

POUGHKEEPSIE CITY SCHOOL DISTRICT

**Financial Statements and Required Report
as of
June 30, 2017
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

October 4, 2017

To the Board of Education of
Poughkeepsie City School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Poughkeepsie City School District (the "District") as of and for the 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.

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

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 aggregate remaining fund information of Poughkeepsie City School District as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As described in note 17 to the financial statements, the District improperly recorded accounts payable and overstated an accrual for retroactive pay agreements during the year ended June 30, 2016. The District has restated the June 30, 2017 beginning fund balance in the general fund and the beginning net position in the statement of activities for the correction of this misstatement.

Our opinions are not modified with respect to these matters.

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 proportionate share of net pension liability (asset), schedule of contributions – pension plans, and schedule of funding progress – other postemployment benefits 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the New York State Education Department is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information required by the New York State Education Department has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2017 on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 District's internal control over financial reporting and compliance.

REQUIRED SUPPLEMENTARY INFORMATION

POUGHKEEPSIE CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The following is a discussion and analysis of the School District's financial performance for the fiscal year ended June 30, 2017. This section is a summary of the School District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Total net position under the "district-wide" method (similar to private sector reporting) decreased primarily due to liability increases in Long Term Other Post Employment Benefits Payable. The affordable care act is also a major burden to the management of employee health benefits for the 2016 school year.
- The District's \$5,600,000 Energy Performance Contract is now 100% complete. The final cost report for this work was submitted to NYSED on June 30, 2017.
- On October 29, 2014 an agreement was entered into between The City of Poughkeepsie ("City") and the Board of Education of the Poughkeepsie City School District ("District") for outstanding payments in lieu of taxes ("PILOT") and delinquent taxes owed to the District by the City. There has been issues with collections on these PILOT payments and the District is working with legal counsel to reach an agreement for these delinquent payments.

PILOT Agreements. With respect to the 2016 tax year, the district received PILOT payments from the City of Poughkeepsie in January 2017.

Delinquent Taxes. After the normal tax collection period is elapsed the City of Poughkeepsie is given the delinquent and unpaid tax roll in accordance with the RPTL section 1332. The City is responsible for the collection of taxes after this period. As tax receipts are collected by the City, taxes collected are to be turned over to the district on a monthly basis. Also, the City is required to remit the balance of the unpaid taxes to the School District 2 years after receiving the delinquent tax roll. Total overdue taxes as of year-end was \$1,935,827.

- November 28, 2016, Moody's Investors Service downgraded the District's underlying rating to Baa1 from A3 and enhanced rating to A3 from A2, affecting approximately \$29 million in general obligation debt outstanding. The outlook is revised to stable from negative.
- On February 22, 2017, a Revenue Anticipation Note was issued in the amount of \$17,841,600, in anticipation of the receipt of monies from the State of New York in the form of State Aid to Education during the fiscal year of the School District commencing July 1, 2016 as a result of the late completion and submission of the District's external audit. The proceeds were used for the purpose of meeting expenditures payable until said aid was received. The RAN matured on June 30, 2017 at 2.00% interest.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: Management's Discussion and Analysis (MD&A) (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements are *District-wide* financial statements that provide both *short-term* and *long-term* information about the School District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School District, reporting the School District's operations in *more detail* than the District-wide statements. The fund financial statements concentrate on the School District's most significant funds with all other nonmajor funds listed in total in one column.

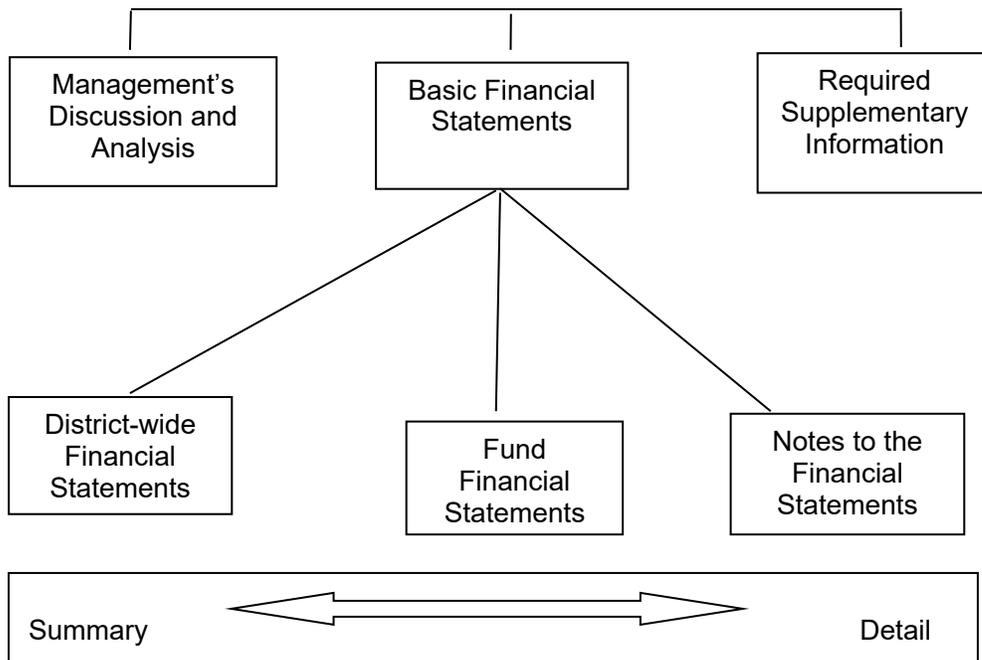
The *governmental funds statements* tell how basic services, such as regular and special education, were financed in the *short-term*, as well as what remains for future spending.

- *Fiduciary funds statements* provide information about the financial *relationships* in which the School District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District's budget for the year.

Figure A-1 shows how the various sections of this annual report are arranged and related to one another.

Figure A-1



OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-2 summarizes the major features of the School District's financial statements, including a portion of the School District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

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

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

District-Wide Statements

The District-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School District's assets/deferred outflows of resources and liabilities/deferred inflows of resources. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the School District's *net position* and how it has changed. Net position – the difference between the School District's assets/deferred outflows of resources and liabilities/deferred inflows of resources – is one way to measure the School District's financial health or *position*.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

District-Wide Statements (Continued)

- Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the School District's overall health, you need to consider additional nonfinancial factors, such as changes in the School District's property tax base and the condition of school buildings and other facilities.

Net position of the governmental activities differs from the governmental fund balance because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (dollars) are expended to purchase or build such assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. Principal and interest payments are considered expenditures when paid. Depreciation is not calculated. Capital assets and long-term debt are accounted for in account groups and do not affect the fund balances.

Government-wide statements use an economic resources measurement focus and full accrual basis of accounting that involves the following steps to prepare 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 function.
- Calculate revenue and expenditures using the economic resources measurement focus and the full accrual basis of accounting.
- Allocate net position balances as follows:
 - Investment in capital assets.
 - Restricted net position is that with constraints placed on use by external sources or imposed by law.
 - Unrestricted net position is net position that does not meet any of the above restrictions.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds – not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs. The funds have been established by the State of New York.

The District has two kinds of funds:

- **Governmental Funds:** Most of the School District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets 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 funds 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 School District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The governmental fund statements focus primarily on current financial resources and often have a budgetary orientation. Governmental funds include the general fund, special aid fund, school lunch fund, capital projects fund, and debt service fund. Required financial statements are the balance sheet and the statement of revenue, expenditures, and changes in fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements (Continued)

- Fiduciary Funds: The School District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The School 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 School District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Figure A-3 Condensed Statement of Net Position (In Millions of Dollars)

	Fiscal Year <u>2017</u>	Fiscal Year <u>2016</u>	Percent <u>Change</u>
Current and other assets	\$ 18.60	\$ 11.70	59.0%
Receivable and inventories	7.80	10.40	-25.0%
Noncurrent assets	-	25.50	N/A
Capital assets	<u>42.20</u>	<u>43.50</u>	-3.0%
Total assets	<u>68.60</u>	<u>91.10</u>	-24.7%
Deferred outflows of resources	<u>26.10</u>	<u>8.50</u>	N/A
Current liabilities	11.80	13.90	-15.1%
Long-term liabilities	<u>75.00</u>	<u>71.60</u>	4.7%
Total liabilities	<u>86.80</u>	<u>85.50</u>	1.5%
Deferred inflows of resources	<u>1.20</u>	<u>9.20</u>	N/A
Net position:			
Investment in capital assets	9.67	8.93	8.3%
Restricted for debt service	0.90	1.30	-30.8%
Unrestricted	<u>(3.90)</u>	<u>(5.30)</u>	26.4%
Total net position	<u>\$ 6.67</u>	<u>\$ 4.93</u>	-35.3%

- Investment in capital assets decreased primarily due to depreciation expense and an increase in bonds payable.
- The increase in unrestricted net position is primarily due to the increase in other postemployment liability (OPEB) of \$4,910,688.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (Continued)

Changes in Net Position

The School District's 2017 revenue was \$105,289,739 (See Figure A-4). Property taxes and New York State aid accounted for the majority of revenue by contributing 23% and 61%, respectively, of the total revenue raised (see Figure A-5). The remainder of revenue came from charges for services, operating grants and contributions, nonproperty taxes, other tax items, federal sources, and other miscellaneous sources.

The total cost of all programs and services totaled \$104,215,790. For these expenses, 90% are predominately for the education; supervision, school lunch program, and transportation of students (see Figure A-6). The School District's administrative and business activities, including debt service accounted for 10% of total costs.

Net position increased during the year by \$1,073,949.

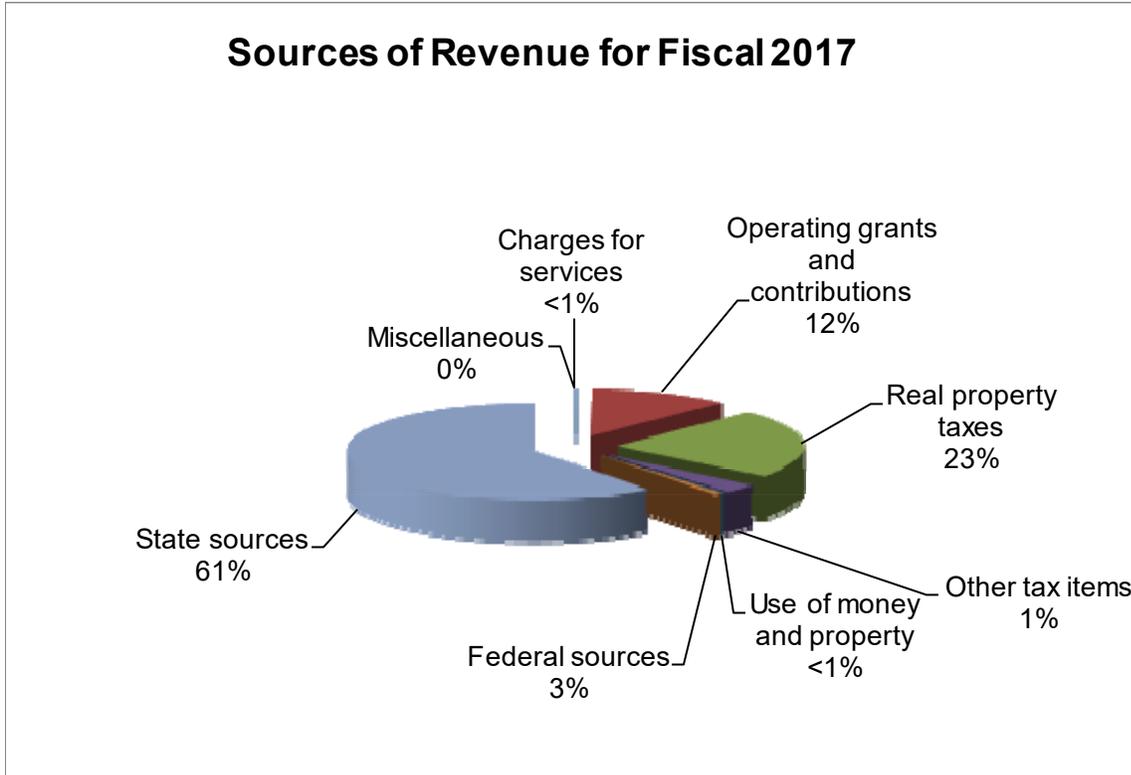
Figure A-4 Changes in Net Position from Operating Results (In Millions of Dollars)

	Fiscal Year <u>2017</u>	Fiscal Year <u>2016</u>	Percent <u>Change</u>
<u>Revenue</u>			
Program revenue:			
Charges for services	\$ -	\$ 0.10	-100.0%
Operating grants and contributions	12.90	13.20	-2.3%
General revenue:			
Taxes	27.70	28.30	-2.1%
Uses of money for property	0.20	0.20	0.0%
State formula aid	63.60	60.50	5.1%
Federal sources	-	0.20	-100.0%
Medicaid reimbursement	0.20	0.50	-60.0%
Food sales & surplus	0.20	0.30	-33.3%
Miscellaneous	0.50	1.00	-50.0%
Total revenue	<u>105.30</u>	<u>104.30</u>	1.0%
<u>Expenses</u>			
General support	\$ 8.50	\$ 7.90	7.6%
Instruction	87.20	82.10	6.2%
Transportation	3.50	3.10	12.9%
Debt service - Interest	1.50	1.40	7.1%
School lunch program	3.60	3.30	9.1%
Community service	0.10	0.10	0.0%
Total expenses	<u>104.40</u>	<u>97.90</u>	6.6%
Increase (decrease) in net position	<u>\$ 0.90</u>	<u>\$ 6.40</u>	-85.9%

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (Continued)

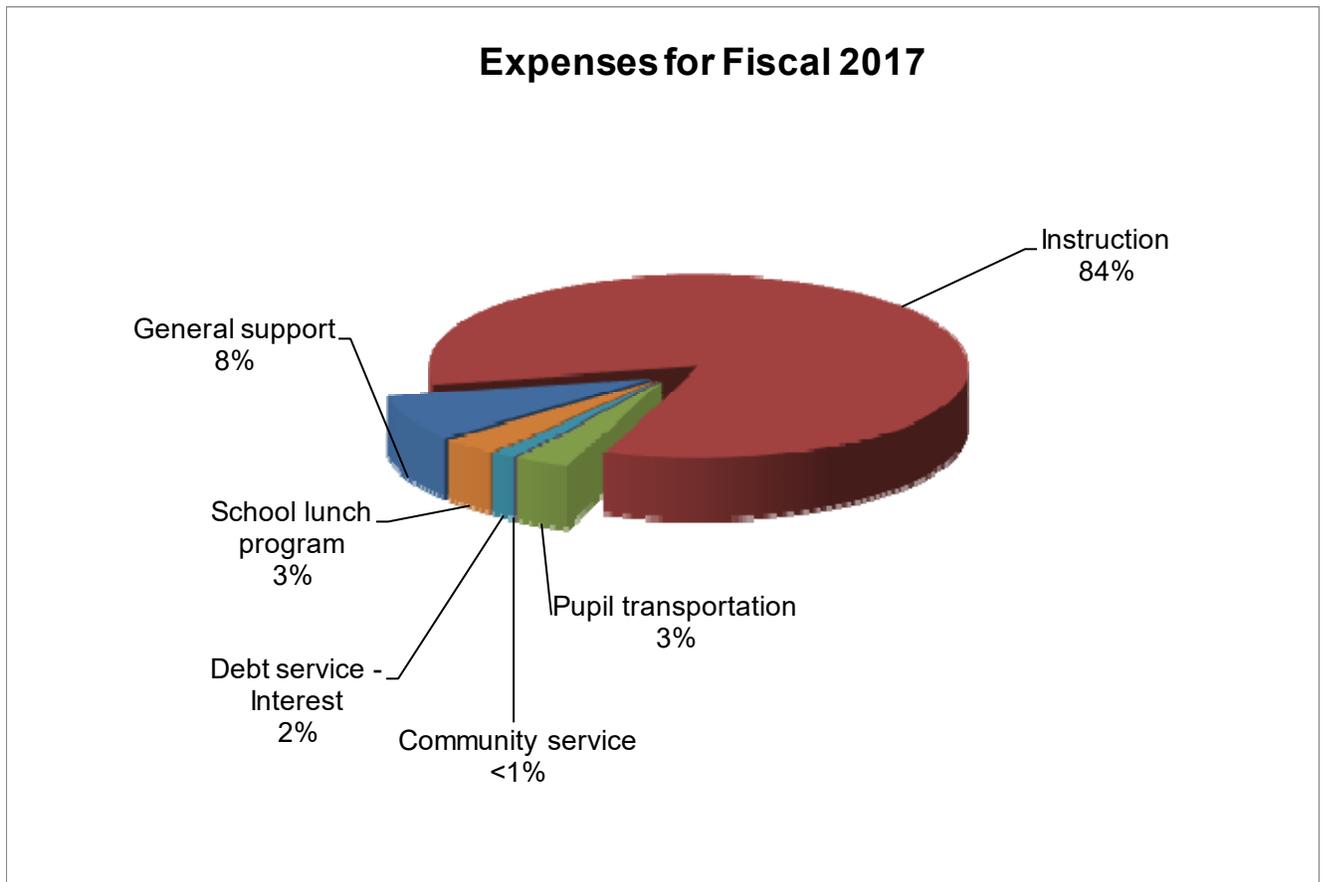
- The District's 2017 revenues totaled \$105,289,739 as compared to \$104,311,112 for the previous year. The increase is primarily due to increases in property taxes and operating grants.
- Expenses totaled \$104,215,790 for the current year.

Figure A-5: Revenue Sources for Fiscal year 2017



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (Continued)

Figure A-6: Sources of Expenses for Fiscal year 2017



Governmental Activities

Revenue for the School District's governmental activities totaled \$105,289,739 while total expenses were \$104,215,790. Accordingly, net position increased by \$1,073,949. The increase was primarily the result of the current year increase in state aid.

Figure A-7 presents the cost of several of the District's major activities. The figure also shows each activity's net cost (total cost less fees generated by the activity 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.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (Continued)

Figure A-7

Net Cost of Governmental Activities (In Millions of Dollars)

	Total Cost Services <u>2017</u>	Net Cost of Services <u>2017</u>	Total Cost Services <u>2016</u>	Net Cost of Services <u>2016</u>
General support	\$ 8.5	\$ 8.5	\$ 7.9	\$ 7.9
Instruction	87.2	77.5	82.1	71.7
Pupil transportation	3.5	3.5	3.1	3.1
Community service	0.1	0.1	0.1	0.1
Debt service - Interest	1.5	1.5	1.4	1.4
School lunch program	3.6	0.2	3.3	0.1
	<u>\$ 104.4</u>	<u>\$ 91.3</u>	<u>\$ 97.9</u>	<u>\$ 84.3</u>

- The cost of all governmental activities for the year was \$104,215,790.
- The users of the School District's programs financed \$182,854 of the costs.
- The federal and state government financed \$12,889,339 of the costs.
- The majority of the net costs were financed by the School District's taxpayers and unallocated NYS aid.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Variations between years for the governmental fund financial statements are not the same as variations between years for the District-wide financial statements. The School District's governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of presentation, governmental funds do not include long-term liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include proceeds from the issuance of debt, the current payments for capital assets, and the current payments for debt.

Governmental Funds Highlights

The following is a brief description of the activity in the governmental funds for 2017:

- General Fund – The District revenues increased due to additional State Aid.
- Special Aid Fund – The District Special Aid Fund revenues decreased primarily due to reduction in revenues from the School Improvement Grants.
- School Lunch Fund – The Food Service Fund is continuing to improve the student's choice and to provide higher quality food selections, as per our wellness policy guidelines.
- Capital Projects Fund – The District's \$5,600,000 Energy Performance Contract is complete.
- Debt Service Fund – As all of the current capital projects have been completed, the District has converted all of the short term financing to long term serial bonds.

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

General Fund Budgetary Highlights

This section presents an analysis of significant variances between original and final budget amounts and between final budget amounts and actual results for the general fund.

Results vs. Budget (In Millions of Dollars)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance (Actual/Budget)</u>
Revenue:				
Local sources	\$ 28.5	\$ 28.5	\$ 29.0	\$ 0.5
State sources	65.8	65.8	63.6	(2.2)
Federal sources	0.4	0.4	0.2	(0.2)
Transfers in	-	-	-	-
Total	<u>94.7</u>	<u>94.7</u>	<u>92.8</u>	<u>(1.9)</u>
Expenses:				
General support	8.1	8.1	7.6	(0.5)
Instruction	53.8	52.9	47.6	(5.3)
Pupil transportation	2.9	3.6	3.2	(0.4)
Employee benefits	26.2	26.5	24.5	(2.0)
Debt service	0.2	0.1	0.1	-
Transfers out	<u>3.5</u>	<u>3.5</u>	<u>3.5</u>	<u>-</u>
Total	<u>94.7</u>	<u>94.7</u>	<u>86.5</u>	<u>(8.2)</u>
Revenue over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6.3</u>	<u>\$ 6.3</u>

Note: Amounts may be off due to rounding.

The general fund is the only fund for which a budget is legally adopted.

- The General fund had an excess of revenues over expenditures 2017 of \$6,544,954. As a result of this excess, the District's fund balance has increased by this amount. All reserves are within the legal limitations.

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

Capital Assets, Net

As of June 30, 2017, the School District had \$42,189,295 invested in buildings, computers, and other educational equipment. The School District is in the process of constructing a \$17,225,000 construction project to make repairs and renovations to its existing facilities as well as an EPC project to improve energy efficiency District-wide.

Figure A-8

Capital Assets (Net of Depreciation, in Millions of Dollars)

<u>Category</u>	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>	<u>Percent Change</u>
Land and land improvements	\$ 0.1	\$ 0.1	0.0%
Buildings	70.8	70.7	0.1%
Machinery and equipment	1.8	1.7	5.9%
Construction in progress	<u>1.0</u>	<u>0.9</u>	11.1%
Total	73.7	73.4	0.4%
Less: Accumulated depreciation	<u>31.5</u>	<u>30.0</u>	5.0%
Net capital assets	<u>\$ 42.2</u>	<u>\$ 43.4</u>	-2.8%

Long-Term Debt

As of June 30, 2017, the District had \$76,953,360 in general obligation and other long-term debt outstanding. More detailed information about the School District's long-term debt is included in the notes to the financial statements. The District, because of its status as a small city school, is limited to issuing debt of no greater than 5% of its full assessed value. Currently, the District is below its debt limit.

Figure A-9

Outstanding Long-Term Debt (In Millions of Dollars)

<u>Category</u>	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
General obligation bonds (financed with property taxes)	\$ 29.2	\$ 30.8
Other long-term debt	<u>47.8</u>	<u>42.7</u>
Total	<u>\$ 77.0</u>	<u>\$ 73.5</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

- The District's financing for the 2005 \$27 million construction project is financed through 2033 and the State-aid to support these payments will end in 2020. This will present a financial challenge to the District. We are working with our Financial Advisors on a plan to offset this burden to the tax payers when the building aid runs out in 2020-2021.
- If a Charter School is approved to operate within City limits it will have a negative effect on the finances of the District and its ability to plan for enrollment and staffing levels on an annual basis. There is no prospect of a Charter School.
- As is typical in a district this size, some challenges to property tax assessments are ongoing, which may require the issuance of future tax refunds. The amount of these potential refunds cannot be determined at the present time and are being addressed with the District's legal counsel. They have intervened on the significant cases as necessary. The District has set aside a reserve in preparation for these types of refunds.
- The NYS legislature has imposed a real property tax cap on public school districts, which may fail to acknowledge the true cost of increases in unfunded mandates, employee benefits and rising energy costs. Unless these issues are recognized in any new legislation, school districts will be forced to reallocate funds from instruction to these other areas. The tax levy cap for the next year is a net reduction in tax levy due to the change in capital exclusion. This will result in a challenge to our property tax cap formula and the amount we can raise our tax levy by.
- The current economic climate of New York State and the nation as a whole will continue to diminish the state's ability to adequately fund the public education system. We look forward to some significant changes to the funding structure for public schools. The New York State Association of Business Officials has put together a recommendation to the state to address many of the issues that the schools in NYS are facing.
- As a district that is 76% dependent upon state aid, federal aid, and grants, this lack of funding places enormous pressure on the district's ability to maintain programs at the current level. City school districts that are aid dependent do not make out as well as the surrounding non-city school Districts when it comes to aid increases.
- The District benefits greatly from many Grants that are awarded for improvements in our schools, but it is not meant for supplanting the schools rather to support improvement.
- The District's Poughkeepsie Middle School is still in receivership and must continue to meet specific targets. The Poughkeepsie High School is no longer in Receivership Status. The District's management team has been making significant efforts to make the needed improvements.
- Poughkeepsie City School District is a high needs District with 75% of its enrolled students designated economically disadvantaged. This bears a significant strain on the District.
- The district has completed a 5 year building condition survey in the spring of 2016. It has identified significant deficiencies in key building systems and building envelope that need to be addressed.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Poughkeepsie City School District
Attn: Dawn Cupano
Assistant Superintendent for Finance and Operations
11 College Avenue
Poughkeepsie, NY 12603
(845) 451-4960

POUGHKEEPSIE CITY SCHOOL DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2017**

ASSETS

CURRENT ASSETS:

Cash - Unrestricted	\$ 16,224,562
Cash - Restricted	1,424,177
Due from fiduciary funds	7,000
Taxes receivable	1,997,474
State and federal aid receivable	5,634,404
Other receivables, net	94,767
Inventory	27,593
Prepaid expenses	<u>980,735</u>
Total current assets	26,390,712

NONCURRENT ASSETS

Capital assets - Net	<u>42,189,295</u>
Total noncurrent assets	<u>42,189,295</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources - pension	<u>26,138,933</u>
Total deferred outflows of resources	<u>26,138,933</u>

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

94,718,940

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	2,230,322
Accrued liabilities	313,794
Accrued interest	169,197
Due to other governments	2,499,761
Unearned revenue	236,003
Due to teachers' retirement system	4,214,993
Due to employees' retirement system	202,890
Long term payable due within one year	<u>1,970,089</u>
Total current liabilities	<u>11,837,049</u>

LONG-TERM LIABILITIES

Long term debt payable	30,546,944
Net pension liability	4,110,589
Compensated absences payable	1,338,321
Other postemployment benefits payable	<u>38,987,417</u>
Total long-term liabilities	<u>74,983,271</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources	<u>1,214,292</u>
Total deferred inflows of resources	<u>1,214,292</u>

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

88,034,612

NET POSITION

Net investment in capital assets	9,672,262
Restricted	942,315
Unrestricted	<u>(3,930,249)</u>
TOTAL NET POSITION	<u>\$ 6,684,328</u>

POUGHKEEPSIE CITY SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Expenses</u>	<u>Program Revenue</u>		<i>Net (Expense) Revenue and Changes in Net Position</i>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS/PROGRAMS:				
General support	\$ 8,465,260	\$ -	\$ -	\$ (8,465,260)
Instruction	87,162,937	539	9,672,975	(77,489,423)
Pupil transportation	3,478,597	-	-	(3,478,597)
Community service	52,696	-	-	(52,696)
Debt service - Interest	1,501,714	-	-	(1,501,714)
School lunch program	<u>3,554,586</u>	<u>182,315</u>	<u>3,216,364</u>	<u>(155,907)</u>
TOTAL FUNCTIONS AND PROGRAMS	<u>\$ 104,215,790</u>	<u>\$ 182,854</u>	<u>\$ 12,889,339</u>	<u>(91,143,597)</u>
GENERAL REVENUE:				
Real property taxes				24,523,430
Other tax items				3,154,961
Use of money and property				211,573
Sale of property				51,343
Miscellaneous				499,765
Medicaid reimbursement				224,108
State sources				<u>63,552,366</u>
TOTAL GENERAL REVENUE				<u>92,217,546</u>
CHANGE IN NET POSITION				1,073,949
TOTAL NET POSITION - beginning of the year, as originally stated				<u>4,926,223</u>
Prior period adjustment				684,156
TOTAL NET POSITION - beginning of the year, as restated				<u>5,610,379</u>
TOTAL NET POSITION - end of year				<u>\$ 6,684,328</u>

The accompanying notes are an integral part of these statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT

**BALANCE SHEET - GOVERNMENTAL FUNDS AND RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCE TO GOVERNMENT-WIDE NET POSITION
JUNE 30, 2017**

	Governmental Fund Types					Total Governmental Funds
	General	Special Aid	School Lunch	Capital Projects	Debt Service	
ASSETS						
Cash - Unrestricted	\$ 14,805,377	\$ 835,966	\$ 583,219	\$ -	\$ -	\$ 16,224,562
Cash - Restricted	1,006,582	-	-	688	416,907	1,424,177
Taxes receivable	1,997,474	-	-	-	-	1,997,474
State and federal aid receivable	3,097,707	2,353,251	183,446	-	-	5,634,404
Due from other funds	6,251,809	15,293	-	3,705,979	-	9,973,081
Other receivables, net	89,610	5,157	-	-	-	94,767
Inventory	-	-	27,593	-	-	27,593
Prepaid expenditures	980,735	-	-	-	-	980,735
TOTAL ASSETS	\$ 28,229,294	\$ 3,209,667	\$ 794,258	\$ 3,706,667	\$ 416,907	\$ 36,356,793
LIABILITIES DEFERRED INFLOWS AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 1,920,873	\$ 295,629	\$ 5,797	\$ 8,023	\$ -	\$ 2,230,322
Accrued liabilities	275,923	24,017	13,854	-	-	313,794
Due to other governments	2,499,631	-	130	-	-	2,499,761
Due to other funds	3,348,799	2,504,275	-	3,740,534	372,473	9,966,081
Due to teachers' retirement system	3,991,882	223,111	-	-	-	4,214,993
Due to employees' retirement system	111,694	45,190	46,006	-	-	202,890
Unearned revenue	118,558	117,445	-	-	-	236,003
TOTAL LIABILITIES	12,267,360	3,209,667	65,787	3,748,557	372,473	19,663,844
DEFERRED INFLOWS OF RESOURCES:						
Deferred property tax revenue	1,898,968	-	-	-	-	1,898,968

(Continued)

POUGHKEEPSIE CITY SCHOOL DISTRICT

**BALANCE SHEET - GOVERNMENTAL FUNDS AND RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCE TO GOVERNMENT-WIDE NET POSITION (Continued)
JUNE 30, 2017**

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
FUND BALANCES:						
Nonspendable						
Prepaid expenditures	980,735	-	-	-	-	980,735
Inventories	-	-	27,593	-	-	27,593
Total nonspendable fund balance	<u>980,735</u>	<u>-</u>	<u>27,593</u>	<u>-</u>	<u>-</u>	<u>1,008,328</u>
Restricted						
Liability claims and property loss	257,994	-	-	-	-	257,994
Unemployment insurance	219,476	-	-	-	-	219,476
Debt service	-	-	-	-	44,434	44,434
Tax certiorari	420,411	-	-	-	-	420,411
Total restricted fund balance	<u>897,881</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,434</u>	<u>942,315</u>
Assigned						
Appropriated for subsequent year expenditures	1,259,647	-	-	-	-	1,259,647
Other	-	-	700,878	65,390	-	766,268
Total assigned fund balance	1,259,647	-	700,878	65,390	-	2,025,915
Unassigned	<u>10,924,703</u>	<u>-</u>	<u>-</u>	<u>(107,280)</u>	<u>-</u>	<u>10,817,423</u>
TOTAL FUND BALANCES	<u>14,062,966</u>	<u>-</u>	<u>728,471</u>	<u>(41,890)</u>	<u>44,434</u>	<u>14,793,981</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 28,229,294</u>	<u>\$ 3,209,667</u>	<u>\$ 794,258</u>	<u>\$ 3,706,667</u>	<u>\$ 416,907</u>	<u>\$ 36,356,793</u>

A reconciliation of total governmental fund balance to government-wide net position follows:

Total governmental fund balances per above	\$ 14,793,981
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	42,189,295
GASB 68 related government-wide activity	
Deferred outflows of resources	26,138,933
Net pension liability	(4,110,589)
Deferred inflows of resources	(1,214,292)
Long-term bonds payable are not due in the current period and, therefore, are not reported in the funds	(32,517,033)
Compensated absences due in more than one year are recognized as a liability under full accrual accounting	(1,338,321)
Other postemployment benefits are recognized as a liability under full accrual accounting	(38,987,417)
Unearned revenue earned in the current year is recognized as revenue under full accrual accounting	1,898,968
Interest payable at end of year, in the government-wide statements is recorded as an expense under full accrual accounting	<u>(169,197)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 6,684,328</u>

The accompanying notes are an integral part of these statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Governmental Fund Types					Total Governmental Funds
	General	Special Aid	School Lunch	Capital Projects	Debt Service	
REVENUE:						
Real property taxes	\$ 25,172,633	\$ -	\$ -	\$ -	\$ -	\$ 25,172,633
Other tax items	3,154,961	-	-	-	-	3,154,961
Charges for services	539	-	-	-	-	539
Use of money and property	164,521	-	181	-	250	164,952
Sale of property and compensation for loss	51,343	-	-	-	-	51,343
Miscellaneous	499,765	-	-	-	-	499,765
State sources	63,552,366	1,660,492	80,498	-	-	65,293,356
Federal sources	-	8,012,483	2,934,214	-	-	10,946,697
Medicaid reimbursement	224,108	-	-	-	-	224,108
Surplus food	-	-	201,652	-	-	201,652
Sales - School lunch	-	-	182,315	-	-	182,315
Total revenue	92,820,236	9,672,975	3,398,860	-	250	105,892,321
EXPENDITURES:						
General support	7,565,586	-	-	-	-	7,565,586
Instruction	47,585,141	8,877,289	-	-	-	56,462,430
Pupil transportation	3,235,301	-	-	-	-	3,235,301
Employee benefits	24,455,273	1,217,147	333,613	-	-	26,006,033
Debt service - Principal	-	-	-	-	2,037,180	2,037,180
Debt service - Interest	140,867	-	-	-	1,360,847	1,501,714
Cost of sales	-	-	2,770,616	-	-	2,770,616
Total expenditures	82,982,168	10,094,436	3,104,229	-	3,398,027	99,578,860
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	9,838,068	(421,461)	294,631	-	(3,397,777)	6,313,461
OTHER SOURCES AND (USES):						
Premium on RAN	46,621	-	-	-	-	46,621
Operating transfers in	115,978	537,439	-	-	3,025,554	3,678,971
Operating transfers (out)	(3,455,713)	(115,978)	-	(107,280)	-	(3,678,971)
Total other sources (uses)	(3,293,114)	421,461	-	(107,280)	3,025,554	46,621
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	6,544,954	-	294,631	(107,280)	(372,223)	6,360,082
FUND BALANCE - beginning of year, as originally stated	6,833,856	-	433,840	65,390	416,657	7,749,743
Prior period adjustment	684,156	-	-	-	-	684,156
FUND BALANCE - beginning of year, as restated	7,518,012	-	433,840	65,390	416,657	8,433,899
FUND BALANCE - end of year	\$ 14,062,966	\$ -	\$ 728,471	\$ (41,890)	\$ 44,434	\$ 14,793,981

POUGHKEEPSIE CITY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Net changes in fund balance - Total governmental funds	\$ 6,360,082
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net position less disposals	129,868
Depreciation is not recorded as an expenditure in the governmental funds, but is recorded in the statement of activities	(1,421,140)
Repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net position	2,037,180
Pension income (expense) resulting from GASB 68 related actuary reporting is not recorded as revenue (expenditure) in the governmental funds, but is recorded in the statement of activities	(407,329)
Other postemployment benefits do not require the expenditure of current resources and are, therefore, not reported as expenditures in the governmental funds	(4,910,688)
Certain revenue in the statement of activities is recognized as revenue in the government-wide statements but not recognized as revenue under the modified accrual basis of accounting during the prior year	(649,203)
Certain expenses in the statement of activities do not require the expenditure of current resources and are, therefore, not reported as expenditures in the governmental funds	<u>(64,821)</u>
Change in net position - Governmental activities	<u>\$ 1,073,949</u>

The accompanying notes are an integral part of these statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Agency</u>	<u>Private Purpose Trusts</u>
ASSETS:		
Cash	\$ 6,928	\$ -
Restricted cash	33,475	50,200
Due from governmental funds	<u>-</u>	<u>-</u>
Total assets	<u>\$ 40,403</u>	<u>50,200</u>
LIABILITIES:		
Extraclassroom activity balances	\$ 33,475	-
Due to other funds	7,000	-
Other liabilities	<u>(72)</u>	<u>9,302</u>
Total liabilities	<u>\$ 40,403</u>	<u>9,302</u>
NET POSITION:		
Reserved for scholarships		<u>\$ 40,898</u>

POUGHKEEPSIE CITY SCHOOL DISTRICT

**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Private Purpose Trusts</u>
ADDITIONS:	
Gifts and contributions	<u>\$ 16,359</u>
Total additions	<u>16,359</u>
DEDUCTIONS:	
Scholarships and awards	<u>22,006</u>
Total deductions	<u>22,006</u>
Change in net position	(5,647)
NET POSITION - beginning of year	<u>46,545</u>
NET POSITION - end of year	<u>\$ 40,898</u>

The accompanying notes are an integral part of these statements.

POUGHKEEPSIE CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. NATURE OF OPERATIONS

Poughkeepsie City School District provides free K-12 public education to students living within its geographic borders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Poughkeepsie City School District (School 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 School District are described below:

Reporting Entity

Poughkeepsie City School District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education. 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 generally accepted accounting principles. 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 School District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the following is a brief description of an entity included in the District's reporting entity:

Extraclassroom Activity Funds

The extraclassroom activity funds of the School District represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the School 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 School District's business office. The School District accounts for assets held as an agent for various student organizations in an agency fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The School District's financial statements consist of school district-wide financial statements, including a statement of net position and a statement of activities, and fund level financial statements which provide more detailed information.

School District-Wide Statements

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

The statement of activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipient 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.

Fund Financial Statements

The School District uses funds to maintain its accounting records. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The fund statements provide information about the School 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 accounts of the School District are organized into funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenue, and expenditures. The various funds are summarized by type in the financial statements. Significant transactions between funds within a fund type have been eliminated. The fund types and account groups used by the School District are as follows:

Governmental Fund Types

Governmental funds are those in which most governmental functions of the School District are reported. The acquisition, use, and balances of the School District's expendable financial resources and the related liabilities (except those accounted for in the proprietary and fiduciary funds) are accounted for through the governmental funds. The measurement focus is upon determination of changes in financial position rather than upon determination of net income. The following are the School District's governmental fund types:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Governmental Fund Types (Continued)

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 and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

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

Capital Projects Funds: These funds are used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

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 the governmental activities.

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

- Private Purpose Trust Funds: These funds are used to account for trust arrangements in which principal and income are used for 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported revenue 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 encumbrances, compensated absences, potential contingent liabilities, and useful lives of long-lived assets.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured, whereas basis of accounting refers to when revenues and expenditures are recognized. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The School District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Non-exchange transactions in which the School 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 governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The School District considers all revenue reported in the governmental funds to be available if the revenue is collected within sixty days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Cash

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

New York State law governs the School 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.

Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. Generally accepted accounting principles require the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Inventories and Prepaid Expenses

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.

Prepaid expenses 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 expenditures and revenue to provide financing or other services.

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

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables 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.

See Note 11 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenue activity.

Capital Assets

Capital assets are reported at actual cost for acquisitions subsequent to 2000. For assets acquired prior to 2000, estimated historical costs have been based on appraisal or deflated current replacement cost. 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 by asset classification reported in the District-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 5,000	SL	50
Building improvement	\$ 5,000	SL	15-50
Land improvements	\$ 5,000	SL	20
Furniture and equipment	\$ 5,000	SL	5-15

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period, and so will not be recognized as an outflow of resources (expenses/expenditure) until then.

The government has the following items that qualify for reporting in this category:

Deferred charges result from pension contributions made subsequent to the measurement date of the plan.

Deferred charges result from differences between expected and actual experience of the plan.

Deferred charges result from net differences between projected and actual earnings on pension plan investments of the plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Inflows of Resources (Continued)

These amounts are deferred and amortized and expensed against pension expense in future periods.

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

The government has the following items that qualify for reporting in this category;

The net amount of the District's balances of deferred inflows of resources related to pensions is reported in the government-wide Statement of Net Position as deferred inflows of resources. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and the difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense.

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 receive a payment based on unused accumulated sick leave, based on contractual provisions.

School 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.

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

In the fund 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 the pay-as-you-go basis.

Other Benefits

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

Other Postemployment Benefits

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits to retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure. See Note 10 for additional information regarding postemployment benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Procedures and Budgetary Accounting

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

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

Appropriations are adopted at the program line 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 lapse if not expended in the subsequent year. Supplemental appropriations may occur subject to legal restrictions, if the Board of Education approves them because of a need that exists which was not determined at the time the budget was adopted.

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the previous year.

Property Taxes

Real property taxes are levied annually by the Board of Education no later than September 1, and become a lien on September 1. Taxes are collected during the period September 15 to December 5.

The City and County in which the District is located enforces uncollected real property taxes. An amount representing all uncollected real property taxes must be reported to the City by January 1. All amounts receivable after three years are put into tax sale with proceeds to the District. Real property taxes receivable expected to be collected within 60 days of year-end, less similar amounts collected during this period in the preceding year are recognized as revenue. Otherwise, deferred revenues offset real property taxes receivable.

Unearned Revenue

Unearned revenue is reported when potential revenue meets both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the School District before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the School District has legal claim to the resources, the liability for unearned revenue is removed and revenue is recorded.

Short-Term Debt

The District may issue Revenue Anticipation Notes (RANs) and Tax Anticipation Notes (TANs), in anticipation of the receipt of revenue. 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 the second fiscal year succeeding the year in which the note was issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-Term Debt (Continued)

The District may issue Bond Anticipation Notes (BANs), 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 repaid or converted to long-term financing within five years after the original issue date.

Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities, and long-term obligations are reported in the District-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources.

Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the statement of net position.

Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the School 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.

Equity Classifications

District-Wide Statements

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

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of those assets plus any unspent proceeds of those debt obligations.

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

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

In the fund basis statements, there are five classifications of fund balance:

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 and prepaid expenditures in the general fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

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

Capital

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

Repair

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

Workers' Compensation

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

Unemployment Insurance

Unemployment insurance reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within 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 School District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the general fund under restricted fund balance.

Debt Service

Mandatory reserve for debt service (GML §6-l) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of School District property or capital improvement that was financed by obligations which remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of School District property or capital improvement. The reserve is accounted for in the debt service fund under restricted fund balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Insurance

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

Liability Claims and Property Loss

Property loss reserve and liability reserve (Education Law §1709(8)(c)) are used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than 125,000. These reserves are accounted for in the general fund under restricted fund balance.

Tax Certiorari

Tax certiorari reserve (Education Law §3651.1-a) is used to establish a reserve fund for tax certiorari and to expend from the fund without voter approval. The monies held in the reserve shall not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings. Any resources deposited to the reserve which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the general fund on or before the first day of the fourth fiscal year after deposit of these monies. The reserve is accounted for in the general fund under restricted fund balance.

Employee Benefit Accrued Liability

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

Retirement Contribution

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the general fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

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

Assigned fund balance – Includes amounts that are constrained by the School District's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance - Includes all other general fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the School District.

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

Order of Fund Balance Spending Policy

The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. For all funds, non-spendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the general fund are classified as restricted fund balance. In the general fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

Newly Adopted Accounting Standards

The District adopted the following new accounting standards for the year ended June 30, 2017.

In August 2015, the GASB issued Statement *No. 77 Tax Abatement Disclosures*. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements.

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

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

Total Fund Balances of Governmental Funds vs. Net position of Governmental Activities

3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND SCHOOL DISTRICT-WIDE STATEMENTS (Continued)

Total fund balances of the School District's governmental funds differ from "net position" of governmental activities reported in the statement of net position. This difference primarily results from the additional long-term economic focus of the statement of net position versus the solely current financial resources focus of the governmental fund balance sheets.

Statement of Revenue, Expenditures, and Changes in Fund Balance vs. Statement of Activities

Differences between the governmental funds statement of revenue, expenditures, and changes in fund balance and the statement of activities fall into one of three broad categories.

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the statement of activities as incurred, and principal payments are recorded as a reduction of liabilities in the statement of net position.

4. STEWARDSHIP AND COMPLIANCE

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), that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year.

Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved the Board of Education as a result of selected new revenue sources not included in the original budget, (when permitted by law).

These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

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.

4. STEWARDSHIP AND COMPLIANCE (Continued)

Budgets (Continued)

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.

5. CASH

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. While the District does not have a specific policy for custodial credit risk, New York State statutes govern the District's investment policies, as discussed previously in these Notes.

The District's aggregate bank balances (disclosed in the financial statements), included balances not covered by depository insurance at year-end, collateralized as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents, including trust funds	\$ 19,739,811	\$ 17,739,342
Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name	\$ 19,305,359	
Covered by FDIC insurance	<u>434,452</u>	
Total	<u>\$ 19,739,811</u>	

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 consists of the following:

General fund:

Cash on deposit for unemployment	\$ 219,307
Cash on deposit for liability and casualty	257,797
Cash on deposit for tax certiorari	<u>529,478</u>
Total general fund	<u>\$ 1,006,582</u>

Capital projects fund:

Cash on deposit for capital projects	<u>\$ 688</u>
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Debt service fund:

Cash on deposit for debt service	<u>\$ 416,907</u>
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Trust and agency fund:

Cash on deposit for scholarships, private purpose trust funds and extraclassroom activity funds	<u>\$ 83,675</u>
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6. CAPITAL ASSETS

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

	July 1, 2016 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2017 <u>Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 146,072	\$ -	\$ -	\$ 146,072
Construction in progress	<u>8,955,807</u>	<u>-</u>	<u>-</u>	<u>8,955,807</u>
Total non-depreciable historical cost	<u>9,101,879</u>	<u>-</u>	<u>-</u>	<u>9,101,879</u>
Capital assets that are depreciated:				
Buildings and Building Improvements	61,783,476	14,720	-	61,798,196
Machinery and equipment	1,745,661	10,659	-	1,756,320
Vehicles	<u>893,884</u>	<u>104,489</u>	<u>-</u>	<u>998,373</u>
Total depreciable historical cost	<u>64,423,021</u>	<u>129,868</u>	<u>-</u>	<u>64,552,889</u>
Less accumulated depreciation:				
Buildings and Improvements	28,373,384	1,230,439	-	29,603,823
Machinery and equipment	1,071,700	129,014	-	1,200,714
Vehicles	<u>599,249</u>	<u>61,687</u>	<u>-</u>	<u>660,936</u>
Total accumulated depreciation	<u>30,044,333</u>	<u>1,421,140</u>	<u>-</u>	<u>31,465,473</u>
Total cost, net	<u>\$ 43,480,567</u>	<u>\$ (1,291,272)</u>	<u>\$ -</u>	<u>\$ 42,189,295</u>

Construction in progress relates primarily to the Energy Performance Project costs as of June 30, 2017.

Depreciation expense for the year ended June 30, 2017, was allocated to specific functions as follows:

General support	\$ 230,425
Instruction	1,066,276
Transportation	62,414
Cost of sales	<u>62,025</u>
Total	<u>\$ 1,421,140</u>

7. SHORT-TERM DEBT

The School District may issue revenue anticipation notes (RAN) or tax anticipation notes (TAN), in anticipation of the receipt of revenue. These notes are recorded as a liability in 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 School 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 an insufficient or no provision is made in the annual budget. The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued.

7. SHORT-TERM DEBT (Continued)

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

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
RAN matured 06/30/17 at 2.000%	\$ -	\$ 17,794,445	\$ 17,794,445	\$ -
Total	<u>\$ -</u>	<u>\$ 17,794,445</u>	<u>\$ 17,794,445</u>	<u>\$ -</u>

8. LONG-TERM DEBT

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

Interest paid	\$ 1,501,714
Less interest accrued in prior year	(169,197)
Plus interest accrued in current year	<u>169,197</u>
Total expense	<u>\$ 1,501,714</u>

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds and notes payable:					
General obligation debt:					
Serial bonds	\$ 30,795,000	\$ -	\$ 1,645,000	\$ 29,150,000	\$ 1,675,000
Total bonds and notes payable	<u>\$ 30,795,000</u>	<u>\$ -</u>	<u>\$ 1,645,000</u>	<u>\$ 29,150,000</u>	<u>\$ 1,675,000</u>
Other long-term debt:					
Energy performance contract	\$ 3,759,213	\$ -	\$ 392,180	\$ 3,367,033	\$ 295,089
Compensated absences	1,273,500	64,821 (A)	-	1,338,321	-
Net pension liability	3,577,164	533,425 (A)	-	4,110,589	-
Other postemployment benefits	<u>34,076,729</u>	<u>11,089,448</u>	<u>6,178,760</u>	<u>38,987,417</u>	<u>-</u>
Total other long-term debt	<u>\$ 42,686,606</u>	<u>\$ 11,687,694</u>	<u>\$ 6,570,940</u>	<u>\$ 47,803,360</u>	<u>\$ 295,089</u>
Total long-term liabilities	<u>\$ 73,481,606</u>	<u>\$ 11,687,694</u>	<u>\$ 8,215,940</u>	<u>\$ 76,953,360</u>	<u>\$ 1,970,089</u>

(A) Additions and deletions to compensated absences and net pension liability are shown net because it is impractical to determine these amounts separately.

8. LONG-TERM DEBT (Continued)

Issue dates, maturities, and interest rates on outstanding debt are as follows:

<u>Bond Issue</u>	<u>Issued</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>June 30, 2017 Balance</u>
Serial Bond	6/28/2005	7/25/2032	4.25%-7.25%	\$ 19,320,000
Serial Bond	1/24/2012	6/15/2028	1.6%-4.875%	3,675,000
Serial Bond	6/22/2012	6/15/2028	2.0% - 3.5%	3,185,000
Serial Bond	6/22/2016	6/15/2031	2.1185%	2,970,000
Energy Bond	9/1/2011	6/15/2027	Variable	3,367,033
Total				<u>\$ 32,517,033</u>

The following is a summary of the maturity of bonds payable:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,675,000	\$ 1,178,247	\$ 2,853,247
2019	1,725,000	1,121,556	2,846,556
2020	1,775,000	1,061,156	2,836,156
2021	1,825,000	997,019	2,822,019
2022	1,885,000	928,160	2,813,160
2023-2027	10,380,000	3,483,968	13,863,968
2028-2032	8,230,000	1,460,169	9,690,169
2033	1,655,000	76,544	1,731,544
Totals	<u>\$ 29,150,000</u>	<u>\$ 10,306,819</u>	<u>\$ 39,456,819</u>

In September 2011, the District entered into an energy performance contract in the amount of \$4,263,579. Payments under this contract are payable in 30 semi-annual payments of \$183,502, including interest, beginning December 15, 2012. In February 2015, the District entered into an additional energy performance contract in the amount of \$475,442. Payments under this contract are payable in 25 semi-annual payments of \$24,370, including interest, beginning June 2015.

The following is a summary maturing debt service requirements of other liabilities (energy performance contract):

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 295,089	\$ 120,657	\$ 415,746
2019	305,643	110,102	415,745
2020	316,577	99,168	415,745
2021	327,903	87,842	415,745
2022	339,636	76,109	415,745
2023-2027	1,782,185	189,259	1,971,444
2028-2032	-	-	-
Totals	<u>\$ 3,367,033</u>	<u>\$ 683,137</u>	<u>\$ 4,050,170</u>

9. PENSION PLANS

New York State Employees' Retirement System

The District participates in the New York State and Local Employees' Retirement System (ERS) also referred to as New York State and Local Retirement System (the System). This is a cost-sharing multiple-employer retirement system, providing 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), established to hold all net assets and record changes in plan net position allocated to the System. System benefits are established under the provisions of the New York Retirement and Social Security Law (RSSL). Once an 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.

Contributions

The system is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27th, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 (ERS) who generally contribute 3 percent of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

2017	\$	807,441
2016	\$	806,068
2015	\$	1,009,557

Chapter 260 of the Laws of 2004 of the State of New York allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For State fiscal year (SFY) 2004-05, the amount in excess of 7 percent of employees' covered pensionable salaries, with the first payment of those pensions' costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5 percent of employees' covered pensionable salaries.
- For SFY 2007-08, the amount in excess of 10.5 percent of the employee's covered pensionable salaries.

This law requires all participating employers to make payments on the current basis, while bonding or amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 2005 through 2008.

9. PENSION PLANS (Continued)

New York State Employees' Retirement System (Continued)

Chapter 57 of the Laws of 2010 of the State of New York allows local employers to amortize a portion of their retirement bill for 10 years in accordance with the following stipulations:

- For state fiscal year 2010-11, the amount in excess of the graded rate of 9.5 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.
- For subsequent State fiscal years, the graded rate will increase or decrease by up to one percent depending on the gap between the increase or decrease in the System's average rate and the previous graded rate.
- For subsequent State fiscal years in which the System's average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

This law requires participating employers to make payments on the current basis while amortizing existing unpaid amounts relating to the System's fiscal years when the local employer opts to participate in the program. All amounts due were remitted in full to NYSERS. No portion of the district's retirement bill was amortized or bonded as of June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a net pension liability of \$1,706,929 for its proportionate share of the NYSERS net pension liability. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2017, the District's proportion was 0.0181661%, which was a decrease from its proportion measured at June 30, 2016 of 0.0222872%.

For the year ended June 30, 2017, the District recognized pension expense of \$989,098. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 42,774	\$ 259,207
Changes of Assumptions	340,943	-
Net difference between projected and actual earnings on pension plan investments	583,150	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	142,683	164,399
Contributions subsequent to the measurement date	202,890	-
	<u>\$ 1,312,440</u>	<u>\$ 423,606</u>

9. PENSION PLANS (Continued)

New York State Employees' Retirement System (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Of the total reported as deferred outflows of resources, \$202,890 related to the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan's Year Ended March 31:		
2018	\$	328,480
2019		328,480
2020		273,730
2021		(244,746)
2022		-
Thereafter		-
	\$	<u>685,944</u>

Actuarial Assumptions

The total pension liability at March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. The actuarial valuation used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Inflation	2.5 percent
Salary scale	3.8 percent indexed by service
Projected COLAs	1.3% compounded annually
Decrement	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014
Investment Rate of Return	7.0% compounded annually, net of investment expenses

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of practice (ASOP) No. 27, Selection 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 pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

9. PENSION PLANS (Continued)

New York State Employees' Retirement System (Continued)

Actuarial Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2017 are summarized below:

<u>Asset Type</u>	<u>Target Allocations</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	36.0%	4.55%
International Equity	14.0%	6.35%
Private Equity	10.0%	7.75%
Real Estate	10.0%	5.80%
Absolute Return	2.0%	4.00%
Opportunistic Portfolio	3.0%	5.89%
Real Asset	3.0%	5.54%
Bonds, Cash & Mortgages	17.0%	1.31%
Cash	1.0%	-0.25%
Inflation Indexed Bonds	4.0%	1.50%
	<u>100.0%</u>	

Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. 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 Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.0%) or 1 percent higher (8.0%) than the current rate:

	<u>1 % Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Proportionate Share of Net Pension liability (asset)	\$ 5,451,595	\$ 1,706,930	\$ (1,459,178)

9. PENSION PLANS (Continued)

New York State Employees' Retirement System (Continued)

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2017, were as follows:

	Pension Plan's Fiduciary Net Position	District's proportionate share of Plan's Fiduciary Net Position	District's allocation percentage as determined by the Plan
Total pension liability	\$ 177,400,586,000	\$ 32,226,810	0.0181661%
Net position	(168,004,363,000)	(30,519,879)	0.0181661%
Net pension liability (asset)	<u>\$ 9,396,223,000</u>	<u>\$ 1,706,930</u>	0.0181661%
Fiduciary net position as a percentage of total pension liability	94.70%	94.70%	

New York State Teacher Retirement System

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

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

Contributions

The System is noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010 and prior to April 1, 2012, contributions of 3.5% are paid throughout their active membership.

For employees who joined after April 1, 2012, required contributions of 3.5% of their salary are paid until April 1, 2013 and they then contribute 3% to 6% of their salary throughout their active membership. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

9. PENSION PLANS (Continued)

New York State Teacher Retirement System (Continued)

Contributions (Continued)

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:

2017	\$	4,214,993
2016	\$	6,462,157
2015	\$	6,452,493

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a net pension liability of \$2,403,660 for its proportionate share of the NYSTRS net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by the actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the Districts' long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2017 the District's proportion was 0.2244230%, which was a decrease from its proportion measured at June 30, 2016 of 0.2454070%.

For the year ended June 30, 2017, the District recognized pension expense of \$4,119,027. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>Resources</u>	<u>Resources</u>
Differences between expected and actual experience	\$ -	\$ 780,844
Changes of Assumptions	13,692,776	-
Net difference between projected and actual earnings on pension plan investments	5,404,690	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	1,514,034	9,842
Contributions subsequent to the measurement date	4,214,993	-
	<u>\$ 24,826,493</u>	<u>\$ 790,686</u>

9. PENSION PLANS (Continued)

New York State Teacher Retirement System (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$4,214,993 reported as deferred outflows of resources related to pensions resulting from the District's 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:

Plan's Year Ended June 30:		
2017	\$	1,907,016
2018		1,907,016
2019		6,104,448
2020		4,798,505
2021		2,328,073
Thereafter		2,775,756
	\$	<u>19,820,814</u>

Actuarial Assumptions

The total pension liability at the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions:

Inflation	2.50%
Projected Salary Increases	Rates of increase differ based on age and gender. They have been calculated based upon recent NYSTRS member experience.

Service	Rate
5	4.72%
15	3.46%
25	2.37%
35	1.90%

Projected COLAs	1.5% compounded annually
Investment Rate of Return	7.5% compounded annually, net of pension plan investment expense, including inflation.

Annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on society of Actuaries Scale MP2014, applied on a generational basis. Active member mortality rates are based on plan member experience.

The actuarial assumptions were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014.

9. PENSION PLANS (Continued)

New York State Teacher Retirement System (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection 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 pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance.

Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of the valuation date of June 30, 2013 and June 30, 2012 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Type</u>	<u>Long Term Expected Real Rate</u>	
	<u>Target</u> <u>Allocations</u>	<u>Long Term</u> <u>Expected Real</u> <u>Rate of Return</u>
Domestic Equity	37.0%	6.1%
International Equity	18.0%	7.3%
Real Estate	10.0%	5.4%
Alternative Investments	7.0%	9.2%
Domestic fixed Income Securities	17.0%	1.0%
Global Fixed Income Securities	2.0%	0.8%
Mortgages	8.0%	3.1%
Short-term	1.0%	0.1%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from districts will be made at statutorily required rates, actuarially determined. Based on those assumptions, the system's 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.

9. PENSION PLANS (Continued)

New York State Teacher Retirement System (Continued)

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

The following presents the net pension liability (asset) of the districts calculated using the discount rate of 7.5 percent, as well as what the districts' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1 % Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Proportionate Share of Net Pension liability (asset)	\$ 31,361,201	\$ 2,403,660	\$ (21,884,409)

Pension Plan Fiduciary Net Position

The components of the current-year net pension (asset) of the employers as of June 30, 2017, were as follows:

	Pension Plan's Fiduciary Net Position	District's proportionate share of Plan's Fiduciary Net Position	District's allocation percentage as determined by the Plan
Total pension liability	\$ 108,577,184,039	\$ 243,672,174	0.2244230%
Net position	(107,506,142,099)	(241,268,513)	0.2244230%
Net pension liability (asset)	<u>\$ 1,071,041,940</u>	<u>\$ 2,403,660</u>	0.2244230%
Fiduciary net position as a percentage of total pension liability	99.01%	99.01%	

10. OTHER POSTEMPLOYMENT BENEFITS

The School District provides postemployment (health insurance, life insurance, etc.) coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District's contractual agreements. The District is required to calculate and record a net other postemployment benefit (OPEB) obligation at year-end. The net OPEB obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

The School District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the fund level financial statements as payments are made. For the year ended June 30, 2017, the School District recognized approximately \$6.1 million for its share of insurance premiums for currently enrolled retirees.

Funding Policy: The contribution requirements of Plan members and the School District are established by the Board of Education. Until changes are made in the NYS law to permit funding, there is no legal authority to fund OPEB, other than "pay as you go."

10. OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation: The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation:

Annual required contribution	\$ 9,952,137
Interest on net OPEB obligation	1,458,302
Adjustment to annual required contribution	<u>(320,991)</u>
Annual OPEB cost (expense)	11,089,448
Contributions made - estimated	<u>6,178,760</u>
Increase in net OPEB obligation	4,910,688
NET OPEB obligation - beginning of year	<u>34,076,729</u>
NET OPEB obligation - end of year	<u>\$ 38,987,417</u>

Percentage of annual OPEB cost contributed	55.7%
--------------------------------------------	-------

Trend information – The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 11,089,448	\$ 6,178,760	55.7%	\$ 38,987,417
6/30/2016	\$ 11,089,448	\$ 6,178,760	55.7%	\$ 34,076,729
6/30/2015	\$ 10,611,010	\$ 5,878,976	55.4%	\$ 29,166,041

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

10. OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

In the July 1, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6% investment rate of return and an annual medical cost trend rate of 9.0% for 2016-2017 reduced by decrements to an ultimate rate of 5% after 4 years. The UAAL is being amortized as a level percentage of projected payroll on a 30-year open basis. The remaining amortization period at June 30, 2017, was 25 years.

11. INTERFUND BALANCES AND ACTIVITY

	Interfund		Interfund	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenue</u>	<u>Expenditure</u>
General fund	\$ 6,251,809	\$ 3,348,799	\$ 115,978	\$ 3,455,713
Special aid fund	15,293	2,504,275	537,439	115,978
School lunch	-	-	-	-
Debt service fund	-	372,473	3,025,554	-
Capital fund	3,705,979	3,740,534	-	107,280
Trust and Agency	-	7,000	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 9,973,081</u>	<u>\$ 9,973,081</u>	<u>\$ 3,678,971</u>	<u>\$ 3,678,971</u>

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the statement of net position.

The School 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.

12. FUND BALANCES

Portions of fund balances are reserved and not available for current expenses or expenditures as reported in the governmental funds balance sheet.

13. PARTICIPATION IN BOCES

During the year, the School District was billed \$7,420,963 for BOCES administrative and program costs.

The School District's share of BOCES aid amounted to \$1,557,381.

Financial statements for BOCES are available from the BOCES administrative office.

14. RISK MANAGEMENT

The School 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 two years.

The District participates in the Dutchess Educational Health Insurance Consortium, a non-risk-retained public entity risk pool for its employee health and accident 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 incurs costs related to a workers' compensation insurance plan (Plan) sponsored by Dutchess County BOCES. The Plan's objectives are to formulate, develop, and administer a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Districts joining the Plan must remain members for a minimum of five (5) years; a member may withdraw from the plan after that time by providing 180 days' written notice. Plan members include 13 districts, with the District bearing an 8 percent share of the Plan's assets and claims liabilities. Plan members are subject to a supplemental assessment in the event of deficiencies. If the Plan's assets were to be exhausted, the members would be responsible for the Plan's liabilities. The Plan uses a reinsurance agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the Plan as direct insurer of the risks reinsured. The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, since actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they were made. Financial statements for the Plan are available from the administrator at 5 BOCES Road; Poughkeepsie, New York 12601.

15. CONTINGENCIES AND COMMITMENTS

The School District's insurance carrier is currently defending several employment related proceedings. If the District is unsuccessful in their defense of these matters, the resulting liability, exclusive of any punitive damages, should be covered under the District's insurance coverage. Punitive damages cannot be reasonably estimated prior to resolution of the litigation.

The School District has various commitments with contractors for the completion of capital projects.

Litigation

There are currently pending certiorari proceedings, the results of which could require the payment of future tax refunds by the District if existing assessment rolls are modified based on the outcome of the litigation proceedings.

However, the amount of these possible refunds cannot be determined at the present time. The District has established a tax certiorari reserve to cover a portion of the potential refund exposure and the District has legal authority to borrow funds to repay school taxes when needed.

15. CONTINGENCIES AND COMMITMENTS (Continued)

Other

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 from a return of funds. Based on prior years' experience, the District's administration believes disallowances, if any, will be immaterial.

16. ACCOUNTING PRONOUNCEMENT ISSUED NOT YET IMPLEMENTED

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – a replacement of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to establish standards for recognizing and measuring liabilities, expenditures and deferred inflows of resources related to other postemployment benefit plans (OPEB). In regards to defined benefit OPEB plans, this statement defines the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employment service. This Statement also details recognition and disclosure requirements for employers with payables to defined benefit OPEB plans administered through trusts and for employers whose employees are provided with defined contribution OPEB plans. The District is required to adopt the provisions of this Statement for the year ending June 30, 2018, with early adoption encouraged.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The District is required to adopt the provisions of this Statement for the year ending June 30, 2020, with early adoption encouraged.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues identified in the implementation and application of certain GASB Statements affecting including but not limited to pensions and other postemployment benefits. The District is required to adopt the provisions of this Statement for the year ending June 30, 2018, with early adoption encouraged.

In June 2017, GASB issue Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The District is required to adopt the provisions of this Statement for the year ending June 30, 2021.

17. PRIOR PERIOD ADJUSTMENTS

In the year ended June 30, 2016, the District recorded accounts payable totaling \$158,439 that were later determined to be encumbrances which never resulted in accounts payable and a correction for an amount accrued for a retro pay agreement which was overstated by \$525,717. Accordingly, beginning net position and fund balance in the general fund were adjusted as follows:

General fund:

\$ 6,833,856	Beginning fund balance, as previously stated
158,439	Adjustment to correct accounts payable
<u>525,717</u>	Adjustment to correct accrued liability for retroactive salary increases
<u>\$ 7,518,012</u>	Beginning fund balance, as restated

Statement of Activities:

\$ 4,926,223	Beginning net position, as previously stated
158,439	Adjustment to correct accounts payable
<u>525,717</u>	Adjustment to correct accrued liability for retroactive salary increases
<u>\$ 5,610,379</u>	Beginning net position, as restated

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

POUGHKEEPSIE CITY SCHOOL DISTRICT

**SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual (Budgetary Basis)</i>	<i>Encumbrances</i>	<i>Final Budget Variance with Budgetary Actual</i>
REVENUE					
LOCAL SOURCES:					
Real property taxes	\$ 24,505,747	\$ 24,505,747	\$ 25,172,633	\$ -	\$ 666,886
Other tax items	3,198,600	3,198,600	3,154,961	-	(43,639)
Charges for services	30,500	30,500	539	-	(29,961)
Use of money and property	225,000	225,000	164,521	-	(60,479)
Sale of property and compensation for loss	-	-	51,343	-	51,343
Miscellaneous	<u>516,000</u>	<u>516,000</u>	<u>499,765</u>	<u>-</u>	<u>(16,235)</u>
Total local sources	28,475,847	28,475,847	29,043,762	-	567,915
State sources	65,849,097	65,849,097	63,552,366	-	(2,296,731)
Medicaid reimbursement	<u>380,000</u>	<u>380,000</u>	<u>224,108</u>	<u>-</u>	<u>(155,892)</u>
Total revenue	94,704,944	94,704,944	92,820,236	-	(1,884,708)
OTHER SOURCES					
Premium on RAN	-	-	46,621	-	46,621
Transfers from other funds	<u>-</u>	<u>-</u>	<u>115,978</u>	<u>-</u>	<u>115,978</u>
Total other sources	-	-	162,599	-	162,599
Total revenue and other financing sources	<u>94,704,944</u>	<u>94,704,944</u>	<u>92,982,835</u>	<u>-</u>	<u>(1,722,109)</u>

(Continued)

POUGHKEEPSIE CITY SCHOOL DISTRICT

**SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual (Budgetary Basis)</i>	<i>Encumbrances</i>	<i>Final Budget Variance with Budgetary Actual</i>
General support					
Board of education	\$ 101,540	\$ 115,540	\$ 101,647	\$ -	\$ 13,893
Central administration	360,195	346,295	322,015	-	24,280
Finance	740,646	645,966	611,485	-	34,481
Staff	878,712	1,071,497	1,048,942	-	22,555
Central services	4,712,204	4,620,603	4,270,684	-	349,919
Community services	121,875	52,875	52,696	-	179
Special items	<u>1,192,150</u>	<u>1,212,010</u>	<u>1,158,117</u>	-	<u>53,893</u>
Total general support	8,107,322	8,064,786	7,565,586	-	499,200
Instruction					
Instruction, administration & improvement	3,086,524	3,058,367	2,995,968	-	62,399
Teaching - regular school	26,518,906	26,265,044	25,260,074	-	1,004,970
Programs for students with disabilities	14,682,052	14,028,821	13,485,421	-	543,400
Occupational education	248,380	83,380	160,000	-	(76,620)
Teaching - special schools	337,545	187,384	152,274	-	35,110
Instructional media	4,296,143	4,329,221	898,261	-	3,430,960
Pupil services	<u>4,642,922</u>	<u>4,936,776</u>	<u>4,633,143</u>	-	<u>303,633</u>
Total instruction	53,812,472	52,888,993	47,585,141	-	5,303,852
Pupil transportation	2,893,883	3,555,148	3,235,301	-	319,847
Employee benefits	26,171,386	26,556,136	24,455,273	-	2,100,863
Debt service - Interest	<u>205,000</u>	<u>140,867</u>	<u>140,867</u>	-	<u>-</u>
Total expenditures	91,190,063	91,205,930	82,982,168	-	8,223,762
OTHER FINANCING USES					
Transfers (to) from other funds	<u>3,514,881</u>	<u>3,499,014</u>	<u>3,455,713</u>	-	<u>43,301</u>
Total expenditures and other uses	<u>94,704,944</u>	<u>94,704,944</u>	<u>86,437,881</u>	-	<u>8,267,063</u>
NET CHANGE IN FUND BALANCES	-	-	6,544,954	-	6,544,954
FUND BALANCE - beginning of year, as originally stated	<u>6,833,856</u>	<u>6,833,856</u>	<u>6,833,856</u>	-	<u>-</u>
Prior period adjustment	684,156	684,156	684,156	-	-
FUND BALANCE - beginning of year, as restated	<u>7,518,012</u>	<u>7,518,012</u>	<u>7,518,012</u>	-	<u>-</u>
FUND BALANCE - end of year	<u>\$ 7,518,012</u>	<u>\$ 7,518,012</u>	<u>\$ 14,062,966</u>	<u>\$ -</u>	<u>\$ 6,544,954</u>

The accompanying notes are an integral part of these schedules

POUGHKEEPSIE CITY SCHOOL DISTRICT

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of the net pension liability (asset)	0.0181661%	0.0222872%	0.0241647%							
Proportionate share of the net pension liability (asset)	\$ 1,706.9	\$ 3,577.2	\$ 816.3							
Covered-employee payroll	\$ 5,233.7	\$ 5,233.7	\$ 5,929.6							
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	32.61%	68.35%	13.77%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	94.70%	90.68%	97.95%							

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

NEW YORK STATE TEACHERS' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of the net pension liability (asset)	0.2244230%	0.2454070%	0.2556730%							
Proportionate share of the net pension liability (asset)	\$ 2,403.7	\$ (25,489.9)	\$ (28,480.3)							
Covered-employee payroll	\$ 35,964.1	\$ 36,866.4	\$ 37,766.8							
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	6.68%	-69.14%	-75.41%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.01%	110.46%	111.50%							

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

POUGHKEEPSIE CITY SCHOOL DISTRICT

**SCHEDULE OF CONTRIBUTIONS - PENSION PLANS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN										
Contractually required contribution	\$ 807.4	\$ 806.1	\$ 1,009.6							
Contributions in relation to the contractually required contribution	807.4	806.1	1,009.6							
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered-employee payroll	\$ 5,233.7	\$ 5,233.7	\$ 5,929.6							
Contributions as a percentage of covered-employee payroll	15.43%	15.40%	17.03%							

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NEW YORK STATE TEACHERS' RETIREMENT SYSTEM PLAN										
Contractually required contribution	\$ 4,215.0	\$ 6,462.2	\$ 6,452.5							
Contributions in relation to the contractually required contribution	4,215.0	6,462.2	6,452.5							
Contribution deficiency (excess)	\$ -	\$ -	\$ -							
Covered-employee payroll	\$ 35,964.1	\$ 36,866.4	\$ 37,766.8							
Contributions as a percentage of covered-employee payroll	11.72%	17.53%	17.09%							

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

POUGHKEEPSIE CITY SCHOOL DISTRICT

**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS PLAN (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (ALL) - Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2015	\$ -	\$ 186,665,263	\$ 186,665,263	0%	\$ 45,862,056	407.0%
7/1/2014	\$ -	\$ 178,909,037	\$ 178,909,037	0%	\$ 45,431,436	393.8%
7/1/2013	\$ -	\$ 179,175,792	\$ 179,175,792	0%	\$ 43,219,097	414.6%

The accompanying notes are an integral part of these schedule.

SUPPLEMENTARY INFORMATION

POUGHKEEPSIE CITY SCHOOL DISTRICT

**SCHEDULE OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET

Adopted budget	\$ 94,704,944
Add: Prior year's encumbrances	<u> -</u>
Original budget	94,704,944
Budget revisions	<u> -</u>
Final budget	<u><u>\$ 94,704,944</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2017-18 voter-approved expenditure budget	\$ 96,747,054	
Maximum allowed (4% of 2017-18 budget)		\$ 3,869,882
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law *:		
Total fund balance:	<u>\$ 14,062,966</u>	
Less:		
Committed fund balance	\$ -	
Restricted fund balance	897,881	
Assigned fund balance:		
Appropriated fund balance	<u>1,259,647</u>	
Total adjustments	<u>\$ 2,157,528</u>	
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law		<u><u>\$ 11,905,438</u></u>
Actual percentage		12.31%

* Per Office of the State Comptroller's "Fund Balance Reporting and Governmental Fund Type Definitions", Updated April 2011 (Originally Issued November 2010), the portion of [General Fund] fund balance subject to Section 1318 of the Real Property Tax Law is: unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.

POUGHKEEPSIE CITY SCHOOL DISTRICT

**SCHEDULE OF PROJECT EXPENDITURES -
CAPITAL PROJECTS FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

<u>PROJECT TITLE</u>	<u>Original Appropriation</u>	<u>Revised Appropriation</u>	<u>Expenditures</u>			<u>Unexpended Balance</u>	<u>Proceeds of Obligations</u>	<u>Methods of Financing</u>			<u>Fund Balance June 30, 2017</u>
			<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>			<u>State Aid</u>	<u>Local Sources</u>	<u>Total</u>	
<u>Major capital projects</u>											
2009 Project	\$ 17,225,000	\$ 17,225,000	\$ 17,395,276	\$ -	\$ 17,395,276	\$ (170,276)	\$ 13,200,000	\$ 3,584,481	\$ 1,267,059	\$ 18,051,540	\$ 656,264
Energy Performance Project	5,600,000	5,600,000	5,451,393	-	5,451,393	148,607	4,739,021	-	121,498	4,860,519	(590,874)
	<u>\$ 22,825,000</u>	<u>\$ 22,825,000</u>	<u>\$ 22,846,669</u>	<u>\$ -</u>	<u>\$ 22,846,669</u>	<u>\$ (21,669)</u>	<u>\$ 17,939,021</u>	<u>\$ 3,584,481</u>	<u>\$ 1,388,557</u>	<u>\$ 22,912,059</u>	<u>\$ 65,390</u>

POUGHKEEPSIE CITY SCHOOL DISTRICT

**SCHEDULE OF NET INVESTMENT IN CAPITAL ASSETS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

Capital assets, net		\$ 42,189,295
Deduct:		
Short-term portion of bonds payable	1,970,089	
Long-term portion of bonds payable	30,546,944	
Less: Unspent proceeds	<u>-</u>	<u>32,517,033</u>
Net investment in capital assets		<u>\$ 9,672,262</u>

The accompanying notes are an integral part of these schedules.

REQUIRED REPORT

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

October 4, 2017

To the Board of Education
Poughkeepsie City School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Poughkeepsie City School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 4, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be material weaknesses.

We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. 2017-001 through 2017-005.

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(Continued)

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 (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as 2017-006.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Poughkeepsie City School District
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017 (Continued)

2. FINANCIAL STATEMENT FINDINGS

2017-001 Yearend Closing Procedures

CRITERIA: The yearend closing procedures should result in a complete and accurate records that support the basic financial statements and footnotes in accordance with generally accepted accounting principles along with supporting schedules.

CONDITION: In recent years, the District has experienced significant turnover in positions key to the yearend audit preparation process. As a result, certain schedules provided for audit were received later in the audit cycle and in some cases required correction upon auditor review. In considering our internal control assessments and discussions with management, we determined that the District had an adequate understanding of what should have been recorded or compiled on the audit schedules and that the corrections stemmed from time constraints resulting from the change in the business office management and staff during several stages of the audit. These factors resulted in items being provided later and in some cases without review prior to submitting to the audit team.

CAUSE: The District has had significant turnover in recent years resulting in a lack of continuity in its accounting practices.

EFFECT: During the current year we received the District's trial balance, revenue status and budget status reports 3 days after our agreed upon deadline of July 31, 2017. Upon reviewing the schedules, we noted several significant items missing that were later corrected through audit journal entries. The table below demonstrates the significance of the audit adjustments necessary to correct the financial statements.

	General Fund	Special Aid Fund	School Lunch Fund	Debt Service Fund	Capital Project Fund	Private Purpose Fund
Ending fund balance based upon initial trial balances	18,170,445	(553,053)	734,268	(372,223)	116,096	-
Ending fund balance based upon final trial balances	<u>14,062,966</u>	<u>-</u>	<u>728,471</u>	<u>(372,223)</u>	<u>(41,890)</u>	<u>40,898</u>
Effect of audit entries	<u>4,107,479</u>	<u>(553,053)</u>	<u>5,797</u>	<u>-</u>	<u>157,986</u>	<u>(40,898)</u>

RECOMMENDATION: We recommend that the District assess their capacity each year against the audit timetable and auditor requests to ensure that time is available to meet the timetable and includes time for appropriate review.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS: The District is accessing various approaches to correcting this issue.

**Poughkeepsie City School District
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017 (Continued)**

2. FINANCIAL STATEMENT FINDINGS (Continued)

2017-002 Long outstanding checks

CRITERIA: Bank reconciliation procedures should address any long outstanding reconciling items to ensure a timely reconciliation of cash.

CONDITION: During our cash audit procedures, we noted that the outstanding checks for the payroll checking account at June 30, 2017 contained 22 checks totaling approximately \$3,800 dating from as early as October 2014. Through discussions with accounting management, it was determined that the status of these “old” outstanding checks had not been investigated or considered by accounting personnel. The District is now investigating these outstanding items.

CAUSE: The District has had significant turnover in recent years resulting in a lack of continuity in its accounting practices.

EFFECT: As a result of the District’s turnover and certain positions that remained unfilled at times during the year, follow up on these long outstanding items did not occur in a timely fashion.

RECOMMENDATION: We recommend that the District investigate these outstanding items and resolve any remaining outstanding items by reissuing the checks or assigning them to the New York State Office of the Comptroller’s unclaimed property.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS: The District’s management is in the process of reviewing the outstanding items and deciding on an appropriate action.

2017-003 Maintaining current user access rights

CRITERIA: User rights for the District’s financial software should be reviewed and updated regularly to ensure that access is limited to appropriate personnel.

CONDITION: While updating our understanding of the District’s Information technology control environment, we noted that user rights for the District’s fiscal software (Finance Manager) had not been revoked for several former business office personnel.

CAUSE: The District has had significant turnover in recent years resulting in a lack of continuity in its accounting practices.

EFFECT: A lack of ongoing review of these rights could lead to unintended access vulnerabilities.

RECOMMENDATION: We recommend that the Finance Manager Administrator review the user rights at least semiannually for users requiring revocation as well as assessing the reasonableness of assigned rights and whether they create any segregation of duties conflicts.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS: The District agrees with the finding and has removed the staff no longer with the District. Additionally, the District plans to develop a formal review process of these user access rights.

Poughkeepsie City School District
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017 (Continued)

2017-004 Accounting for Energy Performance capital project

CRITERIA: Accounting procedures should include consideration of transactions occurring outside the District's bank accounts where third party escrow account activity exists.

CONDITION: During our audit of the District's Capital Project Fund, we noted that while the Energy Performance capital project was completed, the final activity including application of unspent funds against future lease payments had not been recorded. Upon contacting the vendor, the District was able to obtain the necessary information to prepare the necessary closeout entries.

CAUSE: The District has had significant turnover in recent years resulting in a lack of continuity in its accounting practices.

EFFECT: A lack of consideration of these types of transactions could lead to missing or incomplete accounting for certain transactions.

RECOMMENDATION: We recommend that all project files include all closeout information, including the resolution of any unexpended funds and that a procedure be put into place to include accounting entries during the closeout process.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS: The District is accessing various approaches to correcting this issue.

2017-005 Control procedures for adjusting journal entries

CRITERIA: Internal controls relating to the recording of adjusting journal entries should require a secondary review of all adjusting journal entries and that support for the entries be included in the accounting records.

CONDITION: Our review of general journal entries revealed that journal entries were posted without concurrent or subsequent oversight by management. We also noted that the supporting documentation and/or explanations accompanying the entries were inadequate in many instances.

CAUSE: The District has had significant turnover in recent years resulting in a lack of continuity in its accounting practices.

EFFECT: Lack of secondary review and requirement of supporting records for all adjusting journal entries could lead to errors and unauthorized adjustments.

RECOMMENDATION: We recommend the adoption of a policy whereby all journal entries will be approved by the Business Official or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. All journal entries should be accompanied by full explanation and by reference to adequate supporting data.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS: The District plans to implement these recommendations and require a reviewer and support for all entries.

Poughkeepsie City School District
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017 (Continued)

2017-006 Compliance with §1318 of the New York State Real Property Tax Law

CRITERIA: Accounting procedures should be in place to ensure that the District complies with laws and regulations including the §1318 of the New York State Real Property Tax law.

CONDITION: The District's unassigned fund balance of the general fund exceeds 4% of the subsequent year's expenditures budget as imposed by §1318 of the New York State Real Property Tax law resulting in noncompliance with New York State Law.

CAUSE: The District has had significant turnover in recent years resulting in a lack of continuity in its accounting practices.

EFFECT: Lack of an ongoing assessment of the District's compliance could result in the District exceeding the allowable fund balance.

RECOMMENDATION: We recommend that the District monitor its unassigned fund balance throughout the year, at least semi-annually. The District should consider taking action to reduce the unassigned fund balance to the allowable limit. Additionally, the District should consider whether it has considered the adequacy and/or inclusion of permissible reserves such as its tax certiorari reserve and the use of outstanding encumbrances.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS: The District will perform interim analysis of their fund balance plan to ensure that they are in compliance with this regulation going forward.