

**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

**Financial Statements as of  
June 30, 2018  
Together with  
Independent Auditor's Reports**

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

## CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited).....	4-15
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of net position.....	16
Statement of activities.....	17
Balance sheet – Governmental funds .....	18
Reconciliation of total governmental fund balance to government-wide net position.....	19
Statement of revenue, expenditures, and changes in fund balance – Governmental funds.....	20
Reconciliation of the statement of revenue, expenditures, and changes in fund balance to the statement of activities.....	21
Statement of net position - Fiduciary funds.....	22
Statement of change in net position - Fiduciary funds.....	22
Notes to financial statements.....	23-54
<b>REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)</b>	
Schedule of revenue, expenditures, and changes in fund balance – budget and actual - General fund.....	55-56
Schedule of changes in total OPEB liability and related ratios .....	57
Schedule of proportionate share of net pension liability (asset).....	58
Schedule of contributions – pension plans.....	59
<b>OTHER INFORMATION (UNAUDITED)</b>	
Schedule of change from original budget to revised budget – General fund .....	60
Schedule of Section 1318 of Real Property Tax Law Limit Calculation– General fund .....	60
Schedule of project expenditures - Capital projects fund .....	61
Schedule of net investment in capital assets .....	62

## CONTENTS (Continued)

### Page

#### REQUIRED REPORTS

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 <i>Government Auditing Standards</i> .....	63-64
Independent auditor's report on compliance for each major federal program; and report on internal control over compliance required by the Uniform Guidance.....	65-66
Schedule of expenditures of federal awards.....	67
Notes to schedule of expenditures of federal awards.....	68
Schedule of findings and questioned costs .....	69-70

## **INDEPENDENT AUDITOR'S REPORT**

October 18, 2018

To the Board of Education of  
Middleburgh Central 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 Middleburgh Central School District (School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Middleburgh Central School 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.

(Continued)

## INDEPENDENT AUDITOR'S REPORT

(Continued)

### Change in Accounting Principle

As discussed in Note 3 to the financial statements, during 2018 the School 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.

### Other Matters

#### *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 schedule of 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The other information, listed in the accompanying table of contents, is required by the New York State Education Department and is presented for purposes of additional analysis, and is not a required party of the basic financial statements. The schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

(Continued)

## **INDEPENDENT AUDITOR'S REPORT**

(Continued)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 School District's internal control over financial reporting and compliance.

# **MIDDLEBURGH CENTRAL 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 School District's financial performance for the fiscal year ended June 30, 2018. The section is a summary of the School District's financial activities based on currently known facts, decisions, or conditions. It considers both the government-wide and fund-based financial statements. The results of the current year are analyzed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS**

- The 2017-18 budget was approved by the voters for \$21,784,576 and actual expenditures for the fiscal year were \$21,373,761, equating to a favorable difference of \$355,112 net of encumbrances. This is primarily due to carefully monitoring of expenditures and reduction of cost associated with special education and employee benefits. The favorable difference is 1.63% of the total budget.
- In May 2018, the 2018-19 budget proposal of \$22,169,182 was voter approved.
- The School District applied \$567,510 of its fund balance to the 2018-19 budget.
- GASB 75 pertaining to accounting for other post-employment benefits was adopted resulting in a prior period adjustment reducing net position by \$40,943,983.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

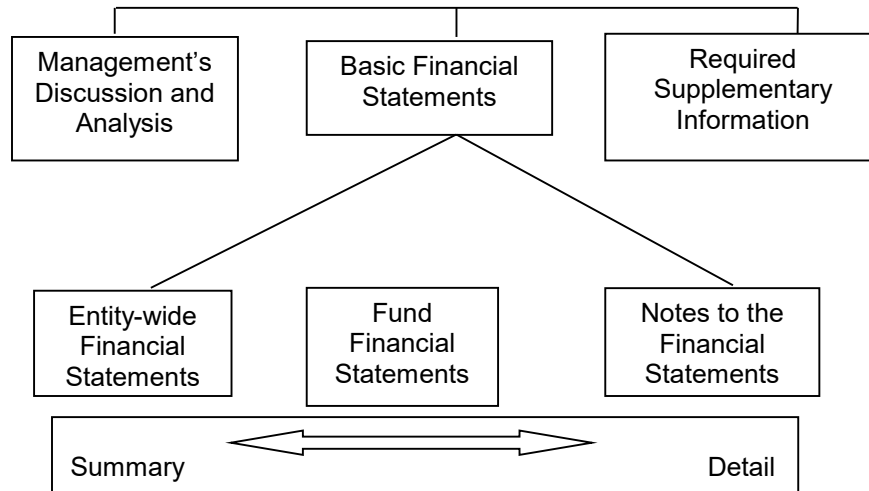
This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School District:

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District's budget for the year. 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 School District's Annual Financial Report





## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

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

	District-Wide	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The day-to-day operating activities of the School District, such as instruction and special education.	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> <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 changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/deferred inflows-outflows of resources/liability information	All assets, deferred inflows/outflows of resources and liabilities, both financial and capital, short-term and long-term.	Assets, deferred inflows/outflows of deferred 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 the year, regardless of when cash is received or paid.	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All additions and deductions during the year, regardless of when cash is received or paid.

### District-Wide Statements

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

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

- Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### District-Wide Statements (Continued)

- For assessment of the overall health of the School District, additional non-financial factors such as changes in property tax bases and the condition of buildings and other facilities should be considered.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (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.

District-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 position invested in capital assets
  - Restricted net position are those with constraints placed on use by external sources or imposed by law.
  - Unrestricted net position are those that do not meet any of the above restrictions.

### Fund Financial Statements

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

The School District has two kinds of funds:

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### Fund Financial Statements (Continued)

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

### FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The School District's net position as of June 30, 2018 is detailed in Tables A-3 and A-4

**Table A-3** Condensed Statement of Net Position (In millions of dollars)

	Fiscal Year <u>2018</u>	Fiscal Year <u>2017</u>	Percent <u>Change</u>
Assets:			
Current and other assets	\$ 6.4	\$ 6.5	-1%
Net pension asset	0.3	-	100%
Capital assets	<u>16.3</u>	<u>16.5</u>	-1%
Deferred outflows of resources	<u>5.3</u>	<u>5.3</u>	0%
Total assets	<u>\$ 28.3</u>	<u>\$ 28.2</u>	0%
Liabilities:			
Current liabilities	\$ 3.5	\$ 3.5	0%
Long-term liabilities	<u>55.7</u>	<u>60.7</u>	-8%
Deferred inflows of resources	<u>3.9</u>	<u>0.3</u>	1186%
Total liabilities	<u>63.1</u>	<u>64.6</u>	-2%
Net position:			
Invested in capital assets	10.1	9.2	10%
Restricted	1.5	1.1	35%
Unrestricted	<u>(46.3)</u>	<u>(46.5)</u>	0%
Total net position	<u>\$ (34.7)</u>	<u>\$ (36.2)</u>	-4%

Deferred outflows of resources relate primarily to the pension contributions made after the plan measurement date.

Increase in deferred inflows is result of recording \$2.1 million pertaining to OPEB.

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

### Changes in Net Position (Continued)

The School District's 2017-18 revenue was \$22,546,030 (See Table A-4). Property taxes and New York State aid accounted for the majority of revenue by contributing 43% and 47% of the total revenue raised, respectively (see Table A-5). The remainder of revenue came from fees for services, use of money and property, operating grants, and other miscellaneous sources.

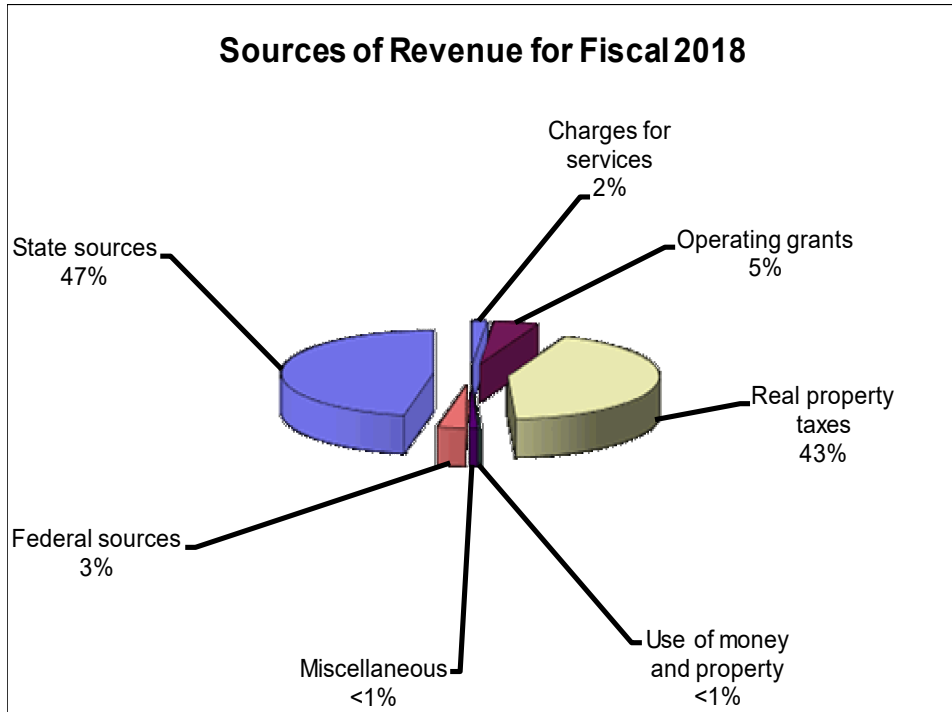
The total cost of all programs and services totaled \$21,010,100 for 2017-18. These expenses (82%) are predominately for the education, supervision, and transportation of students (see Table A-6). The School District's administrative and business activities accounted for 14% of total costs.

**Table A-4** Changes in Net Position from Operating Results Governmental Activities Only (In Millions of dollars)

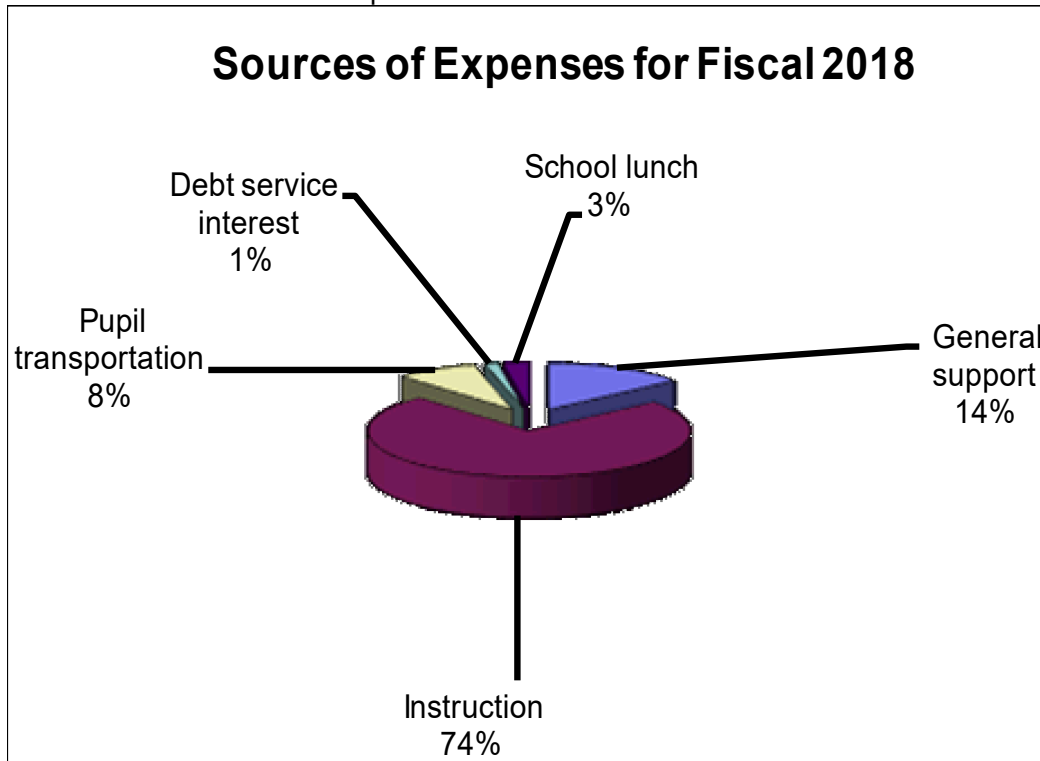
	Fiscal Year <u>2018</u>	Fiscal Year <u>2017</u>	Percent <u>Change</u>
Revenue:			
Program revenue:			
Charges for services	\$ 0.3	\$ 0.3	15%
Operating grants	1.1	1.0	6%
General revenue:			
Property and other tax items	9.7	9.6	1%
Use of money and property	0.0	0.0	0%
State formula aid	10.5	10.1	4%
Federal sources	0.7	0.6	8%
Miscellaneous	<u>0.2</u>	<u>0.2</u>	-3%
Total revenue	<u>22.5</u>	<u>22.0</u>	2%
Expenses:			
General support	3.1	3.0	2%
Instruction	15.5	16.0	-3%
Pupil transportation	1.7	1.7	0%
Debt service - Interest	0.3	0.3	-10%
School lunch program	<u>0.5</u>	<u>0.5</u>	8%
Total expenses	<u>21.0</u>	<u>21.4</u>	-2%
Increase in net position	<u>\$ 1.5</u>	<u>\$ 0.6</u>	154%

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

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



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



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

### Governmental Activities

Revenue for the School District's governmental activities totaled \$22,546,030, while total expenses were \$21,010,100. Accordingly, net position increased by \$1,535,930. The net result of the change in the School District's financial condition can be credited to:

- Increase in grants received and savings in projected cost in special education and employee benefits.

Table A-7 presents the cost of several of the School District's major activities. The table also shows each activity's net cost (total cost less fees generated by the activity and intergovernmental aid provided for specific programs). The net cost shows the local share of the School District's taxpayers by each of these functions.

**Table A-7** Net Costs of Governmental Activities (in Millions)

	Total Cost Of Services 2018	Total Cost Of Services 2017	Percent Change	(Net) Cost Of Services 2018	(Net) Cost Of Services 2017	Percent Change
Functions:						
General support	\$ 3.1	\$ 2.9	5.3%	\$ 3.0	\$ 2.9	1.9%
Instruction	15.5	16.0	-2.9%	14.5	14.9	-3.0%
Pupil transportation	1.7	1.7	0.4%	1.7	1.7	0.4%
Debt service - Interest	0.3	0.3	-9.8%	0.3	0.3	-9.8%
Cost of sales - Food	<u>0.5</u>	<u>0.5</u>	7.9%	<u>0.2</u>	<u>0.2</u>	8.8%
Total	<u>\$ 21.0</u>	<u>\$ 21.4</u>	-1.8%	<u>\$ 19.6</u>	<u>\$ 19.9</u>	-1.5%

- The cost of all governmental activities for the year was \$21,010,100.
- The users of the School District's programs financed \$343,859 of the cost.
- The federal and state government financed \$1,058,162 of the cost.
- The majority of costs, \$19,608,079, were financed by the School District's taxpayers and unallocated NYS aid.

## FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

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

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

### **Governmental Fund Highlights**

The following is a brief description of the activity in the governmental funds for 2018:

*General Fund:* Expenditures exceeded revenues by \$20,403 in the 2017-18 year. The approximate \$20,000 decrease in the general fund was primarily due to savings in projected costs related to special education and employee benefits.

*Special Aid Fund:* By the nature of the fund, special aid does not generate a fund balance. Revenue is recognized as expenditures are made. Approximately \$847,000 was received for state and federal grants in this fund.

*School Lunch Fund:* The school lunch fund ended 2017-18 fiscal year with an operating loss of \$84,863 compared to an operating loss of \$30,818 for the previous year. The losses are related to increase costs associated with the new standards for federal subsidized national school lunch program in addition to the increase cost of food and decrease in student participation. The operating loss for each year was subsidized by a \$75,000 and \$60,000 transfer from the general fund resulting in a net loss of \$9,863 during the year ended June 30, 2018 and net income of \$29,182 during the year ended June 30, 2017.

*Capital Projects Fund:* \$346,707 was expended for capital projects for the year ended June 30, 2018. The capital projects fund ended 2017-18 fiscal year with a positive fund balance of \$579,452.

*Debt Service Fund:* The debt service fund ended the year with a \$41,767 fund balance.

### **General Fund Budgetary Highlights**

For the 2017-18 school year, the voters of the School District approved a budget of \$21.8 million. That budget was subsequently increased by \$144,797 due to encumbrances carried over from 2016-17.

Through the careful monitoring and control of general fund expenditures for 2017-18, the School District had a favorable variance of \$355,112 from budget to actual as of June 30, 2018.

The School District considers the results achieved regarding the 2017-18 finances to be very satisfactory. The School District also met its target to have \$567,510 in fund balance available on June 30, 2018 to support the 2018-19 budget. Further, the School District was able to appropriately fund the mandated contribution levels for the Teachers' Retirement System and the Employees' Retirement System.

### **Results vs. Budget**

The general fund is the only fund which a budget is submitted for the approval of the resident voters and legally adopted.

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

**Table A-8** General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual	Encumbrances	Variance
Revenue:					
Real property taxes	\$ 9,663,692	\$ 9,663,692	\$ 8,381,619	\$ -	\$ (1,282,073)
Other tax items	30,000	30,000	1,301,799	-	1,271,799
Charges for services	158,000	158,000	233,199	-	75,199
Use of money and property	3,000	3,000	22,629	-	19,629
Sale of property and compensation for loss	-	-	10,392	-	10,392
State sources	11,172,511	11,172,511	11,145,267	-	(27,244)
Federal sources	30,000	30,000	87,559	-	57,559
Miscellaneous	190,000	190,000	170,894	-	(19,106)
Total revenue	<u>21,247,203</u>	<u>21,247,203</u>	<u>21,353,358</u>	<u>-</u>	<u>106,155</u>
Expenditures:					
Board of education	29,500	29,500	27,312	64	2,124
Central administration	244,343	259,343	258,522	-	821
Finance	287,194	295,194	293,638	-	1,556
Staff	98,984	90,984	78,068	-	12,916
Central services	1,114,315	1,267,692	1,128,180	139,480	32
Special items	184,610	184,610	166,423	-	18,187
Instruction, administration, and improvement	614,430	667,430	666,353	60	1,017
Teaching - Regular school	5,092,702	5,306,185	5,232,532	44,732	28,921
Programs for children with handicapping conditions	2,316,536	2,228,271	2,184,705	40	43,526
Occupational education	378,394	378,394	341,574	-	36,820
Instructional media	495,106	607,826	590,885	10,000	6,941
Pupil services	696,464	719,696	705,136	6,000	8,560
Pupil transportation	1,093,312	1,119,562	1,030,863	124	88,575
Employee benefits	7,046,215	6,607,215	6,502,099	-	105,116
Debt service	1,992,471	1,992,471	1,992,471	-	-
Transfers to other funds	100,000	175,000	175,000	-	-
Total expenses	<u>21,784,576</u>	<u>21,929,373</u>	<u>21,373,761</u>	<u>200,500</u>	<u>355,112</u>
Net change in fund balance	(537,373)	(682,170)	(20,403)	(200,500)	461,267
Fund balance - beginning of year	<u>4,174,004</u>	<u>4,174,004</u>	<u>4,174,004</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ 3,636,631</u>	<u>\$ 3,491,834</u>	<u>\$ 4,153,601</u>	<u>\$ (200,500)</u>	<u>\$ 461,267</u>

As noted above in the results vs. budget table, the School District has an overall favorable budgetary surplus of \$0.4 million over expenditures. This was a result of additional charges for services increases in supplemental state aid from prior years, decrease in cost of general support related expenses and careful monitoring of expenditures.



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

### Capital Assets

As of June 30, 2018, the School District had \$16.3 million invested in a broad range of capital assets including land, buildings, buses, athletic facilities, computers, and other educational equipment.

**Table A-9** Capital Assets (Net of Depreciation, in Thousands of Dollars)

<u>Category</u>	Fiscal Year <u>2018</u>	Fiscal Year <u>2017</u>	Percent <u>Change</u>
Land	\$ 120	\$ 120	0%
Buildings and improvements	14,727	15,117	-3%
Equipment, furniture and vehicles	<u>1,424</u>	<u>1,309</u>	9%
Total	<u>\$ 16,271</u>	<u>\$ 16,547</u>	-2%

### Long-Term Liabilities

As of June 30, 2018, the School District had \$55.7 million in general obligation bonds and other long-term liabilities outstanding. More detailed information about the School District's long-term liabilities is included in the notes to the financial statements.

**Table A-10** Outstanding Long-Term Liabilities (In Thousands of Dollars)

<u>Category</u>	Fiscal Year <u>2018</u>	Fiscal Year <u>2017</u>
General obligation bonds	\$ 4,783	\$ 6,253
Net pension liability	242	1,205
OPEB and other	<u>50,657</u>	<u>53,416</u>
Total	<u>\$ 55,681</u>	<u>\$ 60,874</u>

During 2018, the School District paid down its debt by retiring \$1,699,869 of outstanding bonds and capital lease obligations.

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

- Health insurance and other post-retirement costs continue to increase and could potentially affect the School District's financial health. The School District continues to pursue opportunities for efficiencies in health insurance and other post-retirement costs.
- A property tax cap will affect how future budgets are developed. The 2018-19 budget process and future budget processes will incorporate analysis of this property tax cap on future budgets.
- The current economic climate of New York State and the nation as a whole will continue to diminish the state's ability to adequately fund the public education system.

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

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

Middleburgh Central School District Business Office  
291 Main Street  
PO Box 606  
Middleburgh, NY 12122

**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2018**

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**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

CURRENT ASSETS:

Cash - unrestricted	\$ 4,716,482
Cash - restricted	146,258
Due from other funds	191,201
State and federal aid receivable	1,300,837
Other receivables	<u>92,850</u>
Total current assets	<u>6,447,628</u>

NON-CURRENT ASSETS:

Net pension asset - TRS	341,978
Capital assets, net	<u>16,270,893</u>
Total non-current assets	<u>16,612,871</u>

DEFERRED OUTFLOWS OF RESOURCES:

Deferred outflows of resources - pensions ERS	684,340
Deferred outflows of resources - pensions TRS	<u>4,594,456</u>
Total deferred outflows of resources - pensions	<u>5,278,796</u>

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES 28,339,295

**LIABILITIES AND DEFERRED INFLOWS OF RESOURCES**

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	914,150
Due to other governments	338
Due to Teachers' Retirement System	736,510
Due to Employees' Retirement System	73,961
Unearned revenue	1,246
Bonds payable due within one year	1,691,200
Bond interest accrued	<u>70,049</u>
Total current liabilities	<u>3,487,454</u>

LONG-TERM LIABILITIES:

Bonds payable	4,782,700
Compensated absences payable	299,293
Net pension liability - ERS	241,626
Other postemployment benefits	<u>50,357,763</u>
Total long-term liabilities	<u>55,681,382</u>

DEFERRED INFLOWS OF RESOURCES:

Deferred Inflow-OPEB	2,139,048
Deferred inflows of resources - pensions ERS	780,981
Deferred inflows of resources - pensions TRS	<u>938,789</u>
Total deferred inflows of resources - pensions	<u>3,858,818</u>

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES 63,027,654

**NET POSITION**

Net investment in capital assets	10,116,196
Restricted	1,489,835
Unrestricted	<u>(46,294,390)</u>
TOTAL NET POSITION	<u>\$ (34,688,359)</u>

**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

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

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS/PROGRAMS:				
General support	\$ 2,954,282	\$ -	\$ -	\$ (2,954,282)
Instruction	15,538,498	233,199	847,004	(14,458,295)
Pupil transportation	1,707,158	-	-	(1,707,158)
School lunch	539,459	110,660	211,158	(217,641)
Debt service interest	<u>270,703</u>	<u>-</u>	<u>-</u>	<u>(270,703)</u>
<b>TOTAL FUNCTIONS AND PROGRAMS</b>	<u>\$ 21,010,100</u>	<u>\$ 343,859</u>	<u>\$ 1,058,162</u>	<u>(19,608,079)</u>
GENERAL REVENUE:				
Real property taxes				8,381,619
Other tax items				1,301,799
Use of money and property				23,226
Sale of property and compensation for loss				10,392
Miscellaneous				194,147
State sources				10,582,485
Federal sources				<u>650,341</u>
<b>TOTAL GENERAL REVENUE</b>				<u>21,144,009</u>
<b>CHANGE IN NET POSITION</b>				1,535,930
<b>TOTAL NET POSITION - beginning of year, as previously reported</b>				<u>4,719,694</u>
<b>PRIOR PERIOD ADJUSTMENT (Note 3)</b>				<u>(40,943,983)</u>
<b>NET POSITION - beginning of year, as restated</b>				<u>(36,224,289)</u>
<b>TOTAL NET POSITION - end of year</b>				<u>\$ (34,688,359)</u>

The accompanying notes are an integral part of these financial statements.

MIDDLEBURGH CENTRAL SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS  
TO GOVERNMENT-WIDE NET POSITION  
JUNE 30, 2018

	Governmental Fund Types					Total Governmental Funds
	General	Special Aid	School Lunch	Capital Projects	Debt Service	
<b>ASSETS</b>						
Cash - unrestricted	\$ 4,387,124	\$ 2,287	\$ 7,868	\$ 319,203	\$ -	\$ 4,716,482
Cash - restricted	146,258	-	-	-	-	146,258
Due from other funds	11,056,608	5,188,106	1,265,232	4,141,267	41,767	21,692,980
State and federal aid receivable	567,374	298,075	39,852	395,536	-	1,300,837
Other receivable	90,657	-	2,193	-	-	92,850
<b>TOTAL ASSETS</b>	<b>\$ 16,248,021</b>	<b>\$ 5,488,468</b>	<b>\$ 1,315,145</b>	<b>\$ 4,856,006</b>	<b>\$ 41,767</b>	<b>\$ 27,949,407</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 727,100	\$ 57,893	\$ 33,080	\$ 96,077	\$ -	\$ 914,150
Due to other funds	10,556,849	5,430,575	1,333,878	4,180,477	-	21,501,779
Due to other governments	-	-	338	-	-	338
Due to Teachers' Retirement System	736,510	-	-	-	-	736,510
Due to Employees' Retirement System	73,961	-	-	-	-	73,961
Unearned revenue	-	-	1,246	-	-	1,246
<b>TOTAL LIABILITIES</b>	<b>12,094,420</b>	<b>5,488,468</b>	<b>1,368,542</b>	<b>4,276,554</b>	<b>-</b>	<b>23,227,984</b>
<b>FUND BALANCE</b>						
Restricted:						
Debt Service	-	-	-	-	41,767	41,767
Unemployment	145,613	-	-	-	-	145,613
Liability claims and property loss	16	-	-	-	-	16
Retirement contributions	451,107	-	-	-	-	451,107
Employee benefits and accrued liabilities	525,984	-	-	-	-	525,984
Capital reserve	200,000	-	-	-	-	200,000
Insurance	125,348	-	-	-	-	125,348
<b>Total restricted fund balance</b>	<b>1,448,068</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,767</b>	<b>1,489,835</b>
Assigned:						
Other	200,500	-	-	579,452	-	779,952
Appropriated for subsequent year expenditures	567,510	-	-	-	-	567,510
<b>Total assigned fund balance</b>	<b>768,010</b>	<b>-</b>	<b>-</b>	<b>579,452</b>	<b>-</b>	<b>1,347,462</b>
Unassigned	1,937,523	-	(53,397)	-	-	1,884,126
<b>TOTAL FUND BALANCE</b>	<b>4,153,601</b>	<b>-</b>	<b>(53,397)</b>	<b>579,452</b>	<b>41,767</b>	<b>4,721,423</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 16,248,021</b>	<b>\$ 5,488,468</b>	<b>\$ 1,315,145</b>	<b>\$ 4,856,006</b>	<b>\$ 41,767</b>	<b>\$ 27,949,407</b>

## MIDDLEBURGH CENTRAL SCHOOL DISTRICT

### RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO GOVERNMENT-WIDE NET POSITION JUNE 30, 2018

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

Total governmental fund balances per above	\$ 4,721,423
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	16,270,893
GASB 68 related government wide activity	
Deferred outflows of resources	5,278,796
Net pension asset - TRS	341,978
Net pension liability - ERS	(241,626)
Deferred inflows of resources	(3,858,818)
Bonds payable and capital lease obligations are not due and payable in the current period and, therefore, are not reported in the funds	(6,473,900)
Compensated absences at year end in District-wide statements under full accrual accounting	(299,293)
Other postemployment benefits liability are not due and payable in the current period and, therefore, are not reported in the funds	(50,357,763)
Interest payable at year end in the District-wide statements under full accrual accounting	<u>(70,049)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (34,688,359)</u>

The accompanying notes are an integral part of these financial statements.

**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

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

	Governmental Fund Types					Total Governmental Funds
	General	Special Aid	School Lunch	Capital Projects	Debt Service	
REVENUE:						
Real property taxes	\$ 8,381,619	\$ -	\$ -	\$ -	\$ -	\$ 8,381,619
Other tax items	1,301,799	-	-	-	-	1,301,799
Charges for services	233,199	-	-	-	-	233,199
Use of money and property	22,629	-	5	78	514	23,226
Sale of property and compensation for loss	10,392	-	-	-	-	10,392
Miscellaneous	170,894	2	23,253	-	-	194,149
State sources	11,145,267	276,750	7,472	-	-	11,429,489
Federal sources	87,559	570,254	203,686	-	-	861,499
Sales - School Lunch	-	-	110,660	-	-	110,660
Total revenue	<u>21,353,358</u>	<u>847,006</u>	<u>345,076</u>	<u>78</u>	<u>514</u>	<u>22,546,032</u>
EXPENDITURES:						
General support	1,952,143	-	-	-	-	1,952,143
Instruction	9,721,185	822,555	-	-	-	10,543,740
Pupil transportation	1,030,863	24,451	-	-	-	1,055,314
Employee benefits	6,502,099	-	34,478	-	-	6,536,577
Debt service - Principal	1,699,869	-	-	-	-	1,699,869
Debt service - Interest	292,602	-	-	-	-	292,602
Capital outlays	-	-	-	346,707	-	346,707
Cost of sales	-	-	395,461	-	-	395,461
Total expenditures	<u>21,198,761</u>	<u>847,006</u>	<u>429,939</u>	<u>346,707</u>	<u>-</u>	<u>22,822,413</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>154,597</u>	<u>-</u>	<u>(84,863)</u>	<u>(346,629)</u>	<u>514</u>	<u>(276,381)</u>
OTHER SOURCES AND (USES):						
Proceeds from issuance of debt	-	-	-	220,500	-	220,500
Operating transfers in	-	-	75,000	100,000	-	175,000
Operating transfers (out)	(175,000)	-	-	-	-	(175,000)
Total other sources (uses)	<u>(175,000)</u>	<u>-</u>	<u>75,000</u>	<u>320,500</u>	<u>-</u>	<u>220,500</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(20,403)</u>	<u>-</u>	<u>(9,863)</u>	<u>(26,129)</u>	<u>514</u>	<u>(55,881)</u>
FUND BALANCE - beginning of year	<u>4,174,004</u>	<u>-</u>	<u>(43,534)</u>	<u>605,581</u>	<u>41,253</u>	<u>4,777,304</u>
FUND BALANCE - end of year	<u>\$ 4,153,601</u>	<u>\$ -</u>	<u>\$ (53,397)</u>	<u>\$ 579,452</u>	<u>\$ 41,767</u>	<u>\$ 4,721,423</u>

The accompanying notes are an integral part of these financial statements.

## MIDDLEBURGH CENTRAL 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	\$ (55,881)
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net assets	478,493
Depreciation is not recorded as a expenditure in the governmental funds, but is recorded in the statement of activities	(754,743)
Pension expense resulting from the GASB 68 related actuary reporting is not recorded as an expenditure in the government funds but is recorded in the statement of activities	(145,597)
Proceeds from issuance of debt is not recognized as revenue in the statement of activities	(220,500)
Repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net assets	1,592,100
Repayments of capital lease are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net assets	107,769
Other postemployment benefits liability are not due and payable in the current period and are, therefore not reported in the funds	528,010
Accrued compensated absences do not require the expenditure of current resources and are, therefore not reported as expenditures in the governmental funds	(15,618)
Accrued interest expense does not require the expenditure of current resources and is, therefore, not reported as an expenditure in the governmental funds	<u>21,897</u>
Change in net position - Governmental activities	<u>\$ 1,535,930</u>

The accompanying notes are an integral part of these statements.



**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS  
JUNE 30, 2018**

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	<u>Agency</u>	<u>Private Purpose Trust</u>
<b>ASSETS:</b>		
Cash	\$ 293,055	\$ 155,644
Accounts receivable	43	-
Due from other funds	<u>37,926</u>	<u>983</u>
Total assets	<u>\$ 331,024</u>	<u>\$ 156,627</u>
<b>LIABILITIES:</b>		
Extraclassroom activity balances	\$ 81,786	\$ -
Due to other funds	230,110	-
Other liabilities	<u>19,128</u>	<u>-</u>
Total liabilities	<u>\$ 331,024</u>	<u>-</u>
<b>NET POSITION:</b>		
Reserved for scholarships		<u>\$ 156,627</u>

**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

**STATEMENT OF CHANGE IN NET POSITION - FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

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	<u>Private Purpose Trust</u>
<b>ADDITIONS:</b>	
Gifts and donations	\$ 2,280
Investment earnings	<u>14</u>
Total additions	<u>2,294</u>
<b>DEDUCTIONS:</b>	
Scholarships and awards	<u>11,519</u>
NET INCREASE	(9,225)
NET POSITION - beginning of year	<u>165,852</u>
NET POSITION - end of year	<u>\$ 156,627</u>

The accompanying notes are an integral part of these financial statements.

# MIDDLEBURGH CENTRAL SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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### 1. NATURE OF OPERATIONS

Middleburgh Central School District provides K-12 public education to students living within its geographic boundaries.

### 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

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

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

#### **Reporting Entity**

The Middleburgh Central School District is governed by the Laws of New York State. The School District is an independent entity governed by an elected Board of Education (BOE). The President of the Board serves as Chief Fiscal Officer and the Superintendent is the Chief Executive Officer. The BOE has authority to make decisions, power to appoint management and accountability for all fiscal matters.

The reporting entity of the School District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity* as amended by GASB 39, Component Units. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

Based on the application of these criteria, the following is a brief description of certain entities included in the School District's reporting entity:

#### **Extraclassroom Activity Funds**

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

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Joint Venture**

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

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

BOCES' budget is comprised of separate budgets for administrative, program, and capital costs. Each component school district's share of administrative and capital costs is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component school 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 School District's financial statements consist of school district-wide financial statements, including a statement of net position and a statement of activities, and fund level financial statements which provide more detailed information.

### School District-Wide Statements

The statement of net position and the statement of activities present financial information about the School District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental 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 includes 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.

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### Fund Financial Statements

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

The fund statements provide information about the School District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The following are the School District's governmental fund types:

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

*Special Aid Fund:* These funds account for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specified purposes, school lunch operations, and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties. The School District uses two special revenue type funds – special aid and school lunch.

- *Special Aid Fund:* This fund accounts for the proceeds of specific federal and state grants revenue sources that are legally restricted to expenditures for specified purposes (e.g. special education) and other activities whose funds are restricted as to use.
- *School Lunch Fund:* This fund accounts for the proceeds of specific federal and state grants revenue sources that are legally restricted to expenditures for school lunch operations.

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

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

#### Fiduciary Fund Types

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

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fiduciary Fund Types (Continued)

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

There are two classes of fiduciary funds:

- Private purpose trust funds: These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the School District or representatives of the donors may serve on committees to determine who benefits.
- Agency funds: These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the School District as an 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 School District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions in which the School District gives or receives value without directly receiving or giving equal value in exchange include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Cash**

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

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

### **Restricted Cash**

Restricted cash represents cash 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 \$146,258 within the governmental funds.

### **Property Taxes**

Real property taxes are levied annually by the board of education no later than September 1, and become a lien on September 1. Taxes are collected during the period September 1 to November 31.

Uncollected real property taxes are subsequently enforced by the County of Schoharie in which the School District is located. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the School District no later than the following April 1.

### **Accounts Receivable**

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

### **Inventories**

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

### **Interfund Transactions**

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

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

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Interfund Transactions (Continued)

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 School District's practice to settle these amounts at a net balance based upon the right of legal offset.

### Capital Assets

Capital assets are reported at actual cost for acquisitions, if actual cost information is available. If actual cost information is not available, estimated historical costs, based on appraisals conducted by independent third-party professionals are used. Donated assets are reported at estimated fair market value at the time received.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 1,000	N/A	N/A
Buildings and improvements	1,000	SL	30-50
Furniture and equipment	1,000	SL	5
Vehicles	1,000	SL	8

### Deferred Outflows and Inflows of Resources

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

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

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

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

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

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

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

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Deferred Outflows and Inflows of Resources (Continued)**

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

### **Vested Employee Benefits**

#### Compensated absences:

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

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, resignation, or death, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

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

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

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.

#### Other benefits:

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

### **Other Postemployment Benefits**

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

At the fund level, the School District recognized the current cost of providing benefits for 2018 by recording \$2,667,058 which is its share of insurance premiums for 130 currently enrolled retirees and their spouses, as an expenditure in the current year.

In accordance with the provisions of generally accepted accounting principles, the School District has recorded within the government-wide statement of net position the required other postemployment benefits accrual totaling \$50,357,763 as of June 30, 2018.



## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Short-Term Debt**

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

The School District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year 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 School District may issue Bond Anticipation Notes (BANs), in anticipation of proceeds from the subsequent sales of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

### **Encumbrances**

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

All encumbrances are classified as either restricted or assigned fund balance in the general fund, or as restricted fund balance in the non-general funds

### **Accrued Liabilities and Long-Term Obligations**

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

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

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

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Unearned Revenue

Unearned revenue is reported when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the School District before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the School District has legal claim to the resources, the liability for unearned revenue is removed and revenue is recorded.

Statute provides the authority for the School District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

### Restricted Resources

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

### Equity Classifications

#### District-Wide Statements

In the School District-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, constructions or improvements of those assets.

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

Restricted net position consist of the following:

Debt Service	\$ 41,767
Unemployment	145,613
Liability claims and property loss	16
Retirement contributions	451,107
Capital Reserve	200,000
Employee benefits and accrued liabilities	525,984
Insurance	<u>125,348</u>
Total restricted net position	<u>\$ 1,489,835</u>

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

### Fund Balance – Reservations and Designations

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 legally or contractually are required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the school lunch fund.

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fund Balance – Reservations and Designations (Continued)

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

#### Capital

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

#### Retirement Contribution

Reserve for retirement contribution (GMU §6-r) is used for the purpose of financing retirement contributions. 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.

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fund Balance – Reservations and Designations (Continued)

#### 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. The reserve is accounted for in the general fund under restricted fund balance.

#### Tax Reduction

Reserve for tax reduction (Education Law §1604(36) and §1709(37)) is used for the gradual use of the proceeds of the sale of School District real property where such proceeds are not required to be placed in a mandatory reserve for debt service. Specifically, the School District is permitted to retain the proceeds of the sale for a period not to exceed ten years, and to use them during that period for tax reduction. The reserve is accounted for in the general fund under restricted fund balance.

#### Debt Service

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

#### 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.

## 2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fund Balance – Reservations and Designations (Continued)

#### 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.

#### Insurance Recoveries

Reserve for insurance recoveries (Education Law §1718(2)) is used at the end of the fiscal year to account for unexpended proceeds of insurance recoveries. They will be held there pending action by the board on their disposition. This reserve will not be used if the insurance recovery is expended in the same fiscal year in which it was received. 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.

Committed fund balance – Includes amounts that can be used for the specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision making authority, i.e., the Board of Education. The School 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. 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-expenditures 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. All encumbrances of the general fund are classified as assigned fund balance in the general fund. Encumbrances reported in the general fund amounted to \$200,500.

**2. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Equity Classifications (Continued)**

As of June 30, 2018, the School District's encumbrances were classified as follows:

Assigned fund balance:

General support	\$ 139,544
Pupil transportation	124
Instruction	<u>60,832</u>
Total encumbrances	<u>\$ 200,500</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 School District.

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

Order of Fund Balance Spending Policy

The School 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.

**3. PRIOR PERIOD ADJUSTMENT – CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**

The School District adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to certain postemployment benefits. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

**3. PRIOR PERIOD ADJUSTMENT – CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Continued)**

Accordingly, beginning net position and other postemployment benefits on the statement of net position were adjusted as noted in the following table:

	<u>District-Wide Statement of Net</u>	
	<u>Other Postemployment Benefits</u>	<u>Net Position</u>
Balance at June 30, 2017, as previously reported	\$ 12,080,838	\$ 4,719,694
Restatement of beginning balance - Adoption of GASB Statement No. 75		
Increase to liability	<u>40,943,983</u>	<u>(40,943,983)</u>
Balance at June 30, 2017, as restated	<u>\$ 53,024,821</u>	<u>\$ (36,224,289)</u>

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

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

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

Total fund balances of the School District's governmental funds differs 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.

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

**Statement of Revenue, Expenditures, and Changes in Fund Equity 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. The amounts shown below represent:

**Long-Term Revenue and Expense Differences**

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

**Capital Related Differences**

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

**Long-Term Debt Transaction Differences**

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

**5. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets**

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

The voters of the School District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year.

Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. No supplemental appropriations occurred during the year.



## 5. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

### Budgets (Continued)

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

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

### Fund Balance

The School District's unassigned fund balance was in excess of the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the School District's budget for the upcoming school year. The School District plans to address this issue by reducing future tax levies and financing capital project debt service payments.

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

### Fund Deficit

The School Lunch had a deficit fund balance of \$53,397. This is planned to be eliminated through a budgeted general fund transfer in subsequent years.

## 6. CUSTODIAL CREDIT, CONCENTRATION OF CREDIT RISK

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

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

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash, including trust funds	\$ 5,673,988	\$ 5,311,439
Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name	\$ 5,423,988	
Covered by FDIC insurance	<u>250,000</u>	
Total	<u>\$ 5,673,988</u>	

## 6. CUSTODIAL CREDIT, CONCENTRATION OF CREDIT RISK (Continued)

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.

Restricted Cash consists of the following at June 30, 2018:

General fund:

Liability claims and property loss reserve	\$	16
Unemployment insurance reserve		<u>146,242</u>
Total	\$	<u><u>146,258</u></u>

## 7. PARTICIPATION IN BOCES

During the year, the School District was billed \$1,458,230 for BOCES administrative and program costs.

The School District's share of BOCES aid amounted to \$553,117.

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

## 8. CAPITAL ASSETS

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

	July 1, 2017 Balance	Additions	Disposals	June 30, 2018 Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 120,400	\$ -	\$ -	\$ 120,400
Total non-depreciable	<u>120,400</u>	<u>-</u>	<u>-</u>	<u>120,400</u>
Capital assets that are depreciated:				
Buildings and improvements	24,225,331	126,382	-	24,351,713
Furniture and equipment	2,546,446	93,442	-	2,639,888
Vehicles	<u>2,798,544</u>	<u>258,669</u>	<u>155,482</u>	<u>2,901,731</u>
Total depreciable historical cost	<u>29,570,321</u>	<u>478,493</u>	<u>155,482</u>	<u>29,893,332</u>
Total costs	<u>29,690,721</u>	<u>478,493</u>	<u>155,482</u>	<u>30,013,732</u>
Less accumulated depreciation:				
Buildings	9,107,998	516,937	-	9,624,935
Furniture and equipment	2,037,002	37,021	-	2,074,023
Vehicles	<u>1,998,578</u>	<u>200,785</u>	<u>155,482</u>	<u>2,043,881</u>
Total accumulated depreciation	<u>13,143,578</u>	<u>754,743</u>	<u>155,482</u>	<u>13,742,839</u>
Total depreciable cost, net	<u>\$ 16,547,143</u>	<u>\$ (276,250)</u>	<u>\$ -</u>	<u>\$ 16,270,893</u>

## 8. CAPITAL ASSETS (Continued)

Depreciation expense of \$754,743, for the year ended June 30, 2018, was allocated to specific functions as follows:

General support	\$	415,109
Instruction		105,664
Cost of goods sold		7,547
Pupil transportation		226,423
Total depreciation	\$	<u>754,743</u>

## 9. LONG-TERM DEBT

Interest on all debt for the year was composed of:

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

Interest paid	\$	295,507
Less: Interest accrued in the prior year		(94,853)
Plus: Interest accrued in the current year		<u>70,049</u>
Total expense	\$	<u>270,703</u>

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

	Beginning Balance <u>7/1/2017</u>	Prior Period Adjustment	Issued	Redeemed	Ending Balance 6/30/2018	Amounts Due Within One Year	Long-term Portion
Government activities:							
Bonds and notes payable:							
General obligation debt:							
Serial bond - 2001 - refunded	\$ 5,055,000	\$ -	\$ -	\$ 1,180,000	\$ 3,875,000	\$ 1,230,000	\$ 2,645,000
Serial bond - 2010	2,000,000	-	-	220,000	1,780,000	225,000	1,555,000
Serial bond - 2015	<u>790,500</u>	<u>-</u>	<u>220,500</u>	<u>192,100</u>	<u>818,900</u>	<u>236,200</u>	<u>582,700</u>
Total bonds and notes payable	<u>7,845,500</u>	<u>-</u>	<u>220,500</u>	<u>1,592,100</u>	<u>6,473,900</u>	<u>1,691,200</u>	<u>4,782,700</u>
Other liabilities:							
Compensated absences	283,675	-	15,618 (A)	-	299,293	-	299,293
Capital lease obligation	107,769	-	-	107,769	-	-	-
Net pension liability	1,204,719	-	-	963,093	241,626	-	241,626
Other postemployment benefits	<u>12,080,838</u>	<u>40,943,983</u>	<u>-</u>	<u>2,667,058</u>	<u>50,357,763</u>	<u>-</u>	<u>50,357,763</u>
Total other liabilities	<u>13,677,001</u>	<u>40,943,983</u>	<u>15,618</u>	<u>3,737,920</u>	<u>50,898,682</u>	<u>-</u>	<u>50,898,682</u>
Total long-term liabilities	<u>\$ 21,522,501</u>	<u>\$ 40,943,983</u>	<u>\$ 236,118</u>	<u>\$ 5,330,020</u>	<u>\$ 57,372,582</u>	<u>\$ 1,691,200</u>	<u>\$ 55,681,382</u>

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

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

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

<u>Bond Issue</u>	<u>Issued</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Balance</u>
Serial bond	2001	2021	4.135-4.75%	\$ 3,875,000
Serial bond	2010	2025	3.44%	1,780,000
Serial bond	2015	2020	0.87%	<u>818,900</u>
Total				<u>\$ 6,473,900</u>

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

<u>Fiscal Year Ending June 30, :</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,691,200	\$ 235,011	\$ 1,926,211
2020	1,766,200	167,677	1,933,877
2021	1,786,200	89,885	1,876,085
2022	366,200	44,460	410,660
2023-2025	<u>864,100</u>	<u>67,015</u>	<u>931,115</u>
Total	<u>\$ 6,473,900</u>	<u>\$ 604,048</u>	<u>\$ 7,077,948</u>

**10. INTERFUND BALANCES AND ACTIVITY**

The following is a summary of interfund activity:

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenue</u>	<u>Expenditures</u>
General fund	\$ 11,056,608	\$ 10,556,849	\$ -	\$ 175,000
Special aid fund	5,188,106	5,430,575	-	-
School lunch fund	1,265,232	1,333,878	75,000	-
Capital projects funds	4,141,267	4,180,477	100,000	-
Debt service	41,767	-	-	-
Fiduciary funds	<u>38,909</u>	<u>230,110</u>	<u>-</u>	<u>-</u>
Total government activities	<u>\$ 21,731,889</u>	<u>\$ 21,731,889</u>	<u>\$ 175,000</u>	<u>\$ 175,000</u>

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

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

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

## 11. PENSION PLANS

### New York State Employee Retirement System

The School 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 System). This is a cost-sharing multiple-employer retirement system, providing retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), established to hold all net assets and record changes in plan net position allocated to the System. System benefits are established under the provisions of the New York Retirement and Social Security Law (NYSRSSL). Once an employer elects to participate in the System, the election is irrevocable.

The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The School 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 system is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27<sup>th</sup>, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 (ERS) who generally contribute 3 percent of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

2018	\$304,959
2017	294,147
2016	344,989

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

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

## 11. PENSION PLANS (Continued)

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

This law requires all participating employers to make payments on the current basis, while bonding or amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 2005 through 2008. The School District had no amortizing unpaid amounts at the end of the fiscal year.

- Chapter 57 of the Laws of 2010 of the State of New York allows local employers to amortize a portion of their retirement bill for 10 years in accordance with the following stipulations:
- For state fiscal year 2010-11, the amount in excess of the graded rate of 9.5 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.
- For subsequent State fiscal years, the graded rate will increase or decrease by up to one percent depending on the gap between the increase or decrease in the System's average rate and the previous graded rate.
- For subsequent State fiscal years in which the System's average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

This law requires participating employers to make payments on the current basis while amortizing existing unpaid amounts relating to the System's fiscal years when the local employer opts to participate in the program. The School District had no unpaid liability at the end of the fiscal year.

- Chapter 105 of the Laws of 2010 of the State of New York authorizes local governments to make available a retirement benefit incentive program. The costs of the program will be billed and paid over five years beginning February 1, 2012. The School District had no retirement incentive liability at year end.

## 11. PENSION PLANS (Continued)

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

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

At June 30, 2018, the School District reported a liability of \$241,626 for its proportionate share of the 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 School District's proportion of the net pension liability was based on a projection of the School 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 School District's proportion was 0.0074866 percent, which was a decrease of 0.000159 percent from its proportion measured June 30, 2017.

For the year ended June 30, 2018, the School District recognized pension expense of \$288,242. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 86,180	\$ 71,216
Changes of Assumptions	160,218	-
Net difference between projected and actual earnings on pension plan investments	350,942	692,724
Changes in proportion and differences between the District's contributions and proportionate share of contributions	13,039	17,041
Contributions subsequent to the measurement date	<u>73,961</u>	<u>-</u>
	<u>\$ 684,340</u>	<u>\$ 780,981</u>

\$73,961 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan's Year Ended March 31:	
2019	\$ 47,854
2020	36,191
2021	(173,939)
2022	<u>(80,709)</u>
	<u>\$ (170,603)</u>

## 11. PENSION PLANS (Continued)

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

#### **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	2.50%
Salary increases	3.8 percent indexed by service
Cost of living adjustments	1.30%
Decrements	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.

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>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Domestic Equity	36.0%	4.55%
International Equity	14.0%	6.35%
Private Equity	10.0%	7.50%
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>100.0%</u>	



## 11. PENSION PLANS (Continued)

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

#### **Discount Rate**

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

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

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

	1 % Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Proportionate Share of Net Pension liability (asset)	\$ 1,828,203	\$ 241,625	\$ (1,100,556)

#### **Pension Plan Fiduciary Net Position**

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

	Pension Plan's Fiduciary Net Position	District's proportionate share of Plan's Fiduciary Net Position	District's allocation percentage as determined by the Plan
Total pension liability	\$ 183,400,590	\$ 13,730	0.0074866%
Net position	(180,173,145)	(13,489)	0.0074866%
Net pension liability (asset)	<u>\$ 3,227,445</u>	<u>\$ 242</u>	0.0074866%
Fiduciary net position as a percentage of total pension liability	98.24%	98.24%	

### New York State Teachers Retirement System

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

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

## 11. PENSION PLANS (Continued)

### New York State Teachers Retirement System (Continued)

#### *Contributions*

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

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

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

2018	\$712,739
2017	822,979
2016	907,457

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

At June 30, 2018, the School District reported an asset of \$341,978 for its proportionate share of the plan's 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 School District's proportion of the net pension asset was based on a projection of the School 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 School District's proportion was 0.0449910 percent, which was a decrease of 0.000497 from its proportion measured at June 30, 2017.

For the year ended June 30, 2018, the School District recognized pension expense of \$877,544. At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 133,333
Changes of Assumptions	3,479,691	-
Net difference between projected and actual earnings on pension plan investments	281,364	805,457
Changes in proportion and differences between the District's contributions and proportionate share of contributions	96,891	-
Contributions subsequent to the measurement date	736,510	-
	<u>\$ 4,594,456</u>	<u>\$ 938,790</u>

## 11. PENSION PLANS (Continued)

### New York State Teachers Retirement System (Continued)

\$736,510 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan's Year Ended June 30:	
2018	\$ 96,909
2019	938,391
2020	676,582
2021	181,321
2022	674,665
Thereafter	<u>351,290</u>
	<u>\$ 2,919,158</u>

### **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. These actuarial valuations used the following actuarial assumptions:

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

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

Projected COLAs	1.5% compounded annually
Investment Rate of Return	7.25% 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.

The actuarial assumptions used in the June 30, 2016 valuation was based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014.

## 11. PENSION PLANS (Continued)

### New York State Teachers Retirement System (Continued)

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

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

Asset Type	Target Allocation	Long-term expected real rate of return
Domestic Equity	35.0%	5.9%
International Equity	18.0%	7.4%
Real Estate	11.0%	4.3%
Private Equity	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%
	100.0%	

#### **Discount Rate**

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

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

The following presents the net pension liability (asset) of the school districts calculated using the discount rate of 7.25 percent, 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 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1 % Decrease (6.25%)	Current Assumption (7.25%)	1% Increase (8.25%)
Proportionate Share of Net Pension liability (asset)	\$ 5,891,267	\$ (341,978)	\$ (5,562,011)

## 11. PENSION PLANS (Continued)

### New York State Teachers Retirement System (Continued)

#### **Pension Plan Fiduciary Net Position**

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

	Pension Plan's Fiduciary Net Position	District's proportionate share of Plan's Fiduciary Net Position	District's allocation percentage as determined by the Plan
Total pension liability	\$114,708,261,032	\$ 51,608,358	0.0449910%
Net position	<u>(115,468,360,316)</u>	<u>(51,950,336)</u>	0.0449910%
Net pension liability (asset)	<u>\$ (760,099,284)</u>	<u>\$ (341,978)</u>	0.0449910%
Fiduciary net position as a percentage of total pension liability	100.66%	100.66%	

## 12. OTHER POSTEMPLOYMENT BENEFITS

#### **Plan Description**

The School District's defined benefit OPEB plan, provides OPEB for all employees who meet the NYSTRS/NYSERS eligibility requirements. Teachers and Administrators age 55 with 5 years of service who are eligible to retire and collect benefits according to the NYSTRS are eligible for retiree health care benefits for life from the School District. Support staff hired before January 1, 2010 age 55 with 5 years of service are eligible to retire and collect benefits for life from the School District according to NYSERS. Members after January 1, 2010 must be 55 years old with 10 years of service to qualify for NYSERS health care benefits.

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

#### **Benefits Provided**

The School 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 School District offices and are available upon request.

#### **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	130
Active employees	<u>151</u>
Total participants	<u><u>281</u></u>

#### **Total OPEB Liability**

The School District's total OPEB liability of \$50,357,763 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

## 12. OTHER POSTEMPLOYMENT BENEFITS (Continued)

### Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.20%
Real wage growth	1.00%
Wage inflation	3.20%
Salary increases, including wage inflation	10.47%-3.20%
Discount Rate	3.87%
Healthcare Cost Trend Rates	Pre-65 Medicare - 5.5% for 2018 decreasing to an ultimate rate of 3.84% for 2078 Post-65 Medicare - 5.5% for 2018, 9.50%, decreasing to an ultimate rate of 3.84% for 2078

The discount rate was based on a yield for 20-year Municipal Bond Index.

Mortality rates were based on April 1, 2010 – March 31, 2015 NYSLRS experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

### Changes in the Total OPEB Liability

Balance 7/1/2017	\$	53,024,821
Changes for year:		
Service cost		1,229,622
Interest		1,898,289
Change of benefit terms		
Difference between expected and actual experience		-
Changes of assumptions		(2,577,004)
Benefit payments		(3,217,965)
Liability 6/30/18	\$	<u>50,357,763</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58% in 2017 to 3.87% in 2018.

**12. OTHER POSTEMPLOYMENT BENEFITS (Continued)**

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

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87%) or 1 percentage point higher (4.87%) than the current discount rate:

	Decrease <u>2.87%</u>	Discount <u>3.87%</u>	Increase <u>4.87%</u>
Total OPEB Liability	<u>\$ 58,826,988</u>	<u>\$ 50,357,763</u>	<u>\$ 41,471,728</u>

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

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4.50%) or 1 percentage point higher (6.50%) than the current healthcare cost trend rate:

	1% Decrease	5.50%	1% Increase
Total OPEB Liability	<u>\$ 41,129,636</u>	<u>\$ 50,357,763</u>	<u>\$ 59,357,449</u>

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

For the year ended June 30, 2018, the School District recognized OPEB expense of \$46,787. At June 30, 2018, the School 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>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions or other inputs	<u>-</u>	<u>(2,139,047)</u>
	<u>\$ -</u>	<u>\$ (2,139,047)</u>

## 12. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

2019	\$	(437,956)
2020		(437,956)
2021		(437,956)
2022		(437,956)
2023		(387,224)
Thereafter		-
	\$	<u>(2,139,048)</u>

## 13. RISK MANAGEMENT

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

The School District does not purchase insurance for the risk of losses of unemployment and workers' compensation claims. Instead, the School District manages its risk for these losses internally and accounts for these in the School District's general fund, including provisions for unexpected and unusual claims.

The activity for the unemployment insurance reserve for the year ended June 30, 2018, is as follows:

	Beginning Balance	Changes in Estimates	Payments Made (transfers)	Ending Balance
Unemployment insurance reserve	\$ -	\$ 968	\$ 968	\$ -

Claims are recognized as expenditures when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. At June 30, 2018, management estimates there are no outstanding claims liabilities.

## 14. CONTINGENCIES AND COMMITMENTS

### Other Contingencies

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

The School District does not purchase insurance for the risk of losses for unemployment claims. Instead, the School District manages its risks for these losses internally and accounts for these in the School District's general fund, including provisions for unexpected and unusual claims.



## 15. 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 School District is required to adopt the provisions of this Statement for the year ending June 30, 2019.

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

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

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

**REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)**

**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Encumbrances</u>	<u>Final Budget Variance with Budgetary Actual</u>
<b>REVENUE</b>					
LOCAL SOURCES:					
Real property taxes	\$ 9,663,692	\$ 9,663,692	\$ 8,381,619	\$ -	\$ (1,282,073)
Other tax items	30,000	30,000	1,301,799	-	1,271,799
Charges for services	158,000	158,000	233,199	-	75,199
Use of money and property	3,000	3,000	22,629	-	19,629
Sale of property and compensation for loss	-	-	10,392	-	10,392
Miscellaneous	<u>190,000</u>	<u>190,000</u>	<u>170,894</u>	<u>-</u>	<u>(19,106)</u>
Total local sources	10,044,692	10,044,692	10,120,532	-	75,840
State sources	11,172,511	11,172,511	11,145,267	-	(27,244)
Federal sources	<u>30,000</u>	<u>30,000</u>	<u>87,559</u>	<u>-</u>	<u>57,559</u>
Total revenue	<u>21,247,203</u>	<u>21,247,203</u>	<u>21,353,358</u>	<u>-</u>	<u>106,155</u>

(Continued)

See independent auditor's report.

**MIDDLEBURGH CENTRAL 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**

<b>EXPENDITURES</b>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Encumbrances</u>	<u>Variance with Budgetary Actual and Encumbrances</u>
<b>GENERAL SUPPORT:</b>					
Board of education	29,500	29,500	27,312	64	2,124
Central administration	244,343	259,343	258,522	-	821
Finance	287,194	295,194	293,638	-	1,556
Staff	98,984	90,984	78,068	-	12,916
Central services	1,114,315	1,267,692	1,128,180	139,480	32
Special items	<u>184,610</u>	<u>184,610</u>	<u>166,423</u>	<u>-</u>	<u>18,187</u>
Total general support	<u>1,958,946</u>	<u>2,127,323</u>	<u>1,952,143</u>	<u>139,544</u>	<u>35,636</u>
<b>INSTRUCTION:</b>					
Instruction, administration, and improvement	614,430	667,430	666,353	60	1,017
Teaching - Regular school	5,092,702	5,306,185	5,232,532	44,732	28,921
Programs for children with handicapping conditions	2,316,536	2,228,271	2,184,705	40	43,526
Occupational education	378,394	378,394	341,574	-	36,820
Instructional media	495,106	607,826	590,885	10,000	6,941
Pupil services	<u>696,464</u>	<u>719,696</u>	<u>705,136</u>	<u>6,000</u>	<u>8,560</u>
Total instruction	<u>9,593,632</u>	<u>9,907,802</u>	<u>9,721,185</u>	<u>60,832</u>	<u>125,785</u>
Pupil transportation	1,093,312	1,119,562	1,030,863	124	88,575
Employee benefits	7,046,215	6,607,215	6,502,099	-	105,116
Debt service	<u>1,992,471</u>	<u>1,992,471</u>	<u>1,992,471</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>21,684,576</u>	<u>21,754,373</u>	<u>21,198,761</u>	<u>200,500</u>	<u>355,112</u>
<b>OTHER FINANCING SOURCES</b>					
Transfers to other funds	<u>100,000</u>	<u>175,000</u>	<u>175,000</u>	<u>-</u>	<u>-</u>
Total expenditures and other financing sources	<u>21,784,576</u>	<u>21,929,373</u>	<u>21,373,761</u>	<u>200,500</u>	<u>355,112</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(537,373)</b>	<b>(682,170)</b>	<b>(20,403)</b>	<b>(200,500)</b>	<b>461,267</b>
<b>FUND BALANCE - beginning of year</b>	<u><b>4,174,004</b></u>	<u><b>4,174,004</b></u>	<u><b>4,174,004</b></u>	<u><b>-</b></u>	<u><b>-</b></u>
<b>FUND BALANCE - end of year</b>	<u><b>\$ 3,636,631</b></u>	<u><b>\$ 3,491,834</b></u>	<u><b>\$ 4,153,601</b></u>	<u><b>\$ (200,500)</b></u>	<u><b>\$ 461,267</b></u>

See independent auditor's report.

MIDDLEBURGH CENTRAL SCHOOL DISTRICT

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS (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>Total OPEB Liability</b>										
Service cost	\$ 1,229,622									
Interest	1,898,289									
Changes of benefit terms	-									
Differences between expected and actual experience	-									
Changes in assumptions	(2,577,004)									
Benefit payments	(3,217,965)									
<b>Total change in total OPEB liability</b>	<b>(2,667,058)</b>									
<b>Total OPEB liability - beginning</b>	<b>53,024,821</b>									
<b>Total OPEB liability - ending</b>	<b>\$ 50,357,763</b>									
<b>Covered-employee payroll</b>	<b>\$ 8,507,795</b>									
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	<b>591.9%</b>									

Information for the periods prior to implementation of GASB 75 is unavailable and will be completed for each year going forward as they become available.

Notes to schedule:

**Changes of assumptions.** Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following reflects the discount rate used each period:

Discount rate	3.87%	3.58%
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Information for the periods prior to implementation of GASB 75 is unavailable and will be completed for each year going forward as they become available.

The actuarial cost method has been updated from Projected Unit Credit to Entry Age Normal, which caused a decrease in liabilities.

The healthcare trend cost rates have been reset to an initial rate of 9.0% decreasing by 0.5% annually to an ultimate rate of 5.0% in 2025 and beyond, which caused an increase in liabilities.

**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.

MIDDLEBURGH CENTRAL 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)	0.0074866%	0.0076456%	0.0075228%	0.0080258%						
Proportionate share of the net pension liability (asset)	\$ 241.6	\$ 718.4	\$ 1,207.4	\$ 271.1						
Covered-employee payroll	\$ 1,989.2	\$ 2,018.0	\$ 1,870.5	\$ 1,954.5						
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.1%	35.6%	64.6%	13.9%						
Plan fiduciary net position as a percentage of the total pension liability (asset)	98.2%	94.7%	90.7%	97.9%						

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)	0.0449910%	0.0454070%	0.0479410%	0.0479410%						
Proportionate share of the net pension liability (asset)	\$ 342.0	\$ 486.3	\$ (4,750.3)	\$ (5,430.4)						
Covered-employee payroll	\$ 6,301.6	\$ 7,006.7	\$ 6,869.9	\$ 7,081.7						
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	5.4%	6.9%	-69.1%	-76.7%						
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.7%	99.0%	110.5%	111.5%						

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.

**MIDDLEBURGH CENTRAL 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	\$ 293.3	\$ 303.1	\$ 318.8	\$ 386.0						
Contributions in relation to the contractually required contribution	293.3	303.1	318.8	386.0						
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -						
Covered-employee payroll	\$ 1,989.2	\$ 2,018.0	\$ 1,870.5	\$ 1,954.5						
Contributions as a percentage of covered-employee payroll	14.75%	15.02%	17.04%	19.75%						

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	\$ 835.6	\$ 929.1	\$ 1,204.3	\$ 1,150.8						
Contributions in relation to the contractually required contribution	835.6	929.1	1,204.3	1,150.8						
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -						
Covered-employee payroll	\$ 6,301.6	\$ 7,006.7	\$ 6,869.9	\$ 7,081.7						
Contributions as a percentage of covered-employee payroll	13.26%	13.26%	17.53%	16.25%						

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.

**OTHER INFORMATION (UNAUDITED)**



**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

**SCHEDULE OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET  
AND SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

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**CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET**

Adopted budget	\$ 21,784,576
Add: Prior year's encumbrances	<u>144,797</u>
Original budget	21,929,373
Budget revision	<u>-</u>
Final budget	<u>\$ 21,929,373</u>

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

2018-19 voter-approved expenditure budget	<u>\$ 22,169,182</u>	
Maximum allowed (4% of 2018-19 budget)		<u>\$ 886,767</u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law :*		
Total fund balance:	<u>\$ 4,153,601</u>	
Less:		
Appropriated fund balance	567,510	
Encumbrances included in assigned fund balance	200,500	
Restricted fund balance:		
Unemployment	145,613	
Liability claims and property loss	16	
Retirement contributions	451,107	
Employee benefits and accrued liabilities	525,984	
Capital reserve	200,000	
Insurance	<u>125,348</u>	
	<u>2,216,078</u>	
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law		<u>\$ 1,937,523</u>
Actual percentage		8.74%

\* 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.

MIDDLEBURGH CENTRAL SCHOOL DISTRICT

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

Project Title	Original Appropriation	Revised Appropriation	Expenditures			Unexpended Balance	Methods of Financing					Fund Balance June 30, 2018
			Prior Years	Current Year	Total		Proceeds of Obligations	Federal Aid	State Aid	Local Sources	Total	
Capital project #1: Misc Prior Year Projects	\$ 215,524	\$ 621,306	\$ 493,724	\$ 126,382	\$ 620,106	\$ 1,200	\$ 215,524	\$ -	\$ 219,450	\$ 155,550	\$ 590,524	\$ (29,582)
Capital project #2: Reconstruction/Additions Project	4,123,271	4,123,271	4,070,758	-	4,070,758	52,513	3,376,959	-	733,328	125,000	4,235,287	164,529
Capital project #3: Bus Purchase	790,500	790,500	331,727	220,325	552,052	238,448	563,452	-	-	-	563,452	11,400
Capital project #4: Flood remediation	<u>2,724,931</u>	<u>2,743,391</u>	<u>2,743,391</u>	<u>-</u>	<u>2,743,391</u>	<u>-</u>	<u>-</u>	<u>1,810,371</u>	<u>910,807</u>	<u>455,318</u>	<u>3,176,496</u>	<u>433,105</u>
Totals	<u>\$ 7,854,226</u>	<u>\$ 8,278,468</u>	<u>\$ 7,639,600</u>	<u>\$ 346,707</u>	<u>\$ 7,986,307</u>	<u>\$ 292,161</u>	<u>\$ 4,155,935</u>	<u>\$ 1,810,371</u>	<u>\$ 1,863,585</u>	<u>\$ 735,868</u>	<u>\$ 8,565,759</u>	<u>\$ 579,452</u>

**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

**SCHEDULE OF INVESTMENT IN CAPITAL ASSETS, NET (UNAUDITED)  
JUNE 30, 2018**

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Capital assets, net		\$ 16,270,893
Deduct:		
Short-term portion of bonds payable	\$ 1,691,200	
Long-term portion of bonds payable	<u>4,782,700</u>	<u>6,473,900</u>
Plus: Unspent bond proceeds		<u>319,203</u>
Investment in capital assets, net		<u>\$ 10,116,196</u>

## **REQUIRED REPORTS**

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

October 18, 2018

To the Board of Education of  
Middleburgh Central 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 Middleburgh Central School District (School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 18, 2018

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-001.

**District's Response to Finding**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

October 18, 2018

The Board of Education of the  
Middleburgh Central School District:

**Report on Compliance for Each Major Federal Program**

We have audited the Middleburgh Central School District's (School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Middleburgh Central School District's major federal programs for the year ended June 30, 2018. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

(Continued)

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (Continued)**

***Opinion on Each Major Federal Program***

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>		<u>Pass Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>				
<u>Passed through New York State Dept. of Education</u>				
<i>Child Nutrition Cluster</i>				
School Breakfast Program	10.553	^	N/A	\$ 52,234
National School Lunch Program	10.555	^	N/A	<u>151,452</u>
<i>Total Child Nutrition Cluster</i>				203,686
Child Nutrition Discretionary Grants	10.579		N/A	<u>5,000</u>
Total U.S. Department of Agriculture				<u>208,686</u>
<u>U.S. Department of Education</u>				
<u>Pass-Through New York State Dept. of Education</u>				
ESEA Title 1 Grant	84.010		0021-18-2780	<u>126,493</u>
<i>Special Education Cluster (IDEA)</i>				
IDEA - Part B, Section 611	84.027	*	0032-18-0841	218,745
IDEA - Part B, Section 619	84.173	*	0033-18-0834	<u>23,173</u>
<i>Total Special Education Cluster (IDEA)</i>				241,918
ESEA Title II Part A, Improving Teacher Quality grant	84.367		0147-18-2780	58,901
School Improvement Grants	84.377		0123-18-5110	<u>137,942</u>
Total U.S. Department of Education				<u>565,254</u>
Total Expenditures of Federal Awards				<u>\$ 773,940</u>

^ Child Nutrition Cluster

\* Special Education Cluster

# MIDDLEBURGH CENTRAL SCHOOL DISTRICT

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

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### 1. GENERAL

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Middleburgh Central School District (School District), under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows for the School District.

### 2. BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is prepared using generally accepted accounting principles as described in the School District's basic financial statements.

### 3. INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent that such costs are included in the federal financial reports used as the source document for the data presented.

The School District did not elect to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

### 4. SUBRECIPIENTS

No amounts were provided to subrecipients.

### 5. OTHER DISCLOSURES

No insurance is carried specifically to cover equipment purchased with federal awards. Any equipment purchased with federal funds has only a nominal value and is covered by the School District's insurance policies.

There were no loans or loan guarantees outstanding at year-end.

**MIDDLEBURGH CENTRAL SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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**Section I—Summary of Auditors' Results**

**Financial Statements**

Type of independent auditor's report issued (GAAP)

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes  No

Significant deficiencies identified not  
considered to be material weaknesses?

Yes  None reported

Noncompliance material to financial statements noted?

Yes  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?

yes  no

Significant deficiency(ies) identified not  
considered to be material weaknesses?

yes  None reported

Type of independent auditor's report issued on compliance  
for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in  
accordance with Uniform Guidance

yes  no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027; 84.173  
10.553; 10.555

Special Education Cluster  
Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and  
Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

yes  no

# MIDDLEBURGH CENTRAL SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

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### Section II—Financial Statement Findings

#### Finding #2018-001 – Stewardship and Compliance

##### Criteria

The School District's unrestricted fund balance was outside the New York State Real Property Tax Law 1318 limit, which restricts it to an amount not greater than 4% of the School District's budget for the upcoming year.

##### Condition

General fund unrestricted fund balance exceeded 4% of the subsequent year's budget.

##### Questioned Costs

None

##### Cause and Effect

The current year surplus resulted in the School District's unrestricted fund balance exceeding limitations.

##### Recommendation

We recommend that management take the excess fund balance into consideration when preparing next year's budget.

##### Response/Corrective Action Plan

School District management will ensure the excess fund balance is considered when preparing next year's budget.

### Section III – Federal Award Findings and Questioned Costs

There were no instances of significant deficiencies, material weaknesses, or noncompliance, including questioned costs that are required to be reported under Uniform Guidance.

### Section IV – Status of Prior Year Findings

#### Finding #2017-001 – Stewardship and Compliance

##### Condition

General fund unrestricted fund balance exceeded 4% of the subsequent year's budget.

##### Status

This is a repeat comment in the current year.