

EAST QUOGUE UNION FREE SCHOOL DISTRICT

Basic Financial Statements,
Supplementary Information and
Independent Auditors' Report

June 30, 2017

EAST QUOGUE UNION FREE SCHOOL DISTRICT

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis (MD&A)	4 - 15
Basic Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Balance Sheet - Governmental Funds	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	19
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	21
Statement of Fiduciary Net Position - Fiduciary Funds	22
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	23
Notes to Financial Statements	24 - 52
Required Supplementary Information:	
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	53 - 54
Schedule of Funding Progress - Other Postemployment Benefits	55
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability	56
Schedule of District's Pension Contributions	57

EAST QUOGUE UNION FREE SCHOOL DISTRICT

Table of Contents, Continued

	<u>Page</u>
Other Supplementary Information:	
Schedules of Change from Adopted Budget to Final Budget and the Real Property Tax Limit - General Fund	58
Schedule of Project Expenditures - Capital Projects Fund	59
Net Investment in Capital Assets	60
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 <u>Government Auditing Standards</u>	61 - 62
Schedule of Findings and Responses	63

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INDEPENDENT AUDITORS' REPORT

The Board of Education
East Quogue Union Free School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the East Quogue Union Free School District (the District), as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the East Quogue Union Free School District as of June 30, 2017, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15 and the additional information on pages 53 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 21, 2017

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

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

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

Fiduciary Funds

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

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position increased by \$567,057 between fiscal year 2017 and 2016. This increase is due to revenues in excess of expenses based on the accrual basis of accounting. A summary of the District's Statements of Net Position is as follows:

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

Current and other assets increased by \$526,873. The increase is evidenced by an increase in the District's cash balance.

Capital assets, net decreased by \$212,532, as compared to the prior year. This decrease is due to depreciation expense in excess of capital asset additions. See accompanying notes to financial statements, note 9 "Capital Assets" for additional information.

Net pension asset - proportionate share decreased by \$2,961,109, as compared to the prior year, as the New York State Teachers' Retirement System's collective net pension asset at the measurement date of the respective year was changed to a liability due largely to changes in actuarial assumptions.

Deferred outflows of resources represents contributions to the retirement plans subsequent to the measurement dates and actuarial adjustments at the plan level that will be amortized in future years.

Current and other liabilities decreased by \$1,262,353, as compared to the prior year. This decrease is primarily due to a decrease in accounts payable due to timing differences.

Long-term liabilities decreased by \$188,203, as compared to the prior year. This decrease is the result of principal payments on bonds, and decreases in the compensated absences, offset by increases in workers' compensation liabilities.

Net other postemployment benefits (OPEB) increased by \$1,172,089, as compared to the prior year. This increase was the result of the current year unfunded OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying notes to financial statements, note 14 "Postemployment Healthcare Benefits" provides additional information.

Net pension liability - proportionate share increased by \$118,481 in the current year. This liability represents the District's share of the New York State and Local Employees' Retirement System's and New York State Teachers' Retirement System's collective net pension liability at the measurement date of the respective year.

Deferred inflows of resources represents actuarial adjustments at the pension plan level that will be amortized in future years.

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

	<u>Increase (Decrease)</u>
Capital asset additions	\$ 24,640
Capital asset disposals	(10,383)
Principal debt reduction of construction bonds, net	475,000
Depreciation expense	(226,789)
	\$ <u>262,468</u>

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

The restricted amount of \$1,994,613 relates to the District's restricted reserves. This number increased over the prior year by \$654,762, which is due to the District funding reserves in the amount of \$650,000, and interest earned on reserves of \$4,762.

The unrestricted (deficit) net position amount of \$(4,156,664) relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation. This deficit increased over the prior year by \$350,173.

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items lines. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>	<u>Increase (decrease)</u>	<u>Percentage change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 64,742	55,626	9,116	16.39%
Operating grants	381,483	292,295	89,188	30.51%
General revenues:				
Property taxes and STAR	21,846,062	19,354,042	2,492,020	12.88%
State sources	1,175,660	1,322,567	(146,907)	-11.11%
Other sources	<u>352,792</u>	<u>1,756,409</u>	<u>(1,403,617)</u>	-79.91%
Total revenues	<u>23,820,739</u>	<u>22,780,939</u>	<u>1,039,800</u>	4.56%
Expenses:				
General support	1,639,982	1,288,005	351,977	27.33%
Instruction	20,244,361	19,332,561	911,800	4.72%
Pupil transportation	1,057,493	1,190,841	(133,348)	-11.20%
Debt service - interest	138,667	168,311	(29,644)	-17.61%
School lunch sales	<u>173,179</u>	<u>129,802</u>	<u>43,377</u>	33.42%
Total expenses	<u>23,253,682</u>	<u>22,109,520</u>	<u>1,144,162</u>	5.17%
Increase in net position	<u>\$ 567,057</u>	<u>671,419</u>	<u>(104,362)</u>	-15.54%

The District's net position increased by \$567,057 and \$671,419, for the years ended June 30, 2017 and 2016, respectively.

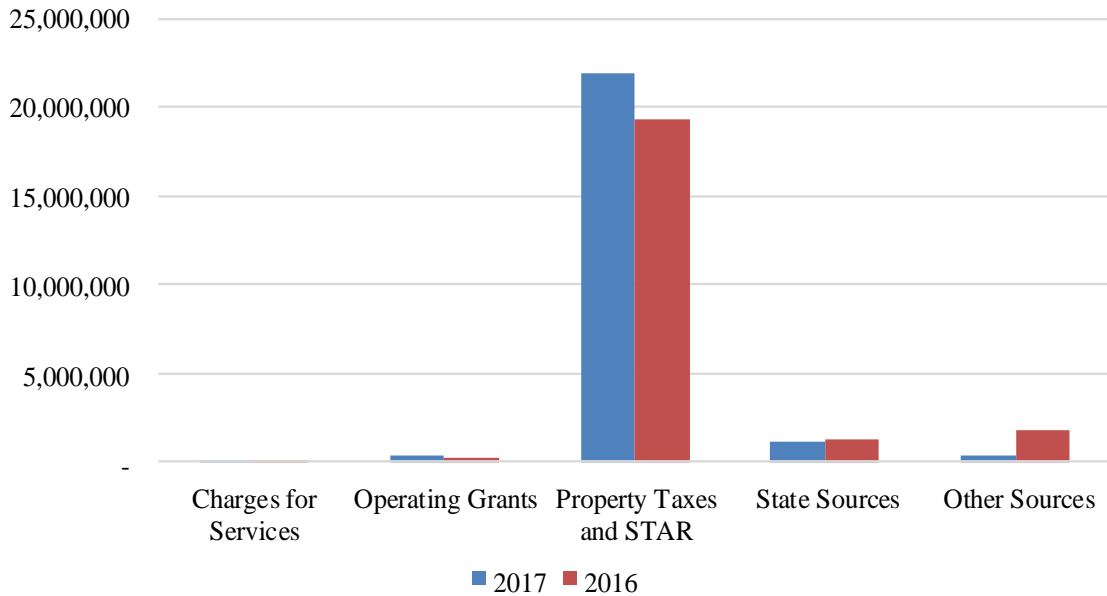
The District's revenues increased by \$1,039,800 or 4.56%. Most of this increase is attributable to property taxes and STAR and other revenues. In total, property taxes and STAR and PILOT revenues increased over 2016 amounts.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

The District's expenses for the year increased by \$1,144,162 or 5.17% compared to fiscal 2016 totals. This increase is due to increases in general support and instruction.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 91.7% and 85.0% of the total for the years June 30, 2017 and 2016, respectively). Instruction expense is the largest category of expenses incurred (i.e., 87.1% and 87.4% of the total for the years June 30, 2017 and 2016, respectively). The graphs demonstrate that the components of expenses are relatively consistent for both years.

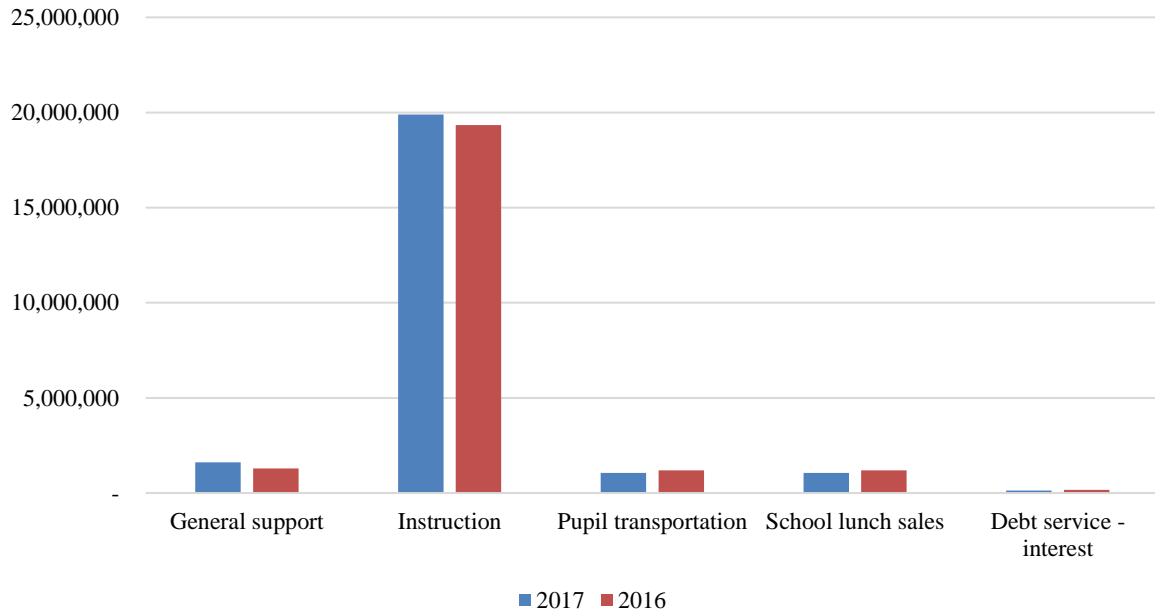
A graphic display of the distribution of revenues for the two years follows:



	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Property Taxes and STAR</u>	<u>State Sources</u>	<u>Other Sources</u>
2016	0.2%	1.3%	85.0%	5.8%	7.7%
2017	0.3%	1.6%	91.7%	4.9%	1.5%

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

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



	General support	Instruction	Pupil transportation	School lunch sales	Debt service - interest
2016	5.8%	87.4%	5.4%	0.6%	0.8%
2017	7.2%	87.1%	4.5%	0.7%	0.6%

4. Financial Analysis of the District's Funds

At June 30, 2017, the District's governmental funds reported a combined fund balance of \$4,722,593, which is an increase of \$1,900,077 from the prior year. This increase is due to an excess of revenue over expenditures based upon the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2017</u>	<u>2016</u>	<u>Increase (decrease)</u>
General Fund:			
Restricted:			
Workers' compensation	\$ 641,674	539,756	101,918
Retirement contribution	547,901	446,315	101,586
Employee benefit accrued liability	555,038	353,780	201,258
Capital	150,000	-	150,000
Unemployment insurance	100,000	-	100,000
Total restricted	<u>1,994,613</u>	<u>1,339,851</u>	<u>654,762</u>

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

	<u>2017</u>	<u>2016</u>	<u>Increase (decrease)</u>
General Fund, Continued:			
Assigned:			
Appropriated fund balance	\$ 600,000	500,000	100,000
Unappropriated fund balance	<u>9,612</u>	<u>36,698</u>	<u>(27,086)</u>
Total assigned	<u>609,612</u>	<u>536,698</u>	<u>72,914</u>
Unassigned - fund balance	<u>2,013,529</u>	<u>930,716</u>	<u>1,082,813</u>
Total general fund	<u>4,617,754</u>	<u>2,807,265</u>	<u>1,810,489</u>
School Lunch Fund:			
Nonspendable - inventory	<u>163</u>	<u>634</u>	<u>(471)</u>
Capital Project Fund:			
Assigned - unappropriated fund balance	<u>-</u>	<u>14,617</u>	<u>(14,617)</u>
Total fund balance	<u>\$ 4,617,917</u>	<u>2,822,516</u>	<u>1,795,401</u>

A. General Fund

The net change in the general fund fund balance is an increase of \$1,810,489, as revenues and other sources of \$23,375,461 exceeded expenditures and other uses of \$21,564,972, compared to an increase of \$1,083,208 for fiscal 2016. Revenues increased by \$792,298 (3.39%) over fiscal 2016 totals primarily due to an increase in real property taxes and STAR. A \$1,200,939 combined increase in property taxes, STAR and other tax items is due to the District increasing the levy to fund increases in appropriation in the 2016-17 budget. A \$112,591 decrease in miscellaneous revenue is due to the District receiving a refund of tuition paid to the receiving district in 2015-16. Tuition is based on the Seneca Falls formula and the final rates are not available until January or February of the subsequent year. Billings for tuition are estimated during the year and reconciled in the subsequent year resulting in either a refund of tuition or additional amounts due to the receiving district.

Expenditures and other uses increased by \$62,234 (0.29%) from fiscal 2016 totals. These increases were primarily in programs for teaching regular school offset by a decrease in pupil transportation. The decrease in pupil transportation is the result of decreases in fuel costs.

During the 2016-17 school year, the District did not appropriate any reserves. At the end of the fiscal year, the District transferred \$200,000 into the employee accrued benefit liability reserve, \$100,000 into the workers' compensation reserve, \$100,000 into the retirement contribution reserve, \$150,000 into the capital reserve and \$100,000 into the unemployment insurance reserve. In addition the reserves earned interest in the amount of \$4,762.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

B. School Lunch Fund

The net change in the school lunch fund - fund balance reflects a decrease of \$471, which was the operating loss of the food service program. The program was subsidized by a general fund transfer of \$20,124.

C. Capital Projects Fund

The net change in the capital projects fund-fund balance is a decrease of \$14,617 as a result of current capital outlay of \$14,617 for parking lot sealing.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2016-17 Budget

The District's general fund voter-approved budget for the year ended June 30, 2017 was \$23,861,579. This amount was increased by encumbrances carried forward from the prior year in the amount of \$36,698 for a total final budget of \$23,898,277.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$21,781,579 in property taxes and STAR.

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

The general fund's unassigned fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves, appropriations to fund the subsequent year's budget, encumbrances and amounts classified as nonspendable. The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening, unassigned fund balance	\$ 930,716
Revenues over budget	13,882
Expenditures and encumbrances under budget	2,323,693
Allocation to reserves	(650,000)
Interest earned on restricted reserves	(4,762)
Appropriated to fund the June 30, 2018 budget	<u>(600,000)</u>
Closing, unassigned fund balance	\$ <u>2,013,529</u>

Opening, Unassigned Fund Balance

The \$930,716 shown in the table is the portion of the District's June 30, 2016 fund balance that was retained as unassigned. This was 3.90% of the District's 2016-17 approved operating budget of \$23,861,579.

Revenue Over Budget

The 2016-17 final budget for revenues was \$23,361,579. Actual revenues and other sources received for the year were \$23,375,461. Revenues received were over budget by \$13,882 primarily in the areas of charges for services and miscellaneous revenues, offset by the District not receiving the state source revenues that it had anticipated.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

Expenditures and Encumbrances Under Budget

The 2016-17 final budget for expenditures was \$23,898,277. Actual expenditures as of June 30, 2017 were \$21,564,972 and outstanding encumbrances were \$9,612. Combined, the expenditures plus encumbrances for 2016-17 were \$21,574,584. The final budget was under expended by \$2,323,693. This under expenditure is principally within the general support, instruction, pupil transportation and employee benefits areas of the budget.

Allocation to Reserves

Monies transferred into authorized reserves do not affect the total fund balance unless, and until these monies are actually expended. The transfers do, however, reduce the District's discretion regarding the use of these transferred monies, and thus, reduce the unassigned fund balance by the amount of the transfers.

The \$650,000 shown in the above table is made up of five transfers: \$100,000 to the workers' compensation reserve; \$200,000 to the employee benefit accrued liability reserve; \$100,000 to the retirement contribution reserve, \$150,000 to the capital reserve and \$100,000 to the unemployment insurance reserve.

Interest Earned in Restricted Reserves

Revenues such as interest earned on a general fund reserve increase the reserve and, therefore, decrease the unassigned portion of the general fund-fund balance.

The \$4,762 shown in the previous table represents interest earned on restricted reserves. The reserves earned interest as follows:

Workers' compensation	\$ 1,918
Retirement contribution	1,586
Employee benefit accrued liability	<u>1,258</u>
	\$ <u>4,762</u>

Appropriated Fund Balance

The District has chosen to use \$600,000 of the available June 30, 2017 unassigned fund balance to partially fund the 2017-18 approved operating budget. As such, the unassigned fund balance portion of the June 30, 2017 fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2017 was \$2,013,529. This amount equals 8.26% of the 2017-18 budget which exceeds the 4% statutory limit.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2017, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to depreciation exceeding capital additions recorded for the year ended June 30, 2017. A summary of the District's capital assets, net of depreciation at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>	<u>Increase (decrease)</u>
Land	\$ 698,560	698,560	-
Buildings and improvements	5,080,385	5,280,794	(200,409)
Site improvements	173,950	177,355	(3,405)
Furniture and equipment	<u>53,618</u>	<u>62,336</u>	<u>(8,718)</u>
Capital assets, net	<u>\$ 6,006,513</u>	<u>6,219,045</u>	<u>(212,532)</u>

B. Debt Administration

At June 30, 2017, the District had total bonds payable of \$1,000,000. A summary of the outstanding debt at June 30, 2017 and 2016 is as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
01/27/2010	2.000% - 3.125%	<u>\$ 1,000,000</u>	<u>1,475,000</u>	<u>(475,000)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa3. The District's outstanding serial bonds at June 30, 2017 are approximately 0.06% of the District's debt limit.

Included, in the District's long-term liabilities are the estimated amounts due for compensated absences, workers' compensation liability, net other postemployment benefits and net pension liability - proportionate share obligations. The compensated absences liability of \$329,023 is based on employment contracts. The workers' compensation liability, in the amount of \$311,698, is based on an actuary study in accordance with GASB Statement No. 10. The net other postemployment benefits obligation is based on an actuarially determined amount in accordance with GASB Statement No. 45 in the amount of \$8,712,908. The net pension liability proportionate share in the amount of \$576,493 is based upon reports provided by the TRS and ERS pension systems.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Management's Discussion and Analysis, Continued

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the voters of the District on May 16, 2017, for the year ending June 30, 2018, is \$24,366,274. This is an increase of \$504,695 or 2.12% over the previous year's budget. The increase is principally in the instructional program area of the budget.

The District budgeted revenues other than property taxes at a \$1,518,489 decrease from the prior year's estimate. The assigned, appropriated fund balance applied to the June 30, 2018 budget increased from the prior year by \$500,000 to \$600,000. A property tax increase of 1.96% (levy to levy) was needed to balance total revenues to total expenditures.

B. Future Budgets

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

C. Tax Cap

New York State law limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation to June 15, 2020. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. Based on the law, the District's tax levy cap for 2017-18 is 1.01%. The District's 2017-18 property tax increase of 1.96%, including a capital local levy of \$513,978, complied with the tax cap and was approved by 86.1% of the voters.

8. CONTACTING THE DISTRICT

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

Mr. Bruce Singer
Business Official
East Quogue Union Free School District
6 Central Avenue
East Quogue, New York 11942

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Statement of Net Position
Governmental Activities
June 30, 2017

Assets:	
Cash:	
Unrestricted	\$ 3,142,195
Restricted	1,994,613
Receivables:	
Accounts receivable	340
Due from fiduciary funds	425,757
Due from state and federal aid	498,373
Due from other governments	134,325
Cash held by third-party administrator	171,694
Inventory	163
Capital assets not being depreciated	698,560
Capital assets being depreciated, net of accumulated depreciation	<u>5,307,953</u>
Total assets	<u>12,373,973</u>
Deferred outflows of resources - pensions	<u>3,123,950</u>
Liabilities:	
Current liabilities:	
Accounts payable	775,569
Accrued liabilities	182,107
Due to other governments	75
Due to teachers' retirement system	520,755
Due to employees' retirement system	35,194
Unearned credits - collections in advance	38,624
Noncurrent liabilities:	
Due and payable within one year:	
Bonds payable	495,000
Compensated absences payable	58,633
Due and payable after one year:	
Bonds payable	505,000
Compensated absences payable	270,390
Workers' compensation liabilities	311,698
Net other postemployment benefits obligation	8,712,908
Net pension proportionate share	<u>576,493</u>
Total liabilities	<u>12,482,446</u>
Deferred inflows of resources - pensions	<u>171,015</u>
Net position:	
Net investment in capital assets	5,006,513
Restricted:	
Workers' compensation	641,674
Retirement contribution	547,901
Employee benefit accrued liability	555,038
Capital	150,000
Unemployment	100,000
Unrestricted (deficit)	<u>(4,156,664)</u>
Total net position	<u>\$ 2,844,462</u>

See accompanying notes to financial statements.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Statement of Activities
Governmental Activities
Year ended June 30, 2017

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants</u>	
Functions and programs:				
General support	\$ 1,639,982	-	-	(1,639,982)
Instruction	20,244,361	1,000	319,129	(19,924,232)
Pupil transportation	1,057,493	-	-	(1,057,493)
School lunch sales	173,179	63,742	62,354	(47,083)
Debt service - interest	138,667	-	-	(138,667)
Total functions and programs	<u>\$ 23,253,682</u>	<u>64,742</u>	<u>381,483</u>	<u>(22,807,457)</u>
General revenue:				
Real property taxes				19,585,852
Other items				2,260,210
Use of money and property				18,199
Miscellaneous				334,593
State sources				<u>1,175,660</u>
Total general revenue				<u>23,374,514</u>
Change in net position				567,057
Net position at beginning of year				<u>2,277,405</u>
Net position at end of year				<u>\$ 2,844,462</u>

See accompanying notes to financial statements.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2017

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash:					
Unrestricted	\$ 3,103,666	3,679	6,181	28,669	3,142,195
Restricted	1,994,613	-	-	-	1,994,613
Receivables:					
Accounts receivable	-	-	340	-	340
Due from other funds	871,598	-	478	-	872,076
State and Federal aid	43,814	449,917	4,642	-	498,373
Due from other governments	134,305	-	20	-	134,325
Inventory	-	-	163	-	163
Total assets	<u>\$ 6,147,996</u>	<u>453,596</u>	<u>11,824</u>	<u>28,669</u>	<u>6,642,085</u>
<u>Liabilities, Deferred inflows of Resources and Fund Balances</u>					
Liabilities:					
Accounts payable	766,008	877	8,684	-	775,569
Accrued liabilities	180,804	-	-	-	180,804
Due to other funds	478	417,172	-	28,669	446,319
Due to other governments	75	-	-	-	75
Due to teachers' retirement system	520,755	-	-	-	520,755
Due to employees' retirement system	35,194	-	-	-	35,194
Unearned credits - collections in advance	100	35,547	2,977	-	38,624
Total liabilities	<u>1,503,414</u>	<u>453,596</u>	<u>11,661</u>	<u>28,669</u>	<u>1,997,340</u>
Deferred inflows of resources - unavailable revenues	<u>26,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,828</u>
Fund balances:					
Nonspendable	-	-	163	-	163
Restricted:					
Workers' compensation	641,674	-	-	-	641,674
Retirement contribution	547,901	-	-	-	547,901
Employee benefit accrued liability	555,038	-	-	-	555,038
Capital	150,000	-	-	-	150,000
Unemployment	100,000	-	-	-	100,000
Assigned:					
Appropriated fund balance	600,000	-	-	-	600,000
Unappropriated fund balance	9,612	-	-	-	9,612
Unassigned fund balance	<u>2,013,529</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,013,529</u>
Total fund balances	<u>4,617,754</u>	<u>-</u>	<u>163</u>	<u>-</u>	<u>4,617,917</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,147,996</u>	<u>453,596</u>	<u>11,824</u>	<u>28,669</u>	<u>6,642,085</u>

See accompanying notes to financial statements.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Statement of Net Position
 June 30, 2017

Total governmental fund balances		\$ 4,617,917
Amounts reported for governmental activities in the statement of net position are different because:		
Cash held by third-party administrator is treated as a long-term asset and included in net position.		171,694
The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net position includes those capital assets among the assets of the District as a whole, and their original costs are expensed over their useful lives.		
Original cost of capital assets	\$ 10,557,123	
Accumulated depreciation	<u>(4,550,610)</u>	6,006,513
Some of the District's revenues will be collected after the year-end, but are not available soon enough to pay for the current periods expenditures and, therefore, are deferred in the governmental funds, but are not deferred on the statement of net position.		26,828
Proportionate share of long-term asset and liability, and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.		
Net pension liability - teachers' retirement system	(296,803)	
Deferred outflows of resources	3,123,950	
Net pension liability - employees' retirement system	(279,690)	
Deferred inflows of resources	<u>(171,015)</u>	2,376,442
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Accrued interest on bonds payable	(1,303)	
Bonds payable	(1,000,000)	
Compensated absences payable	(329,023)	
Workers' compensation liabilities	(311,698)	
Net other postemployment benefits obligation	<u>(8,712,908)</u>	<u>(10,354,932)</u>
Total net position - end of year		<u>\$ 2,844,462</u>

See accompanying notes to financial statements.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds
Year ended June 30, 2017

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenue:					
Real property taxes	\$ 19,585,852	-	-	-	19,585,852
Other tax items	2,260,210	-	-	-	2,260,210
Charges for services	1,000	-	-	-	1,000
Use of money and property	18,146	-	53	-	18,199
State sources	1,175,660	70,575	1,976	-	1,248,211
Federal sources	-	215,173	60,378	-	275,551
School lunch sales	-	-	63,742	-	63,742
Miscellaneous	334,593	33,381	-	-	367,974
Total revenue	<u>23,375,461</u>	<u>319,129</u>	<u>126,149</u>	<u>-</u>	<u>23,820,739</u>
Expenditures:					
General support	1,193,371	-	-	-	1,193,371
Instruction	16,151,293	400,939	-	-	16,552,232
Pupil transportation	1,014,303	43,190	-	-	1,057,493
Employee benefits	2,446,548	-	-	-	2,446,548
Cost of sales	-	-	146,744	-	146,744
Capital outlay	-	-	-	14,617	14,617
Debt service:					
Principal	475,000	-	-	-	475,000
Interest	139,333	-	-	-	139,333
Total expenditures	<u>21,419,848</u>	<u>444,129</u>	<u>146,744</u>	<u>14,617</u>	<u>22,025,338</u>
Excess (deficiency) of revenue over expenditures	<u>1,955,613</u>	<u>(125,000)</u>	<u>(20,595)</u>	<u>(14,617)</u>	<u>1,795,401</u>
Other financing sources (uses):					
Operating transfers in	-	125,000	20,124	-	145,124
Operating transfers out	(145,124)	-	-	-	(145,124)
Total other financing sources (uses)	<u>(145,124)</u>	<u>125,000</u>	<u>20,124</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,810,489	-	(471)	(14,617)	1,795,401
Fund balance at beginning of year	2,807,265	-	634	14,617	2,822,516
Fund balance at end of year	<u>\$ 4,617,754</u>	<u>-</u>	<u>163</u>	<u>-</u>	<u>4,617,917</u>

See accompanying notes to financial statements.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Reconciliation of the Statement of Revenue, Expenditures and
Changes in Fund Balance - Governmental Funds to the Statement of Activities
Year ended June, 30 2017

Net change in fund balances \$1,795,401

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

Long-Term Revenue and Expense Differences

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) are being held by a third-party administrator. This is the amount by which cash held by third-party administrator decreased in the period. \$ (6,841)

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in a change of the long-term liability and a corresponding change in the net position.

Change in compensated absences payable 3,046
Change in workers' compensation liabilities (289,843)

Certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, but are expensed in the statement of activities.

Increase in net other postemployment benefits obligation (1,172,089) (1,465,727)

Capital and Related Differences

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

Capital outlays 24,640
Disposal of assets (10,383)
Depreciation expense (226,789) (212,532)

Long-term Debt Transaction Differences

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 475,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2016 to June 30, 2017. 666 475,666

Pension Differences

The decrease in the proportionate share of the collective pension expense of the state retirement plans reported in the statement of activities did not affect current financial resources and, therefore, is not reported in the governmental funds.

Teachers' retirement system 14,401
Employees' retirement system (40,152) (25,751)

Change in net position of governmental activities \$ 567,057

See accompanying notes to financial statements.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
Assets:		
Cash:		
Unrestricted	\$ 431,768	-
Restricted	-	457,344
Due from other funds	<u>10,615</u>	<u>-</u>
Total assets	<u><u>442,383</u></u>	<u><u>457,344</u></u>
Liabilities:		
Due to other funds	425,757	10,615
Other liabilities	<u>16,626</u>	<u>-</u>
Total liabilities	<u><u>\$ 442,383</u></u>	<u><u>10,615</u></u>
Net position - restricted for scholarships		<u><u>\$ 446,729</u></u>

See accompanying notes to financial statements.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year ended June 30, 2017

	Private Purpose Trust <u>Funds</u>
Additions - investment earnings - interest	\$ 2,851
Deductions - scholarships and awards	<u>6,097</u>
Change in net position	(3,246)
Fiduciary net position at beginning of the year	<u>449,975</u>
Fiduciary net position at end of year	<u><u>\$ 446,729</u></u>

See accompanying notes to financial statements.

EAST QUOGUE UNION FREE SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

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

(a) Reporting Entity

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

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

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no other entities that would be included in the District's reporting entity.

(b) Joint Venture

The District is a component district in the Board of Cooperative Educational Services of Eastern Suffolk (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section §1950 of the Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section §119-n(a) of the General Municipal Law. A BOCES budget is comprised of separate budgets for administrative, program, and capital costs. Each component district's share of administrative and capital cost is determined by

EAST QUOGUE UNION FREE SCHOOL DISTRICT

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Joint Venture, Continued

resident public school district enrollment as defined in Education Law, Section §1950(4)(b)(7). There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate.

(c) Basis of Presentation

(i) District-Wide Statements

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

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

(ii) Fund Financial Statements

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

Governmental Funds - are those through which most governmental functions are financed.

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

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

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

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Basis of Presentation, Continued

(ii) Fund Financial Statements, Continued

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

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

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

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

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

(d) Measurement Focus and Basis of Accounting

Accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Measurement Focus and Basis of Accounting, Continued

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

(e) Real Property Taxes

Calendar

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

Enforcement

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

(f) Restricted Resources

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

(g) Interfund Transactions

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

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

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(t) Equity Classifications, Continued

Fund Statements, Continued

Capital

According to Education Law §3651, must be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve 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. Expenditure 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.

Restricted for Scholarships

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

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

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

Fund Balance Classification

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

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

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned) the Board will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classification will be charged.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(2) Explanation of Certain Differences Between Fund Statements and District-wide Statements

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

(a) Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities

Total fund balances of the District's governmental funds differ from net position of governmental activities reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the governmental fund Balance Sheet, as applied to the reporting of capital assets and long-term assets and liabilities, including pensions.

(b) Statement of Revenue, Expenditures and Changes in Fund Balances vs. Statement of Activities

Differences between the Statement of Revenue, Expenditures and Changes in Fund Balances and the Statement of Activities fall into any of four broad categories.

Long-Term Revenue and Expense Differences

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities, thereby affecting expenses such as compensated absences and other postemployment benefits.

Capital Related Differences

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

Long-term Debt Transaction Differences

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

Pension Differences

Pension differences occur as a result of changes in the District's proportion of the collective net pension asset/liability not included in the collective pension expense and District contributions to the pension systems subsequent to the measurement date.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(3) Stewardship, Compliance and Accountability

(a) Budgets

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

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

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. No supplemental appropriations occurred during the year.

Budgets are adopted annually on a basis consistent with GAAP.

Budgets are established and used for individual capital projects based on authorized funding. The maximum project amount authorized is based upon the estimated cost of the project. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

(b) Encumbrances

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

(c) Expenditures in Excess of Budget

Certain individual budgetary expenditures exceeded their budgetary authorizations in the general fund.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(4) Deposits With Financial Institutions and Investments

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

Custodial credit risk is the risk that in the event of a bank failure, the District may be unable to recover deposits or collateral securities that are in possession of an outside agency. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

- (a) Uncollateralized,
- (b) Collateralized by securities held by the pledging financial institution, or
- (c) Collateralized by securities held by the pledging financial institution’s trust department or agent but not in the District’s name.

The District’s aggregate bank balances were covered by FDIC insurance or fully collateralized by securities pledged on the District’s behalf at year end.

Investment pool:

The District participates in the Cooperative Liquid Assets Securities System - New York (NYCLASS), a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article 3-A and 5-G, whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents. All NYCLASS investment and collateral policies are in accordance with General Municipal Law, Sections 10 and 11.

Total investments of the cooperative at June 30, 2017 are \$670,541,676, which consisted of \$166,914,400 in repurchase agreements, \$322,759,602 in U.S. Treasury Securities, and \$180,867,674 in collateralized bank deposits, with various interest rates and due dates.

The following amounts on deposit at NYCLASS are included as cash:

<u>Fund</u>	<u>Amount</u>
General fund	\$ 17,693
Capital projects fund	23,639
Private purpose trust fund	<u>2,560</u>
	\$ <u>43,892</u>

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(4) Deposits With Financial Institutions and Investments, Continued

The above amounts represent the cost of the investment pool shares, and are considered to approximate market value. The Lead Participant of NYCLASS is the Village of Potsdam. Additional information concerning NYCLASS, including the annual report, can be found on its website at www.newyorkclass.org.

(5) Participation in BOCES

During the year ended June 30, 2017, the District was billed \$980,069 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$107,476. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

(6) Due From State and Federal

Due from state and federal at June 30, 2017 consisted of the following:

General Fund	
New York State - excess cost aid	\$ 43,814
Special Aid Fund	
Federal and state grants	449,917
School Lunch Fund	
Federal and state food service program reimbursements	<u>4,642</u>
	\$ <u>498,373</u>

(7) Due From Other Governments

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

General Fund	
BOCES aid	\$ 107,475
Tuition other districts	<u>26,830</u>
	134,305
School Lunch Fund - sales tax refund	<u>20</u>
	\$ <u>134,325</u>

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(8) Interfund Transactions

Interfund balances and activities at June 30, 2017, are as follows:

	<u>Receivable</u>	<u>Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 871,598	478	-	145,124
Special Aid Fund	-	417,172	125,000	-
School Lunch Fund	478	-	20,124	-
Capital Projects Fund	-	<u>28,669</u>	-	-
Total Governmental Funds	872,076	446,319	145,124	145,124
Fiduciary Funds	<u>10,615</u>	<u>436,372</u>	-	-
Total	\$ <u>882,691</u>	<u>882,691</u>	<u>145,124</u>	<u>145,124</u>

The District typically transfers from the general fund to the special aid fund for the District's share of the costs for the summer program for students with disabilities. The transfer from the general fund to the school lunch fund was approved by the Board to subsidize the program. The \$125,000 and \$20,124 transfers from the General Fund to the Special Aid Fund and the School Lunch Fund to cover bad debt expense and cost of sales, respectively.

(9) Capital Assets

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

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated - land	\$ 698,560	-	-	<u>698,560</u>
Capital assets being depreciated:				
Buildings and improvements	8,950,024	-	(10,383)	8,939,641
Site improvements	537,912	24,640	-	562,552
Furniture and equipment	<u>356,370</u>	-	-	<u>356,370</u>
Total capital assets being depreciated	<u>9,844,306</u>	<u>24,640</u>	<u>(10,383)</u>	<u>9,858,563</u>
Less accumulated depreciation for:				
Buildings and improvements	3,669,230	190,026	-	3,859,256
Site improvements	360,557	28,045	-	388,602
Furniture and equipment	<u>294,034</u>	<u>8,718</u>	-	<u>302,752</u>
Total accumulated depreciation	<u>4,323,821</u>	<u>226,789</u>	<u>-</u>	<u>4,550,610</u>
Total capital assets, being depreciated, net	<u>5,520,485</u>	<u>(202,149)</u>	<u>(10,383)</u>	<u>5,307,953</u>
Capital assets, net	\$ <u>6,219,045</u>	<u>(202,149)</u>	<u>(10,383)</u>	<u>6,006,513</u>

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(9) Capital Assets, Continued

Depreciation expense was charged to governmental functions as follows:

General support	\$ 8,696
Instruction	217,088
School lunch sales	<u>1,005</u>
Total depreciation expense	\$ <u>226,789</u>

(10) Short-Term Debt

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

	<u>Maturity</u>	<u>Stated Interest Rate</u>	<u>Balance June 30, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2017</u>
TAN	6/23/2016	2.00%	\$ -	<u>6,500,000</u>	<u>6,500,000</u>	<u>-</u>

Interest on short-term debt for the year was \$100,388. The District received a premium of \$49,080, which is included in miscellaneous revenue in the general fund.

(11) Long-Term Liabilities

(a) Changes

Long-term liability balances and activity, excluding pensions and other postemployment benefits obligations, for the year are summarized below:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Amounts Due Within One Year</u>
Long-term debt - bonds payable	\$ 1,475,000	-	(475,000)	1,000,000	495,000
Other long-term debt:					
Compensated absences	332,069	-	(3,046)	329,023	58,633
Workers' compensation	<u>21,855</u>	<u>289,843</u>	<u>-</u>	<u>311,698</u>	<u>-</u>
Total long-term liabilities	\$ <u>1,828,924</u>	<u>289,843</u>	<u>(478,046)</u>	<u>1,640,721</u>	<u>553,633</u>

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

(b) Bonds Payable

Bonds payable is comprised of the following:

<u>Serial Bonds</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate (%)</u>	<u>Outstanding at 6/30/17</u>
Refunding serial bonds - building addition and renovation	01/27/10	12/15/18	2.00%-3.125%	\$ 1,000,000

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(11) Long-Term Liabilities, Continued

(b) Bonds Payable, Continued

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

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 495,000	23,206	518,206
2019	<u>505,000</u>	<u>7,891</u>	<u>512,891</u>
Total	\$ <u>1,000,000</u>	<u>31,097</u>	<u>1,031,097</u>

(c) Interest Expense

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

Interest paid	\$ 38,945
Less interest accrued in the prior year	(1,969)
Plus interest accrued in the current year	<u>1,303</u>
Total interest expense on long-term debt	\$ <u>38,279</u>

(12) Pension Plans - New York State

(a) General Information

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

(b) Provisions and Administration

Teachers' Retirement System

The TRS is administered by the New York State Teachers' Retirement Board. The TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in the TRS. Once a public employer elects to participate in the TRS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the TRS may be found on the TRS website at www.nystrs.org or obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(12) Pension Plans - New York State, Continued

(b) Provisions and Administration, Continued

Employees' Retirement System

Obligations of employers and employees to contribute and benefits to employees are governed by the NYSRSSL. The net position of the ERS is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the ERS. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as the trustee of the Fund and is the administrative head of the ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of its funds. Once a public employer elects to participate in the ERS, 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 ERS 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 Employees' Retirement System, 110 State Street, Albany, NY 12244.

(c) Funding Policies

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to the ERS or 3.5% of their salary to the TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the TRS' fiscal year ended June 30th, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31st, and employer contributions are either paid by the prior December 15th less a 1% discount or by the prior February 1st. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year and each of the two preceding years.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(12) Pension Plans - New York State, Continued

(c) Funding Policies

The District's share of the required contributions, based on covered payroll paid for the District's year ended June 30th, for the current year and two preceding years was:

	<u>TRS</u>	<u>ERS</u>	<u>Total</u>
2017	\$ 509,987	128,793	638,780
2016	567,021	135,629	702,650
2015	747,403	138,883	886,286

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

At June 30, 2017, the District reported the following liability for its proportionate share of the net pension liability for each of the Systems. The net pension liability was measured as of June 30, 2016, for TRS and March 31, 2017 for ERS. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. 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 Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and ERS Systems in reports provided to the District.

	<u>ERS</u>	<u>TRS</u>	<u>Total</u>
Valuation date	April 1, 2016	June 30, 2015	
Measurement date	March 31, 2017	June 30, 2016	
District's proportionate share of the net pension liability	\$ <u>279,690</u>	<u>296,803</u>	<u>576,493</u>
District's portion of the Plan's total net pension liability	0.0029766%	0.027712%	

For the year ended June 30, 2017, the District recognized pension expense of \$495,701 for TRS and \$160,623 for ERS. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(12) Pension Plans - New York State, Continued

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

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expected and actual experience	\$ 7,009	-	42,472	96,418
Changes of assumptions	95,552	1,690,778	-	-
Net difference between projected and actual earnings on pension plan investments	55,866	667,369	-	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	11,081	51,114	6,756	25,369
District's contributions subsequent to the measurement date	<u>35,194</u>	<u>509,987</u>	<u>-</u>	<u>-</u>
Total	\$ <u>204,702</u>	<u>2,919,248</u>	<u>49,228</u>	<u>121,787</u>

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending 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:

<u>Year ending</u>	<u>ERS</u>	<u>TRS</u>
2018	\$ 53,350	211,194
2019	53,350	211,194
2020	50,099	729,491
2021	(36,519)	568,233
2022	-	263,186
Thereafter	<u>-</u>	<u>304,176</u>
	\$ <u>120,280</u>	<u>2,287,474</u>

Actuarial Assumptions

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

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(12) Pension Plans - New York State, Continued

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

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.0%	7.5%
Salary scale	3.8%	1.90 - 4.72%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience	July 1, 2009 - June 30, 2014 System's Experience
Inflation rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. For TRS, annuitant mortality rates are based on July 1, 2009 - June 30, 2014 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

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

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

The long-term expected rate of return on TRS 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.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(12) Pension Plans - New York State, Continued

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

The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized below:

	ERS		TRS	
	Target Allocation	Long-term Expected Rate of Return*	Target Allocation	Long-term Expected Rate of Return *
Measurement date	March 31, 2017		June 30, 2016	
Asset type:				
Domestic equity	36.00%	4.55%	37.00%	6.10%
International equity	14.00%	6.35%	18.00%	7.30%
Real estate	10.00%	5.80%	10.00%	5.40%
Domestic fixed income securities	0.00%	0.00%	17.00%	1.00%
Global fixed income securities	0.00%	0.00%	2.00%	0.80%
Bonds and mortgages	17.00%	1.31%	8.00%	3.10%
Short-term	0.00%	0.00%	1.00%	0.10%
Private equities	10.00%	7.75%	7.00%	9.20%
Cash	1.00%	(0.25%)	0.00%	0.00%
Inflation-indexed bonds	4.00%	1.50%	0.00%	0.00%
Absolute return strategies	2.00%	4.00%	0.00%	0.00%
Opportunistic portfolio	3.00%	5.89%	0.00%	0.00%
Real assets	3.00%	5.54%	0.00%	0.00%
	100.00%		100.00%	

* Real rates of return are net of a long-term inflation assumption of 2.1% for TRS and 2.5% for ERS.

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for ERS and 7.5% for TRS (the discount rate used by the TRS at the prior year's measurement date of March 31, 2016 was 8.0%). 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 determined. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments for 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.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(12) Pension Plans - New York State, Continued

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

Sensitivity of the Proportionate Share of the Net Pension Asset/Liability to the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% for TRS and 7.0% for ERS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5% for TRS and 6.0% for ERS) or 1 percentage point higher (8.5% for TRS and 8.0% for ERS) than the current rate:

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension asset/(liability)	\$ <u>(893,274)</u>	<u>(279,690)</u>	<u>239,094</u>
TRS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension asset/(liability)	\$ <u>(3,872,467)</u>	<u>(296,803)</u>	<u>2,702,277</u>

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of the respective measurement dates, were as follows:

	(Dollars in Millions)	
	<u>ERS</u>	<u>TRS</u>
Measurement date	3/31/17	6/30/16
Employers' total pension liability	\$ (177,400)	(108,577)
Plan net position	<u>168,004</u>	<u>107,506</u>
Employers' net pension liability	\$ <u>(9,396)</u>	<u>(1,071)</u>
Ratio of plan net position to the Employers' total pension liability	94.70%	99.01%

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2017, represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$35,194 of employer contributions. Employee contributions are remitted monthly.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(12) Pension Plans - New York State, Continued

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

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017, are paid to the System in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017, represent employer and employee contributions for the fiscal year ended June 30, 2017, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2017 amounted to \$509,987 of employer contributions and \$10,768 of employee contributions.

(13) Pension Plans - Other

Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2017, totaled \$34,300 and \$247,131, respectively.

(14) Postemployment Healthcare Benefits

(a) Plan Description

The District effectively provides medical, Medicare part B reimbursement, and dental and vision coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through United Health Care. The plan does not issue a stand-alone financial report.

(b) Funding Policy

The District assumes the full cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums mature (come due for payment). For the year ended June 30, 2017, the District recognized a general fund expenditure of \$404,939 for insurance premiums for currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the "pay as you go" method.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(14) Postemployment Healthcare Benefits, Continued

(c) Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution (ARC)	\$ 1,800,362
Interest on OPEB obligation	301,633
Adjustment to ARC	<u>(524,967)</u>
OPEB expense	1,577,028
Contributions made	<u>(404,939)</u>
Increase in net OPEB obligation	1,172,089
Net OPEB obligation - beginning of year	<u>7,540,819</u>
Net OPEB obligation - end of year	\$ <u>8,712,908</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 and the preceding two years are as follows:

<u>Fiscal</u> <u>year</u> <u>ending</u>	<u>Annual</u> <u>OPEB</u> <u>cost</u>	<u>% of annual</u> <u>OPEB cost</u> <u>contributed</u>	<u>Net</u> <u>OPEB</u> <u>obligation</u>
June 30, 2017	\$ 1,577,028	25.7%	8,712,908
June 30, 2016	1,628,108	21.4%	7,540,819
June 30, 2015	1,673,488	22.0%	6,260,747

(d) Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$15,905,063 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$15,905,063. The covered payroll (annual payroll of active employees covered by the plan) was \$5,344,867, and the ratio of the UAAL to the covered payroll was 297.6%.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(14) Postemployment Healthcare Benefits, Continued

(d) Funded Status and Funding Progress, Continued

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

(e) Actuarial Methods and Assumptions

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

In the June 30, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after 6 years and a 4% inflation rate. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

(15) Risk Management

(a) General Information

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

(b) Public Entity Risk Pool - Risk Retained

The District participates in a risk pool, the East End Workers' Compensation Consortium (EEWCC), to insure workers' compensation claims. This public entity risk pool was created under Article 5 of Workers' Compensation Law, to evaluate, process, administer, and pay workers' compensation claims. The District retains the risk of loss.

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(15) Risk Management, Continued

(b) Public Entity Risk Pool - Risk Retained, Continued

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

The District's liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2017, as processed by the EEWCC, is \$311,698. Claims activity is summarized as follows:

Claims at beginning of year	\$ 21,855
Incurred claims and claim adjustment expenses	185,432
Adjustment	128,397
Claim payments and expenses	<u>(23,986)</u>
Claim liabilities at end of year	\$ <u>311,698</u>

The adjustment line above is to recognize incurred but unpaid claims as of June 30, 2016 that were not previously recognized on the Statement of Net Position.

The EEWCC is holding \$171,694 of cash on account for the District to satisfy these liabilities at June 30, 2017. In addition, the District has reserved \$641,674 of the fund balance in the general fund for potential supplemental assessments due to catastrophic losses and future claims.

The EEWCC has issued financial statements for the year ended June 30, 2017. Copies of these statements can be obtained from the District's Administrative Office.

(c) Public Entity Risk Pool - Risk Sharing

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

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(15) Risk Management, Continued

(c) Public Entity Risk Pool - Risk Sharing, Continued

In addition, the District participates in a public entity risk-sharing pool that provides a health benefit program for its employees through the East End Health Plan (Plan), a consortium of school districts from the east end of Long Island. The benefit program's administrator is responsible for the approval processing and payment of claims. This is billed to the District at an established rate based on the number of participants. The District is responsible for contribution amounts to cover its share of the benefits and administrative costs. In the event the Plan experiences a shortfall or the District withdraws from the Plan, a supplemental assessment against the District may be imposed. The Plan, which operates on a fiscal year end, reported a net deficit as of June 30, 2017. Management of the Plan has indicated that it has a multi-year deficit reduction plan in place. The District has not been notified of any additional or supplemental assessments as of the date of this financial statement.

(16) Assigned Appropriated Fund Balance

The amount of \$600,000 has been appropriated to reduce taxes for the year ending June 30, 2018.

(17) Commitments and Contingencies

(a) Encumbrances

All encumbrances are classified as assigned - unappropriated fund balance. At June 30, 2017, the District encumbered the following amounts:

General fund	
General support	\$ 600
Employee benefits	<u>9,012</u>
	\$ <u>9,612</u>

(b) Grants

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

(c) Litigation

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

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Notes to Financial Statements, Continued

(18) Subsequent Events

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available for issuance, and have determined that there are no subsequent events that require disclosure under generally accepted accounting principles except as follows:

Issuance of TANs

On September 14, 2017, the District issued tax anticipation notes in the amount of \$6,500,000, which are due June 22, 2018, and bear interest at a stated rate of 2.0% and an effective rate of 1.13%. The District received a premium of \$43,615 on the issuance.

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

To the Board of Education
East Quogue Union Free School District
East Quogue, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the East Quogue Union Free 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 September 21, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the East Quogue Union Free School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2017-001.

The District's Response to Finding

The District's response to the finding identified in the audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

EFPR Group, CPAs, PLLC

Williamsville, New York
September 21, 2017

EAST QUOGUE UNION FREE SCHOOL DISTRICT
Schedule of Findings and Responses
Year ended June 30, 2017

Reference: 2017-001

Requirement

NYS Real Property Tax Law §1318 limits the amount of unexpended surplus funds a District can retain to no more than 4% of the District's budget of the General Fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts assigned for the subsequent year and encumbrances are also excluded from the 4% limitation.

Finding

The District's unassigned fund balance at June 30, 2017 after excluding amounts assigned for the subsequent year end encumbrances was in excess of the New York State Real Property Tax Law §1318 limit. For the fiscal year ended June 30, 2017, this portion of the District's unassigned fund balance is \$2,103,529 is 8.26% of the 2017-2018 voter approved General Fund budget.

District's Response

We understand that the unassigned fund balance at June 30, 2017 was above the 4% limit. The 2016-2017 tuition expenditures were substantially under budget. The final reconciled tuition for 2016-2017 has not yet been received. The Seneca Falls formula used for the tuition calculation, has not yet been finalized. In certain years past, additional money was due. In the future, we will maintain the 4% limit as set forth under New York State Real Property Tax Law 1318.