

**PATCHOGUE-MEDFORD
UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT

TABLE OF CONTENTS

I. INDEPENDENT AUDITOR'S REPORT, MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL STATEMENTS

Independent Auditor's Report

| Exhibit Number | | Page |
|---------------------------|------------------------------------------------------------------------------------------------------------------------|-------------|
| 1 | Management's Discussion and Analysis (Required Supplementary Information) (MD&A) | 1 - 15 |
| 2 | Statement of Net Position | 16 |
| 3 | Statement of Activities | 17 |
| 4 | Balance Sheet – Governmental Funds | 18 |
| 5 | Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position | 19 |
| 6 | Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 20 |
| 7 | Reconciliation of Governmental Fund Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities | 21 |
| 8 | Statement of Fiduciary Net Position – Fiduciary Funds | 22 |
| 9 | Statement of Changes in Fiduciary Net Position – Fiduciary Funds | 23 |
| 10 | Notes to Financial Statements | 24- 58 |

II. REQUIRED SUPPLEMENTARY INFORMATION

| | | |
|-----|---------------------------------------------------------------------------------------------------|---------|
| SS1 | Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund | 59 - 60 |
| SS2 | Schedule of Funding Progress for Other Post-Employment Benefits | 61 |
| SS3 | Schedule of District's Proportionate Share of the Net Pension Liability | 62 |
| SS4 | Schedule of District's Contributions | 63 |

III. OTHER SUPPLEMENTARY INFORMATION

| | | |
|-----|---------------------------------------------------------------------------------------------------------------------------------------|----|
| SS5 | Schedule of Change from Adopted Budget to Final Budget – General Fund and and Section 1318 of Real Property Tax Law Limit Calculation | 64 |
| SS6 | Schedule of Project Expenditures - Capital Projects Fund | 65 |
| SS7 | Net Investment in Capital Assets | 66 |

IV. 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*

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Patchogue-Medford Union Free School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Patchogue-Medford Union Free School District as of and for the fiscal year ended June 30, 2017, 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 the Patchogue-Medford Union Free School District as of June 30, 2017, 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.

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 15 and 59 through 63 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Patchogue-Medford 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 basic financial statements.

The other supplementary financial 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 other supplementary financial information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017, on our consideration of the Patchogue-Medford 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 the Patchogue-Medford Union Free School District's internal control over financial reporting and compliance.

R. S. Abrams & Co., LLP

R.S. Abrams & Co., LLP

Islandia, NY

October 2, 2017

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The following is a discussion and analysis of the Patchogue-Medford Union Free School District's (the "District") financial performance for the fiscal year ended June 30, 2017. 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

Key financial highlights for fiscal year 2017 are as follows:

- The District eliminated the reliance on appropriated fund balance when developing the budget for 2017/2018. The 2017/2018 budget is the first balanced budget in over ten years.
- The District made the final payment for the deficit financing bonds. The bonds were issued on April 1, 2007 for \$6,000,000 and the final principal and interest payments were made on April 1, 2017.
- Property taxes and other tax items and state sources accounted for 92.06% of the 2016/2017 district-wide revenues 55.80% and 36.26% respectively. In 2015/2016, property taxes and other tax items and state sources represented approximately 92.91% of district-wide revenues 57.34% and 35.57% respectively.
- During June, July and August of 2017, the District recoated the roofs at the Eagle Elementary School, Saxton Middle School, Barton Elementary School, Tremont Elementary School, Medford Elementary School, Bay Elementary School and Canaan Elementary School. The District will be replacing the South Windows at the Medford Elementary School in the fall of 2017. The original estimate for these projects was \$5,000,000. The final cost of the projects was nearly three million dollars less than anticipated. In May 2017, the District placed a proposition on the ballot to approve additional capital projects with the funds remaining in the reserve of approximately \$3,000,000. The voters approved the proposition. The additional projects that are expected to be completed in summer 2018 include recoating the roofs at River Elementary School and the High School, renovating the tennis courts at the High School, and replacing the boys and girls lockers in the locker rooms at Saxton Middle School and South Ocean Middle School.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

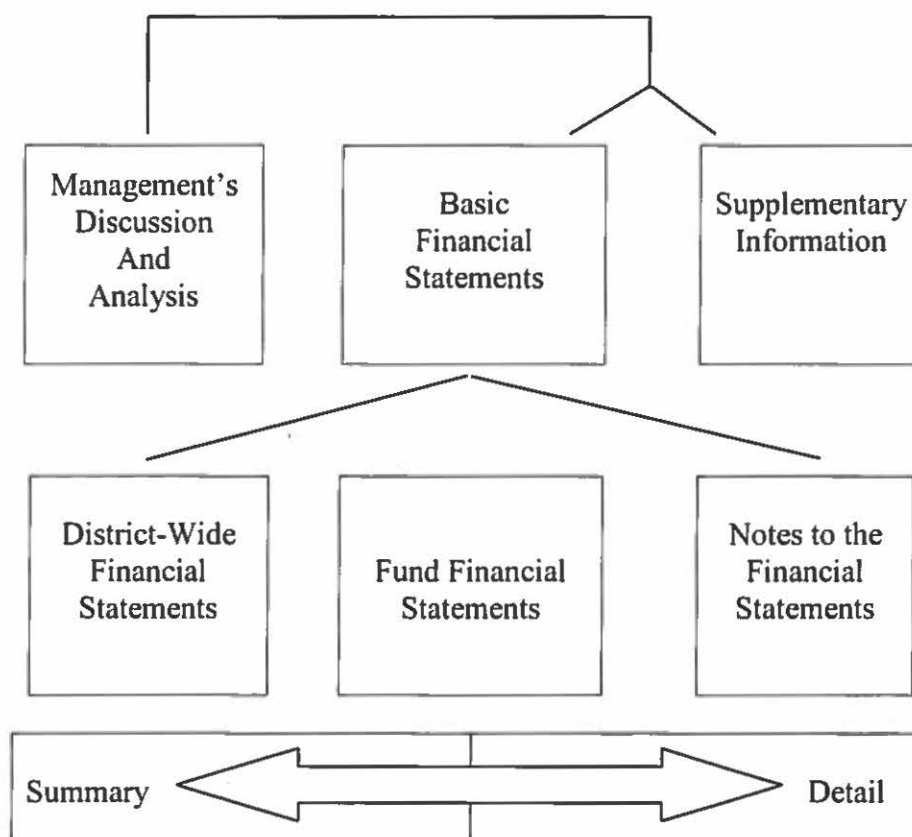
This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

- 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 Financial 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.

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



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 Financial 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"> • Statement of Net Position • Statement of Activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance | <ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position |
| Accounting basis and measurement focus | Accrual accounting and economic resources 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 or 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 liabilities 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 |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

A) District-Wide Financial Statements:

The District-Wide Financial 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 inflows 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 Financial Statements report the District's net position and how it has changed. Net Position, the difference between the assets and deferred outflows of resources, and 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 Financial 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* is that 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; and
 - *Unrestricted net position* is net position that does not meet any of the above restrictions.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 Financial Statements, additional schedules explain 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 projects fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- *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 position and changes in net position, and is developed using the economic resources measurement focus and the accrual basis of accounting.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A) Net Position:

The District's net position decreased by \$60,819 in the fiscal year ended June 30, 2017 as detailed in Table A-3.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

| | Fiscal Year 2017 | Fiscal Year 2016 | Increase (Decrease) | Total Percentage Change |
|----------------------------------------------------------------|-----------------------|-----------------------|------------------------|-------------------------------|
| Current assets and other assets | \$ 44,222,102 | \$ 44,199,052 | \$ 23,050 | 0.05% |
| Capital assets, net | 122,694,198 | 126,952,538 | (4,258,340) | (3.35%) |
| Net pension asset, proportionate share | - | 44,587,735 | (44,587,735) | (100.00%) |
| Total Assets | 166,916,300 | 215,739,325 | (48,823,025) | (22.63%) |
| Deferred outflows of resources | 48,230,522 | 16,171,506 | 32,059,016 | 198.24% |
| Total Assets and Deferred Outflows of Resources | \$ 215,146,822 | \$ 231,910,831 | \$ (16,764,009) | (7.23%) |
| Other liabilities | \$ 17,166,942 | \$ 18,830,085 | \$ (1,663,143) | (8.83%) |
| Long-term liabilities | 163,052,762 | 163,737,438 | (684,676) | (0.42%) |
| Total Liabilities | 180,219,704 | 182,567,523 | (2,347,819) | (1.29%) |
| Deferred inflows of resources | 5,109,946 | 19,465,317 | (14,355,371) | (73.75%) |
| Total liabilities and deferred inflows of resources | 185,329,650 | 202,032,840 | (16,703,190) | (8.27%) |
| Net Position | | | | |
| Net investment in capital assets | 20,165,595 | 16,701,943 | 3,463,652 | 20.74% |
| Restricted | 19,631,669 | 15,663,412 | 3,968,257 | 25.33% |
| Unrestricted (deficit) | (9,980,092) | (2,487,364) | (7,492,728) | 301.23% |
| Total net position | 29,817,172 | 29,877,991 | (60,819) | (0.20%) |
| Total Liabilities and Net Position | \$ 215,146,822 | \$ 231,910,831 | \$ (16,764,009) | (7.23%) |

Current assets and other assets increased \$23,050 from the prior year primarily due to an increase in cash and due from other governments offset by decreases in state and federal aid receivable and accounts receivable. Capital assets (net of depreciation) decreased by \$4,258,340. This was primarily attributable to current year depreciation expense offset by the purchase of a bus, other equipment items, and building improvements. Net pension asset, proportionate share decreased by \$44,587,735 as a result of the actuarial valuation provided by the state and is currently a net pension liability of \$4,536,556. Other liabilities decreased by \$1,663,143. This was primarily attributable to a decrease in the amount due to teachers' retirement system, as well as a decrease in accrued liabilities. Long-term liabilities decreased by \$684,676 primarily due to principal payments on long term debt offset by an increase in net other post-employment benefits obligation. The changes in deferred inflows and outflows represent amortization of pension related items as described in Note 1 and amortization on the gain and loss on defeasance.

The net investment in capital assets, relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, and machinery & equipment, net of depreciation and related debt. This number increased from the prior year by \$3,968,257 primarily due to the reduction in the principal balance of related debt and District Wide capital improvements, net of current year depreciation expense.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The restricted net position in the amount of \$19,631,669 is comprised of amounts with constraints placed on the use externally imposed by creditors, grantors and contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions of enabling legislation. See page 12 of this MD&A and Note 1 to Financial Statements for further descriptions and detailed balances.

The unrestricted net position deficit of \$9,980,092 relates to the balance of the District's net position. The unrestricted net position deficit increased by \$7,492,728 from the prior year and represents the amount by which the District's liabilities excluding debt related to capital construction and its deferred inflows of resources exceeded assets other than capital assets and its deferred outflows of resources.

Overall, the net position decreased by \$60,819.

B) Changes in Net Position:

The results of operations as a whole are reported in the Statement of Activities and Changes in Net Position-Governmental Activities. A summary of this statement for the years ended June 30, 2017 and 2016 is as follows:

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

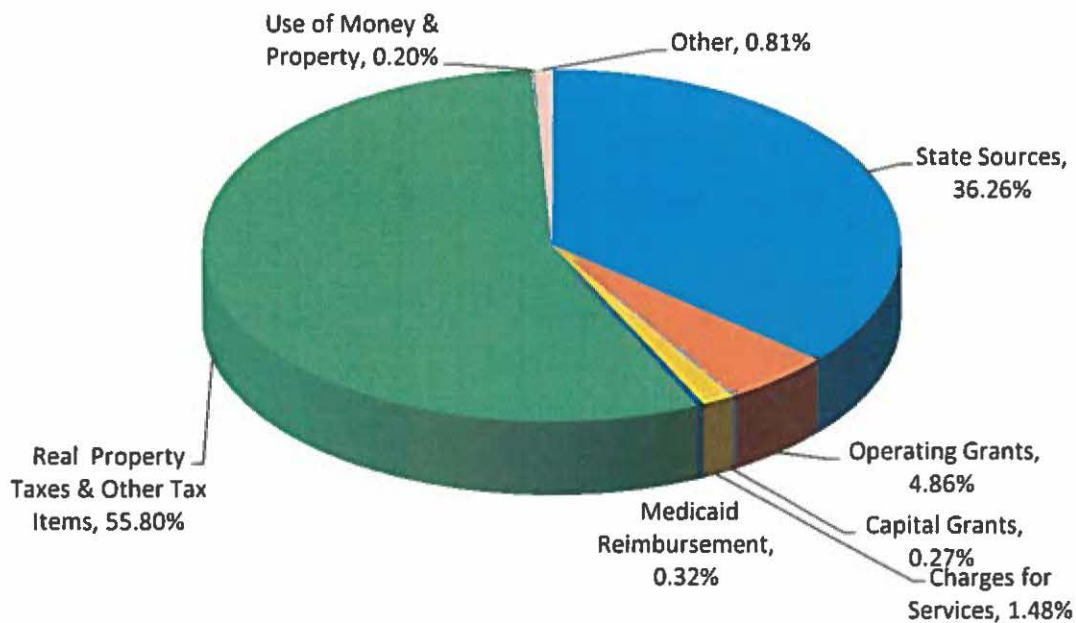
| | Fiscal Year 2017 | Fiscal Year 2016 | Increase (Decrease) | Total Percentage Change |
|--------------------------------------------|---------------------|---------------------|------------------------|-------------------------------|
| Revenues | | | | |
| Program Revenues | | | | |
| Charges for services | \$2,781,602 | \$2,809,826 | (\$28,224) | (1.00%) |
| Operating grants | 9,155,198 | 7,659,581 | 1,495,617 | 19.53% |
| Capital grants | 515,512 | - | 515,512 | N/A |
| General Revenues | | | | |
| Property taxes and other tax items | 105,144,769 | 103,010,741 | 2,134,028 | 2.07% |
| State sources | 68,318,802 | 63,905,737 | 4,413,065 | 6.91% |
| Medicaid reimbursement | 596,144 | 308,594 | 287,550 | 93.18% |
| Use of money & property | 380,016 | 391,856 | (11,840) | (3.02%) |
| Other | 1,535,021 | 1,560,748 | (25,727) | (1.65%) |
| Total Revenues | <u>188,427,064</u> | <u>179,647,083</u> | <u>8,779,981</u> | <u>4.89%</u> |
| Expenses | | | | |
| General support | 24,080,969 | 20,785,098 | 3,295,871 | 15.86% |
| Instruction | 147,712,788 | 128,572,055 | 19,140,733 | 14.89% |
| Pupil transportation | 8,867,635 | 8,828,717 | 38,918 | 0.44% |
| Community services | 1,264,148 | 1,184,150 | 79,998 | 6.76% |
| Debt service - interest | 3,509,844 | 3,663,640 | (153,796) | (4.20%) |
| Food service program | 3,052,499 | 2,982,596 | 69,903 | 2.34% |
| Total Expenses | <u>188,487,883</u> | <u>166,016,256</u> | <u>22,471,627</u> | <u>13.54%</u> |
| Increase (Decrease) in Net Position | <u>(\$60,819)</u> | <u>\$13,630,827</u> | <u>(\$13,691,646)</u> | <u>(100.45%)</u> |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The District's fiscal year 2017 revenues totaled \$188,427,064 (See Table A-4). Property taxes and other tax items, and state sources accounted for most of the District's revenue by contributing 55.80% and 36.26%, respectively of total revenue (See Table A-5). The remainder resulted from fees charged for services, operating grants, capital grants, use of money and property, and other miscellaneous sources.

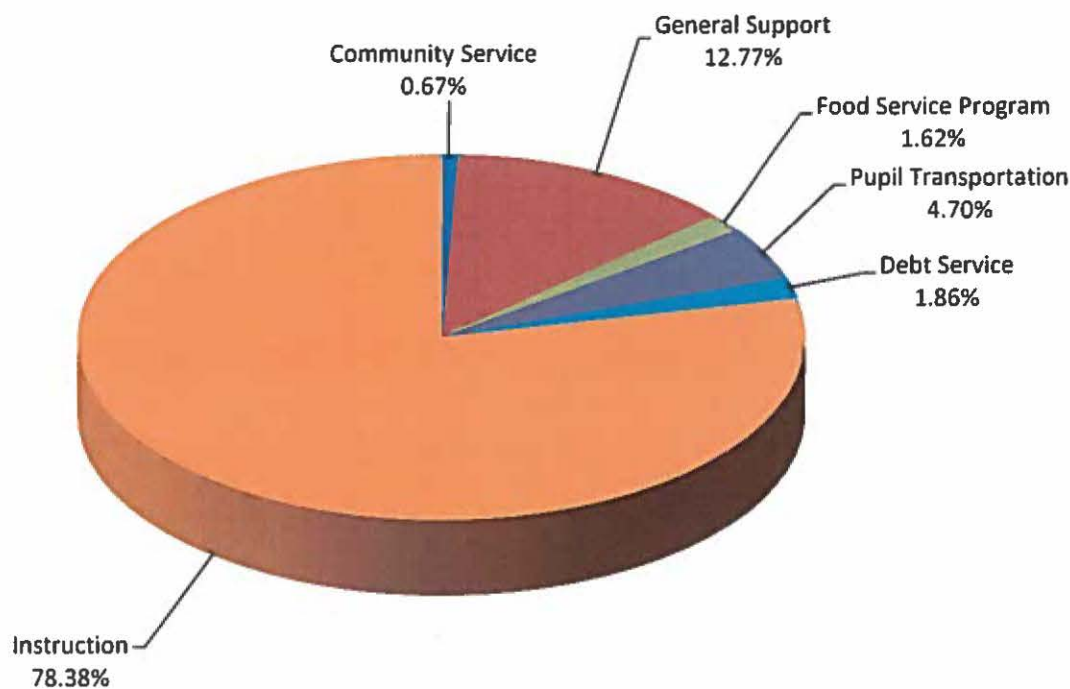
The cost of all programs and services totaled \$188,487,883 for fiscal year 2017. These expenses are predominantly related to general instruction and transporting students, which account for 83.08% of district expenses (See Table A-6). The District's general support activities accounted for 12.77% of total costs.

Table A-5: Revenues for Fiscal Year 2017 (See Table A-4)



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Table A-6: Expenses for Fiscal Year 2017 (See Tables A-4 and A-7)



Governmental Activities:

Revenues for the District's governmental activities totaled \$188,427,064 while total expenses equaled \$188,487,883. Actual expenditures exceeded actual revenues by \$60,819. The overall financial strength of the District can be attributed to:

- Sustained and collaborative leadership of the District's Board and administration;
- Careful monitoring of the District's spending;
- Consolidating BOCES services, where necessary;
- Careful analysis of pupil transportation routes;
- Reduced reliance on fund balance appropriations; and
- Conservative and forward-looking multi-year financial planning.

Table A-7 presents the cost of major District activities: general support, instruction, pupil transportation, debt service and others. 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.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Table A-7: Net Cost of Governmental Activities

| Category | Total Cost of Services | | Net Cost of Services | |
|-------------------------|---------------------------|----------------------|-------------------------|----------------------|
| | Fiscal Year 2017 | Fiscal Year 2016 | Fiscal Year 2017 | Fiscal Year 2016 |
| General support | \$24,080,969 | \$20,785,098 | \$24,080,969 | \$20,785,098 |
| Instruction | 147,712,788 | 128,572,055 | 138,635,765 | 121,444,101 |
| Pupil transportation | 8,867,635 | 8,828,717 | 8,568,625 | 8,534,191 |
| Community service | 1,264,148 | 1,184,150 | 1,264,148 | 1,184,150 |
| Debt service - interest | 3,509,844 | 3,663,640 | 3,509,844 | 3,663,640 |
| Food service program | 3,052,499 | 2,982,596 | (23,780) | (64,331) |
| Total | <u>\$188,487,883</u> | <u>\$166,016,256</u> | <u>\$176,035,571</u> | <u>\$155,546,849</u> |

- The cost of all governmental activities this year was \$188,487,883. (Statement of Activities, Expenses column-see Exhibit 3)
- The users of the District's programs financed \$2,781,602 of the cost. (Statement of Activities, Charges For Services column-see Exhibit 3)
- The federal and state governments subsidized certain programs with grants of \$9,670,710. (Statement of Activities, Operating Grants and Capital Grants – see Exhibit 3)
- Most of the District's net costs of \$176,035,571 were financed by District taxpayers and state and federal aid. (Statements of Activities, Net (Expense) Revenue and Changes in Net Position column-see Exhibit 3)
- The increase in total cost of services for instruction is due to the recognition of the districts proportionate share of pension liabilities for the Teachers Retirement System.

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, 2017, the District's combined governmental funds reported a total fund balance of \$28,211,386, which is an increase of \$1,602,034 from the prior year. The increase is primarily due to an increase in the capital projects fund total fund balance of \$4,924,247 net of a decrease in the general

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

fund total fund balance of \$3,466,476. The decrease in the general fund and increase in the capital fund can be attributed to the \$5,000,000 transfer from the capital reserve in the general fund to the capital projects fund which was authorized by the voters of the District.

A summary of the changes in fund balance for all funds is as follows:

| | 2017 | 2016 | Increase (Decrease) | Total Percentage Change |
|-----------------------------------------------|---------------------|---------------------|------------------------|-------------------------------|
| General Fund | | | | |
| Restricted | | | | |
| Employee benefit accrued liability | \$8,804,827 | \$6,286,986 | \$2,517,841 | 40.05% |
| Capital reserve 2015 | - | 5,000,000 | (5,000,000) | (100.00%) |
| Retirement contribution | 4,713,813 | 3,164,106 | 1,549,707 | 48.98% |
| Unemployment insurance | 132,877 | 132,501 | 376 | 0.28% |
| Insurance | 202,882 | 202,308 | 574 | 0.28% |
| Workers' compensation | 875,927 | 873,448 | 2,479 | 0.28% |
| Assigned | | | | |
| Designated for subsequent year's expenditures | - | 2,055,179 | (2,055,179) | (100.00%) |
| General support | 453,037 | 973,691 | (520,654) | (53.47%) |
| Instruction | 116,393 | 303,152 | (186,759) | (61.61%) |
| Pupil transportation | 4,000 | 1,325 | 2,675 | 201.89% |
| Community services | - | 175 | (175) | (100.00%) |
| Unassigned | 7,299,045 | 7,076,406 | 222,639 | 3.15% |
| Total Fund Balance- General Fund | <u>\$22,602,801</u> | <u>\$26,069,277</u> | <u>(\$3,466,476)</u> | <u>(13.30%)</u> |
| School Lunch Fund | | | | |
| Nonspendable: inventory | \$80,224 | \$66,275 | \$13,949 | 21.05% |
| Assigned | 426,104 | 336,238 | 89,866 | 26.73% |
| Total Fund Balance- School Lunch Fund | <u>\$506,328</u> | <u>\$402,513</u> | <u>\$103,815</u> | <u>25.79%</u> |
| Debt Service Fund | | | | |
| Restricted | <u>\$44,511</u> | <u>\$4,063</u> | <u>\$40,448</u> | <u>995.52%</u> |
| Total Fund Balance- Debt Service Fund | <u>\$44,511</u> | <u>\$4,063</u> | <u>\$40,448</u> | <u>995.52%</u> |
| Capital Projects Fund | | | | |
| Restricted | \$4,856,832 | \$91,017 | \$4,765,815 | 5236.18% |
| Assigned | 200,914 | 42,482 | 158,432 | 372.94% |
| Total Fund Balance - Capital Projects Fund | <u>\$5,057,746</u> | <u>\$133,499</u> | <u>\$4,924,247</u> | <u>3688.60%</u> |
| Total Fund Balances - All Funds | <u>\$28,211,386</u> | <u>\$26,609,352</u> | <u>\$1,602,034</u> | <u>6.02%</u> |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Changes to fund balances can be attributed to the following:

The decrease in restricted fund balance in the general fund is primarily due to the transfer from the capital reserve in the general fund to the capital projects fund which was authorized by the voters of the District for \$5,000,000. The decrease was offset by increases in the employee benefits accrued liability and retirement contribution reserves, offset by the planned use of reserve balances during the budgeting process. The changes in the assigned fund balance are attributable to a planned elimination of the appropriated fund balance as well as decreases in the amount of encumbrances as of June 30, 2017. The increase in unassigned fund balance is primarily due to operating results for the 2016/2017 fiscal year.

The increase in the school lunch fund balance is due to an operating surplus and a transfer from the general fund.

The increase in the restricted fund balance in the debt service fund is attributable to interest earnings plus a transfer from the general fund and a transfer of unspent bond proceeds related to the EXCEL phase II projects from the capital projects fund offset by debt service payments.

The increase in the total fund balance in the capital projects fund is attributable to the transfer from the capital reserve in the general fund to the capital fund which was authorized by the voters of the District for \$5,000,000.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A) 2016-2017 Budget:

The District's general fund original budget for the year ended June 30, 2017 was \$177,333,831. This amount was increased by encumbrances carried forward from the prior year in the amount of \$1,278,343. The budget was also increased \$5,020,000 for revisions to the budget for the appropriation of the 2015 capital reserve of \$5,000,000 and a special legislative grant of \$20,000, which resulted in a final budget of \$183,632,174. The majority of the funding was from property taxes and STAR revenue in the amount of \$105,131,048, and state aid in the amount of \$66,157,205.

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 from transfers to reserves and assignments to fund prior 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:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | |
|--------------------------------------------|--------------------|
| Opening, unassigned fund balance | \$7,076,406 |
| Revenues over budget | 2,763,477 |
| Expenditures and encumbrances under budget | 1,838,602 |
| Funding to Reserves | (4,350,000) |
| Interest allocated to Reseves | <u>(29,440)</u> |
| Closing, unassigned fund balance | <u>\$7,299,045</u> |

The opening unassigned fund balance of \$7,076,406 is the June 30, 2016 unassigned fund balance.

The revenues over budget in the amount of \$2,763,477 were primarily due to state sources, Medicaid reimbursement and miscellaneous revenues.

The expenditures and encumbrances under budget in the amount of \$1,838,602 were primarily attributable to the following expenditures: central services, teaching regular school, programs for children with handicapping conditions, and pupil transportation (see Supplemental Schedule #1 for detail).

The District transferred \$2,500,000 to the employee benefit accrued liability reserve to use for future employee benefits expenditures and \$1,850,000 to the retirement contribution reserve to use for future retirement expenditures. The District also appropriated \$308,463 from the retirement contribution reserve and utilized \$308,463 for retirement expenditures.

Interest of \$29,440 was also allocated to the reserves as follows: \$17,841 to the employee benefit accrued liability reserve, \$8,170 to the retirement contribution reserve, \$376 to the unemployment reserve, \$574 to the insurance reserve and \$2,479 to the workers' compensation reserve.

The closing, unassigned fund balance represents the fund balance retained by the District that is not restricted or assigned for subsequent year's taxes. This amount is limited to 4% of the 2017/2018 budget.

The change in fund balance is discussed further in Management Discussion and Analysis Section 4, Financial Analysis of the District's Funds.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A) Capital Assets:

The District paid for equipment and various building additions and renovations during fiscal year 2017. A summary of the District's capital assets, net of depreciation is as follows:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

| Category | Fiscal Year 2017 | Fiscal Year 2016 | Percentage Change |
|-----------------------------------|---------------------|---------------------|----------------------|
| Land | \$2,827,925 | \$2,827,925 | 0.00% |
| Land improvements | 5,861,888 | 5,861,888 | 0.00% |
| Construction in progress | 143,168 | 10,520,264 | (98.64%) |
| Buildings & building improvements | 184,214,040 | 173,594,159 | 6.12% |
| Furniture & equipment | 3,808,594 | 3,401,923 | 11.95% |
| Subtotal | 196,855,615 | 196,206,159 | 0.33% |
| Less: Accumulated depreciation | 74,161,417 | 69,253,621 | 7.09% |
| Total Net Capital Assets | \$122,694,198 | \$126,952,538 | (3.35%) |

The increase in capital assets before depreciation is mainly attributable to amounts spent on the purchase of a bus and other equipment in the general fund, along with the building improvements related to the Energy Performance Projects.

B) Long-Term Obligation

At June 30, 2017 the District had total long term debt payable of \$99,928,523. The debt was issued for District-wide projects and deficit financing. The decrease in outstanding debt represents principal payments made during the fiscal year. A summary of outstanding debt at June 30, 2017 and 2016 is as follows:

| | 2017 | 2016 | Increase (Decrease) |
|-----------------------------------|--------------|---------------|------------------------|
| Construction serial bonds payable | \$90,405,000 | \$97,330,000 | (\$6,925,000) |
| Energy performance debt | 9,523,523 | 10,136,693 | (613,170) |
| Deficit financing bonds payable | - | 720,000 | (720,000) |
| Total | \$99,928,523 | \$108,186,693 | (\$8,258,170) |

Refer to Footnote 12 for further detail on long-term obligation disclosures.

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

- A) The District issued \$32,500,000 in tax anticipation notes on September 28, 2017, with a stated interest rate of 2.00% maturing on June 22, 2018. In addition, the District received a premium of \$226,853 on the note, which resulted in a net interest rate of 1.0482%.
- B) The general fund budget for the 2017/2018 fiscal year was approved by the voters on May 16, 2017 in the amount of \$183,951,068. This is an increase of \$6,617,237 or 3.73% over

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

the previous year's budget. The increase was primarily due to increases in personnel costs and employee benefits.

- C) The 2017/2018 fiscal year budget includes an interfund transfer to the capital projects fund of over \$1.1 million dollars to address ADA compliance District-Wide.
- D) Included in the 2017-2018 budget are funds totaling more than \$323,000 that are specifically earmarked for the development of a community schools plan. Patchogue-Medford intends to use the State Aid allocation on a collaboration with Family Service League. Family Service League is a social empowerment organization that provides physical and emotional support services to Long Island residents. Through the partnership, a series of support services will be provided for students and parents, which will include workshops for students struggling with addictions, connecting families with available resources, monthly forums to assist parents with navigating the Eschool parent portal and much more. Through the partnership, the district will be able to provide intensive intervention support services to students in order for them to be afforded optimal opportunities for future success emotionally, socially and academically.

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:

Patchogue-Medford Union Free School District
Dr. Michael J. Hynes, Superintendent of Schools
241 South Ocean Avenue
Patchogue, New York 11772
(631) 687-6380

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

| | |
|--------------------------------------------------------------------------|----------------------|
| ASSETS | |
| Current assets | |
| Cash | |
| Unrestricted | \$17,013,494 |
| Restricted | 19,631,669 |
| Receivables | |
| State and federal aid | 7,205,087 |
| Due from other governments | 196,683 |
| Accounts receivable | 94,945 |
| Inventories | 80,224 |
| Non-current assets | |
| Capital assets not being depreciated | 2,971,093 |
| Capital assets being depreciated, net of accumulated depreciation | 119,723,105 |
| TOTAL ASSETS | 166,916,300 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pensions | 47,824,371 |
| Loss on defeasance | 406,151 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$215,146,822 |
| LIABILITIES | |
| Payables | |
| Accounts payable | \$1,580,748 |
| Accrued liabilities | 688,010 |
| Accrued interest payable | 1,219,510 |
| Compensated absences payable | 501,454 |
| Due to other governments | 4,184,264 |
| Due to fiduciary funds | 2,693 |
| Due to teachers' retirement system | 8,159,450 |
| Due to employees' retirement system | 605,848 |
| Unearned credits | |
| Collections in advance | 224,965 |
| Long-term liabilities | |
| Due and payable within one year | |
| Bonds payable | 7,165,000 |
| Energy performance debt | 628,569 |
| Claims payable | 827,963 |
| Compensated absences payable | 1,105,069 |
| Due and payable after one year | |
| Bonds payable | 83,240,000 |
| Energy performance debt | 8,894,954 |
| Claims payable | 1,112,703 |
| Compensated absences payable | 7,873,626 |
| Net other post employment benefits obligation | 43,519,735 |
| Net pension liability - proportionate share | 8,685,144 |
| TOTAL LIABILITIES | 180,219,704 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pensions | 2,103,715 |
| Gain on defeasance | 3,006,231 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 185,329,650 |
| NET POSITION | |
| Net investment in capital assets | 20,165,595 |
| Restricted | |
| Employee benefit accrued liability | 8,804,827 |
| Retirement contribution | 4,713,813 |
| Unemployment insurance | 132,877 |
| Insurance | 202,882 |
| Workers' compensation | 875,927 |
| Debt service | 44,511 |
| Capital | 4,856,832 |
| | 19,631,669 |
| Unrestricted (deficit) | (9,980,092) |
| TOTAL NET POSITION | 29,817,172 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$215,146,822 |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|------------------------------------------------|------------------------|---------------------------------|-----------------------------|---------------------------|----------------------------------------------------------------------|
| | Expenses | Charges for Services | Operating Grants | Capital Grants | |
| FUNCTIONS / PROGRAMS | | | | | |
| General support | (\$24,080,969) | | | | (\$24,080,969) |
| Instruction | (147,712,788) | \$1,757,924 | \$6,803,587 | \$515,512 | (138,635,765) |
| Pupil transportation | (8,867,635) | | 299,010 | | (8,568,625) |
| Community services | (1,264,148) | | | | (1,264,148) |
| Debt service - interest | (3,509,844) | | | | (3,509,844) |
| Food service program | (3,052,499) | 1,023,678 | 2,052,601 | | 23,780 |
| TOTAL FUNCTIONS AND PROGRAMS | (\$188,487,883) | \$2,781,602 | \$9,155,198 | \$515,512 | (176,035,571) |
| GENERAL REVENUES | | | | | |
| Real property taxes | | | | | 91,020,112 |
| Other tax items - including STAR reimbursement | | | | | 14,124,657 |
| Use of money and property | | | | | 380,016 |
| Sale of property and compensation for loss | | | | | 226,954 |
| Miscellaneous | | | | | 1,308,067 |
| State sources | | | | | 68,318,802 |
| Medicaid reimbursement | | | | | 596,144 |
| TOTAL GENERAL REVENUES | | | | | 175,974,752 |
| CHANGE IN NET POSITION | | | | | (60,819) |
| TOTAL NET POSITION- BEGINNING OF YEAR | | | | | 29,877,991 |
| TOTAL NET POSITION - END OF YEAR | | | | | \$29,817,172 |

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

| | <u>General</u> | <u>Special Aid</u> | <u>School Lunch</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total Governmental Funds</u> |
|-------------------------------------------------------------------------------|---------------------|------------------------|-------------------------|-------------------------|-----------------------------|-----------------------------------------|
| ASSETS | | | | | | |
| Cash | | | | | | |
| Unrestricted | \$13,232,029 | \$5,962 | \$224,894 | \$3,373,938 | \$176,671 | \$17,013,494 |
| Restricted | 14,730,326 | | | 44,511 | 4,856,832 | 19,631,669 |
| Receivables | | | | | | |
| State and federal aid | 5,150,755 | 1,572,484 | 131,154 | | 350,694 | 7,205,087 |
| Due from other governments | 196,683 | | | | | 196,683 |
| Due from other funds | 5,201,081 | | 153,311 | 31,391 | | 5,385,783 |
| Accounts receivables | 73,008 | 4,028 | 16,452 | 1,457 | | 94,945 |
| Inventories | | | 80,224 | | | 80,224 |
| TOTAL ASSETS | <u>\$38,583,882</u> | <u>\$1,582,474</u> | <u>\$606,035</u> | <u>\$3,451,297</u> | <u>\$5,384,197</u> | <u>\$49,607,885</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | | |
| Payables | | | | | | |
| Accounts payable | \$1,520,013 | \$34,030 | \$8,464 | | \$18,241 | \$1,580,748 |
| Accrued liabilities | 659,059 | 7,107 | 21,844 | | | 688,010 |
| Due to other governments | 4,177,653 | 6,420 | 191 | | | 4,184,264 |
| Due to other funds | 156,004 | 1,517,476 | | \$3,406,786 | 308,210 | 5,388,476 |
| Due to teachers' retirement system | 8,159,450 | | | | | 8,159,450 |
| Due to employees' retirement system | 561,423 | | 44,425 | | | 605,848 |
| Compensated absences | 501,454 | | | | | 501,454 |
| Unearned credits | | | | | | |
| Collections in advance | 182,741 | 17,441 | 24,783 | | | 224,965 |
| TOTAL LIABILITIES | <u>15,917,797</u> | <u>1,582,474</u> | <u>99,707</u> | <u>3,406,786</u> | <u>326,451</u> | <u>21,333,215</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| State aid | 63,284 | | | | | 63,284 |
| TOTAL DEFERRED INFLOWS OR RESOURCES | <u>63,284</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>63,284</u> |
| FUND BALANCES | | | | | | |
| Nonspendable: inventory | | | 80,224 | | | 80,224 |
| Restricted: | | | | | | |
| Employee benefit accrued liability | 8,804,827 | | | | | 8,804,827 |
| Retirement contribution | 4,713,813 | | | | | 4,713,813 |
| Unemployment insurance | 132,877 | | | | | 132,877 |
| Insurance | 202,882 | | | | | 202,882 |
| Workers' compensation | 875,927 | | | | | 875,927 |
| Debt service | | | | 44,511 | | 44,511 |
| Capital | | | | | 4,856,832 | 4,856,832 |
| Assigned: | | | | | | |
| Unappropriated fund balance | 573,430 | | 426,104 | | 200,914 | 1,200,448 |
| Unassigned: fund balance | 7,299,045 | | | | | 7,299,045 |
| TOTAL FUND BALANCES | <u>22,602,801</u> | <u>-</u> | <u>506,328</u> | <u>44,511</u> | <u>5,057,746</u> | <u>28,211,386</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$38,583,882</u> | <u>\$1,582,474</u> | <u>\$606,035</u> | <u>\$3,451,297</u> | <u>\$5,384,197</u> | <u>\$49,607,885</u> |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Governmental Fund Balances \$28,211,386

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

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 | \$196,855,615 | |
| Accumulated depreciation | <u>(74,161,417)</u> | 122,694,198 |

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 amounted to

47,824,371

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.

406,151

Deferred inflow of resources - state aid - The Statement of Net Position recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual.

63,284

Deferred inflows of resources - The Statement of Net Position recognized revenues and expenditures 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

(2,103,715)

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 a revenue in the year of refunding.

(3,006,231)

Payables that are not payable in the current period are not reported as liabilities in the funds. Additional payables relating to long-term liabilities at year end consisted of:

| | | |
|-----------------------------------|--|-------------|
| Accrued interest on bonds payable | | (1,219,510) |
|-----------------------------------|--|-------------|

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 | (\$90,405,000) | |
| Energy performance debt | (9,523,523) | |
| Claims payable | (1,940,665) | |
| Compensated absences payable | (8,978,695) | |
| Net other post employment benefits obligation | (43,519,735) | |
| Net pension liability - proportionate share | <u>(8,685,144)</u> | |
| | | <u>(163,052,762)</u> |

| | |
|--------------------|----------------------------|
| Total Net Position | <u><u>\$29,817,172</u></u> |
|--------------------|----------------------------|

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | General | Special Aid | School Lunch | Debt Service | Capital Projects | Total Governmental Funds |
|----------------------------------------------------------------------|---------------------|------------------|------------------|---------------------|---------------------|--------------------------------|
| REVENUES | | | | | | |
| Real property taxes | \$91,020,112 | | | | | \$91,020,112 |
| Other tax items - including STAR reimbursement | 14,124,657 | | | | | 14,124,657 |
| Charges for services | 1,757,924 | | | | | 1,757,924 |
| Use of money and property | 369,655 | | | \$10,361 | | 380,016 |
| Sale of property and compensation for loss | 226,954 | | | | | 226,954 |
| Miscellaneous | 1,295,678 | | \$12,389 | | | 1,308,067 |
| Interfund revenues | 43,740 | | | | | 43,740 |
| Local sources | | \$83,578 | | | | 83,578 |
| State sources | 68,318,802 | 3,405,081 | 63,028 | | \$515,512 | 72,302,423 |
| Federal sources | 596,144 | 3,613,938 | 1,782,323 | | | 5,992,405 |
| Surplus food | | | 207,250 | | | 207,250 |
| Sales - school lunch | | | 1,023,678 | | | 1,023,678 |
| TOTAL REVENUES | 177,753,666 | 7,102,597 | 3,088,668 | 10,361 | 515,512 | 188,470,804 |
| EXPENDITURES | | | | | | |
| General support | 18,952,094 | | | | | 18,952,094 |
| Instruction | 94,276,001 | 7,157,283 | | | | 101,433,284 |
| Pupil transportation | 8,224,562 | 299,010 | | | | 8,523,572 |
| Community service | 847,844 | | | | | 847,844 |
| Employee benefits | 40,790,230 | | | | | 40,790,230 |
| Debt service principal | | | | 8,258,170 | | 8,258,170 |
| Debt service interest | 206,750 | | | 3,662,092 | | 3,868,842 |
| Cost of sales | | | 3,084,853 | | | 3,084,853 |
| Capital outlay | | | | | 1,109,881 | 1,109,881 |
| TOTAL EXPENDITURES | 163,297,481 | 7,456,293 | 3,084,853 | 11,920,262 | 1,109,881 | 186,868,770 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 14,456,185 | (353,696) | 3,815 | (11,909,901) | (594,369) | 1,602,034 |
| OTHER FINANCING SOURCES AND (USES) | | | | | | |
| Operating transfers in | - | 353,696 | 100,000 | 11,950,349 | 5,550,000 | 17,954,045 |
| Operating transfers (out) | (17,922,661) | | | | (31,384) | (17,954,045) |
| TOTAL OTHER FINANCING SOURCES AND (USES) | (17,922,661) | 353,696 | 100,000 | 11,950,349 | 5,518,616 | - |
| NET CHANGE IN FUND BALANCE | (3,466,476) | - | 103,815 | 40,448 | 4,924,247 | 1,602,034 |
| FUND BALANCE - BEGINNING OF YEAR | 26,069,277 | - | 402,513 | 4,063 | 133,499 | 26,609,352 |
| FUND BALANCE - END OF YEAR | \$22,602,801 | \$ - | \$506,328 | \$44,511 | \$5,057,746 | \$28,211,386 |

**PATCHOGUE-MEDFORD 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, 2017**

| | |
|----------------------------|-------------|
| Net Change in Fund Balance | \$1,602,034 |
|----------------------------|-------------|

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

Long-Term Revenue and Expense Differences

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Worker's compensation claims payable in the Statement of Activities differs from the amounts reported in the governmental funds because the expense is recorded as an expenditure in the funds when it is due. In the Statement of Activities, the payable is recognized as it accrues regardless of when it is due. Workers' compensation claims payable for the year ended June 30, 2017 changed by | (865,062) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| In the Statement of Activities, compensated absences 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 financial resources used. Compensated absences payable for the year ended June 30, 2017 changed by | (59,305) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Net other post-employment benefits obligation payable in the Statement of Activities differs from the amount reported in the governmental funds because the expense is recorded as an expenditure in the funds when it is due. In the Statement of Activities, the payable is recognized as it accrues regardless of when it is due. Net other post-employment benefits obligation payable for the year ended June 30, 2017 changed by | (4,838,085) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|

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 revenues or expenditures in the governmental funds.

| | | |
|------------------------------|------------------|-----------|
| Teachers' retirement system | \$243,581 | |
| Employees' retirement system | <u>(502,810)</u> | (259,229) |

Capital Related Differences

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expense in the Statement of Activities.

| | | |
|----------------------|--------------------|-------------|
| Capital outlays | \$666,527 | |
| Depreciation expense | <u>(4,924,867)</u> | (4,258,340) |

Long-Term Debt Differences

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 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. | 7,645,000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Repayment of energy performance debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. | 613,170 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Defeasance loss on advanced refunding- The Statement of Activities recognizes expenses over the life of the bond. Governmental funds recognize the defeasance loss in the year of issue. The amount of loss amortized for the fiscal year ended June 30, 2017 was | (39,305) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Defeasance gain on advanced refunding- The Statement of Activities recognizes expenses over the life of the bond. Governmental funds recognize the defeasance gain in the year of issue. The amount of gain amortized for the fiscal year ended June 30, 2017 was | 314,144 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and this requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2016 to June 30, 2017 changed by | <u>84,159</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|

| | |
|------------------------|--------------------------|
| Change in Net Position | <u><u>(\$60,819)</u></u> |
|------------------------|--------------------------|

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

| | <u>Private Purpose Trust Funds</u> | <u>Agency Funds</u> |
|---------------------------------|--------------------------------------------|-------------------------|
| ASSETS | | |
| Cash - Restricted | \$398,947 | \$1,016,161 |
| Investment in securities | 674,202 | |
| Due from governmental funds | | 2,693 |
| TOTAL ASSETS | <u>\$1,073,149</u> | <u>\$1,018,854</u> |
| LIABILITIES | | |
| Extraclassroom activity balance | | \$290,003 |
| Other liabilities | | 728,851 |
| TOTAL LIABILITIES | <u>\$ -</u> | <u>\$1,018,854</u> |
| NET POSITION | | |
| Restricted for scholarships | \$1,073,149 | |
| TOTAL NET POSITION | <u>\$1,073,149</u> | |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | Private Purpose Trust Fund |
|---------------------------------------------|-------------------------------------------|
| ADDITIONS | |
| Gifts and contributions | \$44,978 |
| Interest and earnings | 4,015 |
| TOTAL ADDITIONS | <u>48,993</u> |
| DEDUCTIONS | |
| Scholarships and awards | <u>51,175</u> |
| TOTAL DEDUCTIONS | <u>51,175</u> |
| CHANGE IN NET POSITION | (2,182) |
| NET POSITION - BEGINNING OF THE YEAR | <u>1,075,331</u> |
| NET POSITION - END OF THE YEAR | <u><u>\$1,073,149</u></u> |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Patchogue-Medford 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.

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. Board members have 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 No. 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 Statements 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 an entity that is included in the District’s reporting entity.

Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District’s business office. The District reports these assets held as an agent for the Extraclassroom organizations in the Statement of Fiduciary Net Position – Fiduciary Funds.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 and Changes in Net Position 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.

The Statement of Activities and Changes in Net Position 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.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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:

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.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

D) Measurement focus and basis of accounting:

The District-Wide and Fiduciary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. 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.

The fund 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 six 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, net pension liability, net other post-employment benefits obligation 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 November 1, and become a lien on December 1. Taxes are collected by the Town of Brookhaven and remitted to the District from January to June.

ii) Enforcement:

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

F) Restricted resources:

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

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 9 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, deferred outflows of resources, liabilities and deferred inflows of resources 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, net other post-employment benefits, workers' compensation claims, net pension asset/liability, potential contingent liabilities and useful lives of capital assets.

I) Cash and investments:

The District's cash and investments 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.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, at stated 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 Statement No. 54 to signify that a portion of fund balance is not available for other subsequent expenditures.

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, 2017.

L) Capital assets:

Capital assets are reported at actual cost for acquisitions made within the last 20 years. For assets acquired prior to 20 years, estimated historical costs, 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 Financial Statements are as follows:

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|----------------------------------|-----------------------------|------------------------|--------------------------|
| Building & Building Improvements | \$15,000 | Straight-line | 30 years |
| Land Improvements | \$15,000 | Straight-line | 20 years |
| Furniture & Equipment | \$5,000 | Straight-line | 5 years |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

M) Unearned credits:

The District reports unearned credits on its Statement of Net Position and its Balance Sheet. Unearned credits consist of collections in advance. Unearned credits arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to incurrence of qualifying expenditures. In subsequent periods, when the District has legal claim to resources, the liability for unearned credits is removed and revenue is recognized.

Collections in advance consist of amounts received in advance for summer programs in the general fund; for amounts received in advance for meals that have not yet been purchased in the school lunch fund and for amounts received in advance for grants in the special aid fund.

N) Deferred inflows of resources – state aid:

In addition to liabilities, the Governmental Funds Balance Sheet will sometimes report deferred inflow of resources when potential revenues do not meet the availability criterion for recognition in the current period. These amounts are recorded as deferred inflows of resources. In subsequent periods, when the availability criterion is met, deferred inflows of resources are classified as revenues. The District-Wide Financial Statements, however, report these deferred inflows or resources as revenues in accordance with the accrual basis of accounting and economic resources measurement focus. The District has one item that qualifies for reporting in this category. This amount is related to state aid reported as deferred inflows of resources in the Governmental Funds Balance Sheet.

O) Deferred outflows and inflows of resources – pensions:

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. This amount is related to pensions reported in the District-Wide Statement of Net Position. This represents the difference between expected and actual experience (ERS), changes of assumptions (TRS and ERS), the net difference between projected and actual investment earnings on pension plan investments (TRS and ERS), changes in proportion and differences between employer contributions and proportionate share of contributions (TRS and ERS), and the District's contributions to the pension systems (TRS and ERS systems) subsequent to the measurement date.

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. This amount is related to pensions reported in the District-Wide Statement of Net Position. This represents the difference between expected and actual experience (TRS and ERS).

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

P) Deferred inflows of resources – gain on defeasance:

A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. The District reported \$3,006,231 of deferred inflows of resources at June 30, 2017, representing the financial effect of a deferred revenue on the advance refunding of general obligation serial bonds. A deferred inflow of resources results from the difference in the net carrying value of refunded debt over its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Q) Deferred outflows of resources – loss on defeasance:

A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. The District reported \$406,151 of deferred outflows of resources at June 30, 2017, representing the financial effect of deferred charge on the advance refunding of general obligation serial bonds. A deferred outflow of resources results from the difference in the net carrying value of refunded debt over its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

R) 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 to be paid in the form of non-elective contributions into the employee's 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.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

T) 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 dated.

U) 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, net pension liability, net other post-employment benefits obligation and

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

compensated absences that will be paid from governmental funds, are reported as a liability in the funds 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.

V) 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, loss and gain 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 the balance of net position that does not meet the definition of the above two classifications and are deemed to be available for general use by the District.

ii) Fund Financial Statements:

There are five classifications of fund balance as detailed below:

- (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 the inventory recorded in the school lunch fund of \$80,224.
- (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.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Currently, New York State laws still use the terminology “reserves” and Districts are only allowed to use reserves authorized by law. The District has classified the following reserves as restricted:

Employee Benefit Accrued Liability Reserve

Employee benefit accrued liability (GML §6-p), must be used for the payment of accrued employee benefit due an employee upon termination of the employee’s service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the general fund under restricted fund balance.

Retirement Contribution Reserve

Retirement contribution reserve (GML §6-r), must be used for 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 under the 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 under the restricted fund balance.

Insurance Reserve

Insurance reserve (GML §6-n), must be used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law, e.g., Unemployment Compensation Insurance. The reserve may be established by Board action and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

up to \$25,000 may be paid from the reserve without judicial approval. This reserve is accounted for in the general fund under the restricted fund balance.

Workers' Compensation Reserve

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

Debt Service

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

Capital

Restricted for capital in the capital projects fund includes the fund balance for projects that are funded by the capital reserve.

Scholarships

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

- (3) **Committed fund balance** – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority (i.e., Board of Education). The District has no committed fund balances as of June 30, 2017.
- (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.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The District has adopted policy 3480, *Fund Balance*, which authorizes the Board of Education, or its designee, to assign amounts for a specific purpose.

- (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 District can retain to no more than 4% of the District's budget for the general fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances included in assigned fund balance are also excluded from the 4% limitation.

Order of Use of Fund Balance

The order by which the District will spend restricted and unrestricted (unassigned) fund balance will be evaluated on an annual basis based on the current financial conditions by the Assistant Superintendent for Business. After evaluation, if adjustments are required, a recommendation will be made to the Board of Education for consideration.

Minimum Fund Balance Amount

The fund balance of the District's general fund has been accumulated to provide stability and flexibility and to respond to unexpected adversity and/or opportunities.

The target is to maintain an unassigned fund balance of 4% of the estimated annual operating expenditures for the ensuing fiscal year.

The District's basic goal is to maintain annual expenditure increases at a growth rate, and to limit expenditures to anticipated revenue in order to maintain a balanced budget. The decision to retain an unrestricted fund balance of 4% of the expected expenditures stems from the need to support normal operating costs for the District and provide fiscal stability.

W) New accounting standards:

The District has adopted and implemented the following current Statements of the Governmental Accounting Standards Board (GASB) that are applicable as of June 30, 2017:

Statement No. 77, *Tax Abatement Disclosures*. This statement defines tax abatements and provides for increased disclosures including authority, eligibility criteria, dollar amount of taxes abated, and other information.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses issues in the previously issued pension statements regarding payroll related measures in the required supplementary information, the selection of assumptions and deviations from other guidance, and the treatment of employee (plan member) contributions made by employers.

X) Future changes in accounting standards:

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.

These are the statements that the District feels may have an impact on these financial statements and are not an all inclusive list of GASB statements issued. 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.

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND FINANCIAL STATEMENTS AND DISTRICT-WIDE FINANCIAL 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 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 Balance vs. Statement of Activities:

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of the four broad categories. The amounts shown below represent:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 Financial 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 Financial 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 allocations:

Expenditures for employee benefits are not allocated to a specific function on the Statement of Revenues, Expenditures, and Changes in Fund Balance 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.

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.

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

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

The following supplemental appropriations occurred during the year:

| | |
|----------------------------------------------------------------------|--------------------|
| Budget Revision: | |
| Special Legislative Grant | \$20,000 |
| Voter Authorization to Expend Funds from the 2015 Capital Reserve | 5,000,000 |
| Final Budget Revision | <u>\$5,020,000</u> |

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

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

B) Encumbrances:

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as restrictions or assignments 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.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A) 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.

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 No. 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 either:

- 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.

All of the District's aggregate bank balances were covered by depository insurance or collateralized with securities held by the pledging financial institution in the District's name 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, 2017 included \$19,631,669 within the governmental funds for capital projects, debt service and general reserve purposes, and \$1,415,108 in the fiduciary funds.

B) Investments:

The District has few investments (primarily donated scholarship funds), and chooses to disclose its investments by specifically identifying each. The District's investment policy for these investments is also governed by New York State statutes. Investments are stated at fair value and are accounted for within the private purpose trust fund.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| <u>Type of Investment</u> | <u>Value</u> |
|------------------------------|------------------|
| United States Treasury Bills | \$665,369 |
| United States Treasury Notes | 8,833 |
| Total investments | <u>\$674,202</u> |

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

NOTE 5 – PARTICIPATION IN BOCES:

During the fiscal year ended June 30, 2017 the District was billed \$18,754,406 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$2,063,584. Financial statements for the BOCES are available from the Eastern Suffolk BOCES administrative office at James Hines Administration Center, 201 Sunrise Highway, Patchogue, New York 11772.

NOTE 6 – STATE AND FEDERAL AID RECEIVABLES:

State and federal aid receivables at June 30, 2017 consisted of the following:

| | |
|------------------------------|---------------------------|
| General Fund | |
| Excess cost aid | \$1,903,910 |
| Homeless Aid | 78,930 |
| BOCES aid | 2,063,584 |
| Medicaid | 60,790 |
| Building Aid | 980,257 |
| Other | 63,284 |
| Total - General Fund | <u>5,150,755</u> |
| Special Aid Fund | |
| Federal aid | 795,272 |
| State aid | 777,212 |
| Total - Special Aid Fund | <u>1,572,484</u> |
| School Lunch Fund | |
| Breakfast - federal aid | 36,085 |
| Lunch - federal aid | 90,584 |
| Breakfast - state aid | 1,834 |
| Lunch - state aid | 2,651 |
| Total - School Lunch Fund | <u>131,154</u> |
| Capital Projects Fund | |
| State aid | <u>350,694</u> |
| Total - All Funds | <u><u>\$7,205,087</u></u> |

District management has deemed the amounts to be fully collectible.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 – DUE FROM OTHER GOVERNMENTS:

Due from other governments in the general fund at June 30, 2017 consisted of the following:

| | |
|-------------------------------|------------------|
| Foster care tuition | \$144,799 |
| District of Location Services | 50,878 |
| Other | 1,006 |
| Total | <u>\$196,683</u> |

District management has deemed the amounts to be fully collectible.

NOTE 8 - CAPITAL ASSETS:

Capital asset balances and activity for the fiscal year ended June 30, 2017 were as follows:

| | Beginning Balance | Additions | Retirements/ Reclassifications | Ending Balance |
|---------------------------------------------|----------------------|--------------------|-----------------------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets that are not depreciated: | | | | |
| Land | \$2,827,925 | | | \$2,827,925 |
| Construction in progress | 10,520,264 | \$143,168 | (\$10,520,264) | 143,168 |
| Total capital assets not being depreciated | <u>13,348,189</u> | <u>143,168</u> | <u>(10,520,264)</u> | <u>2,971,093</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 5,861,888 | | | 5,861,888 |
| Building & building improvements | 173,594,159 | 10,619,881 | | 184,214,040 |
| Furniture and equipment | 3,401,923 | 423,742 | (17,071) | 3,808,594 |
| Total capital assets being depreciated | <u>182,857,970</u> | <u>11,043,623</u> | <u>(17,071)</u> | <u>193,884,522</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | 2,871,946 | 136,815 | | 3,008,761 |
| Building & building improvements | 63,900,631 | 4,559,463 | | 68,460,094 |
| Furniture and equipment | 2,481,044 | 228,589 | (17,071) | 2,692,562 |
| Total accumulated depreciation | <u>69,253,621</u> | <u>4,924,867</u> | <u>(17,071)</u> | <u>74,161,417</u> |
| Total capital assets being depreciated, net | <u>113,604,349</u> | <u>6,118,756</u> | <u>-</u> | <u>119,723,105</u> |
| Capital assets, net | <u>\$126,952,538</u> | <u>\$6,261,924</u> | <u>\$ (10,520,264)</u> | <u>\$122,694,198</u> |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------|--------------------|
| General support | \$139,115 |
| Instruction | 4,734,941 |
| Pupil transportation | 50,811 |
| | <u>\$4,924,867</u> |

NOTE 9 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS:

| | Interfund | | Interfund | |
|-----------------------------|--------------------|--------------------|---------------------|---------------------|
| | Receivable | Payable | Revenues | Expenditures |
| General fund | \$5,201,081 | \$156,004 | | \$17,922,661 |
| Special aid fund | | 1,517,476 | \$353,696 | |
| School lunch fund | 153,311 | | 100,000 | |
| Debt service fund | 31,391 | 3,406,786 | 11,950,349 | |
| Capital projects fund | | 308,210 | 5,550,000 | 31,384 |
| Total government activities | <u>5,385,783</u> | <u>5,388,476</u> | <u>17,954,045</u> | <u>17,954,045</u> |
| Fiduciary agency fund | 2,693 | | | |
| Totals | <u>\$5,388,476</u> | <u>\$5,388,476</u> | <u>\$17,954,045</u> | <u>\$17,954,045</u> |

The District typically transfers from the general fund to the special aid fund to fund the District's share of summer school handicap expenses required by New York State law and to fund the State Supported Section 4201 schools. The District transferred from the general fund to the school lunch fund to help support the program. The District typically transfers from the general fund to the debt service fund to finance debt service requirements. The District transferred from the general fund to the capital projects fund to fund ongoing projects. The District typically transfers from the capital projects fund to the debt service fund to return unused funds on 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.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 10 – UNEARNED CREDITS - COLLECTIONS IN ADVANCE:

Collections in advance at June 30, 2017 consisted of the following:

| | |
|---------------------------|-------------------------|
| General Fund | |
| Summer programs 2017-2018 | <u>\$182,741</u> |
| Special Aid Fund | |
| Local grant | 893 * |
| Other local grants | <u>16,548</u> |
| Total Special Aid Fund | <u>17,441</u> |
| School Lunch Fund | |
| Prepaid account balances | <u>24,783</u> |
| Total All Funds | <u><u>\$224,965</u></u> |

*The Town of Brookhaven and the Long Island Power Authority (LIPA) entered into a Host Community Benefits agreement dated March 13, 2007. As part of such agreement LIPA agreed to contribute \$1,500,000 to the District to be placed in a special projects fund. The amount deferred as of June 30, 2017 is the remaining amount to be spent on the technology initiative project designated by the Board of Education on January 11, 2010.

NOTE 11 - SHORT-TERM DEBT:

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

| | Maturity | Stated Interest Rate | Beginning Balance | Issued | Redeemed | Ending Balance |
|-------|----------|----------------------|-------------------|---------------------|---------------------|----------------|
| TAN | 6/23/17 | 1.50% | \$ - | \$30,000,000 | \$30,000,000 | \$ - |
| Total | | | <u>\$ -</u> | <u>\$30,000,000</u> | <u>\$30,000,000</u> | <u>\$ -</u> |

Interest expense on short-term debt for the year was \$206,750.

The TAN was issued for interim financing of general fund operations.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 – LONG-TERM LIABILITIES:

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

| | Beginning Balance | Issued | Reclassified and Redeemed | Ending Balance | Due Within One Year |
|---------------------------------------------|----------------------|---------------------|------------------------------|----------------------|------------------------|
| Long-term debt: | | | | | |
| Serial bonds | \$98,050,000 | | \$7,645,000 | \$90,405,000 | \$7,165,000 |
| Energy performance debt | 10,136,693 | | 613,170 | 9,523,523 | 628,569 |
| Other long-term liabilities: | | | | | |
| Claims payable | 1,075,603 | \$1,797,680 | 932,618 | 1,940,665 | 827,963 |
| Compensated absences payable | 8,919,390 | 924,641 | 865,336 | 8,978,695 | 1,105,069 |
| Net OPEB obligation | 38,681,650 | 14,423,469 | 9,585,384 | 43,519,735 | |
| Net pension liability - proportionate share | 6,874,102 | 12,525,375 | 10,714,333 | 8,685,144 | |
| Total long-term liabilities | <u>\$163,737,438</u> | <u>\$29,671,165</u> | <u>\$30,355,841</u> | <u>\$163,052,762</u> | <u>\$9,726,601</u> |

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

A) Bonds Payable

Bonds payable is comprised of the following:

| Description | Issue Date | Final Maturity | Interest Rate | Outstanding at Year End |
|--------------------------|---------------|-------------------|------------------|----------------------------|
| Refunding serial bond | 1/5/2012 | 10/1/2025 | 2.00-5.00% | \$29,655,000 |
| Refunding serial bond | 9/12/2012 | 7/1/2027 | 3.50 - 4.25% | 27,995,000 |
| Construction serial bond | 9/27/2012 | 9/15/2025 | 1.50 - 2.50% | 3,810,000 |
| Refunding serial bond | 6/17/2015 | 10/1/2026 | 2.00% - 5.00% | 27,170,000 |
| Construction serial bond | 6/17/2015 | 7/15/2020 | 1.00 - 2.00% | 1,775,000 |
| | | | | <u>\$90,405,000</u> |

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

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|---------------------|---------------------|----------------------|
| 2018 | \$7,165,000 | \$3,167,556 | \$10,332,556 |
| 2019 | 7,460,000 | 2,903,412 | 10,363,412 |
| 2020 | 7,790,000 | 2,596,388 | 10,386,388 |
| 2021 | 8,160,000 | 2,252,912 | 10,412,912 |
| 2022 | 8,115,000 | 1,878,338 | 9,993,338 |
| 2023-2027 | 45,350,000 | 4,696,734 | 50,046,734 |
| 2028 | 6,365,000 | 105,584 | 6,470,584 |
| | <u>\$90,405,000</u> | <u>\$17,600,924</u> | <u>\$108,005,924</u> |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

B) Energy Performance Debt:

Energy performance debt is comprised of the following:

| Description | Issue Date | Final Maturity | Interest Rate | Outstanding at Year End |
|-------------------------|------------|----------------|---------------|-------------------------|
| Energy performance debt | 7/3/2014 | 1/3/2030 | 2.496% | \$9,523,523 |
| | | | | <u>\$9,523,523</u> |

The following is a summary of debt service requirements for the energy performance debt:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|--------------------|--------------------|---------------------|
| 2018 | \$628,569 | \$233,792 | \$862,361 |
| 2019 | 644,355 | 218,007 | 862,362 |
| 2020 | 660,536 | 201,824 | 862,360 |
| 2021 | 677,125 | 185,235 | 862,360 |
| 2022 | 694,131 | 168,230 | 862,361 |
| 2023-2027 | 3,741,062 | 570,743 | 4,311,805 |
| 2028-2030 | 2,477,745 | 109,338 | 2,587,083 |
| | <u>\$9,523,523</u> | <u>\$1,687,169</u> | <u>\$11,210,692</u> |

C) Long-Term Interest

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

| | Total |
|--------------------------------------------|--------------------|
| Interest paid | \$3,662,092 |
| Less interest accrued in the prior year | (1,303,669) |
| Plus interest accrued in the current year | 1,219,510 |
| Plus amortized deferred loss on defeasance | 39,305 |
| Less amortized deferred gain on defeasance | (314,144) |
| Total expense | <u>\$3,303,094</u> |

NOTE 13 – DEFERRED OUTFLOWS OF RESOURCES – LOSS ON DEFEASANCE:

The loss on defeasance pertaining to the 2002 refunding is recorded in the District-Wide Financial Statements, as deferred outflow of resources. The loss on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 16 years, the time to maturity on the refunded bonds, at the point of refunding. Amortization on the defeasance loss recorded on the District-Wide financials amounted to \$39,305 for the year ending June 30, 2017, and is recorded as a component for interest expense.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The loss on defeasance pertaining to the 2002 refunding at June 30, 2017 consisted of the following:

| | <u>Total</u> |
|-----------------------------------------------|-------------------------|
| Deferred amount on refunding | 1,030,619 |
| Bond premium | <u>(624,468)</u> |
| Total loss on defeasance, net of amortization | <u><u>\$406,151</u></u> |

NOTE 14 – DEFERRED INFLOWS OF RESOURCES – GAIN ON DEFEASANCE:

The gain on defeasance pertaining to the 2003 refunding is recorded in the District-Wide Financial Statements, as deferred inflow of resources. The gain on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 16 years, the time to maturity on the refunded bonds, at the point of refunding. Amortization of the defeasance gain recorded on the District-Wide financials amounted to \$120,464 for the year ending June 30, 2017.

The gain on defeasance pertaining to the 2005 refunding is recorded in the District-Wide Financial Statements, as deferred inflow of resources. The gain on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 12 years, the time to maturity on the refunded bonds, at the point of refunding. Amortization of the defeasance gain recorded on the District-Wide financials amounted to \$193,680 for the year ending June 30, 2017.

Amortization on the District-Wide Financials is being recorded as a component of interest expense.

The gain on defeasance pertaining to the 2003 and 2005 refunding at June 30, 2017 consisted of the following:

| | <u>Total</u> |
|-----------------------------------------------|-----------------------------|
| Deferred amount on refunding - 2003 | \$932,917 |
| Bond premium - 2003 | (2,147,598) |
| Deferred amount on refunding - 2005 | 198,120 |
| Bond premium - 2005 | <u>(1,989,670)</u> |
| Total gain on defeasance, net of amortization | <u><u>(\$3,006,231)</u></u> |

NOTE 15 – PENSION PLANS:

A) Plan description and benefits provided:

i) 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

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 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.

ii) 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 new 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 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, except as follows:

1. New York State Teachers' Retirement System:
 - a. Employees who joined the system after July 27, 1976
 - i. Employees contribute 3% of their salary, except that employees in the system more than ten years are no longer required to contribute.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

- b. Employees who joined the system on or after January 1, 2010 before April 1, 2012
 - i. Employees contribute 3.5% of their salary throughout active membership.
 - c. Employees who joined the system on or after April 1, 2012
 - i. Employees contribute between 3% and 6% dependent upon their salary throughout active membership.
2. New York State Employees' Retirement System
- a. Employees who joined the system after July 27, 1976
 - i. Employees contribute 3% of their salary, except that employees in the system more than ten years are no longer required to contribute.
 - b. Employees who joined the system on or after January 1, 2010 before April 1, 2012
 - i. Employees contribute 3% of their salary throughout active membership.
 - c. Employees who joined the system on or after April 1, 2012
 - i. Employees contribute between 3% and 6% dependent upon their salary throughout active membership.

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.

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

| | <u>NYSTRS</u> | <u>NYSERS</u> |
|------|---------------|---------------|
| 2017 | \$7,812,724 | \$2,134,840 |
| 2016 | \$8,666,777 | \$2,071,934 |
| 2015 | \$11,303,793 | \$3,308,634 |

C) Pension assets, liabilities, pension expense, and deferred outflows and inflows of resources related to pensions:

At June 30, 2017, 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, 2017 for ERS and June 30, 2016 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

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

members, actuarially determined. This information was provided by the ERS and TRS Systems in reports provided to the District.

| | <u>ERS</u> | <u>TRS</u> |
|-------------------------------------------------------------------------|----------------|----------------|
| Measurement date | March 31, 2017 | June 30, 2016 |
| Net pension asset/(liability) | \$ (4,148,588) | \$ (4,536,556) |
| District's portion of the Plan's total net pension asset/(liability) | 0.0441517% | 0.423565% |
| Change in proportion since the prior measurement date | 0.0013232% | -0.0057080% |

For the year ended June 30, 2017, the District recognized pension expense of \$2,637,650 for ERS and \$7,565,065 for TRS. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <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 | \$ 103,960 | | \$ 629,987 | \$ 1,473,728 |
| Changes of assumptions | 1,417,310 | \$ 25,843,109 | | |
| Net difference between projected and actual earnings on pension plan investments | 828,641 | 10,200,562 | | |
| Changes in proportion and differences between the District's contributions and proportionate share of contributions | 585,843 | 426,374 | | |
| District's contributions subsequent to the measurement date | 605,848 | 7,812,724 | | |
| | <u>\$ 3,541,602</u> | <u>\$ 44,282,769</u> | <u>\$ 629,987</u> | <u>\$ 1,473,728</u> |

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | <u>ERS</u> | <u>TRS</u> |
|------------------|--------------|---------------|
| Plan Year ended: | | |
| 2017 | | \$ 3,222,256 |
| 2018 | \$ 976,916 | \$ 3,222,256 |
| 2019 | \$ 976,916 | \$ 11,144,294 |
| 2020 | \$ 837,463 | \$ 8,679,517 |
| 2021 | \$ (485,528) | \$ 4,016,940 |
| Thereafter | | \$ 4,711,054 |

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:

| | <u>ERS</u> | <u>TRS</u> |
|--------------------------|----------------------------------------------------------|--------------------------------------------------------|
| Measurement date | March 31, 2017 | June 30, 2016 |
| Actuarial valuation date | April 1, 2016 | June 30, 2015 |
| Interest rate | 7.00% | 7.50% |
| Salary scale | 3.80% | 1.90% - 4.72% |
| Decrement tables | April 1, 2010 - March 31, 2015 System's Experience | July 1, 2009 - June 30, 2014 System's Experience |
| Inflation rate | 2.50% | 2.50% |

For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014. For TRS, annuitant mortality rates are based on plan member experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014, applied on a generational basis.

For ERS, the actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015. For TRS, the actuarial assumptions used in the June 30, 2015 valuation are based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The long term rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selections of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of investment expense and inflation) for each major asset class, as well as historical investment data and plan performance. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation as of the valuation date are summarized below:

| <u>Valuation Date</u> | <u>ERS</u> | | <u>TRS</u> | |
|----------------------------------|----------------------|-----------------------|----------------------|-----------------------|
| | <u>April 1, 2016</u> | | <u>June 30, 2015</u> | |
| <u>Asset type</u> | <u>Target</u> | <u>Long-term</u> | <u>Target</u> | <u>Long-term</u> |
| | <u>Allocation</u> | <u>expected real</u> | <u>Allocation</u> | <u>expected real</u> |
| | | <u>rate of return</u> | | <u>rate of return</u> |
| Domestic equity | 36% | 4.55% | 37% | 6.1% |
| International equity | 14% | 6.35% | 18% | 7.3% |
| Private equity | 10% | 7.75% | 7% | 9.2% |
| Real estate | 10% | 5.80% | 10% | 5.4% |
| Absolute return strategies | 2% | 4.00% | | |
| Opportunistic portfolio | 3% | 5.89% | | |
| Real assets | 3% | 5.54% | | |
| Bonds and mortgages | 17% | 1.31% | | |
| Cash | 1% | -0.25% | | |
| Inflation-indexed bonds | 4% | 1.50% | | |
| Domestic fixed income securities | | | 17% | 1.0% |
| Global fixed income securities | | | 2% | 0.8% |
| Mortgages | | | 8% | 3.1% |
| Short-term | | | 1% | 0.1% |
| | <u>100%</u> | | <u>100%</u> | |

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for ERS and 7.5% 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.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 asset/(liability) calculated using the discount rate of 7.0% for ERS and 7.5% 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-percentagepoint lower (6.0 % for ERS and 6.5% for TRS) or 1-percentagepoint higher (8.0% for ERS and 8.5% for TRS) than the current rate:

| | 1% Decrease (6.0%) | Current Assumption (7.0%) | 1% Increase (8.0%) |
|------------------------------------------------------------------------|--------------------------|---------------------------------|--------------------------|
| ERS | | | |
| Employer's proportionate share of the net pension asset (liability) | (\$13,249,769) | (\$4,148,588) | \$3,546,443 |
| | 1% Decrease (6.5%) | Current Assumption (7.5%) | 1% Increase (8.5%) |
| TRS | | | |
| Employer's proportionate share of the net pension asset (liability) | (\$59,189,679) | (\$4,536,556) | \$41,303,619 |

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:

| | | |
|-------------------------------------------------------------------------------------------|------------------------|-----------------------|
| | (Dollars in Thousands) | |
| | <u>ERS</u> | <u>TRS</u> |
| Valuation date | April 1, 2016 | June 30, 2015 |
| Employers' total pension liability | \$ (177,400,586) | \$ (108,577,184) |
| Plan Fiduciary Net Position | 168,004,363 | 107,506,142 |
| Employers' net pension asset/(liability) | <u>\$ (9,396,223)</u> | <u>\$ (1,071,042)</u> |
| Ratio of plan fiduciary net position to the Employers' total pension asset/(liability) | 94.70% | 99.01% |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$605,848.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October and November 2017 through a state aid intercept, with a balance to be paid by the District, if necessary. Accrued retirement contributions as of June 30, 2017 represent employee and employer contributions for the fiscal year ended June 30, 2017 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, 2017 amounted to \$8,159,450.

NOTE 16 – RETIREMENT PLANS: OTHER:

A) Tax Sheltered Annuities:

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2017, totaled \$577,823 and \$3,801,118 respectively.

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 provisions of various employment contracts. Benefits are provided through the New York State Health Insurance Program Empire Plan, (Plan) which is a single-employer defined benefit healthcare plan.

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 District shares of the cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the Fund Financial Statements as payments are made. For the year ended June 30, 2017, the District recognized a general fund expenditure of \$9,585,384 for insurance premiums for currently enrolled retirees. Plan

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

members receiving benefits contributed approximately 0% to 16% of the health insurance premium. Currently, there is no provision in the law to permit the District to fund other post-employment benefits by any means other than the "pay as you go" method. Therefore, there are no plan assets and no report is issued.

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's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

| | |
|--------------------------------------------|----------------------------|
| Annual required contribution | \$13,938,191 |
| Interest on net OPEB obligation | 1,934,083 |
| Adjustment to Annual Required Contribution | <u>(1,448,805)</u> |
| Annual OPEB cost (expense) | 14,423,469 |
| Contributions made | <u>(9,585,384)</u> |
| Increase in net OPEB obligation | 4,838,085 |
| Net OPEB obligation-beginning of year | <u>38,681,650</u> |
| Net OPEB obligation-end of year | <u><u>\$43,519,735</u></u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributes to the plan and the net OPEB obligation for 2017 and the preceding two years was as follows:

| Fiscal Year Ending | Annual Required Contribution | Annual OPEB Cost | OPEB Contributions | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-----------------------|---------------------------------|---------------------|-----------------------|-----------------------------------------------------|------------------------|
| 6/30/15 | \$12,271,110 | \$12,658,944 | \$8,917,008 | 70% | \$34,656,340 |
| 6/30/16 | \$12,680,695 | \$13,115,473 | \$9,090,163 | 69% | \$38,681,650 |
| 6/30/17 | \$13,938,191 | \$14,423,469 | \$9,585,384 | 66% | \$43,519,735 |

D) Funded Status and Funding Progress:

As of July 1, 2016, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability for benefits was \$214,785,446 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$214,785,446. The covered payroll (annual payroll of active employees covered by the Plan) was \$74,200,431 and the ratio of the UAAL to the covered payroll was 289.5%.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality, and the health care trend. 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 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 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.

The July 1, 2016, actuarial valuation prepared by the Board of Cooperative Education Services Albany-Schoharie-Schenectady-Saratoga Counties, the projected unit credit actuarial cost method was used to value the actuarial accrued liability and normal cost. The actuarial assumptions included a discount rate of 5% and an annual healthcare cost trend rate of 5.6% initially reduced to an ultimate rate of 3.94% after one year. The UAAL is being amortized using the level percentage of payroll method over an open period of 30 years.

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) Risk Retention:

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 has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

amount for reported and unpaid claims which were incurred on or before year-end. Liabilities do not include an amount for reported claims which were incurred on or before year-end but not reported (IBNR). Had an actuary valuation been performed, the liability amount may significantly change. As of June 30, 2017, the District has recorded a workers' compensation claims liability of \$1,940,665 and has a workers' compensation reserve balance of \$875,927.

Claims activity is as follows:

| <u>Fiscal Year</u> <u>Ending</u> | <u>Unpaid Claims at</u> <u>the Beginning of the</u> <u>Year</u> | <u>Incurred Claims</u> | <u>Paid Claims and</u> <u>Adjustments</u> | <u>Unpaid Claims at</u> <u>the End of the Year</u> |
|-------------------------------------|-----------------------------------------------------------------------|------------------------|----------------------------------------------|-------------------------------------------------------|
| 6/30/16 | \$751,014 | \$1,047,947 | (\$723,358) | \$1,075,603 |
| 6/30/17 | \$1,075,603 | \$1,797,680 | (\$932,618) | \$1,940,665 |

The program is accounted for in the general fund of the District.

NOTE 19 – TAX ABATEMENTS:

The Town of Brookhaven Industrial Development Agency, established by Article 18-A of General Municipal Law of New York State, under the authority of New York State General Municipal Law Section 892, entered into various property tax abatement programs for the purpose of economic development, and general prosperity and economic welfare of the Town. The District's property tax revenue was reduced by \$13,083 for these programs. The District received Payment in Lieu of Tax (PILOT) payments totaling \$11,240 for these programs during the fiscal year.

NOTE 20 – COMMITMENTS AND CONTINGENCIES:

A) Encumbrances:

Significant encumbrances included in governmental fund balances have been classified as restricted or assigned fund balance and are as follows:

- i) **General Fund** - Total encumbrances of the general fund as of June 30, 2017 were \$573,430. Significant encumbrances were assigned as follows; \$353,150 for professional services, and \$182,309 for supplies and materials.
- ii) **Capital Projects Fund** - Total encumbrances of the capital projects fund as of June 30, 2017 were \$2,294,707. Encumbrances totaling \$2,289,573 were for the Districts' 2015 Capital Reserve Projects.
- iii) **Special Aid Fund** - Total encumbrances of the special aid fund as of June 30, 2017 were \$209,485. Encumbrances totaling \$206,685 were for the Districts' Smart Schools Bond Act projects.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

B) Grants:

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

C) Leases:

The District leases copy equipment under the terms of various non-cancelable leases. Rental expense for the year was \$268,511. Minimum annual rentals for each of the remaining years of the lease are:

| <u>Fiscal Year Ending June 30,</u> | <u>Annual Lease Cost</u> |
|------------------------------------|------------------------------|
| 2018 | \$278,830 |
| 2019 | 213,152 |
| 2020 | 126,857 |
| 2021 | 17,301 |
| Total | <u>\$636,140</u> |

D) Litigation:

As of June 30, 2017, the District was involved in a lawsuit arising from the normal conduct of its affairs, the outcome of which cannot be determined as of the date of this report.

NOTE 21 – SUBSEQUENT EVENTS:

- A) The District issued \$32,500,000 in tax anticipation notes on September 28, 2017, with a stated interest rate of 2.00% maturing on June 22, 2018. In addition, the District received a premium of \$226,853 on the note, which resulted in a net interest rate of 1.0482%.

SUPPLEMENTARY INFORMATION

**PATCHOGUE-MEDFORD 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, 2017**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual (Budgetary Basis)</u> | <u>Final Budget Variance with Budgetary Actual</u> |
|-------------------------------------------------------------------|------------------------|----------------------|-------------------------------------|----------------------------------------------------------------|
| REVENUES | | | | |
| Local Sources | | | | |
| Real property taxes | \$105,131,048 | \$105,131,048 | \$91,020,112 | (\$14,110,936) |
| Other real property tax items | 18,346 | 18,346 | 14,124,657 | 14,106,311 |
| Charges for services | 1,851,332 | 1,851,332 | 1,757,924 | (93,408) |
| Use of money & property | 398,052 | 398,052 | 369,655 | (28,397) |
| Sale of property | | | | |
| & compensation for loss | 60,000 | 60,000 | 226,954 | 166,954 |
| Miscellaneous | 1,079,206 | 1,079,206 | 1,295,678 | 216,472 |
| Interfund revenues | 50,000 | 50,000 | 43,740 | (6,260) |
| State Sources | | | | |
| Basic formula | 58,518,153 | 58,518,153 | 43,379,093 | (15,139,060) |
| Excess cost aid | 4,516,877 | 4,516,877 | 11,861,685 | 7,344,808 |
| Lottery Aid | | | 9,950,355 | 9,950,355 |
| BOCES aid | 1,965,865 | 1,965,865 | 2,063,584 | 97,719 |
| Tuition for students with disabilities aid | 150,000 | 150,000 | 109,587 | (40,413) |
| Textbook aid | 467,214 | 467,214 | 468,913 | 1,699 |
| Computer software and hardware aid | 237,464 | 237,464 | 235,148 | (2,316) |
| Library A/V loan program aid | 51,632 | 51,632 | 50,231 | (1,401) |
| Other state aid | 250,000 | 270,000 | 200,206 | (69,794) |
| Medicaid reimbursement | <u>225,000</u> | <u>225,000</u> | <u>596,144</u> | <u>371,144</u> |
| TOTAL REVENUES AND OTHER SOURCES | <u>174,970,189</u> | <u>174,990,189</u> | <u>\$177,753,666</u> | <u>\$2,763,477</u> |
| Appropriated fund balance | 3,333,522 | 8,333,522 | | |
| Appropriated reserves | <u>308,463</u> | <u>308,463</u> | | |
| TOTAL REVENUES, APPROPRIATED FUND BALANCE AND RESERVES | <u>\$178,612,174</u> | <u>\$183,632,174</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.

PATCHOGUE-MEDFORD 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, 2017

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Year-End Encumbrances | Final Budget Variance with Budgetary Actual and Encumbrances |
|-------------------------------------------------------|----------------------|----------------------|-----------------------------|--------------------------|-----------------------------------------------------------------------|
| EXPENDITURES | | | | | |
| General Support | | | | | |
| Board of education | \$152,339 | \$152,339 | \$132,032 | \$285 | \$20,022 |
| Central administration | 401,557 | 401,557 | 397,175 | | 4,382 |
| Finance | 1,303,707 | 1,303,707 | 1,277,325 | 4,364 | 22,018 |
| Staff | 816,948 | 816,948 | 803,323 | | 13,625 |
| Central services | 15,329,939 | 15,329,939 | 14,291,880 | 448,388 | 589,671 |
| Special items | 2,057,304 | 2,057,304 | 2,050,359 | | 6,945 |
| Instructional | | | | | |
| Instruction, adm. & imp. | 6,246,898 | 6,246,898 | 6,196,199 | | 50,699 |
| Teaching - regular school | 49,667,163 | 49,667,163 | 49,263,801 | 62,082 | 341,280 |
| Programs for children with handicapping conditions | 26,700,750 | 26,700,750 | 26,505,374 | 30,085 | 165,291 |
| Occupational education | 1,100,122 | 1,100,122 | 1,099,628 | | 494 |
| Teaching special schools | 763,117 | 763,117 | 735,523 | 2,000 | 25,594 |
| Instructional media | 2,820,089 | 2,820,089 | 2,719,951 | 8,702 | 91,436 |
| Pupil services | 7,842,129 | 7,862,129 | 7,755,525 | 13,524 | 93,080 |
| Pupil transportation | 8,412,591 | 8,412,591 | 8,224,562 | 4,000 | 184,029 |
| Community services | 908,733 | 908,733 | 847,844 | | 60,889 |
| Employee benefits | 40,930,588 | 40,930,588 | 40,790,230 | | 140,358 |
| Debt service | | | | | |
| Debt service interest | 206,750 | 206,750 | 206,750 | | - |
| | 165,660,724 | 165,680,724 | 163,297,481 | 573,430 | 1,809,813 |
| Other Financing Uses | | | | | |
| Interfund transfers | 12,951,450 | 17,951,450 | 17,922,661 | | 28,789 |
| TOTAL EXPENDITURES AND OTHER USES | \$178,612,174 | \$183,632,174 | 181,220,142 | \$573,430 | \$1,838,602 |
| NET CHANGE IN FUND BALANCE | | | (3,466,476) | | |
| FUND BALANCE - BEGINNING OF YEAR | | | 26,069,277 | | |
| FUND BALANCE - END OF YEAR | | | \$22,602,801 | | |

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.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)
JUNE 30, 2017

| Valuation Date | Actuarial | | Unfunded Liability | Funded Ratio | Covered Payroll | Unfunded Liability as a Percentage of Covered Payroll |
|-------------------|--------------------|----------------------|-----------------------|-----------------|--------------------|-------------------------------------------------------------------|
| | Value of Assets | Accrued Liability | | | | |
| July 1, 2012 | \$0 | \$174,441,979 | \$174,441,979 | 0% | \$72,076,073 | 242% |
| July 1, 2014 | \$0 | \$194,842,353 | \$194,842,353 | 0% | \$71,983,681 | 271% |
| July 1, 2016 | \$0 | \$214,785,446 | \$214,785,446 | 0% | \$74,200,431 | 289% |

PATCHOGUE-MEDFORD 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>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| District's proportion of the net pension (liability) asset | 0.0441517% | 0.0428285% | 0.0428188% | 0.0428188% |
| District's proportionate share of the net pension (liability) asset | \$ (4,148,588) | \$ (6,874,102) | \$ (1,446,523) | \$ (1,934,921) |
| District's covered payroll | \$14,202,033 | \$ 13,995,350 | \$ 13,032,483 | \$ 12,836,071 |
| District's proportionate share of the net pension (liability) asset as a percentage of its covered -employee payroll | 29.21% | 49.12% | 11.10% | 15.07% |
| Plan fiduciary net position as a percentage of the total pension (liability) asset | 94.70% | 90.68% | 97.95% | 97.20% |
| NYSTRS Pension Plan | | | | |
| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| District's proportion of the net pension (liability) asset | 0.423565% | 0.429273% | 0.430833% | 0.441540% |
| District's proportionate share of the net pension (liability) asset | \$ (4,536,556) | \$ 44,587,735 | \$ 47,992,057 | \$ 2,906,453 |
| District's covered payroll | \$66,282,405 | \$ 65,447,539 | \$ 64,783,002 | \$ 65,811,589 |
| District's proportionate share of the net pension (liability) asset as a percentage of its covered -employee payroll | 6.84% | 68.13% | 74.08% | 4.42% |
| Plan fiduciary net position as a percentage of the total pension (liability) asset | 99.01% | 110.46% | 111.48% | 100.70% |

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

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
FOR THE FISCAL YEARS ENDED JUNE 30,

| NYSERS Pension Plan | | | | | | | | | | |
|----------------------------------------------------------------------|------------------|------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Contractually required contribution | \$ 2,134,840 | \$ 2,071,934 | \$ 3,308,634 | \$ 2,813,250 | \$ 1,605,109 | \$ 1,934,788 | \$ 1,228,923 | \$ 893,292 | \$ 859,359 | \$ 942,282 |
| Contributions in relation to the contractually required contribution | <u>2,134,840</u> | <u>2,071,934</u> | <u>3,308,634</u> | <u>2,813,250</u> | <u>1,605,109</u> | <u>1,934,788</u> | <u>1,228,923</u> | <u>893,292</u> | <u>859,359</u> | <u>942,282</u> |
| 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 employee payroll | \$ 14,459,827 | \$ 14,127,816 | \$ 13,378,662 | \$ 12,779,733 | \$ 12,817,802 | \$ 12,417,842 | \$ 12,308,884 | \$ 12,177,950 | \$ 11,465,431 | \$ 11,042,071 |
| Contributions as a percentage of covered employee payroll | 14.76% | 14.67% | 24.73% | 22.01% | 12.52% | 15.58% | 9.98% | 7.34% | 7.50% | 8.53% |
| NYSTRS Pension Plan | | | | | | | | | | |
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Contractually required contribution | \$ 7,812,724 | \$ 8,666,777 | \$ 11,303,793 | \$ 10,341,609 | \$ 7,657,645 | \$ 6,970,100 | \$ 5,716,906 | \$ 3,910,355 | \$ 4,763,487 | \$ 5,159,483 |
| Contributions in relation to the contractually required contribution | <u>7,812,724</u> | <u>8,666,777</u> | <u>11,303,793</u> | <u>10,341,609</u> | <u>7,657,645</u> | <u>6,970,100</u> | <u>5,716,906</u> | <u>3,910,355</u> | <u>4,763,487</u> | <u>5,159,483</u> |
| 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 employee payroll | \$ 68,829,412 | \$ 66,282,405 | \$ 65,447,539 | \$ 64,783,002 | \$ 65,811,589 | \$ 63,777,204 | \$ 67,506,782 | \$ 64,602,057 | \$ 64,026,389 | \$ 60,435,645 |
| Contributions as a percentage of covered employee payroll | 11.35% | 13.08% | 17.27% | 15.96% | 11.64% | 10.93% | 8.47% | 6.05% | 7.44% | 8.54% |

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

| | |
|--------------------------------|-----------------------------|
| Adopted Budget | \$177,333,831 |
| Add: Prior year's encumbrances | <u>1,278,343</u> |
| Original Budget | 178,612,174 |
| Budget revisions | <u>5,020,000</u> |
| Final Budget | <u><u>\$183,632,174</u></u> |

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

| | |
|-------------------------------------------------------------------------------|-----------------------------|
| 2017-2018 voter approved expenditure budget | <u><u>\$183,951,068</u></u> |
| Maximum allowed (4% of 2017-2018 budget) | <u><u>\$7,358,043</u></u> |
| General fund fund balance subject to Section 1318 of Real Property Tax Law | |
| Assigned fund balance | \$573,430 |
| Unassigned fund balance | <u>7,299,045</u> |
| Total unrestricted fund balance | 7,872,475 |
| Less: | |
| Appropriated fund balance | - |
| Encumbrances | <u>573,430</u> |
| Total adjustments | <u><u>573,430</u></u> |
| General fund fund balance subject to Section 1318 of Real Property Tax Law | <u><u>\$7,299,045</u></u> |
| Actual percentage | 3.97% |

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
JUNE 30, 2017

| Project Title | Original Appropriation | Revised Appropriation | Expenditures and Transfers to Date | | | | Unexpended Balance | Methods of Financing | | | | Fund Balance June 30, 2017 |
|---------------------------------------|---------------------------|--------------------------|------------------------------------|--------------------------|---------------------------|---------------------|-----------------------|----------------------------|--------------------|--------------------|---------------------|----------------------------------|
| | | | Prior Year's | Current Year Expenses | Current Year Transfers | Total | | Proceeds of Obligations | State Aid | Local Sources | Total | |
| 2007 EXCEL Bond Referendum | \$10,334,240 | \$10,334,240 | \$9,994,129 | \$100,149 | \$31,384 | \$10,125,662 | \$208,578 | \$7,460,000 | \$2,475,722 | | \$9,935,722 | (\$189,940) * |
| 2013-14 High School Track and Field | 1,600,000 | 1,335,989 | 1,335,989 | | | 1,335,989 | - | | | \$1,335,989 | 1,335,989 | - |
| Energy Performance Contract | 10,602,531 | 10,602,531 | 10,511,514 | 91,017 | | 10,602,531 | - | 10,602,531 | | | 10,602,531 | - |
| Smart Schools Bond Act | 373,942 | 373,942 | 8,750 | 345,694 | | 354,444 | 19,498 | | 350,694 | | 350,694 | (3,750) * |
| 2015-16 Interfund Transfer | 500,000 | 499,951 | 225,392 | 272,693 | | 498,085 | 1,866 | | | \$499,849 | 499,849 | 1,764 |
| 2016-17 Interfund Transfer | 550,000 | 550,000 | | 157,160 | | 157,160 | 392,840 | | | \$550,000 | 550,000 | 392,840 |
| 2015 Capital Reserve - Bay Roof | 365,565 | 365,565 | | 10,746 | | 10,746 | 354,819 | | | \$365,565 | 365,565 | 354,819 |
| 2015 Capital Reserve - Medford Window | 511,752 | 511,752 | | 16,107 | | 16,107 | 495,645 | | | \$511,752 | 511,752 | 495,645 |
| 2015 Capital Reserve - Medford Roof | 511,752 | 511,752 | | 14,677 | | 14,677 | 497,075 | | | \$511,752 | 511,752 | 497,075 |
| 2015 Capital Reserve - Saxton Roof | 1,097,682 | 1,097,682 | | 30,400 | | 30,400 | 1,067,282 | | | \$1,097,682 | 1,097,682 | 1,067,282 |
| 2015 Capital Reserve - Barton Roof | 639,714 | 639,714 | | 18,117 | | 18,117 | 621,597 | | | \$639,714 | 639,714 | 621,597 |
| 2015 Capital Reserve - Tremont Roof | 731,131 | 731,131 | | 20,573 | | 20,573 | 710,558 | | | \$731,131 | 731,131 | 710,558 |
| 2015 Capital Reserve - Eagle Roof | 594,006 | 594,006 | | 16,888 | | 16,888 | 577,118 | | | \$594,006 | 594,006 | 577,118 |
| 2015 Capital Reserve - Canaan Roof | 548,398 | 548,398 | | 15,660 | | 15,660 | 532,738 | | | \$548,398 | 548,398 | 532,738 |
| TOTAL | \$28,960,713 | \$23,696,653 | \$22,075,774 | \$1,109,881 | \$31,384 | \$23,217,039 | \$5,479,614 | \$18,062,531 | \$2,826,416 | \$7,385,838 | \$28,274,785 | \$5,057,746 |

* The current deficit fund balance will be eliminated once permanent funding is obtained.

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2017

| | | |
|-----------------------------------------------|-------------------|----------------------------|
| Capital assets, net | | \$122,694,198 |
| Add: | | |
| Loss on defeasance | <u>\$406,151</u> | 406,151 |
| Deduct: | | |
| Gain on defeasance | <u>3,006,231</u> | 3,006,231 |
| Short-term portion of bonds payable | 7,165,000 | |
| Long-term portion of bonds payable | <u>83,240,000</u> | 90,405,000 |
| Short-term portion of energy performance debt | 628,569 | |
| Long-term portion of energy performance debt | <u>8,894,954</u> | <u>9,523,523</u> |
| Net investment in capital assets | | <u><u>\$20,165,595</u></u> |

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

To the Board of Education
Patchogue-Medford Union Free School District

We have audited, 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, the financial statements of the governmental activities, each major fund, and the fiduciary funds of the Patchogue-Medford Union Free School District, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Patchogue-Medford Union Free School District's basic financial statements, and have issued our report thereon dated October 2, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Patchogue-Medford Union Free School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Patchogue-Medford Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Patchogue-Medford 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Patchogue-Medford 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 2, 2017