of the State of New York. The District has two kinds of funds:

- *Governmental funds:* Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-Wide statements, additional information at the bottom of the governmental fund statements explains the relationship (or differences) between them. In summary, the government fund statements focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general fund, special aid fund, school lunch fund, debt service fund and capital project fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.
- *Fiduciary funds:* The District is the trustee or *fiduciary* for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position. This report should be used to support the District's own programs and is developed using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain post-employment healthcare plans.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

**A. Net Position**

The District's total net position increased by \$2,173,904 for the fiscal year ending June 30, 2015, primarily due to the recognition of pension assets per newly implemented GASB Statement No. 68; as detailed in Table A-3.

Table A-3 – Condensed Statement of Net Position-Governmental Activities

	Fiscal Year 2015	*As restated Fiscal Year 2014	Increase/ (Decrease)	Total Percentage Change
Current assets and other assets	\$16,050,460	\$13,810,647	\$2,239,813	16.22%
Capital assets, net	17,596,145	16,747,691	848,454	5.07%
Net pension asset - proportionate share	11,748,594	687,398	11,061,196	1609.14%
<b>Total assets</b>	<b>45,395,199</b>	<b>31,245,736</b>	<b>14,149,463</b>	<b>45.28%</b>
Deferred outflow of resources	3,044,426	2,782,930	261,496	9.40%
<b>Total assets and deferred     outflows of resources</b>	<b>\$48,439,625</b>	<b>\$34,028,666</b>	<b>\$14,410,959</b>	<b>42.35%</b>
Other liabilities	\$5,726,331	\$4,027,655	\$1,698,676	42.18%
Long-term liabilities	29,204,737	26,675,499	2,529,238	9.48%
<b>Total liabilities</b>	<b>\$34,931,068</b>	<b>\$30,703,154</b>	<b>\$4,227,914</b>	<b>13.77%</b>
Deferred inflows of resources	8,330,036	320,895	8,009,141	2495.88%
<b>Total liabilities and deferred     inflows of resources</b>	<b>\$43,261,104</b>	<b>\$31,024,049</b>	<b>\$12,237,055</b>	<b>39.44%</b>
<b>Net Position</b>				
Net investment in capital assets,	8,653,894	8,522,214	131,680	1.55%
Restricted	7,411,453	6,799,533	611,920	9.00%
Unrestricted (deficit)	(10,886,826)	(12,317,130)	1,430,304	11.61%
<b>Total Net Position</b>	<b>5,178,521</b>	<b>3,004,617</b>	<b>2,173,904</b>	<b>72.35%</b>
<b>Total liabilities, deferred inflow of resources and net position</b>	<b>\$48,439,625</b>	<b>\$34,028,666</b>	<b>\$14,410,959</b>	<b>42.35%</b>

\* The District has adopted and implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The adoption of GASB Statement No. 68 has caused the restatement of amounts previously reported in 2014. The restatement is discussed further in Note 16.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Current assets increased by \$2,239,813 from 2014 to 2015 due to the increase in actual cash on hand, due from other governments and other assets offset by decreases in state and federal aid receivable and other receivables. Capital assets (net of depreciation) increased by \$848,454 due to the current year additions exceeding current year depreciation. Net pension assets-proportionate share, increased by \$11,061,196. This was attributable to the implementation of GASB Statement No. 68. Deferred outflow of resources increased by \$261,496 due to the recognition of pension related information offset by amortization of the loss on defeasance.

Other liabilities increased by \$1,698,676. This increase is due to an increase in the Teachers' Retirement liability, accounts payable and bond anticipation notes offset by a decrease in the amount due to other governments. Long-term liabilities increased by \$2,529,238 due to the increase in net other post employment benefits obligation required by GASB Statement No. 45. Deferred inflows of resources increased by the current years recognition of a premium received on a refunded bond issue and the recognition of pension related information as required by the implementation of GASB Statement No. 68.

The net investment in capital assets, relates to the investment in capital assets at cost such as land, construction in progress, buildings and improvements, and furniture and equipment, net of depreciation and related debt. This number increased from the prior year by \$131,680 primarily due to capital asset additions and the reduction of debt outstanding exceeding current year depreciation.

The restricted net position at June 30, 2015, is comprised of amounts with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

The unrestricted (deficit) relates to the balance of the District's net position. This amount, (\$10,886,826), decreased by \$1,430,304 from the prior year primarily due to the recognition of net pension asset/liabilities offset by the increase in the OPEB liability.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**B. Changes in Net Position**

The results of operations as a whole are reported in the Statement of Activities. A summary of this statement for the years ended June 30, 2015 and 2014 are as follows:

Table A-4: Change in Net Position from Operating Results. Governmental Activities Only:

	Fiscal Year 2015	Fiscal Year 2014	Increase/ (Decreases)	Percentage Change
<b>Revenues</b>				
<b>Program Revenues</b>				
Charges for services	\$888,913	\$1,052,479	(\$163,566)	-15.54%
Operating grants	451,157	368,397	82,760	22.46%
<b>General Revenues</b>				
Real property taxes and other tax items	33,381,097	32,898,735	482,362	1.47%
State sources	1,618,189	1,588,116	30,073	1.89%
Use of money and property	21,161	27,191	(6,030)	-22.18%
Other	157,909	196,051	(38,142)	-19.46%
<b>Total Revenues</b>	<u>\$36,518,426</u>	<u>\$36,130,969</u>	<u>\$387,457</u>	<u>1.07%</u>
<b>Expenses</b>				
General support	\$ 5,044,679	\$ 5,248,578	\$ (203,899)	-3.88%
Instruction	27,412,792	30,374,943	(2,962,151)	-9.75%
Pupil transportation	964,484	933,783	30,701	3.29%
Community service	265,585	262,020	3,565	1.36%
Food service program	322,557	318,055	4,502	1.42%
Debt service - interest	334,425	374,332	(39,907)	-10.66%
<b>Total Expenses</b>	<u>\$34,344,522</u>	<u>\$37,511,711</u>	<u>(\$3,167,189)</u>	<u>-8.44%</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$2,173,904</u>	<u>(\$1,380,742)</u>	<u>\$3,554,646</u>	<u>257.44%</u>

2014 information was not restated because all the information necessary was not readily available. The cumulative effect of applying the change in accounting principal is shown as an adjustment to the beginning net position. See Note 16 for more information.

The District's total fiscal year 2015 revenues totaled \$36,518,426 (See Table A-4). Real property tax and other tax items accounted for most of the District's revenue by contributing 91.41% of the revenue for the year. (See Table A-5). The remainder came from charges for services, state sources, operating grants, use of money and property, and other miscellaneous sources.

The total cost of all programs and services totaled \$34,344,522 for fiscal year 2015. These expenses are predominantly related to general instruction, which account for 79.82% of expenses. (See Table A-6). The District's general support activities accounted for 14.69% of total costs. (Both of these percentages are consistent with the prior year.)

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Table A-5: Revenues for Fiscal Year 2015 (See Table A-4)

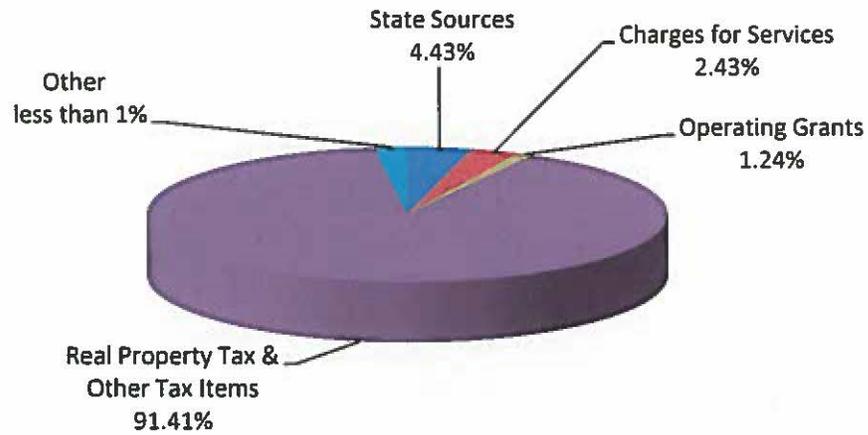
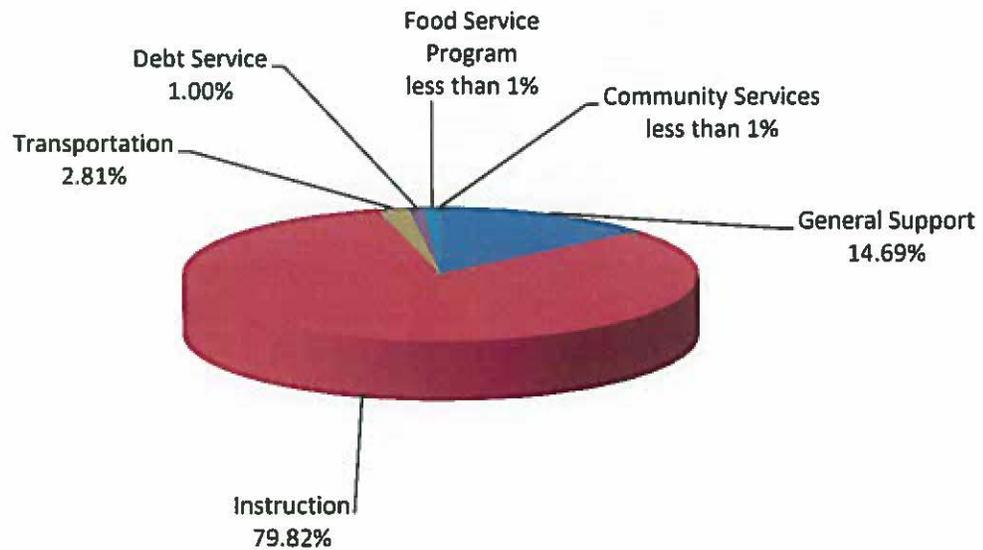


Table A-6: Expenses for Fiscal Year 2015 (See Tables A-4 and A-7)



**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**C. Governmental Activities**

Revenues for the District's governmental activities totaled \$36,518,426 while total expenses equaled \$34,344,522 resulting in an increase in total net position of \$2,173,904 primarily due to implementing GASB Statements No. 68 and No. 71. The continuation of the overall good financial condition of the District, as a whole, can be credited to:

- Continued leadership of the District's Board of Education and administration;
- Continued tuition revenue from other Districts;
- Approval of the District's proposed annual budget;

Table A-7 presents the cost of major District activities: general support, instruction, pupil transportation, community service, debt service and food service program. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Table A-7: Net Cost of Governmental Activities

Category	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2014
General support	\$ 5,044,679	\$ 5,248,578	\$ 5,044,679	\$ 5,248,578
Instruction	27,412,792	30,374,943	26,462,469	29,290,511
Pupil transportation	964,484	933,783	859,938	846,206
Community service	265,585	262,020	265,585	262,020
Food service program	322,557	318,055	37,356	69,188
Debt service -interest	334,425	374,332	334,425	374,332
<b>Total</b>	<b>\$ 34,344,522</b>	<b>\$ 37,511,711</b>	<b>\$ 33,004,452</b>	<b>\$ 36,090,835</b>

- The cost of all governmental activities this year was \$34,344,522 (Statement of Activities Expenses column-see Exhibit 3)
- The users of the District's programs financed \$888,913 of the cost. (Statement of Activities Charges For Services column -see Exhibit 3)
- The federal and state governments subsidized certain programs with operating grants of \$451,157. (Statement of Activities Operating Grants column – see Exhibit 3)
- Most of the District's net costs \$33,004,452 was financed by District taxpayers. (Statements of Activities Net (Expenses) Revenue column-see Exhibit 3)

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

Variances between years for the governmental fund financial statements are not the same as variances between years for the District-Wide Financial Statements. The District's governmental funds are presented on the **current financial resources measurement focus** and the **modified accrual basis of accounting**. Based on this presentation, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt.

As of June 30, 2015, the District's combined governmental funds reported a total fund balance of \$10,161,270 which is an increase of \$498,260 from the prior year. This is primarily due to the increase in real property taxes and state sources exceeding decreases in charges for services and miscellaneous revenue. The general fund has a fund balance of \$9,528,495 which is an increase of \$1,554,943 from the prior year. The primary reason for this is the revenues exceeded expenditures and other financing uses.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

A summary of the change in fund balance – all funds is as follows:

	Fiscal Year 2015	Fiscal Year 2014	Increase/ Decrease	% Change
<b>General Fund</b>				
Restricted for workers' compensation	\$ 500,503	\$ 500,186	\$ 317	0.06%
Restricted for unemployment insurance	100,333	100,243	90	0.09%
Restricted for retirement contribution	3,017,086	3,195,599	(178,513)	-5.59%
Restricted for insurance	217,490	184,403	33,087	17.94%
Restricted for employee benefit accrued liability	360,586	310,496	50,090	16.13%
Restricted for capital	2,030,533	1,529,397	501,136	32.77%
Restricted for repairs	750,000		750,000	N/A
<b>Assigned:</b>				
Assigned - designated for subsequent year's expenditures	500,000	500,000		0.00%
Assigned for general support	496,345	160,724	335,621	208.82%
Assigned for instruction	52,618	17,725	34,893	196.86%
Assigned for transportation	897		897	N/A
Unassigned	1,502,104	1,474,779	27,325	1.85%
<b>Total Fund Balance - General Fund</b>	<b>\$ 9,528,495</b>	<b>\$ 7,973,552</b>	<b>\$ 1,554,943</b>	<b>19.50%</b>
<b>School Lunch Fund</b>				
Nonspendable - inventory	\$ 1,844	\$ 2,174	\$ (330)	-15.18%
Assigned - unappropriated	23,025	-	23,025	N/A
<b>Total Fund Balance - School Lunch Fund</b>	<b>\$ 24,869</b>	<b>\$ 2,174</b>	<b>\$ 22,695</b>	<b>1043.93%</b>
<b>Debt Service Fund</b>				
Restricted	\$ 105,795	\$ 105,609	\$ 186	0.18%
<b>Total Fund Balance - Debt Service Fund</b>	<b>\$ 105,795</b>	<b>\$ 105,609</b>	<b>\$ 186</b>	<b>0.18%</b>
<b>Capital Projects Fund</b>				
Restricted	\$ 331,838	\$ 876,311	\$ (544,473)	-62.13%
Assigned - unappropriated	170,273	705,364	(535,091)	-75.86%
<b>Total Fund Balance - Capital Projects Fund</b>	<b>\$ 502,111</b>	<b>\$ 1,581,675</b>	<b>\$ (1,079,564)</b>	<b>-68.25%</b>
<b>Total Fund Balance - All Funds</b>	<b>\$ 10,161,270</b>	<b>\$ 9,663,010</b>	<b>\$ 498,260</b>	<b>5.16%</b>

The District can attribute changes in the general fund to revenues exceeding expenditures. Anticipated expenditures exceed actual expenditures. Refer to supplemental schedule 1 for analysis of revenues and expenditures. The District utilized restricted general fund fund balance during the year to offset the amount needed to be raised by taxes. The District was also able to replenish these reserves with the current year surplus.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The District can attribute the change to fund balance in the school lunch fund to the revenues and transfers in from the general fund exceeding actual expenditures.

The District can attribute the change to fund balance in the debt service fund to interest earned on investments.

The District can attribute the change in the capital projects fund to current year expenses exceeding current year revenue. Permanent financing for the voter approved capital projects has not yet been received.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2014-2015 Budget**

The District’s general fund adopted budget for the year ended June 30, 2015 was \$36,869,503. This amount was increased by encumbrances carried forward from the prior year in the amount of \$178,449 and budget revisions of \$38,270 for various donations and a transfer, which resulted in a final budget of \$37,086,222. The majority of the funding was property taxes/other tax items of \$33,381,097.

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

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

Opening, unassigned fund balance	\$ 1,474,779
Revenues over budget	63,330
Expenditures and encumbrances under budget	2,285,329
Budget revision for capital projects	(20,127)
Interest allocation to reserves	(4,027)
Transfer to reserves	(1,797,180)
Assigned for June 30, 2016 budget	(500,000)
Closing, Unassigned fund balance	<u><u>\$ 1,502,104</u></u>

The revenues over budget of \$63,330 were primarily due to increases in other real property tax items and compensation for loss and miscellaneous revenue offsetting decreases in state aid. (See Supplemental Schedule #1 for detail).

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The expenditures and encumbrances under budget of \$2,285,329 were primarily in central services, instruction, special education, transportation and employee benefits (See Supplemental Schedule #1 for detail).

Board authorized to increase the 2014/15 budget by \$20,127 to close out prior year capital projects.

Interest earned and allocated to reserves totaled \$4,027 and consisted of \$317 to the workers' compensation reserve, \$90 to the unemployment reserve, \$2,307 to the retirement contribution reserve, \$87 to the insurance reserve, \$90 to the employee benefit accrued liability and \$1,136 to the capital reserve.

Transfers to reserves consisted of the following transfers: \$500,000 to capital reserve, \$750,000 to repair reserve, \$33,000 to insurance reserve and \$464,180 to the retirement contribution reserve and \$50,000 to the employee benefit accrued liability reserve.

The District has chosen to assign \$500,000 of its available June 30, 2015 fund balance to partially fund its 2015-16 approved operating budget.

The unassigned fund balance represents the fund balance retained by the District that is not reserved or designated for subsequent year's taxes. This amount is limited to 4% of the 2015-2016 budget

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**6. CAPITAL ASSET AND DEBT ADMINISTRATION**

**A. Capital Assets**

The District paid for equipment, building improvements and land improvements during the fiscal year 2015. A summary of the District's capital assets net of depreciation are as follows:

Table A-8: Capital Assets (Net of Depreciation)

Category	Fiscal Year 2015	Fiscal Year 2014	Increase (Decrease)	Percentage Change
Land	\$309,243	\$309,243	\$ -	0.00%
Construction in progress	1,903,660	582,108	1,321,552	227.03%
Buildings & building improvement:	23,680,352	23,634,160	46,192	0.20%
Furniture & equipment	1,172,972	1,246,816	(73,844)	-5.92%
Vehicles	974,591	925,642	48,949	5.29%
Subtotal	<u>28,040,818</u>	<u>26,697,969</u>	<u>1,342,849</u>	<u>5.03%</u>
Less: Accumulated depreciation	<u>10,444,673</u>	<u>9,950,278</u>	<u>494,395</u>	<u>4.97%</u>
Total net capital assets	<u><u>\$17,596,145</u></u>	<u><u>\$16,747,691</u></u>	<u><u>\$848,454</u></u>	<u><u>5.07%</u></u>

The District spent \$1,416,692 in the capital projects fund on building improvements and vehicle purchases during the year.

**B. Long-Term Debt**

At June 30, 2015, the District had total bonds payable of \$6,870,000. The decrease in outstanding debt is due to current year principal payments. A summary of outstanding debt at June 30, 2015 and 2014 is as follows:

	2015	2014	Increase (Decrease)
Serial bonds	\$ 6,870,000	\$ 8,005,000	\$ (1,135,000)
Total	<u>\$ 6,870,000</u>	<u>\$ 8,005,000</u>	<u>\$ (1,135,000)</u>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**7. FACTORS BEARING ON THE DISTRICT'S FUTURE**

- A. The general fund budget for the 2015-16 school year was approved by the voters in the amount of \$37,552,566. This is an increase of \$683,063 or 1.86% over the previous year's budget. The increase was primarily due to increases in program for students.
- B. On October 15, 2015 the District issued a tax anticipation note in the amount of \$11,000,000 maturing on June 21, 2016 with an interest rate of 1.40% with a premium of \$85,250 providing an overall effective net interest rate of 0.26585%.

**8. CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the finances of the District and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, contact:

Sag Harbor Union Free School District  
Ms. Jennifer Buscemi  
School Business Administrator  
District Office  
200 Jermain Avenue  
Sag Harbor, New York 11963

**SAG HARBOR UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

<b>ASSETS</b>	
Current assets	
Cash	
Unrestricted cash	\$ 7,751,942
Restricted cash	7,414,164
Receivables	
Due from fiduciary fund	2,548
State and federal aid receivable	540,218
Due from other governments	132,988
Other receivables	3,314
Inventories	1,844
Other assets	203,442
Non-current assets	
Capital assets not being depreciated	2,212,903
Capital assets being depreciated, net of accumulated depreciation	15,383,242
Net pension asset - proportionate share	11,748,594
<b>TOTAL ASSETS</b>	<b>45,395,199</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Loss on defeasance	76,780
Pensions	2,967,646
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 48,439,625</b>
<b>LIABILITIES</b>	
Payables	
Accounts payable	686,735
Accrued liabilities	47,456
Accrued interest payable	50,476
Due to other governments	17,445
Due to teachers' retirement systems	2,855,168
Due to employees' retirement systems	147,766
Notes payable	
Bond anticipation note	1,900,000
Unearned credits	
Collections in advance	21,285
Long-term liabilities	
Due and payable within one year	
Bonds payable	1,155,000
Due and payable after one year	
Claims payable	145,268
Bonds payable	5,715,000
Compensated absences	360,746
Net other postemployment benefits obligation	21,428,042
Net pension liability - proportionate share	400,681
<b>TOTAL LIABILITIES</b>	<b>34,931,068</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Gain on defeasance	251,742
Deferred tax revenue	9,893
Pensions	8,068,401
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>8,330,036</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>43,261,104</b>
<b>NET POSITION</b>	
Net investment in capital assets	8,653,894
Restricted	
Workers' compensation	500,503
Unemployment insurance	100,333
Retirement contribution	3,017,086
Insurance	217,490
Employee benefit accrued liability	360,586
Capital	2,359,660
Repair	750,000
Debt service	105,795
	7,411,453
Unrestricted (deficit)	(10,886,826)
<b>TOTAL NET POSITION</b>	<b>5,178,521</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</b>	<b>\$ 48,439,625</b>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants	
General Support	\$ 5,044,679			\$ (5,044,679)
Instruction	27,412,792	\$ 567,404	\$ 382,919	(26,462,469)
Pupil transportation	964,484	62,995	41,551	(859,938)
Community services	265,585			(265,585)
Food service program	322,557	258,514	26,687	(37,356)
Debt service interest	334,425			(334,425)
<b>TOTAL FUNCTIONS/PROGRAMS</b>	<b>\$ 34,344,522</b>	<b>\$ 888,913</b>	<b>\$ 451,157</b>	<b>(33,004,452)</b>
<b>GENERAL REVENUE</b>				
Real property taxes				32,661,135
Other real property tax items & STAR				719,962
State sources				1,618,189
Use of money and property				21,161
Sale of property & compensation for loss				20,511
Miscellaneous				137,398
<b>TOTAL GENERAL REVENUES</b>				<b>35,178,356</b>
<b>CHANGE IN NET POSITION</b>				<b>2,173,904</b>
<b>NET POSITION - BEGINNING OF YEAR, AS RESTATED (SEE NOTE 16)</b>				<b>3,004,617</b>
<b>NET POSITION - END OF YEAR</b>				<b>\$ 5,178,521</b>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash						
Unrestricted	\$ 5,526,620	\$ 45,700	\$ 19,772	\$ 176,725	\$ 1,983,125	\$ 7,751,942
Restricted	6,976,531			105,795	331,838	7,414,164
Receivables						
Due from other funds	658,177	27,596	6,199		102,272	794,244
State and federal aid receivable	109,008	429,093	2,117			540,218
Due from other governments	132,988					132,988
Other receivables	1,500		1,814			3,314
Inventories			1,844			1,844
<b>TOTAL ASSETS</b>	<u>\$ 13,404,824</u>	<u>\$ 502,389</u>	<u>\$ 31,746</u>	<u>\$ 282,520</u>	<u>\$ 2,417,235</u>	<u>\$ 16,638,714</u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>						
Payables						
Accounts payable	\$ 663,315	\$ 22,885	\$ 535			\$ 686,735
Accrued liabilities	47,456					47,456
Due to other funds	136,067	478,904		\$ 176,725		791,696
Due to other governments	16,664	600	181			17,445
Due to teachers' retirement system	2,855,168					2,855,168
Due to employees' retirement system	147,766					147,766
Unearned credits						
Collections in advance			6,161		\$ 15,124	21,285
Notes payable						
Bond anticipation note payable					1,900,000	1,900,000
Deferred Inflows of Resources						
Deferred tax revenue	9,893					9,893
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>3,876,329</u>	<u>502,389</u>	<u>6,877</u>	<u>176,725</u>	<u>1,915,124</u>	<u>6,477,444</u>
<b>FUND BALANCES</b>						
Nonspendable: Inventory			1,844			1,844
Restricted						
Workers' compensation	500,503					500,503
Unemployment insurance	100,333					100,333
Retirement contribution	3,017,086					3,017,086
Insurance	217,490					217,490
Employee benefit accrued liability	360,586					360,586
Capital	2,030,533				329,127	2,359,660
Repair	750,000					750,000
Debt service				105,795		105,795
Unspent bond proceeds					2,711	2,711
Assigned						
Appropriated fund balance	500,000					500,000
Unappropriated fund balance	549,860		23,025		170,273	743,158
Unassigned	1,502,104					1,502,104
<b>TOTAL FUND BALANCES</b>	<u>9,528,495</u>	<u>-</u>	<u>24,869</u>	<u>105,795</u>	<u>502,111</u>	<u>10,161,270</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 13,404,824</u>	<u>\$ 502,389</u>	<u>\$ 31,746</u>	<u>\$ 282,520</u>	<u>\$ 2,417,235</u>	<u>\$ 16,638,714</u>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Total Governmental Fund Balances		\$ 10,161,270
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Cash held by third-party administrator is treated as a long-term asset and included in net position.		203,442
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 include 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	\$ 28,040,818	
Accumulated depreciation	<u>(10,444,673)</u>	17,596,145
Deferred inflows of resources - The Statement of Net Position recognizes revenues and expenditures received under the full accrual method. Governmental funds recognize revenues and expenditures under the modified accrual method. Deferred inflows related to pensions that will be recognized as a reduction in pension expense in future periods amounted to		
		(8,068,401)
Deferred outflows of resources - the Statement of Net Position recognizes expenditures incurred under the full accrual method. Governmental funds recognize expenditures under the modified accrual method. Deferred outflows related to pensions that will be recognized as expenditures in future periods amount to		
		2,967,646
Certain disbursements previously expensed in the governmental funds relating to pensions are treated as long term assets and increase net position. The net pension asset - proportionate share for TRS at years end was		
		11,748,594
Deferred outflows of resources - loss on defeasance on the advanced refunding. The Statement of Net Position will amortize the loss on defeasance on the advanced refunding over the life of the bond. Governmental funds recorded the loss on defeasance on the advanced refunding as an expenditure in the year of refunding.		
		76,780
Deferred inflows of resources - gain on defeasance on the advanced refunding. The Statement of Net Position will amortize the gain on defeasance on the advanced refunding over the life of the bond. Governmental funds recorded the gain on defeasance on the advanced refunding as revenue in the year of refunding.		
		(251,742)
Payables associated with long-term liabilities that are not payable in the current period are not reported as liabilities in the funds. Additional payables relative to long-term liabilities at year end consisted of accrued interest on bonds.		
		(50,476)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consisted of:		
Bonds payable	\$ (6,870,000)	
Claims payable	(145,268)	
Compensated absences payable	(360,746)	
Net other post employment benefits (OPEB)	(21,428,042)	
Net pension liability - proportionate share (ERS)	<u>(400,681)</u>	
		<u>(29,204,737)</u>
 Total Net Position		 <u>\$ 5,178,521</u>

**SAG HARBOR UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$ 32,661,135					\$ 32,661,135
Other real property tax items	719,962					719,962
Charges for services	630,399					630,399
Use of money and property	20,968		\$ 9	\$ 184		21,161
Sale of property and compensation for loss	17,925		2,586			20,511
Miscellaneous	137,398					137,398
State sources	1,618,189	\$ 144,781	744			1,763,714
Federal sources		279,689	23,394			303,083
Surplus food			2,549			2,549
Cafeteria sales			258,514			258,514
<b>TOTAL REVENUES</b>	<b>35,805,976</b>	<b>424,470</b>	<b>287,796</b>	<b>184</b>	<b>-</b>	<b>36,518,426</b>
<b>EXPENDITURES</b>						
General support	3,953,148					3,953,148
Instruction	18,954,797	415,571				19,370,368
Pupil transportation	618,515	45,094				663,609
Community services	162,785					162,785
Employee benefits	8,646,287					8,646,287
Debt service-principal				1,135,000		1,135,000
Debt service-interest	83,708			308,468		392,176
Cost of cafeteria sales			280,101			280,101
Capital outlay					1,416,692	1,416,692
<b>TOTAL EXPENDITURES</b>	<b>32,419,240</b>	<b>460,665</b>	<b>280,101</b>	<b>1,443,468</b>	<b>1,416,692</b>	<b>36,020,166</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,386,736</b>	<b>(36,195)</b>	<b>7,695</b>	<b>(1,443,284)</b>	<b>(1,416,692)</b>	<b>498,260</b>
<b>OTHER FINANCING SOURCES AND (USES)</b>						
Interfund transfers in		36,195	15,000	1,443,470	337,128	1,831,793
Interfund transfers out	(1,831,793)					(1,831,793)
<b>TOTAL OTHER FINANCING SOURCES AND (USES)</b>	<b>(1,831,793)</b>	<b>36,195</b>	<b>15,000</b>	<b>1,443,470</b>	<b>337,128</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,554,943</b>	<b>-</b>	<b>22,695</b>	<b>186</b>	<b>(1,079,564)</b>	<b>498,260</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>7,973,552</b>		<b>2,174</b>	<b>105,609</b>	<b>1,581,675</b>	<b>9,663,010</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 9,528,495</b>	<b>-</b>	<b>\$ 24,869</b>	<b>\$ 105,795</b>	<b>\$ 502,111</b>	<b>\$ 10,161,270</b>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances \$ 498,260

Amounts reported for governmental activities in the Statement of Activities include the following:

**Long-Term Revenue and Expense Differences**

In the Statement of Activities, certain operating expenses are measured by the amounts earned or incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of fiscal resources used.

Increase in compensated absences	\$ (45,222)	
Increase in net other postemployment benefits obligation	(3,919,546)	
Decrease in claims payable	<u>165,246</u>	(3,799,522)

Disbursements to third-party administrator expended in the governmental funds are treated as long-term assets and increase net position. This is the amount by which cash held by the third-party administrator increased in the year.		33,352
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**Capital Related Differences**

The cost of acquiring land, buildings, building improvements and equipment are reported as expenditures in the governmental funds. However, for governmental activities, those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expenses in the Statement of Activities.

Capital expenditures (all funds)	\$ 1,439,117	
Loss on disposals	(4,707)	
Depreciation expense	<u>(585,956)</u>	848,454

**Long Term Debt Differences**

Interest on long-term debt is reported as an expenditure in the governmental funds when it is due. This requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2014 to June 30, 2015 changed by		9,525
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Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		1,135,000
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Governmental funds report the premiums, discounts and similar items on the refunded debt when the debt is first issued. These amounts are deferred and amortized in the Statement of Activities. Amortization for the fiscal year ended June 30, 2015 was		(11,034)
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Governmental funds report the premiums, discounts and similar items on the refunded debt when the debt is first issued. These amounts are deferred and amortized in the Statement of Activities. Amortization for the fiscal year ended June 30, 2015 was		59,260
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**Pension Differences**

Increases/decreases in the proportionate share of net pension asset/liability and related deferred inflows and outflows reported in the Statement of Activities do not provide for or require use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds.

Teachers' retirement system	\$ 3,185,693	
Employees' retirement system	<u>214,916</u>	3,400,609

Change in Net Position		<u>\$ 2,173,904</u>
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**SAG HARBOR UNION FREE SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2015**

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Restricted cash	\$ 122,472	\$ 117,300
<b>TOTAL ASSETS</b>	<u>\$ 122,472</u>	<u>\$ 117,300</u>
<b>LIABILITIES</b>		
Due to governmental fund	\$ 257	2,291
Extraclassroom activity balances		75,267
Other liabilities		39,742
<b>TOTAL LIABILITIES</b>	<u>257</u>	<u>\$ 117,300</u>
<b>NET POSITION</b>		
Restricted for scholarships	122,215	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 122,472</u>	

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Private Purpose Trust Fund</u>
<b>ADDITIONS</b>	
Private Donations	\$ 6,731
Interest	37
<b>TOTAL ADDITIONS</b>	<u>6,768</u>
<b>DEDUCTIONS</b>	
Scholarship expenses	<u>11,422</u>
<b>CHANGE IN NET POSITION</b>	(4,654)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>126,869</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 122,215</u></u>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of Sag Harbor Union Free School District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Certain significant accounting principles and policies utilized by the District are described below:

**A) Reporting entity:**

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

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- An Amendment of GASB Statement No.14 and No.34*. 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 and its component unit and other organizational entities determined to be includable in the District’s financial reporting entity. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District’s reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District’s reporting entity.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**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. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District's business office. The District accounts for assets held as an agent for the Extraclassroom organizations in the State of Fiduciary Net Position – Fiduciary Funds.

**B) Joint venture:**

The District is a component district in the Eastern Suffolk Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs, which provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

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

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

**C) Basis of presentation:**

**i) District-Wide Financial Statements**

The Statement of Net Position and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital specific grants, if applicable.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

ii) 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, each displayed in a separate column.

The District reports the following major governmental funds:

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

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

**School Lunch Fund:** This fund is used to account for the activities of the District's food service operations.

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

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

The District reports the following fiduciary funds:

**Fiduciary Funds:** These funds are used to account for fiduciary activities. Fiduciary activities are those 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:

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

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

**D) Measurement focus and basis of accounting:**

The District-Wide Financial Statements 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. Non-exchange transactions, in which the District gives or receives value without directly, receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from 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 Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 6 months 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, and compensated absences, 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:**

i) Calendar

Real property taxes are levied annually by the Board of Education no later than October 1, and become a lien on December 1. Taxes are collected by the Town of Southampton and East Hampton during the period December 1, 2014 to June 1, 2015.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Enforcement

Uncollected real property taxes are subsequently enforced by Suffolk County (the "County"). The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following July 1.

**F) Restricted resources:**

When an expense is incurred for purposes for which both restricted and unrestricted net assets 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.

**G) Interfund transactions:**

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

In the District-Wide Financial 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 may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note 11 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

**H) Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of compensated absences, other post-employment benefits, workers' compensation claims, net pension asset/liability, potential contingent liabilities and useful lives of capital assets.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**I) Cash and cash equivalents:**

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

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

**J) Receivables:**

Receivables are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

**K) Inventories and prepaid items:**

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

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

A reserve for these non-liquid assets (inventories) has been recognized in the school lunch fund as non-spendable under GASB No. 54 to signify that a portion of fund balance is not available for other subsequent expenditures.

The District has inventory of \$1,844 recorded as nonspendable fund balance as of June 30, 2015.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-Wide and Fund Financial Statements. These items are reported as assets on the Statement of Net Position or Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed. The District had no prepaid items at June 30, 2015.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**L) Capital assets:**

Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on appraisals conducted by independent third-party professionals are used. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-Wide Statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings & improvements	\$ 5,000	Straight-line	30 years
Site improvements	\$ 5,000	Straight-line	20 years
Furniture & equipment	\$ 2,500	Straight-line	5 years
Vehicles	\$ 2,500	Straight-line	5 years

**M) Collections in advance:**

Collections in advance arise when the District receives resources before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for collections in advance is removed and revenues are recorded. Collections in advance as of June 30, 2015 consisted of prepaid balances for meals in the school lunch fund and premium on the BAN issue in the capital projects fund.

**N) Deferred Outflows and Inflows of Resources:**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first is the financial effect of deferred charges on advance refunding of general obligation serial bonds. The District reported \$76,780 deferred outflow of resources that resulted from the difference in the net carrying value of the refunded debt over its reacquisition price. The second item is related to pensions reported in the District-Wide Statement of Net Position. This represents the difference between expected and actual experience (ERS), the net difference between projected and actual investment earnings on pension plan investments (ERS), changes in proportion and difference between the District's contributions and proportionate share of contributions (ERS) and the District's contributions to the pension systems subsequent to the measurement date (ERS and TRS).

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. One is a deferred gain on refunding which resulted from a difference in carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the District-Wide Statement of Net Position. This represents the difference between expected and actual experience (TRS), the difference between projected and actual earnings on pension plan investments (TRS), and changes in proportion (TRS).

The District also reported \$9,893 in deferred inflows of resources for tax revenue that will be recognized in the subsequent year.

**O) Vested employee benefits:**

**Compensated absences**

Compensated absences consist of unpaid accumulated annual sick leave, vacation, and sabbatical time:

Sick leave eligibility and accumulation is specified in negotiated labor contracts, 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 be paid in the form of non-elective contributions into the employees 403(b) plan.

The District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

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

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

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**P) Other benefits:**

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

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

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become 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 District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the governmental funds as the liabilities for premiums mature (come due for payment). In the District-Wide Statements, the cost of postemployment health insurance coverage is recognized on the accrual basis of accounting in accordance with GASB Statement No. 45.

**Q) Short-term debt:**

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

The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which there is an insufficient or no provision made in the annual budget. The budget note must be repaid no later than the close of second fiscal year succeeding the year in which the note was issued.

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.

The District may issue Revenue Deficiency Notes to finance a deficiency in any fund or funds arising from revenues being less than the amount estimated in the budget for that fiscal year. The deficiency note may not exceed five percent of the amount of that same year's annual budget.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**R) Accrued liabilities and long-term obligations:**

Payables, accrued liabilities and long-term obligations are reported in the District-Wide Financial Statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. 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 that they are due for payment in the current year. 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 in one year or due within more than one year in the Statement of Net Position.

**S) Equity classifications:**

**i) District-Wide Financial Statements:**

In the District-Wide Financial Statements there are three classes of net position:

Net investment in capital assets - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets, net of any unexpended proceeds and including any unamortized items (discounts, premiums, gain or loss on refunding).

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

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

**ii) Funds Financial Statements:**

There are five classifications of fund balance as detailed below; however, in the Fund Financial Statements, there are four classifications of fund balance presented

- 1) Nonspendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes inventory recorded in the school lunch fund of \$1,844.**

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

- 2) **Restricted fund balance** – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

The District has classified the following reserves as restricted:

**Workers' Compensation**

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

**Unemployment Insurance Reserve**

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

**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. This reserve is accounted for in the general fund as restricted fund balance.

**Insurance Reserve**

Insurance reserve (GML §6-h) must be used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

action, and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. The reserve is accounted for in the general fund.

**Employee Benefit Accrued Liability**

Employee benefit accrued liability reserve (GML §6-p) must be used to reserve funds for the payment of accrued employee benefit due to 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 as restricted fund balance.

**Capital Reserve**

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

Fund balance for projects funded by the capital reserve in the capital projects fund are also classified as restricted fund balance.

**Repairs**

According to General Municipal Law §6-d, must be used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. The Board of Education without voter approval may establish a repair reserve fund by a majority vote of its members. Voter approval is required to fund this reserve (Opinion of the New York State Comptroller 81-401). Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Debt Service

The unexpected balances of proceeds from borrowings for capital projects, interest and earnings from investing proceeds of borrowings, and borrowing premiums can be recorded as amounts restricted for debt service. These restricted funds are accounted for in the debt service fund.

Restricted for Unspent Bond Proceeds

Unspent bond proceeds are recorded as restricted fund balance because they are subject to external constraints contained in the bond agreement. These restricted funds are accounted for in the capital projects fund.

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 funds.

- 3) **Committed fund balance** – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the school districts highest level of decision making authority, i.e., the Board of Education. The school district has no committed fund balances as of June 30, 2015.
- 4) **Assigned fund balance** – Includes 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 Board designations and encumbrances not classified as restricted or committed at the end of the fiscal year.
- 5) **Unassigned fund balance** – Includes the residual fund balance for the general fund and includes residual fund balance deficits of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. Assignments of fund balance cannot cause a negative unassigned fund balance.

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

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Order of Use of Fund Balance:**

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

The Board of Education shall delegate the authority to assign fund balance, for encumbrance purposes, to the person(s) to whom it 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 Board will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classification will be charged.

**T) New Accounting Standards**

The District has implemented the following current Statements of the Governmental Accounting Standards Board (GASB) that are applicable as of June 30, 2015:

Statement No. 68, *Accounting and Financial reporting for Pensions – An Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

**U) Future Changes in Accounting Standards**

GASB has issued Statement No. 72, *Fair Value Measurement and Application* effective for the year ending June 30, 2016.

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the year ending June 30, 2018. This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the year ending June 30, 2016.

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

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**V) Changes in Accounting Principles:**

For the fiscal year ended June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pensions Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of the Statements requires the District to report as an asset and/or liability, its portion of the collective net pension asset and liability in the New York State Teachers' and Employees' Retirement Systems. The implementation of the statements also requires the District to report a deferred outflow and/or inflow for the effect of the net change in the District's proportion of the collective net pension asset and/or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Also included as a deferred outflow is the District's contributions to the pension systems subsequent to the measurement date. See Note 16 for the financial statement impact of implementation of the Statements.

**NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS:**

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

**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. The difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund Balance Sheets.

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

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities fall into one of the five broad categories as shown below:

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

i) 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 accruals basis, whereas the accrual basis of accounting is used on the Statement of Activities.

ii) Capital related differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets 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.

iii) Long-term debt transaction differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

iv) Employee benefits allocation

Expenditures for employee benefits are not allocated to a specific function on the Statement of Revenues, Expenditures, and Changes in Fund Balances based on the requirements of New York State. These costs have been allocated based on total salary for each function in the Statement of Activities.

v) Pension differences

Pension differences occur as a result of changes in the District’s proportion of the collective net pension asset/liability and differences between actual and expected experience, difference between projected and active earnings on pension plan investments, the District’s contributions and its proportionate share of the total contributions to the pension system and District’s contributions subsequent to the measurement date.

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**A) Budgets:**

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted:

The voters of the District approved the proposed appropriation budget for the general fund. Appropriations are adopted at the program line item level.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
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Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. Supplemental appropriations that occurred during the fiscal year are shown on Supplemental Schedule #5.

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

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

**B) Encumbrances:**

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

**NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:**

**Cash:**

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and districts.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 Statement 40, *Deposit and Investment Risk Disclosures*, 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 with securities held by the pledging financial institution in the District's name; or
- C) Collateralized with 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.

Restricted Cash:

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash at June 30, 2015 includes \$7,414,164 within the governmental funds for general reserve purposes, debt service, and capital projects and \$239,772 in the fiduciary funds.

Investments:

The District does not typically purchase investments for a long enough duration to cause it to believe that it is exposed to any material interest rate risk. The District also does not typically purchase investments denominated in a foreign currency, and is not exposed to foreign currency risk.

**NOTE 5 – PARTICIPATION IN BOCES:**

During the year ended June 30, 2015, the District was billed \$843,407 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$106,035. Financial statements for the BOCES are available from the BOCES administrative office located at 201 Sunrise Highway, Patchogue, NY 11772.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 6 – STATE AND FEDERAL AID RECEIVABLE:**

State and federal aid receivable at June 30, 2015 consisted of the following:

General Fund	
Excess cost aid	\$ 109,008
Total - General Fund	<u>109,008</u>
Special Aid Fund	
Federal grants	238,251
State grants	<u>190,842</u>
Total - Special Aid Fund	<u>429,093</u>
School Lunch Fund	
Federal reimbursement	2,037
State reimbursement	<u>80</u>
Total - School Lunch Fund	<u>2,117</u>
Total - State and federal aid receivable	<u>\$ 540,218</u>

District management has deemed the amounts to be fully collectible.

**NOTE 7 – DUE FROM OTHER GOVERNMENTS:**

Due from other governments in the general fund at June 30, 2015 consisted of the following:

BOCES aid	\$ 106,035
Bridgehampton UFSD - transportation	25,823
Springs UFSD - health services	<u>1,130</u>
Total - Due from other governments	<u>\$ 132,988</u>

District management has deemed the amounts to be fully collectible.

**NOTE 8 – OTHER ASSETS:**

Other assets on the Statement of Net Position at June 30, 2015 consisted of cash held by the East End Workers' Compensation plan in the amount of \$203,442.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 9 – COLLECTIONS IN ADVANCE**

Collections in advance at June 30, 2015 consisted of prepaid student meals in the amount of \$6,161 in the school lunch fund and premium on obligations of \$15,124 in the capital projects fund.

**NOTE 10 - CAPITAL ASSETS:**

Capital asset balances and activity for the year ended June 30, 2015 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$309,243			\$309,243
Construction in progress	582,108	\$1,321,552		1,903,660
Total nondepreciable capital assets	<u>891,351</u>	<u>1,321,552</u>	<u>-</u>	<u>2,212,903</u>
Capital assets that are depreciated:				
Buildings & improvements	23,634,160	46,192		23,680,352
Furniture equipment	1,246,816	22,424	(96,268)	1,172,972
Vehicles	925,642	48,949		974,591
Total depreciable capital assets	<u>25,806,618</u>	<u>117,565</u>	<u>(96,268)</u>	<u>25,827,915</u>
Less accumulated depreciation:				
Buildings & improvements	8,680,128	430,696		9,110,824
Furniture equipment	967,243	59,112	(91,561)	934,794
Vehicles	302,907	96,148		399,055
Total accumulated depreciation	<u>9,950,278</u>	<u>585,956</u>	<u>(91,561)</u>	<u>10,444,673</u>
Total capital assets being depreciated, net	<u>15,856,340</u>	<u>(468,391)</u>	<u>(4,707)</u>	<u>15,383,242</u>
Total capital assets, net	<u>\$16,747,691</u>	<u>\$853,161</u>	<u>(4,707)</u>	<u>\$17,596,145</u>

Depreciation expense and loss on disposal has been charged to governmental functions as follows:

General support	\$ 191,891
Instruction	308,207
Transportation	88,060
Food service program	2,505
	<u>\$ 590,663</u>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 11 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS:**

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General fund	\$658,177	\$136,067		\$1,831,793
Special aid fund	27,596	478,904	\$ 36,195	
School lunch fund	6,199		15,000	
Debt service fund		176,725	1,443,470	
Capital projects fund	102,272		337,128	
Total government activities	<u>\$794,244</u>	<u>791,696</u>	<u>1,831,793</u>	<u>1,831,793</u>
Fiduciary agency fund		2,548		
Totals	<u><u>\$794,244</u></u>	<u><u>\$794,244</u></u>	<u><u>\$1,831,793</u></u>	<u><u>\$1,831,793</u></u>

The District typically transfers from the general fund to the special aid fund to fund the District's 20% share of summer school handicap expenses required by New York State law. The District transferred funds to the school lunch fund to eliminate a deficit balance that occurred in the current year. The District typically transfers from the general fund to the debt service fund for debt service payments. The District typically transfers from the general fund to the capital projects fund to finance capital projects. The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

**NOTE 12- SHORT-TERM DEBT:**

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

Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
BAN 2/26/16	1.25%	\$ -	\$1,900,000		\$ 1,900,000
TAN 6/26/15	1.00%		10,500,000	\$10,500,000	-
Total		<u>\$ -</u>	<u>\$12,400,000</u>	<u>\$10,500,000</u>	<u>\$ 1,900,000</u>

The District issued the Tax Anticipation Note ("TAN") for the purpose of providing cash flow to the general fund in anticipation of revenues from property taxes. The District issued the Bond Anticipation Note ("BAN") for the purpose of providing interim financing for capital projects.

Interest on short-term debt for the year was \$83,708.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 13 – LONG-TERM LIABILITIES:**

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Reclassified and Redeemed</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Bonds payable:					
Bond payable	\$8,005,000		\$1,135,000	\$6,870,000	\$1,155,000
Other long-term liabilities:					
Claims payable	310,514		165,246	145,268	
Compensated absences	315,524	\$45,222		360,746	
Net other post employment benefits obligation	17,508,496	4,917,960	998,414	21,428,042	
Net pension liability-proportionate share	535,965 *	461,174	596,458	400,681	
Total long-term liabilities	<u>\$26,675,499</u>	<u>\$5,424,356</u>	<u>\$2,895,118</u>	<u>\$29,204,737</u>	<u>\$1,155,000</u>

\*As restated

The general fund has typically been used to liquidate long-term liabilities such as bonds payable, claims payable, compensated absences, net other post employment benefits obligation and net pension liability.

**A) Bonds Payable**

Bonds payable is comprised of the following:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at Year End</u>
Construction bond-refunding	2006	2020	3.75%-5%	\$ 4,860,000
Serial bond-refunding	2011	2022	2.5%-3%	2,010,000
				<u>\$ 6,870,000</u>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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The following is a summary of debt service requirements for bonds payable:

Fiscal Year Ended June 30,	Principal	Interest	Total
2016	\$ 1,155,000	\$ 259,388	\$ 1,414,388
2017	1,205,000	208,588	1,413,588
2018	1,250,000	155,587	1,405,587
2019	1,300,000	99,662	1,399,662
2020	1,350,000	46,775	1,396,775
2021-2022	610,000	27,600	637,600
	<u>\$ 6,870,000</u>	<u>\$ 797,600</u>	<u>\$ 7,667,600</u>

In prior years, the District defeased certain construction serial bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

**B) Long-Term Interest**

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

	<u>Total</u>
Interest paid	\$308,468
Less interest accrued in the prior year	(60,001)
Plus interest accrued in the current year	50,476
Less amortization of gain on defeasance	(59,260)
Plus amortization of loss on defeasance	11,034
Total expense	<u><u>\$250,717</u></u>

**NOTE 14 – DEFERRED OUTFLOWS OF RESOURCES – LOSS ON DEFEASANCE**

The loss on defeasance pertaining to the 2011 refunding, recorded in the District-Wide Financial Statements as deferred outflow of resources at June 30, 2015, consisted of the following:

	<u>Total</u>
Deferred amount on refunding, opening balance	\$ 87,814
Current year amortization	(11,034)
Total loss on defeasance	<u><u>\$ 76,780</u></u>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
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The loss on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 10 years, the time to maturity on the refunded bonds, at the point of refunding. Amortization recorded on the District-Wide financials amounted to \$11,034 for the fiscal year ending June 30, 2015 and is recorded as a component of interest expense.

**NOTE 15 – DEFERRED INFLOWS OF RESOURCES:**

The gain on defeasance pertaining to the 2006 and 2011 refunding as recorded in the District-Wide Financial Statements as deferred inflows of resources at June 30, 2015 consisted of the following:

	2006	2011	TOTAL
Bond premium, opening balance	\$ (39,565)	\$ (271,437)	\$(311,002)
Current year amortization on bond premium	\$ 4,972	\$ 54,288	\$ 59,260
Total gains on defeasance	\$ (34,593)	\$ (217,149)	\$(251,742)

The gain on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 10 years, the time to maturity on the refunded bonds, at the point of refunding. Amortization recorded on the District-Wide financials amounted to \$59,260 for the fiscal year ending June 30, 2015 and is recorded as a component of interest expense.

**NOTE 16– PENSION PLANS:**

**A) Plan Description and Benefits Provided:**

**Teachers’ Retirement System**

The District participates in the New York State Teachers’ Retirement System (TRS) (the System). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as, death and disability 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 System is governed by a 10 member Board of Trustees. System benefits are established under New York State Law. Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in TRS. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the System, may be obtained by writing to the New York State Teachers’ Retirement System, 10 Corporate Woods Drive, Albany, NY

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
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12211-2395 or by referring to the NYSSTR Comprehensive Annual Financial report which can be found on the System's website at [www.nystrs.org](http://www.nystrs.org).

**Employees' Retirement System**

The District participates in the New York State and Local Employees' Retirement System (ERS) (the System). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

**B) Funding policies:**

The Systems are noncontributory for employees who joined prior to July 27, 1976. Those joining after July 27, 1976 and prior to January 1, 2010 with less than ten years of membership are required to contribute 3% of their annual salary. For NYSTRS, employees who joined on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.5% for their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. For employees in NYSERS who joined after January 1, 2010 but prior to March 31, 2013, they must contribute 3% of their salary throughout their active membership. Those joining after April 1, 2013 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career.

For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually, which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

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

	ERS	TRS
2015	\$ 559,364	\$ 2,731,973
2014	\$ 531,283	\$ 2,531,656
2013	\$ 589,736	\$ 1,811,091

**C) Pension Assets, Liabilities, Pension Expenses, and Deferred Outflows and Inflows of Resources Related to Pensions**

At June 30, 2015, the District reported the following asset/(liability) for its proportionate share of the net pension asset /(liability) for each of the Systems. The net pension asset/(liability) was measured as of March 31, 2015 for ERS and June 30, 2014 for TRS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The District's proportion of the net pension asset/(liability) was based on a projection of the District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS and TRS Systems in reports provided to the District.

	ERS	TRS
Measurement date	March 31, 2015	June 30, 2014
Net pension asset/(liability)	\$ (400,681)	\$ 11,748,594
District's portion of the Plan's total net pension asset/(liability)	0.01186060%	0.105469%

For the year ended June 30, 2015, the District's recognized pension expense of \$365,847 for ERS and (\$461,131) for TRS. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
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	<u>Deferred Outflow of Resources</u>		<u>Deferred Inflow of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expected and actual experience	\$ 12,826			\$ 171,802
Net difference between projected and actual earnings on pension plan investments	69,593			7,890,458
Changes in proportion and difference between the District's contributions and proportionate share of contributions	12,907			6,141
District's contributions subsequent to the measurement date	<u>147,766</u>	<u>\$2,724,554</u>	<u>\$ -</u>	<u>\$8,068,401</u>
	<u>\$ 243,092</u>	<u>\$2,724,554</u>	<u>\$ -</u>	<u>\$8,068,401</u>

District contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended:	<u>ERS</u>	<u>TRS</u>
2015		\$ (1,993,306)
2016	\$ 23,832	\$ (1,993,306)
2017	\$ 23,832	\$ (1,993,306)
2018	\$ 23,831	\$ (1,993,306)
2019	\$ 23,831	\$ (20,690)
Thereafter	\$ -	\$ (74,487)

Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
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Significant actuarial assumptions used in the valuations were as follows:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2015	June 30, 2014
Actuarial valuation date	April 1, 2014	June 30, 2013
Interest rate	7.5%	8%
Salary scale	4.90%	4.01% - 10.91%
Decrement tables	April 1, 2005 - March 31, 2010 System's Experience	July 1, 2005 - June 30, 2010 System's Experience
Inflation rate	2.70%	3.0%

For ERS, annuitant mortality rates are based on April 1, 2005 – March 31, 2010 System's experience with adjustments for mortality improvements based on MP-2014. For TRS, annuitant mortality rates are based on July 1, 2005 – June 30, 2010 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale AA.

For ERS, the actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010. For TRS, the actuarial assumptions used in the June 30, 2013 valuation are based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010.

The long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2015	June 30, 2014
<u>Asset Type</u>		
Domestic equity	7.30%	7.30%
International equity	8.55%	8.50%
Private equity	11.00%	
Real estate	8.25%	5.00%
Absolute return strategies	6.75%	
Opportunistic portfolio	8.60%	
Real assets	8.65%	
Bonds and mortgages	4.00%	
Cash	2.25%	
Inflation-indexed bonds	4.00%	
Alternative investments		11.00%
Domestic fixed income securities		1.50%
Global fixed income securities		1.40%
Mortgages		3.40%
Short-term		0.80%

Discount Rate

The discount rate used to calculate the total pension liability was 7.5% for ERS and 8% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% for ERS and 8.5% for TRS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5% for ERS and 7% for TRS ) or 1-percentage point higher (8.5% for ERS and 9% for TRS) than the current rate :

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NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

ERS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension asset(liability)	\$ (2,670,712)	\$ (400,681)	\$ 1,515,788

TRS	1% Decrease (7%)	Current Assumption (8%)	1% Increase (9%)
District's proportionate share of the net pension asset(liability)	\$ 253,434	\$ 11,748,594	\$ 21,544,068

Pension Plan Fiduciary Net Position

The components of the current-year net pension asset/(liability) of the employers as of the respective valuation dates, were as follows:

Valuation date	(Dollars in Thousands)	
	<u>ERS</u>	<u>TRS</u>
	April 1, 2014	June 30, 2013
Employers' total pension liability	\$ (164,591,504)	\$ (97,015,707)
Plan Fiduciary Net Position	<u>\$ 161,213,259</u>	<u>\$ 108,155,083</u>
Employers' net pension asset/(liability)	<u>\$ (3,378,245)</u>	<u>\$ 11,139,376</u>

Ratio of plan fiduciary net position to the Employers' total pension asset/(liability)	97.95%	111.48%
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Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31<sup>st</sup>. Accrued retirement contributions as of June 30, 2015 represent the projected employer contribution for the period of April 1, 2015 through June 30, 2015 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2015 amounted to \$147,766.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2015 are paid to the System in September, October and November 2015 through a state aid intercept. Accrued retirement contributions as of June 30, 2015 represent employee and

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

employer contributions for the fiscal year ended June 30, 2015 based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2015 amounted to \$2,855,168.

**Restatement of Net Position**

For the fiscal year ended June 30, 2015, the District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27*. The implementation of Statement No. 68 resulted in the reporting of an asset, deferred outflow of resources, liability and deferred inflow of resources related to the District's participation in the New York State Teachers' and Employees' retirement systems. The District's net position has been restated as follows:

Net position beginning of year, as previously stated	\$	158,068
GASB Statement No. 68 implementation		
Beginning System asset - Teachers' Retirement System		687,398
Beginning System liability - Employees' Retirement System		(535,965)
Beginning deferred outflow of resources for contributions subsequent to the measurement date		
Teachers' Retirement System		2,531,656
Employees' Retirement System		163,460
		163,460
Net position beginning of year, as restated	\$	3,004,617

**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 employees for the year ended June 30, 2015, totaled \$787,504. There were no non-elective contributions.

**NOTE 17 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS:**

**A) Plan description:**

The District primarily provides post employment health insurance coverage to retired employees and their spouses in accordance with the provisions of various employment contracts. Benefits are provided through the New York State Health Insurance Program Empire Plan, (The "Plan") which is a single-employer defined benefit healthcare plan.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The Plan does not issue a stand alone, publicly available report, since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

**B) Funding policy:**

The contribution requirements of Plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2014-15, the District contributed \$998,414 to the Plan. Plan members receiving benefits contributed 35% - 60% of the health insurance premium.

**C) Annual OPEB Cost and Net OPEB Obligation:**

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District net OPEB obligation to the Plan:

<b>Annual OPEB Cost and Net OPEB Obligation</b>	
Annual required contribution	\$5,033,867
Interest on net OPEB obligation	700,340
Adjustment to Annual Required Contribution	<u>(816,247)</u>
Annual OPEB cost (expense)	4,917,960
Contributions made	<u>998,414</u>
Increase in net OPEB obligation	3,919,546
Net OPEB obligation-beginning of year	<u>17,508,496</u>
Net OPEB obligation-end of year	<u><u>\$21,428,042</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2015 and the two preceding year is as follows:

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Fiscal Year Ending	Annual OPEB Cost	OPEB Contributions	of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/15	\$ 4,917,960	\$ 998,414	20.30%	\$ 21,428,042
6/30/14	\$ 4,849,500	\$ 677,642	13.97%	\$ 17,508,496
6/30/13	\$ 3,273,057	\$ 727,552	22.23%	\$ 13,336,638

**D) Funded Status and Funding Progress:**

As of July 1, 2013, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability for benefits was \$44,709,638, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$44,709,638. The covered payroll (annual payroll of active employees covered by the Plan) was \$18,896,411 and the ratio of the UAAL to the covered payroll was 236.60%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress following the notes to the financial statements provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**E) Actuarial Methods and Assumptions:**

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

In the July 1, 2013 actuarial valuation prepared by an outside actuarial firm, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 4% and an annual healthcare cost trend rate of 9.0% initially, decreased by increments to an ultimate rate of 5%. The UAAL is being amortized using the level dollar amortization method over an open period of 30 years remaining.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 18 – RISK MANAGEMENT:**

**A) General:**

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

**B) Consortiums and self insured plans:**

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 and the District has essentially transferred all related risk to the pool.

The District participates in the East End Workers' Compensation Plan, a risk-retained pool, to insure workers' compensation claims. This is a public entity risk pool created under Article 5 of the workers' compensation law, to finance liability and risks related to workers' compensation claims.

The District pays an annual assessment to the pool for its workers' compensation claims coverage and related expenses. The East End Workers' Compensation Plan has obtained an excess compensation insurance policy to buffer the effect that a single large claim may have on the District's loss experience. The East End Workers' Compensation Plan established a non-discounted liability for both reported and unreported insured events, which includes estimates of both future payments or losses and related claim adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claim that have been incurred but not reported.

The District's share of the total undiscounted liability for incurred but unpaid claims and incurred but not reported claims is \$145,268. Claims activity for the current and preceding year is as follows:

	<u>2015</u>	<u>2014</u>
Unpaid claims at beginning of fiscal year	\$ 310,514	\$ 389,048
Incurred claims and claim adjustment expenses	(86,817)	(13,796)
Claims payments	<u>(78,429)</u>	<u>(64,738)</u>
Unpaid claims at year end	<u>\$ 145,268</u>	<u>\$ 310,514</u>

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The Plan is holding \$203,442 of cash on account for the District to satisfy these liabilities at June 30, 2015.

**NOTE 19 – FUND BALANCES – ASSIGNED:**

**A) Assigned: Appropriated:**

The amount of \$500,000 has been designated as the amount estimated to be appropriated to reduce taxes for the fiscal year ending June 30, 2016 in the general fund.

**B) Assigned: Encumbered:**

All encumbrances are classified as assigned or restricted fund balance. At June 30, 2015, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance	
General Fund	
General Support	\$ 496,345
Instruction	52,618
Transportation	897
	<u>\$ 549,860</u>
Assigned and Restricted:	
Capital Projects	\$ 611,822
Capital Projects Fund	<u>\$ 611,822</u>

**NOTE 20 – 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:**

As of June 30, 2015 we are unaware of any pending or threatened litigation or unasserted claims or assessments against the District which require disclosure.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 21- SUBSEQUENT EVENTS:**

- A) On October 15, 2015 the District issued a tax anticipation note in the amount of \$11,000,000 maturing on June 21, 2016 with an interest rate of 1.40% with a premium of \$85,250 providing an overall effective net interest rate of 0.26585%.

**SUPPLEMENTARY INFORMATION**

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Final Budget Variance with Budgetary Actual</u>
<b>REVENUES</b>				
Local Sources				
Real property taxes	\$ 33,223,918	32,660,870	32,661,135	\$ 265
Other real property tax items	117,000	680,048	719,962	39,914
Charges for services	625,000	625,000	630,399	5,399
Use of money and property	26,000	26,000	20,968	(5,032)
Forfeitures				-
Sale of property and compensation for loss			17,925	17,925
Miscellaneous	95,000	113,143	137,398	24,255
State Sources				
Basic formula	599,242	599,242	582,578	(16,664)
Excess cost aid	834,258	834,258	771,312	(62,946)
VTL lottery aid	35,944	35,944	35,944	-
Commercial gaming			6,075	6,075
BOCES aid	82,120	82,120	106,035	23,915
Textbook aid	63,000	63,000	64,250	1,250
Computer software aid	16,000	16,000	15,520	(480)
Library A/V loan program aid	7,021	7,021	6,475	(546)
Other state aid	-	-	30,000	30,000
<b>TOTAL REVENUE &amp; OTHER SOURCES</b>	<b>35,724,503</b>	<b>35,742,646</b>	<b>\$ 35,805,976</b>	<b>\$ 63,330</b>
Appropriated fund balance	500,000	520,127		
Appropriated reserves	823,449	823,449		
<b>TOTAL REVENUES, OTHER SOURCES &amp; APPROPRIATED FUND BALANCE</b>	<b>\$ 37,047,952</b>	<b>\$ 37,086,222</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.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Year-End Encumbrances</u>	<u>Final Budget Variance with Budgetary Actual and Encumbrances</u>
<b>EXPENDITURES</b>					
General Support					
Board of education	\$ 42,662	\$ 41,352	\$ 31,901	\$ 61	\$ 9,390
Central administration	326,542	326,542	314,653		11,889
Finance	618,812	612,161	535,822	41,166	35,173
Staff	237,600	259,668	160,859		98,809
Central services	2,701,154	3,315,940	2,614,827	455,118	245,995
Special items	313,424	313,720	295,086		18,634
Instruction					
Instruction, administration & improvement	1,405,375	1,231,190	1,174,224	324	56,642
Teaching regular school	11,566,331	11,370,979	11,107,806	5,390	257,783
Special education programs	4,084,764	3,920,348	3,435,284	37,647	447,417
Occupational education	240,000	143,028	139,362		3,666
Teaching-special schools	15,500	15,000	12,900		2,100
Instructional media	894,696	926,671	912,453	7,214	7,004
Pupil services	2,236,018	2,252,490	2,172,768	2,043	77,679
Pupil transportation	750,932	750,932	618,515	897	131,520
Community services	185,540	179,540	162,785		16,755
Employee benefits	9,487,382	9,459,868	8,646,287		813,581
Debt service					
Interest	135,000	135,000	83,708		51,292
Other Uses					
Interfund transfers	1,806,220	1,831,793	1,831,793		-
<b>TOTAL EXPENDITURES &amp; OTHER USES</b>	<u>\$ 37,047,952</u>	<u>\$ 37,086,222</u>	<u>\$ 34,251,033</u>	<u>\$ 549,860</u>	<u>\$ 2,285,329</u>
<b>NET CHANGE IN FUND BALANCE</b>			1,554,943		
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<u>7,973,552</u>		
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 9,528,495</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.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
JUNE 30, 2015**

Valuation Date	Actuarial		Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
Date	Value of Assets	Accrued Liability	Liability	Ratio	Payroll	Payroll
July 1, 2013	\$0	\$ 44,709,638	\$ 44,709,638	\$0	\$ 18,896,411	236.60%
July 1, 2012	\$0	\$ 32,863,790	\$ 32,863,790	\$0	\$ 17,931,150	183.28%
July 1, 2011	\$0	\$ 31,582,865	\$ 31,582,865	\$0	\$ 17,138,327	184.28%

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)  
FOR THE FISCAL YEARS ENDED JUNE 30, \***

**NYSERS Pension Plan**

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.0118606%	0.0118606%
District's proportionate share of the net pension liability (asset)	\$400,681	\$535,965
District's covered payroll	\$3,113,330	\$3,068,180
District's proportionate share of the net pension liability (asset) as a percentage of its covered -employee payroll	12.87%	17.47%
Plan fiduciary net position as a percentage of the total pension liability (asset)	97.95%	97.20%

**NYSTRS Pension Plan**

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.105469%	0.104428%
District's proportionate share of the net pension liability (asset)	(\$11,748,594)	(\$687,398)
District's covered payroll	\$16,357,538	\$15,868,467
District's proportionate share of the net pension liability (asset) as a percentage of its covered -employee payroll	71.82%	4.33%
Plan fiduciary net position as a percentage of the total pension liability (asset)	111.48%	100.70%

\* The amounts presented for each fiscal year were determined as of the measurement date of the plans.

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
FOR THE FISCAL YEARS ENDED JUNE 30,**

	<b>NYSERS Pension Plan</b>									
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractual required contribution	\$ 559,364	\$ 531,283	\$ 589,736	\$ 403,203	\$ 304,134	\$ 172,678	\$ 153,747	\$ 172,297	\$ 157,169	\$ 156,869
Contribution in relation to the contractually required contribution	559,364	531,283	589,736	403,203	304,134	172,678	153,747	172,297	157,169	156,869
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 3,134,398	\$ 3,082,998	\$ 2,866,278	\$ 2,856,020	\$ 2,688,778	\$ 2,161,798	\$ 1,979,218	\$ 1,983,592	\$ 1,763,862	\$ 1,657,489
Contributions as a percentage of covered employees payroll	17.85%	17.23%	20.57%	14.12%	11.31%	7.99%	7.77%	8.69%	8.91%	9.46%
<b>NYSTRS Pension Plan</b>										
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractual required contribution	\$ 2,731,973	\$ 2,531,656	\$ 1,811,091	\$ 1,613,505	\$ 1,290,851	\$ 837,586	\$ 1,015,844	\$ 1,098,110	\$ 991,495	\$ 821,908
Contribution in relation to the contractually required contribution	2,731,973	2,531,656	1,811,091	1,613,505	1,290,851	837,586	1,015,844	1,098,110	991,495	821,908
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 16,030,196	\$ 16,357,538	\$ 15,868,467	\$ 14,847,007	\$ 15,173,352	\$ 13,937,132	\$ 13,637,402	\$ 12,916,467	\$ 11,838,478	\$ 10,821,318
Contributions as a percentage of covered employees payroll	17.04%	15.48%	11.41%	10.87%	8.51%	6.01%	7.45%	8.50%	8.38%	7.60%

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET  
AND SECTION 1318 OF REAL PROPERTY TAX LAX LIMIT CALCULATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

Adopted budget		\$ 36,869,503
Add: Encumbrances from prior year		178,449
Original budget		37,047,952
Budget Revisions:		
Donations	\$ 18,143	
Transfer to capital	20,127	38,270
Final budget		\$ 37,086,222

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

2015-16 voter approved expenditure budget		\$ 37,552,566
Maximum allowed (4% of 2015-2016 budget)		\$ 1,502,103
General fund fund balance subject to Section 1318 of Real Property Tax Law		
Assigned fund balance	\$ 1,049,860	
Unassigned fund balance	1,502,104	
Total unrestricted fund balance	2,551,964	
Less:		
Appropriated fund balance	\$ 500,000	
Encumbrances included in assigned fund balance	549,860	
Total adjustments	1,049,860	
General fund fund balance subject to Section 1318 of Real Property Tax Law		\$ 1,502,104
Actual percentage		4.00%

**SAG HARBOR UNION FREE SCHOOL DISTRICT**  
**SUPPLEMENTARY INFORMATION**  
**SUMMARY STATEMENT OF CAPITAL PROJECT EXPENDITURES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>EXPENDITURES AND OBLIGATIONS TO DATE</u>						<u>METHODS OF FINANCING</u>				<u>FUND BALANCE JUNE 30, 2015</u>
	<u>ORIGINAL APPROPRIATION</u>	<u>REVISED APPROPRIATION</u>	<u>EXPENDITURES PRIOR YEARS</u>	<u>EXPENDITURES CURRENT YEAR</u>	<u>TOTAL EXPENDITURES</u>	<u>UNEXPENDED BALANCE</u>	<u>PROCEEDS OF OBLIGATIONS</u>	<u>STATE AID</u>	<u>LOCAL SOURCES</u>	<u>TOTAL</u>	
2007-2008											
High School Roof	\$ 375,500	\$ 375,500	\$ 375,500	\$ -	\$ 375,500	\$ -			\$ 375,500	\$ 375,500	\$ -
Elementary Gym Floor	202,000	220,881	220,881		220,881	-			220,881	220,881	-
2008-2009											
Electrical connection box	50,000	50,000	48,683		48,683	1,317			50,000	50,000	1,317
EXCEL Funding	298,548	299,950	299,950		299,950	-	\$ 298,704		1,246	299,950	-
2009-2010											
Buses	383,007	383,007	380,296		380,296	2,711	\$ 383,007			383,007	2,711
Heating and air conditioning	125,862	125,862	125,862		125,862	-			125,862	125,862	-
2011-2012											
Elementary playground	170,000	170,000	170,000		170,000	-			170,000	170,000	-
Energy conservation	381,872	381,872	324,807	46,192	370,999	10,873			381,872	381,872	10,873
Safety projects	98,128	98,128	9,598	47,194	56,792	41,336			98,128	98,128	41,336
2012-2013											
Buses	575,000	575,000	473,810	48,949	522,759	52,241			575,000	575,000	52,241
Energy management	500,000	500,000	181,202	183,681	364,883	135,117			500,000	500,000	135,117
2014-2015											
ES Gym/HVAC/Security	317,000	317,000			-	317,000			317,000	317,000	317,000
ES Roof/HIS Gym/HIS Bleachers	1,113,600	1,113,600	40,682	743,791	784,473	329,127			1,113,600	1,113,600	329,127
2013-2014											
HIS bond project	5,997,924	5,997,924	27,185	276,944	304,129	5,693,795				-	(304,129) *
ES bond project	1,359,210	1,359,210	6,200	68,359	74,559	1,284,651				-	(74,559) *
Turf field project	1,620,000	1,620,000	7,341	1,582	8,923	1,611,077				-	(8,923) *
<b>TOTALS</b>	<b>\$ 13,567,651</b>	<b>\$ 13,587,934</b>	<b>\$ 2,691,997</b>	<b>\$ 1,416,692</b>	<b>\$ 4,108,689</b>	<b>\$ 9,479,245</b>	<b>\$ 383,007</b>	<b>\$ 298,704</b>	<b>\$ 3,929,089</b>	<b>\$ 4,610,800</b>	<b>\$ 502,111</b>

\*Negative balances will be eliminated when permanent funding on bond projects is obtained

**SAG HARBOR UNION FREE SCHOOL DISTRICT  
SUPPLEMENTARY INFORMATION  
NET INVESTMENT IN CAPITAL ASSETS  
JUNE 30, 2015**

Capital assets, net		\$ 17,596,145
Add:		
Loss on defeasance	76,780	
Unspent bond proceeds	<u>2,711</u>	79,491
Deduct:		
Gain on defeasance	251,742	
Short-term portion of bonds payable	1,155,000	
Long-term portion of bonds payable	5,715,000	
Ban Payable	<u>1,900,000</u>	<u>9,021,742</u>
Net investment in capital assets		<u>\$ 8,653,894</u>



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

To the Board of Education  
Sag Harbor Union Free School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the fiduciary funds of Sag Harbor Union Free School District, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Sag Harbor Union Free School District's basic financial statements, and have issued our report thereon dated October 15, 2015.

**Internal Control Over Financial Reporting**

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

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

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

### **Purpose of this Report**

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

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

R.S. Abrams & Co., LLP

Islandia, NY

October 15, 2015