

**KATONAH – LEWISBORO  
UNION FREE SCHOOL DISTRICT**

**Financial Statements  
As of and for the Year Ended June 30, 2018  
Together with  
Independent Auditor's Reports**

**Bonadio & Co., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

September 26, 2018

To the Board of Education of  
Katonah-Lewisboro 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 aggregate remaining fund information of the Katonah-Lewisboro Union Free School District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

(Continued)

## **INDEPENDENT AUDITOR'S REPORT**

(Continued)

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2018, 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.

### **Change in Accounting Principle**

As discussed in Note 2 to the financial statements, in 2018 the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinions are not modified with respect to this matter.

### **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in total OPEB liability and related ratios, schedule of proportionate share of net pension liability (asset), and schedule of contributions – pension plans 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.

### **Report on Supplementary Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

# KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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*The following is a discussion and analysis of the Katonah-Lewisboro Union Free School District's (District) financial performance for the fiscal year ended June 30, 2018. This section summarizes the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. (It must be noted that during the 2016-2017 school year the District transitioned from one auditing firm to another. As such, classifications of assets and liabilities may differ. These differences shall be noted within this analysis when appropriate. This is a transitional matter should not occur in the presentation of future financial statements.) As this section is only an introduction, it should be read in conjunction with the District's basic financial statements, which immediately follow this section.*

### FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2018 are as follows:

- New York State Law limits the amount of unrestricted (General Fund) fund balance that can be retained by the General Fund to 4% of the ensuing year's budget, exclusive of the amount assigned for the subsequent year's budget. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$3,961,601 and this amount represents 3.64% of the 2018-19 expenditure budget.
- Total net position of governmental activities decreased by \$13,297,409. The major contributing factors relating to this decrease are as follows:
  - The amount of liability associated with Other Post Employment Benefits (retiree health insurance) recognized on the Statement of Net Position increased by \$9,125,117.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

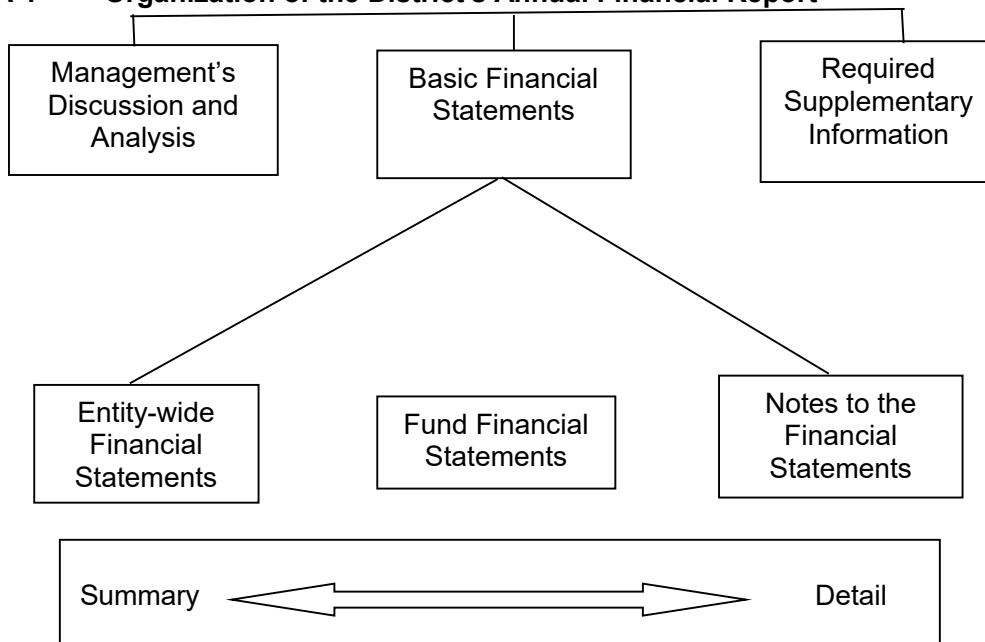
- The first two statements are *district-wide* financial statements that provide both *short-term* and *long-term* information about the District's *overall* financial status. Because of this, the Statement of Net Position will include assets such as building and equipment and long term balances due to the district as well as long term liabilities such as bonds payable. In addition, payments for principal on long term bond obligations will be shown as a reduction of the liability and payments for buildings and equipment will be shown as additions to assets.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the Government-wide statements. The fund financial statements concentrate on the District's most significant funds.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short-term*, as well as what remains for future spending. As such, in this presentation, payments for buildings and equipment will be shown as expenditures rather than an increase in assets, proceeds from new long term borrowings will be shown as a source of revenue rather than a long term liability, and principal payments on the long term borrowings will be shown as expenditures.
- *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data immediately following the financial statements. The statements are followed by a section of required supplementary information and then supplementary information.

These schedules further explain and support the financial statements with a comparison of the District's budget for the year, a detailed capital project schedule, and other financial information.

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

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



## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

**Table A-2 Major Features of the Government-Wide and Fund Financial Statements**

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

### Government-Wide Statements

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

The two Government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets/deferred outflows of resources and liabilities/deferred inflows of resources – are one way to measure the District's financial health or position.

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



## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### Government-Wide Statements (Continued)

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

Government-wide statements use an economic resources measurement focus and full accrual basis of accounting that involves the following steps to prepare the statement of net position:

- Capitalize current outlays for capital assets.
- Report long-term debt as a liability.
- Depreciate capital assets and allocate the depreciation to the proper function.
- Calculate revenue and expenditures using the economic resources measurement focus and the full accrual basis of accounting.
- Allocate net position balances as follows:
  - Net investment in capital assets.
  - Restricted net position is those assets with constraints placed on use by external sources or imposed by law.
  - Unrestricted net position is net position that does not meet any of the above restrictions.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal grants).

The District has two kinds of funds:

- **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The governmental fund statements focus primarily on current financial resources and often have a budgetary orientation. Governmental funds include the general fund, special aid fund, school lunch fund, debt service fund, capital projects fund, permanent fund and miscellaneous special revenue fund. Required financial statements are the balance sheet and the statement of revenue, expenditures, and change in fund balance.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### Fund Financial Statements (Continued)

- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The analysis below focuses on the net position (Table A-3) and changes in net position (Table A-4) of the District's governmental activities. The District's net position decreased \$13,297,409 from \$(178,109,376) in 2017 to \$(191,406,785) in 2018. As Table A-3 shows, the District's assets decreased. The increase in current and other assets is primarily the result of an increase in cash from \$21.5 million in 2017 to \$22.1 million in the current year. The decrease in noncurrent assets is primarily the result of the disposal of capital assets that was offset by an increase of the TRS net pension asset \$2.1 million in 2018 that was a net pension liability in the prior year. The change in current liabilities is primarily the result of a decrease of approximately \$700 thousand in pension plan payables as a result of a reduction in rates. The increase in long-term liabilities is a primarily the result of the additional accrual of the other post-employment benefits of approximately \$9.1 million. Net deferred outflows decreased approximately \$.7 million and deferred inflows of resources increased approximately \$11.2 million as a result of activity relating to the actuarial reports associated with GASB 68 as reported by the District's pension plans and GASB 75 as reported by the district's OPEB plan. Additional information may be found in the accompanying footnotes. Total net position decreased predominately due to the expenses incurred related to obligations to report assets and or liabilities associated with the pension plans as well as Other Post-Employment Benefits.

**Table A-3 Condensed Statement of Net Position**

	<b>Fiscal Year 2018</b>	<b>(Restated) Fiscal Year 2017</b>	<b>Dollar Change</b>	<b>Percent Change</b>
<b>Assets:</b>				
Current assets	\$ 25,228,239	\$ 24,350,865	\$ 877,374	3.60%
Noncurrent assets	82,394,556	84,177,864	(1,783,308)	-2.12%
Total assets	<u>107,622,795</u>	<u>108,528,729</u>	<u>(905,934)</u>	-0.83%
Deferred Outflows of Resources	<u>32,907,383</u>	<u>33,624,433</u>	<u>(717,050)</u>	-2.13%
<b>Liabilities:</b>				
Current liabilities	9,365,037	10,083,863	(718,826)	-7.13%
Long-term liabilities	309,809,756	308,596,856	1,212,900	0.39%
Total liabilities	<u>319,174,793</u>	<u>318,680,719</u>	<u>494,074</u>	0.16%
Deferred Inflows of Resources	<u>12,762,170</u>	<u>1,581,819</u>	<u>11,180,351</u>	706.80%
<b>Net position:</b>				
Net investment in capital assets	61,067,847	62,757,085	(1,689,238)	-2.69%
Restricted	9,320,075	8,595,923	724,152	8.42%
Unrestricted	<u>(261,794,707)</u>	<u>(249,462,384)</u>	<u>(12,332,323)</u>	4.94%
Total net position	<u><u>\$(191,406,785)</u></u>	<u><u>\$(178,109,376)</u></u>	<u><u>\$ (13,297,409)</u></u>	-7.47%

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

### Changes in Net Position

As previously mentioned, the Net Position of the School District's governmental activities decreased by \$13,297,409 in 2018. During 2017-2018 revenues related to property taxes increased by \$1,855,527 from the previous year. Overall revenues increased from one year to the next in the net amount of \$1,498,837. In total revenues amounted to \$108,345,752. Expenditures (including the allocation of the annual Other Post Employment Benefit costs attributable to fiscal year ending 2018) increased by \$1,273,242. Expenditures in the general fund held steady with the prior year's. If you subtract the 2017-2018 expenses from the 2017-2018 revenues you can see that the districts net position from operating results declined by \$13,297,409.

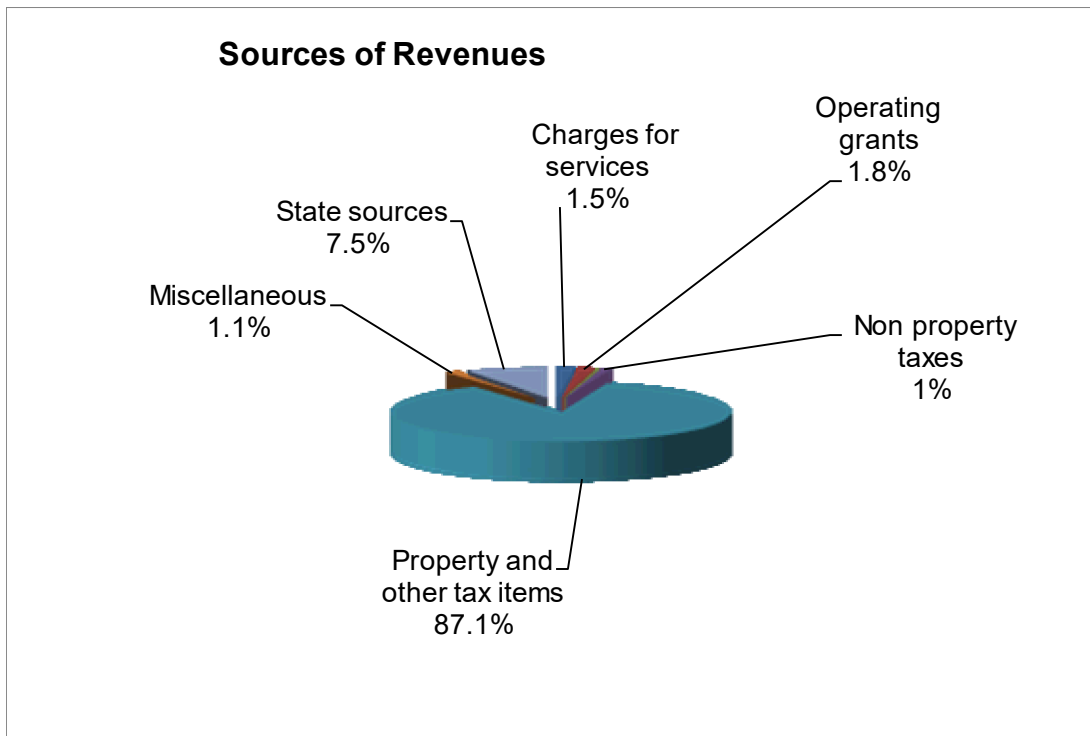
Please note that the program expenses shown in the table below include depreciation expenses, the recognition of Other Post Employment Benefit Obligations and the portion of the NYS Employee Retirement System and NYS Teacher Retirement System net financial liability which is associated with the Katonah Lewisboro School District.

**Table A-4 Changes in Net Position from Operating Results**

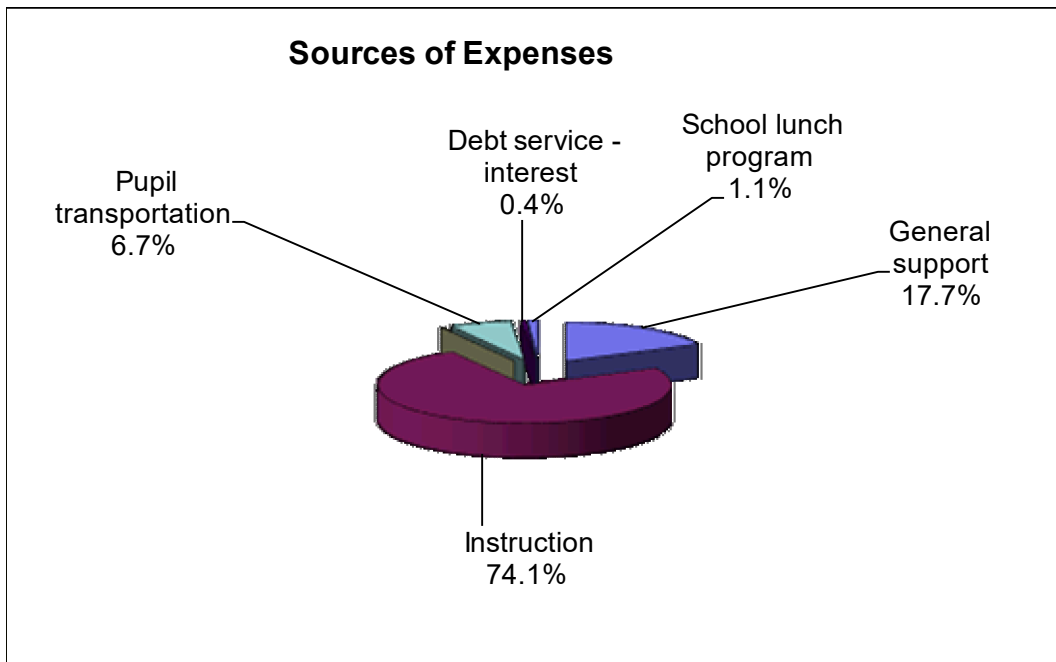
	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 1,634,751	\$ 1,365,572	\$ 269,179	19.71%
Operating grants	1,717,250	1,928,056	(210,806)	-10.93%
Capital grants	260,303	214,800	45,503	21.18%
General revenue:				
Property taxes	86,412,857	84,557,330	1,855,527	2.19%
Other tax items	7,941,307	8,261,501	(320,194)	-3.88%
Non-property taxes	1,038,284	971,853	66,431	6.84%
State aid	8,172,683	8,511,048	(338,365)	-3.98%
Use of money and of property	374,161	156,788	217,373	138.64%
Sale of property and compensation for loss	2,000	23,620	(21,620)	100.00%
Miscellaneous	<u>792,156</u>	<u>856,347</u>	<u>(64,191)</u>	<u>-7.50%</u>
Total revenue	<u>108,345,752</u>	<u>106,846,915</u>	<u>1,498,837</u>	<u>1.40%</u>
<b>Expenses</b>				
General support	21,476,647	17,138,229	4,338,418	25.31%
Instruction	90,156,916	93,145,574	(2,988,658)	-3.21%
Pupil transportation	8,179,211	8,334,290	(155,079)	-1.86%
Community service	12,648	9,166	3,482	37.99%
Cost of sales - food	1,318,018	1,326,145	(8,127)	-0.61%
Debt service - interest	<u>499,721</u>	<u>416,515</u>	<u>83,206</u>	<u>19.98%</u>
Total expenses	<u>121,643,161</u>	<u>120,369,919</u>	<u>1,273,242</u>	<u>1.06%</u>
<b>Change in Net Position</b>	<u><u>\$(13,297,409)</u></u>	<u><u>\$(13,523,004)</u></u>	<u><u>\$ 225,595</u></u>	<u><u>-1.67%</u></u>

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

**Table A-5** Sources of Revenues for 2018

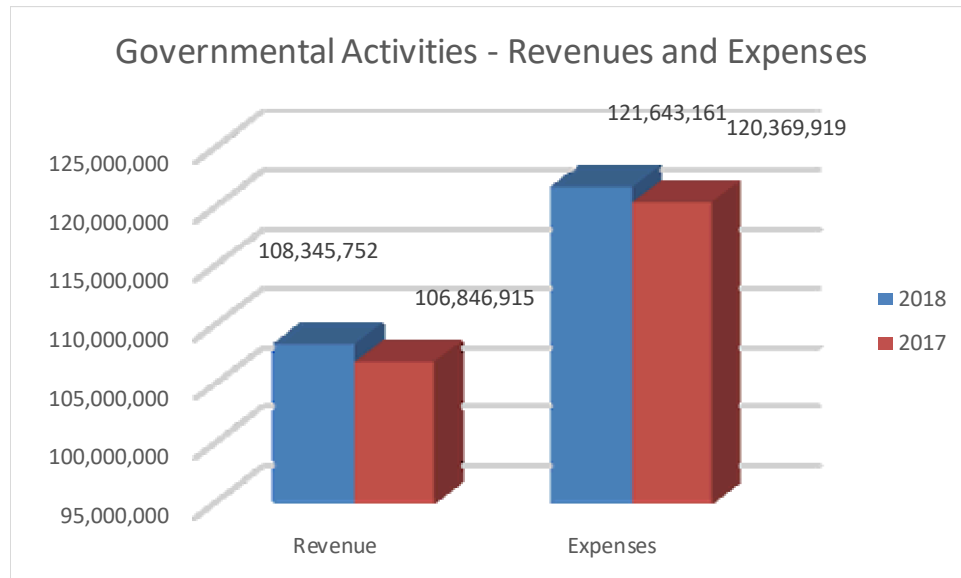


**Table A-6** Sources of Expenses for 2018



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

The graph below compares the District's governmental activities revenues and expenses for the fiscal years 2018 and 2017.



### Governmental Activities

Table A-7 presents the cost of several of the District's major programs or activities as well as each activity's net cost (total cost less fees generated by the activity and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions and is presented in the Statement of Activities.

**Table A-7 Net Costs of Governmental Activities**

Functions:	Total Cost Of Services <u>2018</u>	Total Cost Of Services <u>2017</u>	Percent Change	(Net) Cost Of Services <u>2018</u>	(Net) Cost Of Services <u>2017</u>	Percent Change
General support	\$ 21,476,647	\$ 17,138,229	25.31%	\$ 21,476,647	\$ 17,138,229	25.31%
Instruction	90,156,916	93,145,574	-3.21%	87,700,329	90,880,704	-3.50%
Pupil transportation	8,179,211	8,334,290	-1.86%	8,179,211	8,334,290	-1.86%
Community service	12,648	9,166	37.99%	12,648	9,166	37.99%
Cost of food sales & other	1,318,018	1,326,145	-0.61%	162,301	82,587	96.52%
Debt service - Interest	499,721	416,515	19.98%	499,721	416,515	19.98%
<b>Total</b>	<u>\$121,643,161</u>	<u>\$120,369,919</u>	<u>1.06%</u>	<u>\$118,030,857</u>	<u>\$116,861,491</u>	<u>1.00%</u>

- The total cost of all governmental activities for the year was \$121,643,161.
- The users of the District's programs financed \$1,634,751 of the costs.
- The federal and state operating and capital grants financed \$1,977,553 of the costs.
- The remainder of the costs was financed by the District's taxpayers and state aid, federal aid and other miscellaneous revenues.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

### The School District's Funds

As of June 30, 2018, the District's combined governmental funds reported a total fund balance of \$18,066,697 which is a decrease of \$1,641,429 from the prior year. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and 2017. As you can see, the completion of projects has helped to reduce the fund balance associated with capital projects.

	<u>Fiscal Year</u> <u>2018</u>	<u>Fiscal Year</u> <u>2017</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
General	\$ 16,651,297	\$ 15,353,418	\$ 1,297,879	8.45%
Capital Projects	998,532	614,469	384,063	62.50%
School Lunch	319,636	351,030	(31,394)	-8.94%
Special Purpose	<u>97,232</u>	<u>106,351</u>	<u>(9,119)</u>	-8.57%
Total fund balance	<u>\$ 18,066,697</u>	<u>\$ 16,425,268</u>	<u>\$ 1,641,429</u>	9.99%

### General Fund

The table that follows assists in illustrating the revenues of the General Fund.

	<u>Fiscal Year</u> <u>2018</u>	<u>Fiscal Year</u> <u>2017</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
<b>Revenues</b>				
Real property taxes	\$ 86,412,857	\$ 84,557,330	\$ 1,855,527	2.19%
Other tax items	7,941,307	8,261,501	(320,194)	-3.88%
Non-property taxes	1,038,284	971,853	66,431	6.84%
Use of money and property	373,463	156,294	217,169	138.95%
State sources	8,172,683	8,511,048	(338,365)	-3.98%
Miscellaneous	<u>1,342,685</u>	<u>1,073,486</u>	<u>269,199</u>	25.08%
Total general fund revenues	<u>\$105,281,279</u>	<u>\$103,531,512</u>	<u>\$ 1,749,767</u>	1.69%

The District's General Fund revenues increased by \$1,749,767. This increase is mainly due to increases of \$1,855,527 in property tax revenue.

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

The table that follows assists in illustrating the expenditures of the General Fund.

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
<b>Expenditures</b>				
Instruction	\$ 55,389,830	\$ 56,078,070	\$ (688,240)	-1.23%
General Support and community services	11,109,527	10,255,539	853,988	8.33%
Pupil transportation	4,348,582	4,360,414	(11,832)	-0.27%
Employee benefits	29,255,436	29,571,355	(315,919)	-1.07%
Debt Service	<u>2,724,331</u>	<u>2,560,283</u>	<u>164,048</u>	6.41%
Total general fund expenditures	<u>\$102,827,706</u>	<u>\$102,825,661</u>	<u>\$ 2,045</u>	0.00%

Total expenditures of the General Fund held steady with the prior year. It is important to note that at year-end 2018 the general fund had nearly \$1.6 million of encumbrances. This is largely due to Operations and Maintenance projects which were under contract but could not commence until students were dismissed for the summer. So, although fiscal year 2018 and fiscal year 2017 actual expenses remained steady from year to year it should be expected that as these encumbrances are expensed during fiscal year 2019 there will be a more substantial increase in expenses from one year to the next.

Instruction expenses decreased from year-ending 2017 to 2018. Most of this decrease is associated with changes in personnel related to professional staff who decided to retire as of June 30, 2017. Differences in salaries between newly hired staff and much more experienced (retiring) staff account for the majority of this decrease.

The increase in expenses in General Support and Community Services is largely related to increased expenses in operations and maintenance. The district recovered and expensed over \$150,000 in insurance proceeds which were expensed out of the Operations and Maintenance budget codes. Funds were also budgeted to address minor maintenance and repairs in this area.

Employee benefit expenses decreased by approximately \$316,000. This decrease was realized despite a nearly \$1.05 million increase in health insurance and Medicare reimbursement costs. Offsets to the large increase in health insurance costs were the employer contributions associated with the Teachers Retirement System. In addition, payments associated with leaves of absences and/or accumulated leave expenses decreased by approximately \$500,000 from one year to the next.

Debt service payments increased due to a bond that we began making payments on related to the replacement of the roof at the Meadow Pond Elementary School.

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

### General Fund Budgetary Highlights

The School District's budget is prepared in accordance with New York State law, and is based on accounting for certain transactions on a modified accrual basis. The only fund with a community approved budget is the General Fund.

Over the course of the year, modifications to the budget totaling \$898,847 were made in the General Fund. These modifications are shown below:

- ◆ An increase of \$387,127 for various prior year encumbrances.
- ◆ An increase of \$17,099 for various instructional materials and supplies to be funded by unanticipated gifts and donations.
- ◆ An increase of \$337,347 for a tax certiorari claims or special education liability claims funded by an appropriation from the Reserves.

### CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2018, the District had \$80,277,932 invested in a broad range of capital assets including investments in land, construction in progress, land improvements, buildings and building improvements and machinery and equipment.

The following table shows fiscal year 2018 balances compared to 2017.

**Table A-8 – Capital Assets (Net of Depreciation)**

	<b>Fiscal Year 2018</b>	<b>Fiscal Year 2017</b>	<b>Increase/ (Decrease)</b>	<b>Percent Change</b>
Land	\$ 4,274,693	\$ 4,274,693	\$ -	0.00%
Construction in process	2,144,829	1,712,392	432,437	25.25%
Land improvements	6,527,942	7,050,213	(522,271)	-7.41%
Buildings and improvements	60,733,031	64,469,002	(3,735,971)	-5.79%
Machinery and equipment	<u>6,597,437</u>	<u>6,671,564</u>	<u>(74,127)</u>	-1.11%
Total net capital assets	<u>\$ 80,277,932</u>	<u>\$ 84,177,864</u>	<u>\$ (3,899,932)</u>	-4.63%

Total net capital assets decreased slightly as a result of annual depreciation offset by current year additions. Construction in process decreased significantly as a result of the completion of several capital projects during the current year.



## CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

### Long-Term Liabilities

As of June 30, 2018, the District had \$308,990,486 in general obligation, installment debt, and other long-term liabilities outstanding. The most significant increase relates to the annual cost of Other Postemployment Benefits of approximately \$9 million. More detailed information about the District's long-term liabilities is included in the notes to the financial statements.

**Table A-9 – Long-term Liabilities**

	<b>Fiscal Year <u>2018</u></b>	<b>Fiscal Year <u>2017</u></b>
General obligation bonds (financed with property taxes)	\$ 13,007,116	\$ 14,904,859
Energy performance contract	6,472,553	6,839,421
Compensated absences	2,878,876	2,938,751
Net pension liability	1,257,389	6,794,039
Other postemployment benefits	<u>288,344,821</u>	<u>279,219,704</u>
Total long-term liabilities	<u>311,960,755</u>	<u>310,696,774</u>
Less: current portion of debt	<u>(2,150,999)</u>	<u>(2,185,961)</u>
Total long-term liabilities	<u><u>\$309,809,756</u></u>	<u><u>\$308,510,813</u></u>

## FACTORS BEARING ON THE DISTRICT'S FUTURE

On May 30, 2018 Moody's Investors Service issued its "Annual Comment on Katonah-Lewisboro UFSD". In the "Credit Overview" portion of the report the analyst wrote, "The credit position for Katonah-Lewisboro UFSD is very strong, and its Aa1 rating exceeds the US school districts median of Aa3." The report does go on to cite factors which justify the high rating such as a low debt burden but also makes mention of the "mid-ranged pension liability" which is characterized as "quite unfavorable" with respect to our Aa1 rating.

New York school districts operate within a state-imposed property tax cap, which limits a school district's ability to increase their tax revenue by the lesser of 2% or Consumer Price Index. Over the past several years KLS D has experienced a steady increase in the cost of health insurance. This cost increase has largely been off-set by reductions in pension costs and a reduction of staff due to declining enrollment.

- Most recently, although the District continues to experience declining enrollment, the annual reduction has been much less dramatic than what was experienced since 2005-2006. This enrollment decrease has been helpful to ensure the district could achieve a tax cap compliant budget.
- The increase in health insurance costs during the 2017-2018 school year (inclusive of Medicare reimbursements) accounted for \$1.05 million. This increase alone accounted for just over 65% of the increase in the tax levy from 2016-17 to 2017-18. Recent changes in collective bargaining agreements, which increased the employee's share of these costs will continue to help the district sustain this benefit in the short term, however the rate of increase associated with health insurance far exceeds the consumer price index utilized in the NYS tax cap calculation. The continued increase in the cost of health insurance is single most impactful expenditure increase in the budget. It makes the process of developing a tax cap compliant budget difficult.

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

- Finally, as mentioned in prior years, each year we anxiously await news from the NYS Retirement Systems relative to what the employer contribution rate will be for the upcoming school year. Since the 2014-15 school year the employer contribution rate (for the Teachers Retirement System) has steadily declined from 17.53% of wages paid to 9.8% of wages paid during 2017-18. These rates are dependent upon a series of different financial factors and actuarial assumptions. Should the recent trend of the employer contribution rates begin to increase a tax cap compliant budget will become more and more difficult to achieve.

If in one year both of these previously mentioned expenditure areas increase simultaneously it will be very challenging for the District to develop a budget which results in a tax levy which is compliant with the tax cap formula. Please note that many other factors must be taken into consideration including but not limited to enrollment patterns, transition of staff and utility costs.

As stated in past, with the ever-increasing cost of health insurance, possible employer contribution rate increases to the NYS Retirement Systems, and collective bargaining agreements being negotiated, the Board and the administration will need to skillfully plan in order to sustain our current level of service without exceeding the tax cap.

In summary, based upon the current levels of reserves, the District is poised to withstand a number of years of financial challenges. School District Administration expects to continue this policy of diligent fiscal planning to ensure continued long-term budgetary health and stability.

## **CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

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

Katonah-Lewisboro Union Free School District  
Michael D. Jumper  
Assistant Superintendent for Business  
P.O. Box 387  
Katonah, New York 10536

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT****STATEMENT OF NET POSITION  
JUNE 30, 2018****ASSETS**

## CURRENT ASSETS:

Cash - Unrestricted	\$ 13,564,704
Cash - Restricted	8,559,560
Accounts receivable	59,752
State and federal aid receivable	1,283,841
Due from fiduciary funds	70,532
Due from other governments	1,675,331
Inventories	<u>14,519</u>

Total current assets 25,228,239

## NONCURRENT ASSETS:

Capital assets, net	80,277,932
Net pension asset - TRS	<u>2,116,624</u>

Total non-current assets 82,394,556

Total assets 107,622,795

## DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources - Unamortized loss on debt refunding	269,584
Deferred outflows of resources - TRS Pension	28,447,379
Deferred outflows of resources - ERS Pension	<u>4,190,420</u>

Total deferred outflows of resources 32,907,383

**LIABILITIES**

## CURRENT LIABILITIES:

Accounts payable and accrued expenses	1,489,653
Accrued interest	52,496
Due to fiduciary funds	135,750
Due to other governments	237,535
Unearned revenue	334,738
Due to Teachers' Retirement System	4,453,077
Due to Employees' Retirement System	510,789
Long term debt payable due within one year	<u>2,150,999</u>

Total current liabilities 9,365,037

## LONG-TERM LIABILITIES:

Bonds payable, net of current portion	11,232,116
Energy performance contract debt, net of current portion	6,096,554
Compensated absences payable	2,878,876
Net pension liability - ERS	1,257,389
Other postemployment benefits payable	<u>288,344,821</u>

Total long-term liabilities 309,809,756

Total liabilities 319,174,793

## DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources - TRS Pension	5,810,509
Deferred inflows of resources - ERS Pension	4,049,638
Deferred inflows of resources - other postemployment benefits	<u>2,902,023</u>

Total deferred inflows of resources 12,762,170

**NET POSITION**

Net investment in capital assets	61,067,847
Restricted	9,320,075
Unrestricted	<u>(261,794,707)</u>

TOTAL NET POSITION \$ (191,406,785)

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

GOVERNMENTAL ACTIVITIES	<i>Expenses</i>	<b>Program Revenue</b>			<i>Net (Expense) Revenue and Change in Net Position</i>
		<i>Charges for Services</i>	<i>Operating Grants</i>	<i>Capital Grants</i>	
<b>FUNCTIONS/PROGRAMS:</b>					
General support	\$ 21,476,647	\$ -	\$ -	\$ -	\$ (21,476,647)
Instruction	90,156,916	622,026	1,574,258	260,303	(87,700,329)
Pupil transportation	8,179,211	-	-	-	(8,179,211)
Community services	12,648	-	-	-	(12,648)
Debt service - interest	499,721	-	-	-	(499,721)
School lunch program	<u>1,318,018</u>	<u>1,012,725</u>	<u>142,992</u>	<u>-</u>	<u>(162,301)</u>
<b>TOTAL FUNCTIONS AND PROGRAMS</b>	<b>\$ <u>121,643,161</u></b>	<b>\$ <u>1,634,751</u></b>	<b>\$ <u>1,717,250</u></b>	<b>\$ <u>260,303</u></b>	<b><u>(118,030,857)</u></b>
<b>GENERAL REVENUE:</b>					
Real property taxes					86,412,857
Other tax items					7,941,307
Non-property taxes					1,038,284
Use of money and property					374,161
Sale of property and compensation for loss					2,000
State sources					8,172,683
Miscellaneous					<u>792,156</u>
<b>TOTAL GENERAL REVENUE</b>					<u>104,733,448</u>
<b>CHANGE IN NET POSITION</b>					<u>(13,297,409)</u>
<b>TOTAL NET POSITION - beginning of year, as previously reported</b>					(4,757,646)
<b>PRIOR PERIOD ADJUSTMENT (Note 2)</b>					<u>(173,351,730)</u>
<b>NET POSITION - beginning of year, as restated</b>					<u>(178,109,376)</u>
<b>TOTAL NET POSITION - end of year</b>					<u>\$ (191,406,785)</u>

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**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS AND RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO GOVERNMENT-WIDE NET POSITION  
JUNE 30, 2018**

	<u>General</u>	<u>Special Aid</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash - Unrestricted	\$ 13,148,018	\$ 46,552	\$ 370,134	\$ 13,564,704
Cash - Restricted	7,607,384	-	952,176	8,559,560
Accounts receivable	53,383	-	6,369	59,752
Due from other funds	633,502	1,482	202,000	836,984
State and federal aid receivable	590,200	684,923	8,718	1,283,841
Due from other governments	1,549,496	125,835	-	1,675,331
Inventories	-	-	14,519	14,519
<b>TOTAL ASSETS</b>	<b>\$ 23,581,983</b>	<b>\$ 858,792</b>	<b>\$ 1,553,916</b>	<b>\$ 25,994,691</b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued expenses	\$ 1,366,170	\$ 52,548	\$ 70,935	\$ 1,489,653
Due to other funds	135,750	766,452	-	902,202
Due to other governments	237,423	-	112	237,535
Due to Teachers' Retirement System	4,453,077	-	-	4,453,077
Due to Employees' Retirement System	510,789	-	-	510,789
Unearned revenue	227,477	39,792	67,469	334,738
<b>TOTAL LIABILITIES</b>	<b>6,930,686</b>	<b>858,792</b>	<b>138,516</b>	<b>7,927,994</b>
<b>FUND BALANCE:</b>				
Nonspendable	184,230	-	14,519	198,749
Restricted	8,224,311	-	1,095,764	9,320,075
Assigned	4,281,155	-	305,117	4,586,272
Unrestricted	3,961,601	-	-	3,961,601
<b>TOTAL FUND BALANCE</b>	<b>16,651,297</b>	<b>-</b>	<b>1,415,400</b>	<b>18,066,697</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 23,581,983</b>	<b>\$ 858,792</b>	<b>\$ 1,553,916</b>	<b>\$ 25,994,691</b>

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

Total governmental fund balances per above	\$ 18,066,697
Capital assets, net used in governmental activities are not financial resources and, therefore, are not reported in the funds	80,277,932
GASB 68 related government wide activity	
Net pension asset - TRS	2,116,624
Deferred outflows of resources	32,637,799
Net pension liability - ERS	(1,257,389)
Deferred inflows of resources	(9,860,147)
Deferred inflows of resources related to other postemployment benefits are applicable to future periods and; therefore, are not reported in the funds	(2,902,023)
Deferred outflows from loss on defeasance on the advanced refunding are amortized on the Statement of Net Position over the life of the bond. Governmental funds recorded the loss on defeasance on the advanced refunding as an other financing source in the year of defeasance.	269,584
Long-term liabilities, including bonds payable, net of premiums are not due and payable in the current period, and, therefore, are not reported in the funds	(19,479,669)
Other postemployment benefits liability at year end is recorded in the government-wide statements under full accrual accounting.	(288,344,821)
Long-term liabilities, including compensated absences and judgements and claims are not due and payable in the current period and, therefore, are not reported in the funds	(2,878,876)
Interest payable at year end is recorded in the government-wide statements under full accrual accounting	(52,496)
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ (191,406,785)</b>

The accompanying notes are an integral part of these statements.

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<i>General</i>	<i>Special Aid</i>	<i>Non Major Funds</i>	<i>Total Governmental Funds</i>
<b>REVENUE:</b>				
Real property taxes	\$ 86,412,857	\$ -	\$ -	\$ 86,412,857
Other tax items	7,941,307	-	-	7,941,307
Non-property taxes	1,038,284	-	-	1,038,284
Charges for services	622,026	-	-	622,026
Use of money and property	373,463	-	906	374,369
Sale of property and compensation for loss	2,000	-	-	2,000
Miscellaneous	718,659	62,625	10,664	791,948
State sources	8,172,683	715,610	268,787	9,157,080
Federal sources	-	858,648	134,508	993,156
Sales - school lunch	-	-	1,012,725	1,012,725
<b>Total revenue</b>	<b><u>105,281,279</u></b>	<b><u>1,636,883</u></b>	<b><u>1,427,590</u></b>	<b><u>108,345,752</u></b>
<b>EXPENDITURES:</b>				
General support	11,096,879	134,454	16,377	11,247,710
Instruction	55,389,830	1,517,343	-	56,907,173
Pupil transportation	4,348,582	75,182	-	4,423,764
Community services	12,648	-	-	12,648
Employee benefits	29,255,436	55,193	-	29,310,629
Debt service - principal	2,091,854	-	-	2,091,854
Debt service - interest	632,477	-	-	632,477
Cost of sales	-	-	1,191,423	1,191,423
Capital outlay	-	-	886,645	886,645
<b>Total expenditures</b>	<b><u>102,827,706</u></b>	<b><u>1,782,172</u></b>	<b><u>2,094,445</u></b>	<b><u>106,704,323</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b><u>2,453,573</u></b>	<b><u>(145,289)</u></b>	<b><u>(666,855)</u></b>	<b><u>1,641,429</u></b>
<b>OTHER SOURCES AND (USES):</b>				
Operating transfers in	295	145,289	1,010,700	1,156,284
Operating transfers (out)	<u>(1,155,989)</u>	<u>-</u>	<u>(295)</u>	<u>(1,156,284)</u>
<b>Total other sources (uses)</b>	<b><u>(1,155,694)</u></b>	<b><u>145,289</u></b>	<b><u>1,010,405</u></b>	<b><u>-</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>1,297,879</b>	<b>-</b>	<b>343,550</b>	<b>1,641,429</b>
<b>FUND BALANCE (DEFICIT) - beginning of year</b>	<b><u>15,353,418</u></b>	<b><u>-</u></b>	<b><u>1,071,850</u></b>	<b><u>16,425,268</u></b>
<b>FUND BALANCE (DEFICIT) - end of year</b>	<b><u>\$ 16,651,297</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,415,400</u></b>	<b><u>\$ 18,066,697</u></b>

The accompanying notes are an integral part of these statements.

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

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Net changes in fund balance - Total governmental funds	\$ 1,641,429
<b>Long Term Revenue and Expense Differences:</b>	
Other post employment expense resulting from GASB 75 related OPEB actuary reporting is not recorded as an expenditure in the government funds but is recorded in the Statement of Activities	(12,027,140)
Expenses relating to the change in compensated absences in the statement of activities do not require the expenditure of current resources and are, therefore, not reported as expenditures in the governmental funds.	51,811
Pension expense resulting from GASB 68 related pension actuary reporting is not recorded as an expenditure in the government funds but is recorded in the Statement of Activities	(1,288,187)
<b>Capital Related Items:</b>	
Capital outlays, net of disposals, are expenditures in governmental funds, but are capitalized in the statement of net position	1,201,923
Depreciation is not recorded as a expenditure in the governmental funds, but is recorded in the statement of activities	(5,101,855)
<b>Long-Term Debt Transactions:</b>	
Repayment of bond and energy performance contract debt principal is an expenditure in the governmental funds, but it reduces long term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	2,091,854
Interest on long term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and this requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest at year end changed by:	13,916
Proceeds from issuance of debt is an other financing source in the governmental funds, however, it increases long-term debt in the Statement of Net Position and does not affect the Statement of Activities.	-
The unamortized premium is amortized on the Statement of Net Position over the life of the bond. Governmental funds recorded the premium as other sources of revenue in the year received.	172,757
The defeasance loss on the advance refunding is amortized on the Statement of Net Position over the life of the bond. Governmental funds recorded the loss on defeasance on the advanced refunding as an expenditure in the year of defeasance.	<u>(53,917)</u>
Change in net position - Governmental activities	<u>\$ (13,297,409)</u>

The accompanying notes are an integral part of these statements.

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**

**JUNE 30, 2018**

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	<u>Agency</u>
<b>ASSETS:</b>	
Cash	\$ 552,267
Cash - restricted	64,544
Due from other funds	<u>135,750</u>
Total assets	<u>752,561</u>
<b>LIABILITIES:</b>	
Extraclassroom activity balances	54,682
Due to other funds	70,532
Other liabilities	<u>627,347</u>
Total liabilities	<u>\$ 752,561</u>

The accompanying notes are an integral part of these statements.



# KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Katonah-Lewisboro Union Free School District provides K-12 public education to students living within its geographic boundaries.

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

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

#### **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. The President of the Board of Education serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. The Board of Education has the authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The reporting entity of the District is based upon criteria set forth by generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

#### Extraclassroom Activity Funds

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements, (cash basis) of the extraclassroom activity funds can be found at the District's business office. The District accounts for assets held as an agent for various student organizations in an agency fund.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Joint Venture**

The Katonah-Lewisboro Union Free School District is one of 18 component school districts in the Putnam/Northern Westchester Board of Cooperative Education Services (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. There is no authority or process by which a school district can terminate its status as a BOCES component.

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

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

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

### **Basis of Presentation**

The District's financial statements consist of district-wide financial statements, including a Statement of Net Position and a Statement of Activities and Change in Net Position, and fund level financial statements which provide more detailed information. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures, as appropriate. Governmental resources are allocated to and accounted in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

### Government-Wide Statements

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

The statement of activities presents a comparison between program expenses and revenue for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenue include charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Basis of Presentation (Continued)**

#### Fund Financial Statements

The District uses funds to maintain its accounting records. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

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

#### Governmental Fund Types

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

The School District reports the following major governmental fund:

- **General Fund:** This is the School District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.
- **Special Aid Fund:** This fund accounts for the proceeds of specific revenue sources, such as Federal and State grants, that are legally restricted to expenditures for specified purposes and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or outside parties.

The School District reports the following non-major governmental funds:

- **School Lunch Fund:** Used to account for transactions of the lunch and breakfast programs.
- **Special Purpose Fund:** Used to account for assets held by the District in accordance with the terms of a trust agreement.
- **Capital Projects Funds:** These funds are used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of Presentation (Continued)

#### Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the District as an agent for individuals, private organizations, other governmental units, and/or other funds.

*Fiduciary Fund:* This fund is used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the Government-wide financial statements, because their resources do not belong to the District, and are not available to be used. There is one fiduciary fund:

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

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenue and expenditures during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities, and useful lives of long-lived assets.

### Measurement Focus and Basis of Accounting

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

The Government-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 property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Measurement Focus and Basis of Accounting (Continued)**

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

### **Cash**

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

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and districts.

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

The District does not typically purchase investments for a long enough duration to cause it to be believed that it is exposed to any material interest rate risk.

The District does not typically purchase investments denominated in foreign currency, and is not exposed to foreign currency risk.

### **Restricted Cash**

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes \$8,559,560 within the governmental funds.

### **Property Taxes Receivable**

Real property taxes attach as an enforceable lien on real property as of July 1<sup>st</sup> and are levied and payable in September and January. The towns of Bedford, Lewisboro, North Salem, and Pound Ridge, which are included in the levy, are responsible for the billing and collection of the taxes. The Towns guarantee the full payment of the District warrant and assumes responsibility for uncollected taxes.

### **Other Receivables**

Other receivables include amounts due from other governments and individuals for services provided by the District. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred. Allowances are recorded when appropriate.

### **Inventory and Prepaid Expenditures**

Inventories in the School Lunch Fund consist of food and supplies and are recorded at cost on a first-in, first-out basis or, in the case of surplus food, at a stated value, which approximates market. These inventories consist primarily of items held for consumption. The cost is recorded as inventory at the time individual inventory items are purchased. The District uses the consumption method to relieve inventory. In the fund financial statements, reported amounts are equally offset by non-spendable fund balance, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Inventory and Prepaid Expenditures (Continued)**

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures in both the Government-wide and fund financial statements. These items are reported as assets on the statement of net position or balance sheet using the consumption method.

A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

A reserve for these non-liquid assets (inventories) has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

**Interfund Transactions**

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

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

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

**Capital Assets, Net**

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 for buildings and improvements and more than \$1,000 for furniture and have an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Land and construction-in-progress are not capitalized. Property plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Class	Life In Years
Buildings and Building Improvements	15-50
Land Improvements	20
Machinery and Equipment	5-20

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Capital Assets, Net (Continued)**

The costs associated with the acquisition or construction of capital assets are shown as capital outlay expenditures on the governmental fund financial statements. Capital assets are not shown on the governmental fund balance sheets.

### **Unearned Revenue**

Unearned revenues arise when assets are recognized before revenue recognition criteria has been satisfied. In the district-wide financial statements, unearned revenues consist of amounts received in advance and/or revenue from grants received before the eligibility requirements have been met.

Unearned revenues in fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The District has recorded unearned revenues of \$227,477 in the General Fund for State and Federal aid receivables that do not meet the revenue recognition criteria, \$39,792 in the Special Aid Fund for miscellaneous revenue received in advance, \$57,284 in the School Lunch Fund for advance lunch payments, and \$10,185 in the Capital Projects Fund for grant funds received in excess of costs incurred. Such amounts have been deemed to measurable but not "available" pursuant to generally accepted accounting principles.

### **Deferred Outflows/Inflows of Resources**

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The District reported deferred outflows of resources of \$269,584 for a deferred loss on refunding bonds in the government-wide Statement of Net Position. This amount results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The District also reports deferred outflows of resources and deferred inflows of resources in relation to its pension obligations. These amounts are detailed in the discussion of the District's pension plans in Note 9.

### **Vested Employee Benefits**

#### Compensated Absences

Civil service employees may accumulate an unlimited number of days for sick and personal leave. Upon retirement, those employees with at least five years of service with the District will be paid an allowance computed at .5 times the number of accumulated leave days (in hours) multiplied by the employee's current hourly rate. The maximum number of days of accumulated leave that may be applied to the formula is the hourly equivalent of 400 days. Retiring teachers, hired prior to July 1, 1995 and administrators, appointed prior to June 1, 1994, who, at the time of retirement, have completed on semester following their tenure appointment, will be paid an allowance computed at .5 times the number of days of accumulated leave time 1/200<sup>th</sup> of his/her annual salary. Teachers working less than a "Full Time Equivalent" (FTE) will receive payment in proportion to their FTE. The maximum number of days of accumulated leave that may be applied to the formula is 400. Teachers commencing their employment after July 1, 1995, and administrators, appointed after June 1, 1994, are no longer able to accumulate for the purpose of payment at retirement.

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Vested Employee Benefits (Continued)**

Vacation leave is generally taken within the year earned. However, certain 12-month civil service employees and administrators, upon separation of service from the District, will be compensated for unused vacation time up to a maximum of 23 days.

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

Retirement Benefits

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

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

Other Postemployment Benefits

In addition to providing the pension benefits described, the District provides postemployment health insurance coverage to its retired employees and their survivors in accordance with the provisions of the employment contracts negotiated between the District and its employee groups. Substantially all of these employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The District pays a variable percentage of the cost of premiums to an insurance company that provides health care insurance. At the fund level the District recognizes the cost of providing health care insurance by recording its share of insurance premiums as an expenditure or operating transfer to other funds in the general fund in the year paid.

**Net Pension Liability (Asset)**

The net pension liability (asset) represents the District's proportionate share of net pension liability (asset) of the New York State and Local Employees' Retirement System and the New York State Teachers' Retirement System. The financial reporting of these amounts are presented in accordance with the provisions of GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*" and GASB Statement No. 71, "*Pension Transition for Contribution Made Subsequent to the Measurement Date*".

**Accrued Liabilities and Long-Term Obligations**

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

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

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year (current) or due within more than one year (non-current) in the Statement of Net Position.



1. **NATURE OF OPERATIONS AND SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Short-Term Debt**

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

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

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

**Restricted Resources**

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

**Net Position and Fund Balance Classifications**

Government-wide Statements

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

*Net investment in capital assets* - consists of net capital assets, (cost less accumulated depreciation) plus unspent bond proceeds reduced by outstanding balances of related debt obligations from the acquisition, construction, or improvements of those assets.

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

Restricted net position includes the following:

Unemployment insurance	\$ 339,472
Retirement contributions	2,549,118
Insurance	1,110,158
Tax certiorari	1,781,565
Capital projects	1,704,282
Debt service	316,357
Special purpose fund	97,232
Employee benefit liability	<u>1,421,891</u>
Total restricted net position	<u>\$ 9,320,075</u>

Unrestricted net position - reports the balance of net position that does not meet the definition of the above two classifications and are deemed to be available for general use by the District.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Governmental Fund Statements

In the fund basis statements there are five classifications of fund balance.

Nonspendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually are required to be maintained intact. Nonspendable fund balance includes the inventory recorded in the school lunch fund.

Restricted fund balance – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The School District has available the following reserves (*Note - The District does not currently utilize every one of the reserves listed below*):

#### Capital

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

#### Repair

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

#### Workers' Compensation

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

#### Unemployment Insurance

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

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Net Position and Fund Balance Classifications (Continued)**  
Governmental Fund Statements (Continued)

Debt Service

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

Insurance

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

Liability Claims and Property Loss

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

Tax Certiorari

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

Employee Benefit Accrued Liability

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

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Position and Fund Balance Classifications (Continued)**  
Governmental Fund Statements (Continued)

Retirement Contribution

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

Encumbrances

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

Committed fund balance – Includes amounts that can be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority, i.e., the Board of Education. The District has no committed fund balances as of June 30, 2018.

Assigned fund balance – Includes amounts that are constrained by the School District's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the general fund are classified as assigned fund balance in the general fund. As of June 30, 2018, the District's encumbrances were classified as follows:

General Support	\$ 1,531,610
Instruction	33,762
Pupil Transportation	9,783
Employee Benefits	6,000
	<u>\$ 1,581,155</u>

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

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

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Net Position and Fund Balance Classifications (Continued)**  
Governmental Fund Statements (Continued)

The following table provides details of the District's fund balance classifications.

	<b>General Fund</b>	<b>Special Aid Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total</b>
<b>Nonspendable</b>				
Inventories	\$ -	\$ -	\$ 14,519	\$ 14,519
Advances	<u>184,230</u>	<u>-</u>	<u>-</u>	<u>184,230</u>
Total nonspendable	<u>184,230</u>	<u>-</u>	<u>14,519</u>	<u>198,749</u>
<b>Restricted</b>				
Capital projects	-	-	998,532	998,532
Tax certiorari	1,781,565	-	-	1,781,565
Unemployment benefits	339,472	-	-	339,472
Debt service	316,357	-	-	316,357
Employee benefit accrued liability	1,421,891	-	-	1,421,891
Retirement contributions	2,549,118	-	-	2,549,118
Liability claims	1,110,158	-	-	1,110,158
Future capital projects	705,750	-	-	705,750
Special purposes	<u>-</u>	<u>-</u>	<u>97,232</u>	<u>97,232</u>
Total restricted	<u>8,224,311</u>	<u>-</u>	<u>1,095,764</u>	<u>9,320,075</u>
<b>Assigned</b>				
Purchases on order				
General government support	1,531,610	-	-	1,531,610
Instruction	33,762	-	-	33,762
Pupil transportation	9,783	-	-	9,783
Employee benefits	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>6,000</u>
Total purchases on order	<u>1,581,155</u>	<u>-</u>	<u>-</u>	<u>1,581,155</u>
Subsequent years expenditures				
Fund balance	1,450,000	-	-	1,450,000
Unemployment insurance	35,000	-	-	35,000
Employee benefits accrued liability	405,000	-	-	405,000
Retirement contributions	<u>810,000</u>	<u>-</u>	<u>-</u>	<u>810,000</u>
Total subsequent years expenditures	<u>2,700,000</u>	<u>-</u>	<u>-</u>	<u>2,700,000</u>
School lunch fund	<u>-</u>	<u>-</u>	<u>305,117</u>	<u>305,117</u>
Total assigned	<u>4,281,155</u>	<u>-</u>	<u>305,117</u>	<u>4,586,272</u>
<b>Unassigned</b>	<u>3,961,601</u>	<u>-</u>	<u>-</u>	<u>3,961,601</u>
Total Governmental Activities Fund balance	<u>\$ 16,651,297</u>	<u>\$ -</u>	<u>\$ 1,415,400</u>	<u>\$ 18,066,697</u>

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Net Position and Fund Balance Classifications (Continued)

#### Order of Fund Balance Spending Policy

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

#### **Explanation of Certain Differences between Governmental Fund Statements and Government-Wide Statements**

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

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

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

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

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

#### Long-Term Revenue and Expense Differences

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

#### Capital Related Differences

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

#### Long-Term Debt Transaction Differences

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

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Stewardship, Compliance, And Accountability**

**A. Budgetary Data**

The District generally follows the procedures enumerated below in establishing the budgetary data reflected in the fund financial statements:

- a) At least seven days prior to the budget hearing, a copy of the budget is made available to the voters.
- b) At the budget hearing, the voters may raise questions concerning the items contained in the budget.
- c) The Board of Education establishes a date for the annual meeting, which by law will be held on the third Tuesday in May.
- d) The voters are permitted to vote upon the General Fund budget at the annual meeting.
- e) If the original proposed budget is not approved by the voters, the Board of Education has the option of either resubmitting the original or revising the budget for voter approval at a special meeting held at a later date; or the Board of Education may, at that point, adopt a contingency budget. If the Board of Education decides to submit either the original or a revised budget submittal, and the voters do not approve the second budget submittal, the Board of Education must adopt a contingency budget and the tax levy cannot exceed the total tax levy of the prior year (0% levy growth). In addition, the administrative component of the contingency budget shall not comprise a greater percentage of the contingency budget exclusive of the capital component than the lesser of either 1) the percentage the administrative component had comprised in the prior year budget exclusive of the capital component; or 2) the percentage the administrative component had comprised in the last proposed defeated budget exclusive of the capital component.
- f) Formal budgetary integration is employed during the year as a management control device for the General Special Aid funds.
- g) Budgets for the General and Special Aid funds are legally adopted annually on a basis consistent with the generally accepted accounting principles. The Capital Projects Fund is budgeted on a project basis. The Board of Education does not adopt an annual budget for the School Lunch or Special Purpose funds.
- h) The Board of Education has established legal control of the budget at the function level of expenditures. Transfers between appropriation accounts, at the function level, require approval by the Board of Education. Any modification to appropriation resulting from increases in revenue estimates of supplemental reserve appropriation also require a majority vote by the Board.
- i) Appropriations in General and Special Aid funds lapse at the end of the fiscal year, except that outstanding encumbrances are reappropriated in the succeeding year pursuant to the Uniform System of Account promulgated by the Office of the State Comptroller.

Budgeted amounts are as originally adopted, or as amended by the Board of Education.





### 3. CASH

The District's aggregate bank balances, included balances not covered by depository insurance at year-end, collateralized as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents, including trust funds	\$ <u>24,224,607</u>	\$ <u>22,741,075</u>
Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name	\$ 23,633,965	
Covered by FDIC insurance	<u>590,642</u>	
Total	<u>\$ 24,224,607</u>	

Restricted cash represents cash and cash equivalents where used is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes.

#### General fund:

Cash on deposit for reserves	
Unemployment insurance	\$ 355,574
Retirement	2,549,045
Insurance	577,214
Tax certiorari	1,881,551
Employee benefit liability reserve	1,421,893
Capital projects	505,750
Debt service	<u>316,357</u>
Total general fund restricted cash	<u>\$ 7,607,384</u>
Total capital project fund restricted cash	<u>\$ 837,794</u>
Total special purpose fund restricted cash	<u>\$ 114,382</u>

#### Trust and agency fund:

Cash on deposit for scholarships, private purpose trust funds, and extraclassroom activity funds	<u>\$ 64,544</u>
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#### 4. PARTICIPATION IN BOCES

During the year, the District was billed \$4,520,942 for BOCES administrative and program costs.

The District's share of BOCES aid amounted to \$1,983,866.

#### 5. CAPITAL ASSETS, NET

Capital asset balances and activity for the year ended June 30, 2018, were as follows:

	July 1, 2017 <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	June 30, 2018 <u>Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 4,274,693	\$ -	\$ -	\$ 4,274,693
Construction in progress	<u>1,712,392</u>	<u>432,437</u>	<u>-</u>	<u>2,144,829</u>
Total non-depreciable cost	<u>5,987,085</u>	<u>432,437</u>	<u>-</u>	<u>6,419,522</u>
Capital assets that are depreciated:				
Land improvements	12,586,447	-	-	12,586,447
Buildings and improvements	125,333,226	-	300,981	125,032,245
Machinery and equipment	<u>18,439,831</u>	<u>912,744</u>	<u>2,249,933</u>	<u>17,102,642</u>
Total depreciable historical cost	<u>156,359,504</u>	<u>912,744</u>	<u>2,550,914</u>	<u>154,721,334</u>
Less accumulated depreciation:				
Land improvements	5,536,234	522,271	-	6,058,505
Buildings and improvements	60,864,224	3,620,578	185,588	64,299,214
Machinery and equipment	<u>11,768,267</u>	<u>959,006</u>	<u>2,222,068</u>	<u>10,505,205</u>
Total accumulated depreciation	<u>78,168,725</u>	<u>5,101,855</u>	<u>2,407,656</u>	<u>80,862,924</u>
Total capital assets, net	<u>\$ 84,177,864</u>	<u>\$ (3,756,674)</u>	<u>\$ 143,258</u>	<u>\$ 80,277,932</u>

Depreciation expense for the year ended June 30, 2018, was allocated to specific functions as follows:

General government support	\$ 3,265,187
Instruction	459,167
Transportation	1,326,482
Cost of sales	<u>51,019</u>
Total Depreciation	<u>\$ 5,101,855</u>

#### 6. SHORT-TERM DEBT

A description of the short term debt available to the District is outlined in Note 1.

The District did not issue any short-term debt during the year and had not outstanding short-term debt at June 30, 2018.

## 7. LONG-TERM DEBT

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

Interest paid	\$ 632,477
Less : interest accrued in the prior year	(66,412)
Less : amortization of premium on refunding	(172,757)
Add : amortization of loss on refunding	53,917
Add : interest accrued in the current year	<u>52,496</u>
Total expense	<u>\$ 499,721</u>

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

	(Restated) Beginning Balance	Additions	Deletions	Balance	Due Within One Year	Long-term Portion
Government activities:						
Bonds and notes payable:						
Serial Bonds	\$ 13,854,986	\$ -	\$ 1,724,986	\$ 12,130,000	\$ 1,775,000	\$ 10,355,000
Plus - Unamortized premium on bonds	<u>1,049,873</u>	-	<u>172,757</u>	<u>877,116</u>	-	<u>877,116</u>
Total bonds and notes payable	14,904,859	-	1,897,743	13,007,116	1,775,000	11,232,116
Other long-term debt:						
Energy performance contract debt	6,839,421	-	366,868	6,472,553	375,999	6,096,554
Compensated Absences (*)	2,938,751	-	59,875	2,878,876	-	2,878,876
Net pension liability (*)	6,794,039	-	5,536,650	1,257,389	-	1,257,389
Other postemployment benefits	<u>279,219,704</u>	<u>18,143,585</u>	<u>9,018,468</u>	<u>288,344,821</u>	-	<u>288,344,821</u>
Total Long Term Debt	<u>\$310,696,774</u>	<u>\$ 18,143,585</u>	<u>\$ 16,879,604</u>	<u>\$311,960,755</u>	<u>\$ 2,150,999</u>	<u>\$309,809,756</u>

(\*) Additions and deletions to compensated absence and net pension liability balances are shown net because it is impractical to determine these amounts separately.

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

Bond Issue	Issued	Maturity	Interest Rate	June 30, 2018 Balance
Refunding bonds	2012	2023	2.0 - 3.0%	\$ 3,925,000
Serial Bond	2017	2027	2.50%	1,255,000
Refunding bonds - Series A	2016	2023	4.0 - 5.0%	5,770,000
Refunding bonds - Series B	2016	2023	3.00%	<u>1,180,000</u>
				<u>\$ 12,130,000</u>

**7. LONG-TERM DEBT (Continued)**

**Energy Performance Contract Debt Payable**

The District, In November 2014, entered into a \$7,454,228 contractual agreement to install energy savings equipment and/or to upgrade existing facilities to enhance performance. The terms of the contract provide for repayment over eighteen years, with semi-annual installments of \$267,159 through November 2032. Payments include interest ranging from 2.3736% to 3.44%. The contract further provides that the savings in energy costs resulting from this modernization will equal or exceed the lease payment terms. The balance due at June 30, 2018 was \$6,472,553.

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,775,000	\$ 392,150	\$ 2,167,150
2020	1,855,000	283,769	2,138,769
2021	1,900,000	250,188	2,150,188
2022	1,990,000	179,950	2,169,950
2023	2,050,000	111,219	2,161,219
2024-2027	<u>2,560,000</u>	<u>62,038</u>	<u>2,622,038</u>
Total	<u>\$ 12,130,000</u>	<u>\$ 1,279,314</u>	<u>\$ 13,409,314</u>

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

The following is a summary of the maturity of installment purchase debt:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 375,999	\$ 158,319	\$ 534,318
2020	385,361	148,957	534,318
2021	394,961	139,357	534,318
2022	404,803	129,515	534,318
2023	414,895	119,423	534,318
2024-2028	2,235,039	436,551	2,671,590
2029-2033	<u>2,261,495</u>	<u>142,936</u>	<u>2,404,431</u>
	<u>\$ 6,472,553</u>	<u>\$ 1,275,058</u>	<u>\$ 7,747,611</u>

## 8. INTERFUND BALANCES AND ACTIVITY

	Interfund		Interfund	
	<i>Receivable</i>	<i>Payable</i>	<i>Revenue</i>	<i>Expenditures</i>
General fund	\$ 633,502	\$ 135,750	\$ 295	\$ 1,155,989
Special aid fund	1,482	766,452	145,289	-
School lunch fund	24,239	-	-	-
Special purpose fund	-	-	-	-
Capital projects fund	177,761	-	1,010,700	295
Fiduciary funds	135,750	70,532	-	-
Total	<u>\$ 972,734</u>	<u>\$ 972,734</u>	<u>\$ 1,156,284</u>	<u>\$ 1,156,284</u>

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

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

All interfund payables are expected to be repaid within one year.

## 9. PENSION PLANS

### New York State Employee Retirement System (NYSERS)

The District participates in the New York State and Local Employee's Retirement System (ERS) also referred to as New York State and Local Retirement System (the NYSERS). This is a cost-sharing multiple-employer retirement system, providing retirement benefits as well as death and disability benefits. The net position of the NYSERS is held in the New York State Common Retirement Fund (the Fund), established to hold all net position and record changes in plan net position allocated to the NYSERS. The NYSERS benefits are established under the provisions of the New York State Retirement and Social Security Law (NYS RSSL). Once an employer elects to participate in the NYSERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The system is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at:

[www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

### **Contributions**

The NYSERS is noncontributory except for employees who joined the NYSERS after July 27, 1976, who contribute 3.0% percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0% percent of their salary for their entire length of service.

Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYSERS' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

2018	\$ 1,880,862
2017	\$ 1,869,654
2016	\$ 2,061,315

**9. PENSION PLANS (Continued)**

New York State Employee Retirement System (NYSERS) (Continued)

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

At June 30, 2018, the District reported a net pension liability of \$1,257,389 for its proportionate share of the NYSERS net pension liability. The net pension liability was measured as of March 31, 2018, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2018, the District's proportion was .0389593%, which was a decrease from its proportionate share of .0401802% at June 30, 2017.

For the year ended June 30, 2018, the District recognized pension expense of \$1,683,094. At June 30, 2018, the District reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 448,470	\$ 370,599
Changes of Assumptions	833,753	-
Net difference between projected and actual earnings on pension plan investments	1,826,257	3,604,849
Changes in proportion and differences between the District's contributions and proportionate share of contributions	571,151	74,190
Contributions subsequent to the measurement date	510,789	-
	<u>\$ 4,190,420</u>	<u>\$ 4,049,638</u>

The District recognized \$510,789 as deferred outflows of resources related to pensions resulting from contributions made subsequent to the measurement date of March 31, 2018 which will be recognized a reduction of the net pension liability in the year ended March 31, 2019.

## 9. PENSION PLANS (Continued)

### New York State Employee Retirement System (NYSERS) (Continued)

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

Plan's Year Ended March 31:	
2019	\$ 444,338
2020	362,489
2021	(808,723)
2022	(368,112)
2023	-
Thereafter	-
	<u>\$ (370,008)</u>

### **Actuarial Assumptions**

The total pension liability at March 31, 2018 was determined by using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018.

The actuarial valuation used the following actuarial assumptions:

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

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

**9. PENSION PLANS (Continued)**

New York State Employee Retirement System (NYSERS) (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2018 are summarized below:

<u>Asset Type</u>	Target <u>Allocation</u>	Long-Term Expected Real <u>Rate of Return</u>
Domestic Equity	36.0%	4.55%
International Equity	14.0%	6.35%
Private Equity	10.0%	7.50%
Real Estate	10.0%	5.55%
Absolute Return Strategies	2.0%	3.75%
Opportunistic Portfolio	3.0%	5.68%
Real Asset	3.0%	5.29%
Bonds & Mortgages	17.0%	1.31%
Cash	1.0%	-0.25%
Inflation-Indexed Bonds	4.0%	1.25%
	<u>100%</u>	

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

**Discount Rate**

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1 % Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Proportionate Share of Net Pension liability (asset)	\$ 9,513,741	\$ 1,257,389	\$ (5,727,156)



## 9. PENSION PLANS (Continued)

### Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the plan as of March 31, 2018 were as follows:

	Pension Plan's Fiduciary Net Position
Total pension liability	\$183,400,590,000
Net position	<u>(180,173,145,000)</u>
Net pension liability (asset)	<u>\$ 3,227,445,000</u>
Fiduciary net position as a percentage of total pension liability	98.24%

### New York State Teacher Retirement System

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

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

### **Contributions**

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

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

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

2018	\$ 4,279,226
2017	\$ 5,961,383
2016	\$ 5,796,540

**9. PENSION PLANS (Continued)**

New York State Teacher Retirement System (NYSTRS) (Continued)

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

At June 30, 2018, the District reported net pension asset of \$2,116,624 for its proportionate share of the NYSTRS net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension asset used to calculate the net pension asset was determined by the actuarial valuation as of that date. The District's proportion of the net pension asset was based on a projection of the Districts' long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2018, the District's proportion was .278467%, which was a decrease from its proportionate share of .281839% at June 30, 2017.

For the year ended June 30, 2018, the District recognized pension expense of \$5,771,805. At June 30, 2018 the District reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,741,462	\$ 825,247
Changes of Assumptions	21,537,063	-
Net difference between projected and actual earnings on pension plan investments	-	4,985,262
Changes in proportion and differences between the District's contributions and proportionate share of contributions	715,777	-
Contributions subsequent to the measurement date	4,453,077	-
	<u>\$ 28,447,379</u>	<u>\$ 5,810,509</u>

The District recognized \$4,453,077 as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date June 30, 2017, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

Plan's Year Ended June 30:	
2018	\$ 624,615
2019	5,832,851
2020	4,212,417
2021	1,147,069
2022	4,200,553
Thereafter	2,166,288
	<u>\$ 18,183,793</u>

## 9. PENSION PLANS (Continued)

### New York State Teacher Retirement System (NYSTRS) (Continued)

#### **Actuarial Assumptions**

The total pension asset at the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension asset to June 30, 2017. Total pension liability at the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension asset to June 30, 2016. These actuarial valuations used the following actuarial assumptions:

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

<u>Service</u>	<u>Rate</u>
5	4.72%
15	3.46%
25	2.37%
35	1.90%

Projected COLA	1.5% compounded annually
Investment Rate of Return	7.25% compounded annually, net of pension plan investment expense, including inflation.

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014.

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

## 9. PENSION PLANS (Continued)

### New York State Teacher Retirement System (NYSTRS) (Continued)

#### Actuarial Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of the valuation date of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Type</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equities	35.0%	5.9%
International Equities	18.0%	7.4%
Real Estate	11.0%	4.3%
Private Equities	8.0%	9.0%
Domestic Fixed Income Securities	16.0%	1.6%
Global Fixed Income Securities	2.0%	1.3%
High-yield Fixed Income Securities	1.0%	3.9%
Mortgages	8.0%	2.8%
Short-term	1.0%	0.6%
	<u>100%</u>	

#### Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from school districts will be made at statutorily required rates, actuarially determined. Based on those assumptions, the NYSTRS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### Sensitivity of the Proportionate Share of the Net Pension Liability (Asset) to the Discount Rate Assumption

The following presents the net pension liability (asset) of the District using the discount rate of 7.25%, as well as what the school districts' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Assumption (7.25%)</u>	<u>1% Increase (8.25%)</u>
Proportionate Share of Net Pension liability (asset)	\$ 36,463,166	\$ (2,116,624)	\$ (34,425,284)

## 9. PENSION PLANS (Continued)

### Pension Plan Fiduciary Net Position

The components of the collective net pension liability (asset) of the plan as of June 30, 2018, were as follows:

	Pension Plan's Fiduciary Net Position
Total pension liability	\$114,708,261,032
Net position	(115,468,360,316)
Net pension liability (asset)	<u>\$ (760,099,284)</u>
Fiduciary net position as a percentage of total pension liability	100.66%

### Voluntary Defined Contribution Plan

The District also offers a defined contribution plan to all non-union employees hired on or after July 1, 2013 and earning at the annual full-time salary rate of \$75,000 or more. The employee contribution is between 3% and 6% depending on salary and the District will contribute 8%. Employer contributions vest after 366 days of service. No current employees participated in this program.

## 10. OTHER POST-EMPLOYMENT BENEFITS

### Plan description

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

The plan is a single-employer defined benefit OPEB plan administered by the District. Article 11 of the State Compiled Statutes grants the authority to establish and amend the benefit terms and financing requirements to the District Board. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

### Benefits Provided

The District provides healthcare benefits for retirees and their dependents. The benefit terms are dependent on which contract each employee falls under. The specifics of each contract are on file at the District offices and are available upon request.

## 10. OTHER POST-EMPLOYMENT BENEFITS (Continued)

### Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefits	728
Active employees	563
Total participants	<u>1,291</u>

### Total OPEB Liability

The District's total OPEB liability of \$288,344,821 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2016.

### Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Payroll Growth	2.00%
Discount Rate	3.62% as of June 30, 2018
Healthcare Cost Trend Rates	Pre-65 Medical - 7.25% for 2018, decreasing annually to an ultimate rate of 3.886% for 2075 and later years Post-65 Medical - 6.25% for 2018, decreasing annually to an ultimate rate of 3.886% for 2075 and later years Prescription Drug - 10.50% for 2018, decreasing annually to an ultimate rate of 3.886% for 2075 and later years Medicare Part B Premium - 4.60% for 2018, decreasing annually to an ultimate rate of 3.886% for 2075 and later years
Share of Benefit-Related Costs	Retirees contribute a portion of health care premiums based on date of hire, retirement date, and the applicable bargaining unit contract

The discount rate was based on the Fidelity General Obligation 20-Year AA Municipal Bond Index.

The mortality assumption was revised as of July 1, 2017 to the sex-distinct RP-2014 Mortality Tables for employees and healthy annuitants, adjusted backward to 2006 with Scale MP-2014, and then adjusted for mortality improvements with Scale MP-2017 mortality improvement scale on a generational basis.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015 to July 1, 2016.

**10. OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Changes in the Total OPEB Liability**

Balance at June 30, 2017, as restated	\$ 279,219,704
Changes for the Year:	
Service cost	8,026,493
Interest cost	10,117,092
Changes in benefit terms	-
Changes in assumptions or other inputs	(2,902,023)
Differences between expected and actual experience	-
Benefit payments	<u>(6,116,445)</u>
Balance at June 30, 2018	<u>\$ 288,344,821</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.56% in 2017 to 3.62% in 2018.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current discount rate:

	1% Decrease <u>(2.62%)</u>	Current Discount <u>(3.62%)</u>	1% Increase <u>(4.62%)</u>
Total OPEB Liability	<u>\$ 344,287,023</u>	<u>\$ 288,344,821</u>	<u>\$ 244,196,693</u>

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	Healthcare		
	1% Decrease <u>(*)</u>	Current Discount <u>(*)</u>	1% Increase <u>(*)</u>
Total OPEB Liability	<u>\$ 231,405,547</u>	<u>\$ 288,344,821</u>	<u>\$ 364,417,335</u>

\* The current discount rate varies by coverage type as noted in the assumptions table. The sensitivity analysis was calculated and summarized for all coverage types.

**10. OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$12,027,140. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Changes of assumptions	<u>\$ -</u>	<u>\$ 2,902,023</u>

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

Fiscal year ending June 30:	
2019	\$ (467,465)
2020	(467,465)
2021	(467,465)
2022	(467,465)
2023	(467,465)
Thereafter	(564,698)
	<u>\$ (2,902,023)</u>

**11. DEFERRED INFLOWS OF RESOURCES – GAIN ON REFUNDING**

The gain on defeasance pertaining to the 2009, 2011 and 2014 refunding is recorded in the District Wide Financial Statements as deferred inflows of resources. The gain on defeasance on the advanced refunding is being amortized on the District Wide Financial Statements using the straight line method over 9 years, 11 years and 11 years, respectively.

**12. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

**A. Litigation**

The District is a defendant in actions which, on occasion, parents seek reimbursement for tuition paid by them to private schools where they have unilaterally placed (enrolled) their children. If the parents' were successful in the claim, they could receive reimbursement for both tuition and attorney's fees. The School District rigorously contests any liability for these claims, as it feels: a) it had provided an appropriate placement for the children at issue; and b) the parents' unilateral placement are not consistent with the Individuals with Education Disabilities Act. As mentioned above, the District is contesting that any and all cases should be dismissed, however, it is not possible to express an opinion on the outcome of these matters.



## **12. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (Continued)**

### **A. Litigation (Continued)**

There are currently pending certiorari proceedings, the results of which could require the payment of future tax refunds by the School District if existing assessment rolls are modified based on the outcome of the litigation proceedings. However, the amount of these possible refunds cannot be determined at the present time. Any payments resulting from adverse decisions will be funded in the year the payment is made.

### **B. Contingencies**

The District participates in various Federal grant programs. These programs are subject to program compliance audits pursuant to the Single Audit Act. Accordingly, the School District's compliance with applicable grant requirements may be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District anticipates such amounts, if any, to be immaterial.

The District is subject to audits of State aid by the New York State Education Department. The amount of aid previously paid to the District which may be disallowed cannot be determined at this time, although the District anticipates such amounts, if any, to be immaterial.

### **C. Risk Management**

The District and other school districts have formed a reciprocal insurance company to be owned by these districts. This Company operates under an agreement effective July 1, 1989. The purpose of the Company is to provide general liability, school board legal liability, auto liability, and auto physical damage coverage, excess insurance, equipment floaters, boilers, and machinery insurance and all risk building and contents. In addition, as part of the reciprocal program, crime and bond coverages will be purchased from commercial carriers and be available to the subscriber districts. The company retains a management company, which is responsible for the overall supervision and management of the reciprocal. The reciprocal is managed by a Board of Governors and an Attorney-in-fact, which is comprised of employees of the subscriber districts. The subscribers have elected those who sit on the board and each subscriber has a single vote. The Company is an "assessable" insurance company, in that, the subscribers are severally liable for any financial shortfall of the Company and can be assessed their proportionate share by the State Insurance Department if the funds of the Company are less than what is required to satisfy its liabilities. The subscriber districts are required to pay premiums as well as a minimal capital contribution. The District purchases various insurance coverages from the Company to reduce its exposure to loss. The District maintains general liability insurance coverage with policy limits of \$1 million and an umbrella policy which provides coverage up to \$25 million. The District also maintains liability for school board members with policy limits of \$1 million and public employee dishonesty with policy limits for \$5 million. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **12. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (Continued)**

### **C. Risk Management (Continued)**

The District and neighboring school districts in Northern Westchester and Putnam Counties participate in the Westchester-Putnam Schools Cooperative Self-Insurance Plan for Workers' Compensation. The Plan operates under an agreement, as amended, dated February 6, 1987. The purposes of the Plan are to provide for the efficient and economical evaluation, processing, administration, defense, and payment of claims against Plan members for workers' compensation payments. The Board of Trustees of the Plan consists of five Trustees selected by the Plan members. Each Trustee shall have one vote and no action may be taken except by a majority of the total membership of Trustees. Billings to each participant are based upon the cost incurred for workers' compensation. The District has transferred all related risk to the Plan.

## **13. ACCOUNTING PRONOUNCEMENT ISSUED NOT YET IMPLEMENTED**

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The District is required to adopt the provisions of these Statements for the year ending June 30, 2019.

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

The District has not assessed the impact of these statements on its future financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual (Budgetary Basis)</i>	<i>Encumbrances</i>	<i>Final Budget Variance with Budgetary Actual</i>
<b>REVENUE</b>					
Local sources:					
Real property taxes	\$ 94,423,461	\$ 86,477,753	\$ 86,412,857	\$ -	\$ (64,896)
Other tax items	-	7,945,709	7,941,307	-	(4,402)
Non-property taxes	950,000	950,000	1,038,284	-	88,284
Charges for services	295,500	295,500	622,026	-	326,526
Use of money and property	160,000	160,000	373,463	-	213,463
Sale of property and compensation for loss	-	-	2,000	-	2,000
Miscellaneous	<u>170,025</u>	<u>344,358</u>	<u>718,659</u>	<u>-</u>	<u>374,301</u>
Total local sources	95,998,986	96,173,320	97,108,596	-	935,276
State sources	<u>7,860,960</u>	<u>7,860,960</u>	<u>8,172,683</u>	<u>-</u>	<u>311,723</u>
Total revenue	<u>103,859,946</u>	<u>104,034,280</u>	<u>105,281,279</u>	<u>-</u>	<u>1,246,999</u>

(Continued)

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED) (Continued)  
FOR THE YEAR ENDED JUNE 30, 2018**

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual (Budgetary Basis)</i>	<i>Encumbrances</i>	<i>Variance with Budgetary Actual and Encumbrances</i>
<b>EXPENDITURES</b>					
GENERAL SUPPORT:					
Board of education	\$ 185,167	\$ 179,782	\$ 166,363	\$ 1,530	\$ 11,889
Central administration	426,881	428,137	417,620	507	10,010
Finance	1,034,282	1,041,876	973,140	50,571	18,165
Staff	961,400	1,203,146	1,102,532	40,812	59,802
Central services	7,063,775	9,084,089	7,503,701	1,438,190	142,198
Special items	<u>876,865</u>	<u>985,700</u>	<u>933,523</u>	<u>-</u>	<u>52,177</u>
Total general support	<u>10,548,370</u>	<u>12,922,730</u>	<u>11,096,879</u>	<u>1,531,610</u>	<u>294,241</u>
INSTRUCTION:					
Instruction, administration, and improvement	5,821,624	5,439,925	5,318,471	2,680	118,774
Teaching - regular school	29,614,448	29,179,134	28,904,061	8,308	266,765
Programs for children with handicapping conditions	12,342,074	12,196,674	11,919,668	5,227	271,779
Teaching - special school	5,000	5,685	5,685	-	-
Occupational education	403,114	403,114	403,114	-	-
Instructional media	3,383,092	3,502,379	3,392,113	268	109,998
Pupil services	<u>5,550,854</u>	<u>5,586,031</u>	<u>5,446,718</u>	<u>17,279</u>	<u>122,034</u>
Total instruction	57,120,206	56,312,942	55,389,830	33,762	889,350
Pupil transportation	4,672,433	4,541,804	4,348,582	9,783	183,439
Community services	19,700	19,700	12,648	-	7,052
Employee benefits	31,149,949	30,001,639	29,255,436	6,000	740,203
Debt service - principal	2,104,462	2,104,462	2,091,854	-	12,608
Debt service - interest	<u>634,826</u>	<u>634,826</u>	<u>632,477</u>	<u>-</u>	<u>2,349</u>
Total expenditures	106,249,946	106,538,103	102,827,706	1,581,155	2,129,242
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds	-	-	295	-	295
Transfers (to) other funds	<u>(560,000)</u>	<u>(1,170,700)</u>	<u>(1,155,989)</u>	<u>-</u>	<u>14,711</u>
Total other financing sources (uses)	<u>(560,000)</u>	<u>(1,170,700)</u>	<u>(1,155,694)</u>	<u>-</u>	<u>15,006</u>
Total expenditures and other financing sources (uses)	<u>106,809,946</u>	<u>107,708,803</u>	<u>103,983,400</u>	<u>1,581,155</u>	<u>2,144,248</u>
NET CHANGE IN FUND BALANCE	(2,950,000)	(3,674,523)	1,297,879		
FUND BALANCE - beginning of year	<u>15,353,418</u>	<u>15,353,418</u>	<u>15,353,418</u>		
FUND BALANCE - end of year	<u>\$ 12,403,418</u>	<u>\$ 11,678,895</u>	<u>\$ 16,651,297</u>		

The accompanying notes are an integral part of these schedules

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**SCHEDULE OF CHANGE IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>
Measurement date	June 30, 2018
<b>Total other postemployment benefits (OPEB) liability</b>	
Service cost	\$ 8,026,493
Interest	10,117,092
Changes in benefit terms	-
Differences between expected and actual experience in the measurement of the total OPEB liability	-
Changes of assumptions or other inputs	(2,902,023)
Change in actuarial cost method	-
Benefit payments	<u>(6,116,445)</u>
Net change in in total OPEB liability	9,125,117
Total OPEB liability - beginning	<u>279,219,704</u>
Total OPEB liability - ending	<u>\$ 288,344,821</u>
Covered payroll	<u>\$ 57,572,515</u>
Total OPEB liability as a percentage of covered payroll	500.84%

10 years of historical information will not be available upon implementation. An additional year of historical information will be added each year subsequent to the year of implementation until 10 years of historical data is available.

*Plan Assets.* No assets are accumulated in a trust that meets the criteria in GASB 75, paragraph 4, to pay related benefits:

- Contributions from the employer and any nonemployer contributing entities, and earnings thereon, must be irrevocable.
- Plan assets must be dedicated to providing OPEB to Plan members in accordance with the benefit terms.
- Plan assets must be legally protected from the creditors of the employer, nonemployer contributing entities, the Plan administrator, and Plan members.

The accompanying notes are an integral part of these schedules.

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of the net pension liability (asset)	0.0389593%	0.0401802%	0.0408701%	0.0412069%						
Proportionate share of the net pension liability (asset)	\$ 1,257	\$ 3,775	\$ 6,560	\$ 1,392						
Covered-employee payroll	12,850	12,177	12,419	11,762						
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.78%	31.01%	52.82%	11.83%						
Plan fiduciary net position as a percentage of the total pension liability (asset)	98.24%	94.70%	90.68%	97.95%						

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

NEW YORK STATE TEACHERS' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of the net pension liability (asset)	0.2784670%	0.2818390%	0.2125420%	0.2961240%						
Proportionate share of the net pension liability (asset)	\$ (2,117)	\$ 3,019	\$ (29,833)	\$ (32,986)						
Covered-employee payroll	43,666	50,865	43,714	43,145						
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	4.85%	-5.94%	68.25%	76.45%						
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.66%	99.01%	110.46%	111.48%						

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

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**SCHEDULE OF CONTRIBUTIONS - PENSION PLANS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN</b>										
Contractually required contribution	\$ 1,881	\$ 1,870	\$ 2,061	\$ 2,087						
Contributions in relation to the contractually required contribution	\$ 1,881	\$ 1,870	\$ 2,061	\$ 2,087						
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -						
Covered-employee payroll	\$ 12,850	\$ 12,177	\$ 12,419	\$ 11,762						
Contributions as a percentage of covered-employee payroll	14.64%	15.36%	16.60%	17.74%						

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

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>NEW YORK STATE TEACHERS' RETIREMENT SYSTEM PLAN</b>										
Contractually required contribution	\$ 4,279	\$ 5,961	\$ 5,797	\$ 7,563						
Contributions in relation to the contractually required contribution	\$ 4,279	\$ 5,961	\$ 5,797	\$ 7,563						
Contribution deficiency (excess)	-	-	-	-						
Covered-employee payroll	\$ 43,666	\$ 50,865	\$ 43,714	\$ 43,145						
Contributions as a percentage of covered-employee payroll	9.80%	11.72%	13.26%	17.53%						

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



**SUPPLEMENTAL INFORMATION (UNAUDITED)**

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**SCHEDULE OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET  
AND THE REAL PROPERTY TAX LIMIT (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

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**CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET**

Adopted budget	\$ 106,809,946
Add: Prior year's encumbrances	<u>387,127</u>
Original budget	107,197,073
Budget revisions	<u>511,730</u>
Final budget	<u><u>\$ 107,708,803</u></u>

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

2018-19 voter-approved expenditure budget	\$ 108,692,382	
Maximum allowed (4% of 2018-19 budget)		\$ 4,347,695
General fund, fund balance subject to section 1318 of real property tax law*:		
Unrestricted fund balance:		
Committed fund balance		\$ -
Assigned fund balance		4,281,155
Unassigned fund balance		<u>3,961,601</u>
Total Unrestricted Fund Balance		<u><u>\$ 8,242,756</u></u>
Less:		
Appropriated fund balance	2,700,000	
Encumbrances included in committed and assigned fund balance	<u>1,581,155</u>	
Total adjustments	<u><u>4,281,155</u></u>	
General fund, fund balance subject to section 1318 of real property tax law		<u><u>\$ 3,961,601</u></u>
Actual percentage		3.64%

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

KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT

SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018

PROJECT TITLE	Revised Appropriation	Expenditures			Unexpended Balance	Methods of Financing			Fund Balance June 30, 2018	
		Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources		Total
WWTP upgrade	\$ 1,318,769	\$ 1,107,518	\$ 778	\$ 1,108,296	\$ 210,473	\$ -	\$ 1,108,296	\$ -	\$ 1,108,296	\$ -
John Jay middle school painting	183,730	183,730	-	183,730	-	-	-	183,730	183,730	-
John Jay high school renovations	1,620,000	1,620,000	-	1,620,000	-	-	-	1,620,000	1,620,000	-
John Jay high school Building K and DO renovations	400,000	400,000	-	400,000	-	-	-	400,000	400,000	-
Energy performance contract - High School	1,427,374	1,427,374	-	1,427,374	-	1,427,374	-	-	1,427,374	-
Energy performance contract - Lewisboro	755,283	755,283	-	755,283	-	755,283	-	-	755,283	-
Energy performance contract - Katonah	914,842	914,842	-	914,842	-	914,842	-	-	914,842	-
Energy performance contract - Increase Miller	702,663	702,663	-	702,663	-	702,663	-	-	702,663	-
Energy performance contract - Middle School	2,745,974	2,745,974	-	2,745,974	-	2,745,974	-	-	2,745,974	-
Energy performance contract - Meadow Pond	908,092	908,092	-	908,092	-	908,092	-	-	908,092	-
Proposition # 2 - 2015	827,500	827,500	-	827,500	-	-	-	827,500	827,500	-
Proposition # 4 - 2015	1,374,986	1,374,986	-	1,374,986	-	1,408,316	-	-	1,408,316	33,330
2015 District wide construction	200,000	200,000	-	200,000	-	-	-	200,000	200,000	-
Proposition # 2 - 2016	895,000	889,501	-	889,501	5,499	-	-	889,501	889,501	-
2016 District wide construction	400,000	376,573	-	376,573	23,427	-	-	400,000	400,000	23,427
Smart Schools Bond Act	707,779	188,674	-	188,674	519,105	-	188,674	-	188,674	-
Proposition # 2 - 2017	454,205	-	454,205	454,205	-	-	-	454,205	454,205	-
2017 District wide construction	400,000	296,788	-	296,788	103,212	-	-	400,000	400,000	103,212
Smart Schools Bond Act	519,105	-	259,525	259,525	259,580	-	259,525	-	259,525	-
Meadow Pond Elementary School - Oil Tank	184,948	-	172,137	172,137	12,811	-	-	184,948	184,948	12,811
2018 District wide construction	215,052	-	-	-	215,052	-	-	215,052	215,052	215,052
Proposition # 2 - 2018	610,700	-	-	-	610,700	-	-	610,700	610,700	610,700
<b>Total</b>	<b>\$ 17,766,002</b>	<b>\$ 14,919,498</b>	<b>\$ 886,645</b>	<b>\$ 15,806,143</b>	<b>\$ 1,959,859</b>	<b>\$ 8,862,544</b>	<b>\$ 1,556,495</b>	<b>\$ 6,385,636</b>	<b>\$ 16,804,675</b>	<b>\$ 998,532</b>

The accompanying notes are an integral part of these schedules.

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT**

**SCHEDULE OF NET INVESTMENT IN CAPITAL ASSETS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

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Capital assets, net	<u>\$ 80,277,932</u>
Deduct:	
Bond anticipation note payable	-
Short-term portion of long term debt payable	2,150,999
Long-term portion of energy performance contract debt payable	6,096,554
Long-term portion of bonds payable (including unamortized premium)	11,232,116
Less: Defeasance loss	(269,584)
Less: Unspent bond anticipation note proceeds	<u>-</u>
	<u>19,210,085</u>
Net investment in capital assets	<u>\$ 61,067,847</u>

The accompanying notes are an integral part of these schedules.

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT, NEW YORK**

**NON MAJOR GOVERNMENTAL FUNDS-COMBINING BALANCE SHEET**

June 30, 2018

(With Comparative Totals for 2017)

	School Lunch	Special Purpose	Capital Projects	Total Non-Major Governmental Funds	
				2018	2017
<b>ASSETS</b>					
Cash and equivalents - unrestricted	\$ 370,134	\$ -	\$ -	\$ 370,134	\$ 485,580
Cash and equivalents - restricted	-	114,382	837,794	952,176	703,831
Receivables					
State and Federal aid	8,718	-	-	8,718	46,936
Other	6,369	-	-	6,369	2,333
Due from other funds	<u>24,239</u>	<u>-</u>	<u>177,761</u>	<u>202,000</u>	<u>961</u>
	<u>39,326</u>	<u>-</u>	<u>177,761</u>	<u>217,087</u>	<u>50,230</u>
Inventory	<u>14,519</u>	<u>-</u>	<u>-</u>	<u>14,519</u>	<u>19,882</u>
 Total Assets	 <u>\$ 423,979</u>	 <u>\$ 114,382</u>	 <u>\$ 1,015,555</u>	 <u>\$ 1,553,916</u>	 <u>\$ 1,259,523</u>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities					
Accounts payable	\$ 46,947	\$ 17,150	\$ 6,838	\$ 70,935	\$ 127,902
Due to other funds	-	-	-	-	4,666
Due to other governments	112	-	-	112	137
Unearned revenues	<u>57,284</u>	<u>-</u>	<u>10,185</u>	<u>67,469</u>	<u>54,968</u>
 Total Liabilities	 <u>104,343</u>	 <u>17,150</u>	 <u>17,023</u>	 <u>138,516</u>	 <u>187,673</u>
Fund balance (deficit)					
Nonspendable	14,519	-	-	14,519	19,882
Restricted	-	97,232	998,532	1,095,764	720,820
Assigned	<u>305,117</u>	<u>-</u>	<u>-</u>	<u>305,117</u>	<u>331,148</u>
 Total Fund Balance	 <u>319,636</u>	 <u>97,232</u>	 <u>998,532</u>	 <u>1,415,400</u>	 <u>1,071,850</u>
 Total Liabilities and Fund Balance	 <u>\$ 423,979</u>	 <u>\$ 114,382</u>	 <u>\$ 1,015,555</u>	 <u>\$ 1,553,916</u>	 <u>\$ 1,259,523</u>

The accompanying notes are an integral part of these schedules.

**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT, NEW YORK**

**NON-MAJOR GOVERNMENTAL FUNDS-COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDING JUNE 30, 2018  
(With comparative totals for 2017)**

	School Lunch	Special Purpose	Capital Projects	Total Non-Major Governmental Funds	
				2018	2017
<b>REVENUES</b>					
Use of money and property	\$ 698	\$ 208	\$ -	\$ 906	\$ 494
Contributions	-	7,050	-	7,050	16,550
Miscellaneous	3,614	-	-	3,614	942
State sources	8,484	-	260,303	268,787	223,977
Federal sources	134,508	-	-	134,508	143,030
Sales - school lunch	<u>1,012,725</u>	<u>-</u>	<u>-</u>	<u>1,012,725</u>	<u>1,091,351</u>
Total revenue	1,160,029	7,258	260,303	1,427,590	1,476,344
<b>EXPENDITURES</b>					
Other	-	16,377	-	16,377	14,975
Cost of sales	1,191,423	-	-	1,191,423	1,281,688
Capital outlay	<u>-</u>	<u>-</u>	<u>886,645</u>	<u>886,645</u>	<u>3,284,441</u>
Total expenditures	1,191,423	16,377	886,645	2,094,445	4,581,104
Excess (Deficiency) of Revenues Over Expenditures	<u>(31,394)</u>	<u>(9,119)</u>	<u>(626,342)</u>	<u>(666,855)</u>	<u>(3,104,760)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from the issuance of bonds	-	-	-	-	1,374,986
Premium from the issuance of bonds	-	-	-	-	33,330
Transfers in	-	-	1,010,700	1,010,700	854,500
Transfers out	<u>-</u>	<u>-</u>	<u>(295)</u>	<u>(295)</u>	<u>(5,497)</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>1,010,405</u>	<u>1,010,405</u>	<u>2,257,319</u>
Net Change in Fund Balance	(31,394)	(9,119)	384,063	343,550	(847,441)
<b>FUND BALANCE</b>					
Beginning of Year	<u>351,030</u>	<u>106,351</u>	<u>614,469</u>	<u>1,071,850</u>	<u>1,919,291</u>
End of Year	<u>\$ 319,636</u>	<u>\$ 97,232</u>	<u>\$ 998,532</u>	<u>\$ 1,415,400</u>	<u>\$ 1,071,850</u>

The accompanying notes are an integral part of these schedules.

**REQUIRED REPORT UNDER *GOVERNMENT AUDITING STANDARDS***

**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**

September 26, 2018

To the Board of Education of  
Katonah-Lewisboro Union Free School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Katonah-Lewisboro Union Free School District (District) as of and for the year ended June 30, 2018, 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 26, 2018.

**Internal Control over Financial Reporting**

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

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

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

(Continued)



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

(Continued)

**Compliance and Other Matters**

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

**Purpose of this Report**

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