

MATTITUCK-CUTCHOGUE
UNION FREE SCHOOL DISTRICT

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITOR'S REPORTS

June 30, 2016

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Mattituck-Cutchogue Union Free School District
Cutchogue, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Mattituck-Cutchogue Union Free School District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the Mattituck-Cutchogue Union Free School District, as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedules of funding progress – other postemployment benefits, the District's proportionate share of the net pension asset/liability, and District contributions on pages 3 through 15 and 49 through 53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mattituck-Cutchogue Union Free School District's basic financial statements. The other supplementary information on pages 54 through 56 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information requested by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016 on our consideration of the Mattituck-Cutchogue Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mattituck-Cutchogue Union Free School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

September 30, 2016

**MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Mattituck-Cutchogue Union Free School District's (District) discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016 in comparison with the year ended June 30, 2015, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

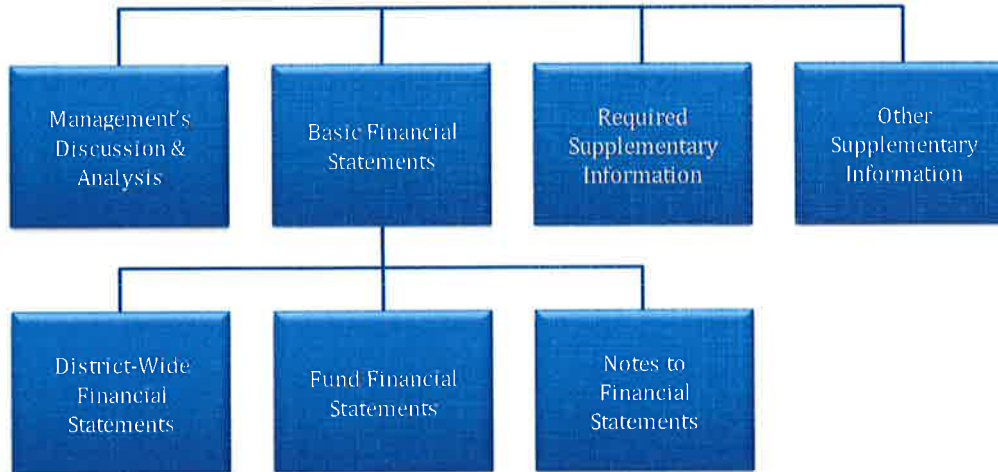
Key financial highlights for fiscal year 2016 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, increased by \$2,861,962. This was due to an excess of revenues over expenses based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$37,357,578. Of this amount, \$1,482,571 was offset by program charges for services and operating grants. General revenues of \$38,736,969 amount to 96% of total revenues, and were adequate to cover the balance of program expenses.
- The District's operating revenues and expenses for the year, as reflected in the district-wide financial statements were \$40,219,540 and \$37,357,578, respectively.
- The District received \$633,414 in operating grants to support instructional programs.
- The general fund's total fund balance of \$9,843,968, as reflected in the fund financial statements, increased by \$559,196. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- On the balance sheet, the general fund's unassigned fund balance at year end was \$1,613,357. This represents an increase of \$3,291 over the prior year. The unassigned fund balance is at a level which leaves the District in a fiscally prudent position.
- The District's 2016 property tax levy of \$35,962,562 was a 1.74% increase over the 2015 tax levy. The District's property tax cap was 1.74%.
- During the current year, the District used \$640,872 of available fund balance to advance pay the remaining balance on the District's energy performance contract consisting of \$634,123 in principal and \$6,749 in interest.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management’s discussion and analysis (MD&A), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of district-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements follows:



A. District-Wide Financial Statements

The district-wide financial statements present the governmental activities of the District and are organized to provide an understanding of the fiscal performance of the District as a whole in a manner similar to a private sector business. There are two district-wide financial statements - the Statement of Net Position and the Statement of Activities. These statements provide both an aggregate and long-term view of the District’s finances.

These statements utilize the accrual basis of accounting. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Position

The Statement of Net Position presents information on all of the District’s assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities

The Statement of Activities presents information showing the change in net position during the fiscal year. All changes in net position are recorded at the time the underlying financial event occurs. Revenues are recognized in the period when they are earned and expenses are recognized in the period when the liability is incurred. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the District are reported in the governmental funds and the fiduciary funds.

Governmental Funds

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period in which the District incurs the liability, except for certain expenditures such as debt service on general long-term indebtedness, claims and judgments, compensated absences, other postemployment benefits and pension costs, which are recognized as expenditures to the extent the related liabilities mature each period.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as, on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides.

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

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

Fiduciary Funds

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

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position increased by \$2,861,962 between fiscal year 2016 and 2015. The increase is due to revenues in excess of expenses based on the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	2016	2015	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 13,629,099	\$ 13,612,730	\$ 16,369	0.12 %
Capital Assets, Net	36,321,811	37,497,224	(1,175,413)	(3.13)%
Net Pension Asset - Proportionate Share	<u>11,162,565</u>	<u>12,050,409</u>	<u>(887,844)</u>	(7.37)%
Total Assets	<u>61,113,475</u>	<u>63,160,363</u>	<u>(2,046,888)</u>	(3.24)%
Deferred Outflows of Resources	<u>4,575,713</u>	<u>4,108,386</u>	<u>467,327</u>	11.37 %
Current and Other Liabilities	3,287,303	3,753,932	(466,629)	(12.43)%
Long-Term Liabilities	22,403,906	25,602,615	(3,198,709)	(12.49)%
Net Other Postemployment Benefits Obligation	21,506,883	19,199,315	2,307,568	12.02 %
Net Pension Liability - Proportionate Share	<u>1,484,524</u>	<u>313,322</u>	<u>1,171,202</u>	373.80 %
Total Liabilities	<u>48,682,616</u>	<u>48,869,184</u>	<u>(186,568)</u>	(0.38)%
Deferred Inflows of Resources	<u>4,014,420</u>	<u>8,269,375</u>	<u>(4,254,955)</u>	(51.45)%
Net Investment in Capital Assets	18,001,811	16,221,393	1,780,418	10.98 %
Restricted	7,188,072	5,989,415	1,198,657	20.01 %
Unrestricted (deficit)	<u>(12,197,731)</u>	<u>(12,080,618)</u>	<u>(117,113)</u>	0.97 %
Total Net Position	<u>\$ 12,992,152</u>	<u>\$ 10,130,190</u>	<u>\$ 2,861,962</u>	28.25 %

Current and other assets increased by \$16,369, as compared to the prior year. The increase is related to a \$220,986 increase in cash. Additionally, other assets increased \$72,278, which represents cash held by a third-party administrator for workers' compensation. These increases were offset by a \$232,479 decrease in due from state and federal and due from other governments and a \$42,777 decrease in taxes receivable.

Capital assets net decreased by \$1,175,413, as compared to the prior year. This decrease is due to depreciation expense in excess of capital asset additions. The accompanying Notes to Financial Statements, Note 9 "Capital Assets" provides additional information.

Net pension asset – proportionate share decreased by \$887,844, as compared to the prior year. This asset represents the District's share of the New York State Teachers' Retirement System's collective net pension asset at the measurement date of the respective year.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Deferred outflows of resources represents contributions to the retirement plans subsequent to the measurement dates and actuarial adjustments at the plan level that will be amortized in future years in the amount of \$3,680,169. Deferred outflows also includes \$895,544, which represents the unamortized amount of deferred charges on the District's refunding bonds that is being amortized as a component of interest expense on a weighted average basis over the remaining life of the old debt.

Current and other liabilities decreased \$466,629. The District's liability to the teachers' retirement system decreased \$698,822 due to a lower contribution rate than the prior year. There was a \$98,036 decrease in accounts payable and a \$39,061 decrease in collections in advance. These decreases were offset by increases in accrued liabilities and due to other governments of \$183,155, and \$201,780, respectively.

Long-term liabilities decreased by \$3,198,709, as compared to the prior year. The District made principal payments of \$2,220,000 on serial bonds; \$735,831 on the energy performance contract; compensated absences decreased by \$62,153, and the premium on the District's bond refunding decreased \$282,721. These decreases were offset by an increase in the workers' compensation liability of \$101,996.

Net other postemployment benefits (OPEB) obligation increased by \$2,307,568, as compared to the prior year. This increase is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 14 "Postemployment Healthcare Benefits", provides additional information.

Net pension liability - proportionate share increased by \$1,171,202 in the current year. This liability represents the District's share of the New York State and Local Employees' Retirement System's collective net pension liability at the measurement date of the respective year.

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

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

	Increase (Decrease)
Capital asset additions	\$ 295,430
Principal debt reduction of construction bonds, net	2,220,000
Principal debt reduction on energy performance contract	735,831
Depreciation expense	(1,470,843)
	\$ 1,780,418

The restricted amount of \$7,188,072 relates to the District's workers' compensation, unemployment insurance, retirement contribution, and employee benefit accrued liability reserves. This number increased over the prior year by \$1,198,657. The District funded the workers' compensation and retirement contribution reserves in the amounts of \$281,092, and \$1,050,002, respectively. Interest of \$15,627 was also allocated to the reserves. These increases were offset by the usage of the workers' compensation (\$81,092) and retirement contribution (\$66,972) reserves.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The unrestricted deficit amount of \$(12,197,731) relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation. This deficit increased over the prior year by \$1,328,604.

The District's total net position increased by \$2,861,962 or 28.25%; \$12,992,152 at June 30, 2016, compared to \$10,130,190 at June 30, 2015.

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Program Revenues				
Charges for Services	\$ 717,117	\$ 834,359	\$ (117,242)	(14.05)%
Operating Grants	765,454	795,344	(29,890)	(3.76)%
General Revenues				
Property Taxes and STAR	35,968,134	35,342,899	625,235	1.77 %
State Sources	2,553,353	2,574,511	(21,158)	(0.82)%
Other	215,482	379,315	(163,833)	(43.19)%
Total Revenues	<u>40,219,540</u>	<u>39,926,428</u>	<u>293,112</u>	0.73 %
Expenses				
General Support	5,741,493	4,994,599	746,894	14.95 %
Instruction	28,917,666	28,623,640	294,026	1.03 %
Pupil Transportation	1,567,599	1,586,321	(18,722)	(1.18)%
Community Service		72,783	(72,783)	(100.00)%
Debt Service - Interest	840,791	831,224	9,567	1.15 %
Food Service Program	290,029	302,690	(12,661)	(4.18)%
Total Expenses	<u>37,357,578</u>	<u>36,411,257</u>	<u>946,321</u>	2.60 %
Increase in Net Assets	<u>\$ 2,861,962</u>	<u>\$ 3,515,171</u>	<u>\$ (653,209)</u>	(18.58)%

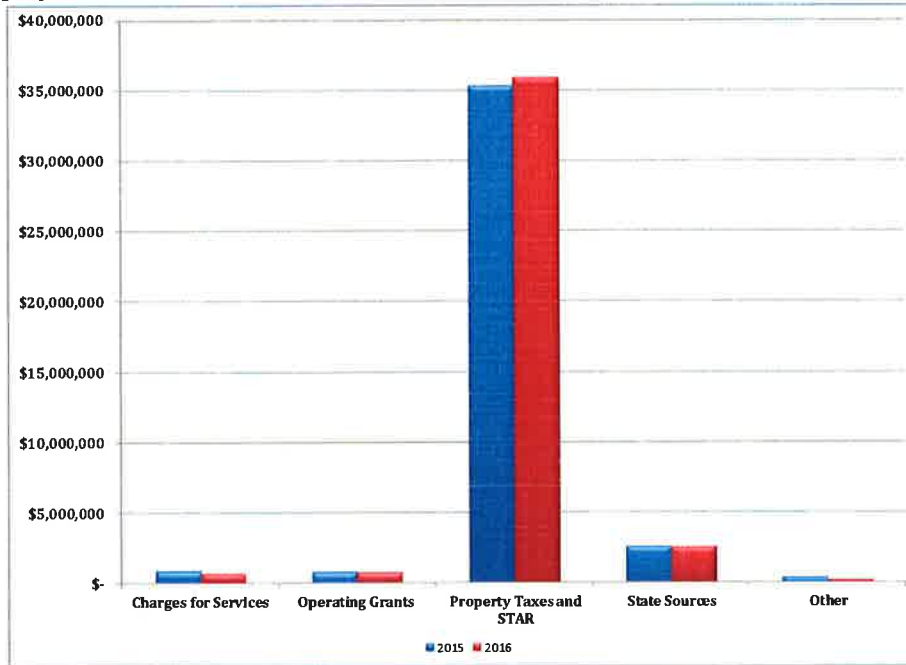
The District's net position increased by \$2,861,962 and \$3,515,171 for the years ended June 30, 2016 and 2015, respectively.

The District's revenues increased by \$293,112 or 0.73%. The major factor that contributed to the increase was the increase in property taxes and STAR revenues of \$625,235, which was offset by decreases in charges for services, operating grants, state sources and other revenues.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 89.4% and 88.5% of the total for the years 2016 and 2015, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 77.3% and 78.6% of the total for the years 2016 and 2015, respectively).

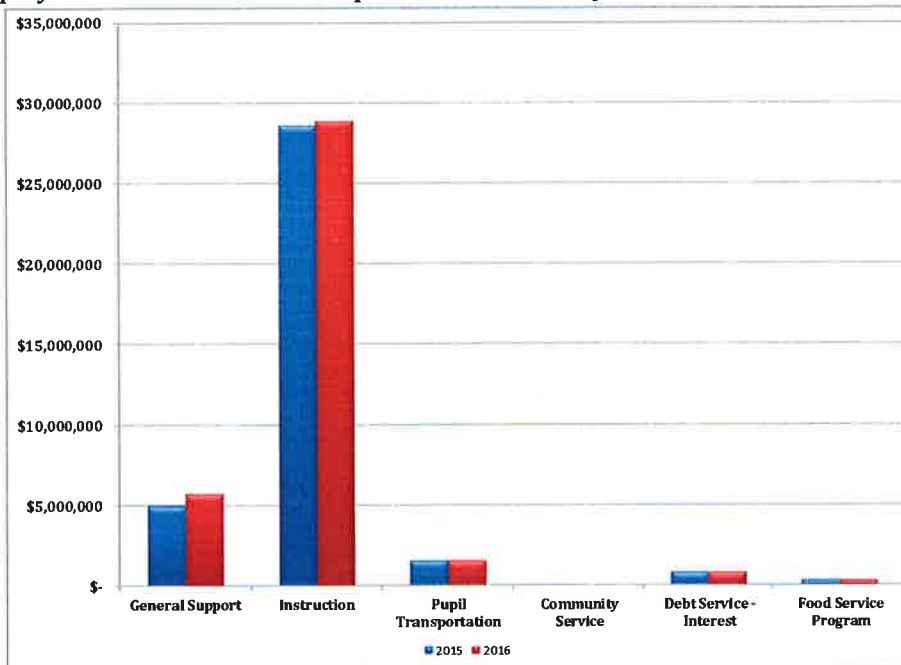
**MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



	Charges for Services	Operating Grants	Property Taxes and STAR	State Sources	Other
2015	2.1%	2.0%	88.5%	6.4%	1.0%
2016	1.8%	1.9%	89.4%	6.3%	0.6%

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



	General Support	Instruction	Pupil Transportation	Community Service	Debt Service - Interest	Food Service Program
2015	13.7%	78.6%	4.4%	0.2%	2.3%	0.8%
2016	15.4%	77.3%	4.2%	0.0%	2.3%	0.8%

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2016, the District's governmental funds reported a combined fund balance of \$10,196,261, which is an increase of \$584,355 over the prior year. This increase is due to an excess of revenues over expenditures based upon the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
General Fund			
Restricted:			
Workers' compensation	\$ 708,611	\$ 507,287	\$ 201,324
Unemployment insurance	593,281	591,738	1,543
Retirement contribution	3,829,606	2,839,168	990,438
Employee benefit accrued liability	2,056,574	2,051,222	5,352
Assigned:			
Appropriated fund balance	1,000,000	1,630,872	(630,872)
Unappropriated fund balance	42,539	54,419	(11,880)
Unassigned: Fund balance	<u>1,613,357</u>	<u>1,610,066</u>	<u>3,291</u>
	<u>9,843,968</u>	<u>9,284,772</u>	<u>559,196</u>
School Lunch Fund			
Nonspendable: Inventory	3,012	4,981	(1,969)
Assigned: Unappropriated fund balance	<u>130,179</u>	<u>106,040</u>	<u>24,139</u>
	<u>133,191</u>	<u>111,021</u>	<u>22,170</u>
Capital Projects Fund			
Assigned: Unappropriated fund balance	<u>219,102</u>	<u>216,113</u>	<u>2,989</u>
Total Fund Balance	<u>\$ 10,196,261</u>	<u>\$ 9,611,906</u>	<u>\$ 584,355</u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$559,196 compared to an increase of \$547,622 in 2015. This resulted from revenues and other sources in excess of expenditures and other uses. Revenues and other financing sources increased \$423,339 (1.09%) over 2015 primarily in property taxes and STAR. Expenditures and other financing uses increased \$411,765 (1.07%). Instructional costs and operating transfers out increased \$181,849 and \$621,404, respectively. Debt service also increased \$183,125 as the District made an additional payment to pay off the outstanding balance on the energy performance contract. Employee benefits decreased \$511,088, primarily due to a decrease in the District's contribution to the Teachers' Retirement System as a result of a reduction in the contribution rate.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is an increase of \$22,170, which was the operating profit of the school lunch fund.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is an increase of \$2,989. The District transferred \$915,563 into the capital projects fund for various projects, mainly the purchase of computer equipment. Expenditures of \$912,574 were less than the amount transferred in, resulting in the increase.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2015-16 Budget

The District's general fund voter-approved budget for the year ended June 30, 2016 was \$40,284,062. This amount was increased by encumbrances carried forward from the prior year in the amount of \$54,419 and board approved budget revisions to pay down debt with excess fund balance in the amount of \$640,872 and use of reserves for \$148,064, for a total final budget of \$41,127,417.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$35,962,562 in property taxes and STAR.

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

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

Opening, Unassigned Fund Balance	\$ 1,610,066
Revenues Over Budget	74,994
Expenditures and Encumbrances Under Budget	2,275,018
Allocation to Reserves	(1,331,094)
Interest Earned on Restricted Reserves	(15,627)
Appropriated to Fund the June 30, 2017 Budget	<u>(1,000,000)</u>
Closing, Unassigned Fund Balance	<u>\$ 1,613,357</u>

Opening, Unassigned Fund Balance

The \$1,610,066 shown in the table is the portion of the District's June 30, 2015 fund balance that was retained as unassigned. This was 4% of the District's 2015-16 approved operating budget of \$40,284,062. It is the maximum unassigned fund balance permitted by law.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Revenues Over Budget

The 2015-16 final budget for revenues was \$39,294,062. Actual revenues received for the year were \$39,369,056. The excess of actual revenue over estimated or budgeted revenue was \$74,994, which is primarily due to the District receiving \$185,958 more in charges for services and \$95,129 in operating transfers in revenue than anticipated. This was offset by the District receiving \$137,447 less in state sources and \$41,360 less in Medicaid revenue than anticipated.

Expenditures and Encumbrances Under Budget

The 2015-16 final budget for expenditures was \$41,127,417. Actual expenditures as of June 30, 2016 were \$38,809,860 and outstanding encumbrances were \$42,539. Combined, the expenditures plus encumbrances for 2015-16 were \$38,852,399. The final budget was under expended by \$2,275,018. This under expenditure is principally within the teaching regular school, programs for students with disabilities, employee benefits and central services areas of the budget.

Allocation to Reserves

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

The \$(1,331,094) shown in the above table is made up of two transfers; \$281,092 to the workers' compensations reserve; and a \$1,050,002 transfer to the retirement contribution reserve.

Interest Earned in Restricted Reserves

Interest earned on a general fund reserve increase the reserve and, therefore decrease the unassigned portion of the general fund-fund balance.

The \$(15,627) shown in the table above represents interest earned on restricted reserves. The reserves earned interest as follows:

Workers' compensation	\$ 1,323
Unemployment insurance	1,544
Retirement contribution	7,408
Employee benefit accrued liability	<u>5,352</u>
	<u>\$ 15,627</u>

Appropriated Fund Balance

The District has chosen to use \$1,000,000 of the available June 30, 2016 unassigned fund balance to partially fund the 2016-17 approved operating budget.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2016 was \$1,613,357. This amount equals 4% of the 2016-17 budget and is equal to the statutory limit.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2016, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to depreciation of \$1,470,843 in excess of capital additions of \$295,430 recorded for the year ended June 30, 2016. A summary of the District's capital assets, net of depreciation at June 30, 2016 and 2015 is as follows:

	2016	2015	Increase (Decrease)
Land	\$ 18,000	\$ 18,000	\$ -
Buildings and improvements	33,809,899	34,859,666	(1,049,767)
Site improvements	1,099,824	1,072,055	27,769
Furniture and equipment	1,394,088	1,547,503	(153,415)
Capital assets, net	<u>\$ 36,321,811</u>	<u>\$ 37,497,224</u>	<u>\$ (1,175,413)</u>

B. Debt Administration

At June 30, 2016, the District had total bonds payable (par value) of \$18,320,000. The bonds were issued for district-wide projects. The net decrease in outstanding debt represents principal payments. There were no new issuances of long-term debt during the year ended June 30, 2016. A summary of the outstanding debt at June 30, 2016 and 2015 is as follows:

Issue Date	Interest Rate	2016	2015	Increase (Decrease)
7/15/2006	4.25-5.00%	\$ 700,000	\$ 1,400,000	\$ (700,000)
7/15/2008	3.75-4.00%	700,000	1,050,000	(350,000)
6/26/2014	2.625-3.125%	870,000	925,000	(55,000)
4/30/2015	2.00-5.00%	14,505,000	14,700,000	(195,000)
4/30/2015	2.00-5.00%	1,545,000	2,465,000	(920,000)
		<u>\$ 18,320,000</u>	<u>\$ 20,540,000</u>	<u>\$ (2,220,000)</u>

The District's latest credit rating from Standard & Poors is AA. The District's outstanding serial bonds at June 30, 2016 are approximately 4.33% of the District's debt limit.

Included, in the District's long-term liabilities are the estimated amounts due for compensated absences, workers' compensation liability, and net other postemployment benefits obligation. The compensated absences liability of \$1,747,835 is based on employment contracts. The workers' compensation liability, in the amount of \$382,175, is based on an actuarial study in accordance with GASB Statement No. 10. The net other postemployment benefits obligation is based on an actuarially determined amount in accordance with GASB Statement No. 45 in the amount of \$21,506,883.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the voters of the District on May 17, 2016, for the year ending June 30, 2017, is \$40,333,921. This is an increase of \$49,859 over the previous year's budget. Increases in the instructional areas of the budget were offset by decreases in the debt service area of the budget.

The District budgeted revenues other than property taxes at a \$101,162 decrease from the prior year's estimate. The assigned, appropriated fund balance applied to the June 30, 2017 budget (excluding the additional appropriation to pay down debt) increased over the prior year by \$10,000. A property tax increase of 0.39% (levy to levy) was needed to balance total revenues to total expenditures.

B. Future Budgets

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

C. Tax Cap

New York State law limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation to June 15, 2020. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. The District's 2016-17 property tax increase of 0.39% was less than the tax cap of 0.464% and did not require an override vote.

D. Property Tax Freeze Credit and Property Tax Relief Credit

New York State law provides a "Property Tax Freeze Credit" that effectively "freezes" property taxes for two years on the primary residences of homeowners with annual incomes at or below \$500,000 in school districts and local governments that stay within the tax cap. Qualifying homeowners receive a credit, which is distributed in the form of a check from New York State, up to the calculated amount of the tax cap. The program also requires the school districts and local governments, in the second year, to develop or participate in the development of a state approved government efficiency plan that will achieve savings for taxpayers. The program ends for school districts with the 2015-16 school year.

New York State enacted a new law that provides a "Property Tax Relief Credit" to eligible taxpayers for the 2016-17 through 2019-20 school years. To be eligible, a taxpayer, based on income tax return filings for the taxable two years prior, must be a New York State resident, owned and primarily resided in real property receiving the STAR exemption, and had adjusted gross income no greater than \$275,000. A taxpayer is ineligible for the tax credit if the real property is located in a school district that adopted a budget in excess of the tax levy limit. Eligible District taxpayers will receive a tax credit in the form of a check in the amount of \$130 in the first year. In subsequent years, the amount of the credit is a function of the basic STAR savings and the taxpayer's income.

These property tax credit programs provide an incentive for the District to be tax cap compliant.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

8. CONTACTING THE DISTRICT

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

Mr. Michael Engelhardt
Business Manager
Mattituck-Cutchogue Union Free School District
385 Depot Lane
Cutchogue, NY 11935

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

ASSETS

Cash	
Unrestricted	\$ 3,497,895
Restricted	7,188,072
Receivables	
Taxes receivable	1,949,421
Due from fiduciary funds	59,692
Due from state and federal	179,137
Due from other governments	268,418
Inventories	3,012
Other assets	483,452
Capital assets not being depreciated	18,000
Capital assets being depreciated, net of accumulated depreciation	36,303,811
Net pension asset - proportionate share	<u>11,162,565</u>
Total Assets	<u>61,113,475</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges from advance refunding, net	895,544
Pensions	<u>3,680,169</u>
Total Deferred Outflows of Resources	<u>4,575,713</u>

LIABILITIES

Payables	
Accounts payable	170,092
Accrued liabilities	362,846
Due to other governments	384,561
Due to teachers' retirement system	2,221,004
Due to employees' retirement system	131,233
Unearned credits	
Collections in advance	17,567
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	2,201,166
Compensated absences payable	150,581
Due and payable after one year	
Bonds payable, net	18,072,730
Workers' compensation liabilities	382,175
Compensated absences payable	1,597,254
Net other postemployment benefits obligation	21,506,883
Net pension liability - proportionate share	<u>1,484,524</u>
Total Liabilities	<u>48,682,616</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	<u>4,014,420</u>
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NET POSITION

Net investment in capital assets	<u>18,001,811</u>
Restricted	
Workers' compensation	708,611
Unemployment insurance	593,281
Retirement contribution	3,829,606
Employee benefit accrued liability	<u>2,056,574</u>
	<u>7,188,072</u>
Unrestricted (deficit)	<u>(12,197,731)</u>
Total Net Position	<u>\$ 12,992,152</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2016

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS				
General support	\$ 5,741,493	\$	\$	\$ (5,741,493)
Instruction	28,917,666	536,958	633,414	(27,747,294)
Pupil transportation	1,567,599			(1,567,599)
Debt service - interest	840,791			(840,791)
Food service program	290,029	180,159	132,040	22,170
	<u>\$ 37,357,578</u>	<u>\$ 717,117</u>	<u>\$ 765,454</u>	<u>(35,875,007)</u>
GENERAL REVENUES				
Real property taxes				34,123,899
Other tax items				1,846,782
Use of money and property				102,608
Miscellaneous				99,987
State sources				2,553,353
Medicaid reimbursement				10,340
				<u>38,736,969</u>
Change in Net Position				2,861,962
Total Net Position - Beginning of year				<u>10,130,190</u>
Total Net Position - End of year				<u>\$ 12,992,152</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2016

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 2,529,856	\$ 89,389	\$ 8,913	\$ 869,737	\$ 3,497,895
Restricted	7,188,072				7,188,072
Receivables					
Taxes receivable	1,949,421				1,949,421
Due from other funds	802,913		119,290		922,203
Due from state and federal	107,898	63,433	7,806		179,137
Due from other governments	268,418				268,418
Inventories			3,012		3,012
Total Assets	<u>\$ 12,846,578</u>	<u>\$ 152,822</u>	<u>\$ 139,021</u>	<u>\$ 869,737</u>	<u>\$ 14,008,158</u>
LIABILITIES					
Payables					
Accounts payable	\$ 121,851			\$ 48,241	\$ 170,092
Accrued liabilities	24,929				24,929
Due to other funds	119,290	140,827		602,394	862,511
Due to other governments	384,303		258		384,561
Due to teachers' retirement system	2,221,004				2,221,004
Due to employees' retirement system	131,233				131,233
Unearned credits					
Collections in advance		11,995	5,572		17,567
Total Liabilities	<u>3,002,610</u>	<u>152,822</u>	<u>5,830</u>	<u>650,635</u>	<u>3,811,897</u>
FUND BALANCES					
Nonspendable: Inventories			3,012		3,012
Restricted:					
Workers' compensation	708,611				708,611
Unemployment insurance	593,281				593,281
Retirement contribution	3,829,606				3,829,606
Employee benefit accrued liability	2,056,574				2,056,574
Assigned:					
Appropriated fund balance	1,000,000				1,000,000
Unappropriated fund balance	42,539		130,179	219,102	391,820
Unassigned: Fund balance	<u>1,613,357</u>				<u>1,613,357</u>
Total Fund Balances	<u>9,843,968</u>	<u>-</u>	<u>133,191</u>	<u>219,102</u>	<u>10,196,261</u>
Total Liabilities and Fund Balances	<u>\$ 12,846,578</u>	<u>\$ 152,822</u>	<u>\$ 139,021</u>	<u>\$ 869,737</u>	<u>\$ 14,008,158</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016

Total Governmental Fund Balances		\$ 10,196,261
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Cash held by a third-party administrator is treated as a long-term asset and is included in net position.		483,452
The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.		
Original cost of capital assets	\$ 62,044,931	
Accumulated depreciation	<u>(25,723,120)</u>	36,321,811
Deferred charges on advance refunding of bonds are not reported on the Balance Sheet, but are reflected on the Statement of Net Position and amortized over the life of the related bonds.		
Deferred charges on advance refunding	1,159,214	
Less: accumulated amortization	<u>(263,670)</u>	895,544
Proportionate share of long-term asset and liability, and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.		
Net pension asset - teachers' retirement system	11,162,565	
Deferred outflows of resources	3,680,169	
Net pension liability - employees' retirement system	(1,484,524)	
Deferred inflows of resources	<u>(4,014,420)</u>	9,343,790
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Accrued interest on bonds payable	(337,917)	
Bonds payable, net	(20,273,896)	
Workers' compensation liabilities	(382,175)	
Compensated absences payable	(1,747,835)	
Net other postemployment benefits obligation	<u>(21,506,883)</u>	<u>(44,248,706)</u>
Total Net Position		<u>\$ 12,992,152</u>

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2016

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES					
Real property taxes	\$ 34,123,899	\$	\$	\$	\$ 34,123,899
Other tax items	1,846,782				1,846,782
Charges for services	536,958				536,958
Use of money and property	102,608				102,608
Miscellaneous	99,987				99,987
State sources	2,553,353	282,730	4,593		2,840,676
Medicaid reimbursement	10,340				10,340
Federal sources		350,684	98,098		448,782
Surplus food			29,349		29,349
Sales - school lunch			180,159		180,159
Total Revenues	<u>39,273,927</u>	<u>633,414</u>	<u>312,199</u>	<u>-</u>	<u>40,219,540</u>
EXPENDITURES					
General support	3,761,539				3,761,539
Instruction	19,441,784	568,918			20,010,702
Pupil transportation	1,449,491				1,449,491
Employee benefits	9,434,724				9,434,724
Debt service					
Principal	2,955,831				2,955,831
Interest	820,295				820,295
Cost of sales			290,029		290,029
Capital outlay				912,574	912,574
Total Expenditures	<u>37,863,664</u>	<u>568,918</u>	<u>290,029</u>	<u>912,574</u>	<u>39,635,185</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,410,263</u>	<u>64,496</u>	<u>22,170</u>	<u>(912,574)</u>	<u>584,355</u>
OTHER FINANCING SOURCES AND (USES)					
Operating transfers in	95,129	30,633		915,563	1,041,325
Operating transfers (out)	<u>(946,196)</u>	<u>(95,129)</u>			<u>(1,041,325)</u>
Total Other Financing Sources and (Uses)	<u>(851,067)</u>	<u>(64,496)</u>	<u>-</u>	<u>915,563</u>	<u>-</u>
Net Change in Fund Balances	559,196	-	22,170	2,989	584,355
Fund Balances - Beginning of year	<u>9,284,772</u>	<u>-</u>	<u>111,021</u>	<u>216,113</u>	<u>9,611,906</u>
Fund Balances - End of year	<u>\$ 9,843,968</u>	<u>\$ -</u>	<u>\$ 133,191</u>	<u>\$ 219,102</u>	<u>\$ 10,196,261</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2016

Net Change in Fund Balances		\$ 584,355
Amounts reported for governmental activities in the Statement of Activities are different because:		
<u>Long-Term Revenue and Expense Differences</u>		
Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) are held by a third-party administrator. This is the amount by which other assets increased in the current period.	\$ 72,278	
Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in an increase to the long-term asset or a reduction of the long-term liability and an increase in the net position.		
Decrease in compensated absences payable	62,153	
Certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, but are expensed in the Statement of Activities.		
Increase in workers' compensation liabilities	(101,996)	
Increase in net other postemployment benefits obligation	<u>(2,307,568)</u>	(2,275,133)
<u>Capital Related Differences</u>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeded capital outlays in the period.		
Capital outlays	295,430	
Depreciation expense	<u>(1,470,843)</u>	(1,175,413)
<u>Long-Term Debt Transaction Differences</u>		
Amortization of bond premiums and deferred charges on advance refunding of bonds do not affect the governmental funds, but are recorded in the Statement of Activities.		
Amortization of bond premiums	282,721	
Amortization of deferred charges	(129,582)	
Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		
Repayment of bond principal	2,220,000	
Repayment of energy performance contract payable	735,831	
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest increased from June 30, 2015 to June 30, 2016.	<u>(173,635)</u>	2,935,335
<u>Pension Differences</u>		
The decrease in the proportionate share of the collective pension expense of the state retirement plans reported in the Statement of Activities did not affect current financial resources and, therefore is not reported in the governmental funds.		
Teachers' retirement system	2,868,940	
Employees' retirement system	<u>(76,122)</u>	<u>2,792,818</u>
Change in Net Position of Governmental Activities		<u>\$ 2,861,962</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2016

	Agency	Private Purpose Trusts
ASSETS		
Cash		
Unrestricted	\$ 206,121	\$
Restricted		108,532
Total Assets	\$ 206,121	108,532
 LIABILITIES		
Extraclassroom activities	\$ 72,266	
Due to governmental funds	59,692	
Other liabilities	74,163	
Total Liabilities	\$ 206,121	-
 NET POSITION		
Restricted for scholarships		\$ 108,532

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For The Year Ended June 30, 2016

	<u>Private Purpose Trusts</u>
ADDITIONS	
Gifts and contributions	\$ 5,350
 DEDUCTIONS	
Scholarships and awards	<u>11,250</u>
Change in Net Position	(5,900)
Net Position - Beginning of year	<u>114,432</u>
Net Position - End of Year	<u><u>\$ 108,532</u></u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

Extraclassroom Activity Funds

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management. The District reports these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Position - Fiduciary Funds. Separate audited financial statements of the extraclassroom activity funds can be found at the District's Business Office.

B. Joint Venture

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

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

C. Basis of Presentation

District-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

E. Real Property Taxes

Calendar

Real property taxes are levied annually by the Board no later than November 1st and become a lien on December 1st. Taxes are collected by the Towns of Riverhead and Southold and remitted to the District during the year.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Enforcement

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

F. Restricted Resources

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

G. Interfund Transactions

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

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

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

A detailed disclosure by individual fund for interfund receivables, payables, transfers in and transfers out activity is provided subsequently in these Notes to Financial Statements.

H. 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, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including compensated absences, other postemployment benefits, workers' compensation liabilities, potential contingent liabilities and useful lives of long-lived assets.

I. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and investments with a maturity date of three months or less from date of acquisition.

Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves and debt agreements.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

J. Other Assets

Other assets represent amounts on deposit that are being held by a third-party administrator for workers' compensation claims.

K. 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 donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. These inventories are accounted for on the consumption method. Under the consumption method, a current asset for the inventory is recorded at the time of receipt and/or purchase and an expense/expenditure is reported in the year the goods are consumed.

Purchases of inventorable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

A portion of fund balance has been classified as nonspendable to indicate that inventories do not constitute available spendable resources.

L. Capital Assets

Capital assets are reflected in the district-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at estimated fair market value at the date of donation.

All capital assets, except land and construction in progress, are depreciated on a straight line basis over their estimated useful lives. Capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts, and estimated useful lives of capital assets as reported in the district-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 10,000	20-50 years
Site improvements	10,000	20-50 years
Furniture and equipment	500	5-20 years

M. Deferred Outflows of Resources

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has three items that qualify for reporting in this category. First is the unamortized amount of deferred charges from refunding of bonds that is being amortized as a component of interest expense on a weighted average basis over the remaining life of the old debt or the new debt, whichever is shorter. The second item is related to pensions and represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. The third item is the District's contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

N. Collections in Advance

Collections in advance arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures or when charges for services monies are received in advance from payers prior to the services being rendered by the District, such as prepaid lunch amounts. These amounts are recorded as liabilities in the financial statements. The liabilities are removed and revenues are recognized in subsequent periods when the District has legal claim to the resources.

O. Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources are related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense, and the net difference between projected and actual earnings on pension plan investments.

P. Employee Benefits – Compensated Absences

Compensated absences consist of unpaid accumulated sick leave and vacation time.

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave. Certain collectively bargained agreements require these termination payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within varying time periods. Employees are compensated for unused accumulated vacation leave through paid time off or cash payment upon retirement, termination or death.

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

In the fund financial statements, a liability is reported only for payments due for unused compensated absences for those employees that have obligated themselves to separate from service with the District by June 30th.

Q. Other Benefits

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

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

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The District provides health insurance coverage for active employees pursuant to collective bargaining agreements and individual employment contracts.

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

R. Short-Term Debt

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

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

S. Equity Classifications

District-Wide Statements

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

Net investment in capital assets – Consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets.

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

Unrestricted – Reports the balance of net position that does not meet the definition of the above two classifications.

Fund Statements

The fund statements report fund balance classifications according to the relative strength of spending constraints placed on the purpose for which resources can be used, as follows:

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of inventories.

Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. The District has established the following restricted fund balances:

Workers' Compensation Reserve

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.

Unemployment Insurance Reserve

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 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.

Retirement Contribution Reserve

Retirement Contribution Reserve (GML §6-r) is used for the purpose of financing retirement contributions payable to the New York State and Local Employees' Retirement System. The Board, by resolution, may establish the reserve and authorize expenditures from the reserve. The reserve is funded by budgetary appropriations or taxes raised for the reserve, revenues that are not required by law to be paid into any other fund or account, transfers from reserves and other funds that may legally be appropriated. The reserve is accounted for in the general fund.

Employee Benefit Accrued Liability Reserve

Employee Benefit Accrued Liability Reserve (GML §6-p) is used to reserve funds for the payment of accrued employee benefit primarily based on unused and unpaid sick leave, personal leave, holiday leave or vacation time 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.

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Restricted for Scholarships

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

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

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

Fund Balance Classification

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

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

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the assigned fund balance to the extent that there is an assignment and then from the unassigned fund balance.

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE DISTRICT-WIDE STATEMENTS

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

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

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

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Statement of Revenues, Expenditures and Changes in Fund Balances vs. Statement of Activities

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

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

Pension Differences

Pension differences occur as a result of changes in the District's proportion of the collective net pension asset/liability, differences between the District's contributions and its proportionate share of the total contributions to the pension systems and District contributions to the pension systems subsequent to the measurement date.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

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

Appropriations are adopted at the program line item level.

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

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. The following supplemental appropriations occurred during the year:

Additional principal payments on energy performance contract payable funded by prior year's surplus	\$ 640,872
Additional appropriations funded by:	
Retirement contribution reserve	66,972
Workers' compensation reserve	<u>81,092</u>
	<u>\$ 788,936</u>

Budgets are adopted annually on a basis consistent with GAAP.

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

B. Encumbrances

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

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

- A. Uncollateralized,
- B. Collateralized by securities held by the pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the District's name.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The District did not have any investments at year-end or during the year. Consequently, the District was not exposed to any material interest rate risk or foreign currency risk.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2016, the District was billed \$1,681,160 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$207,486. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

6. DUE FROM STATE AND FEDERAL

Due from state and federal at June 30, 2016 consisted of the following:

General Fund	
New York State - excess cost aid	\$ 107,898
Special Aid Fund	
Federal and state grants	63,433
School Lunch Fund	
Federal and state food service	<u>7,806</u>
	<u>\$ 179,137</u>

7. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2016 consisted of the following:

General Fund	
BOCES aid	\$ 93,191
Tuition other districts	114,300
Services provided for other districts	52,741
Other districts - athletics	<u>8,186</u>
	<u>\$ 268,418</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

8. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2016, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 802,913	\$ 119,290	\$ 95,129	\$ 946,196
Special Aid Fund		140,827	30,633	95,129
School Lunch Fund	119,290			
Capital Projects Fund		602,394	915,563	
Total Governmental Funds	922,203	862,511	1,041,325	1,041,325
Fiduciary Funds		59,692		
Total	<u>\$ 922,203</u>	<u>\$ 922,203</u>	<u>\$ 1,041,325</u>	<u>\$ 1,041,325</u>

The District typically transfers from the general fund to the special aid fund for the District's share of the costs for the summer program for students with disabilities. The transfer from the special aid fund to the general fund represented the receipt of additional state funds for expenditures previously funded by the general fund. The transfer to the capital projects fund is in accordance with the voter approved budget.

9. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Governmental activities				
Capital assets not being depreciated				
Land	\$ 18,000	\$	\$	\$ 18,000
Total capital assets not being depreciated	18,000	-	-	18,000
Capital assets being depreciated				
Buildings and improvements	53,403,404			53,403,404
Site improvements	2,117,936	104,520		2,222,456
Furniture and equipment	6,378,821	190,910	(168,660)	6,401,071
Total capital assets being depreciated	61,900,161	295,430	(168,660)	62,026,931
Less accumulated depreciation for:				
Buildings and improvements	18,543,738	1,049,767		19,593,505
Site improvements	1,045,881	76,751		1,122,632
Furniture and equipment	4,831,318	344,325	(168,660)	5,006,983
Total accumulated depreciation	24,420,937	1,470,843	(168,660)	25,723,120
Total capital assets, being depreciated, net	37,479,224	(1,175,413)	-	36,303,811
Capital assets, net	<u>\$ 37,497,224</u>	<u>\$ (1,175,413)</u>	<u>\$ -</u>	<u>\$ 36,321,811</u>

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Depreciation expense was charged to governmental functions as follows:

General support	\$ 161,616
Instruction	1,285,266
Pupil transportation	<u>23,961</u>
Total depreciation expense	<u>\$ 1,470,843</u>

10. SHORT-TERM DEBT

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

	<u>Maturity</u>	<u>Stated Interest Rate</u>	<u>Balance June 30, 2015</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2016</u>
TAN	6/27/2016	1.50%	<u>\$</u>	<u>\$ 9,400,000</u>	<u>\$ (9,400,000)</u>	<u>\$</u>

Interest on short-term debt for the year was \$113,583. The District received a premium of \$86,574, which is included in miscellaneous revenue in the general fund.

11. LONG-TERM LIABILITIES

A. Changes

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

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Amounts Due Within One Year</u>
Long-term debt:					
Bonds payable	\$ 20,540,000	\$	\$ (2,220,000)	\$ 18,320,000	\$ 1,935,000
Add: Premium on refunding	<u>2,236,617</u>		<u>(282,721)</u>	<u>1,953,896</u>	<u>266,166</u>
	22,776,617	-	(2,502,721)	20,273,896	2,201,166
Energy performance	735,831		(735,831)	-	-
Other long-term liabilities:					
Compensated absences	1,809,988		(62,153)	1,747,835	150,581
Workers' compensation	<u>280,179</u>	<u>101,996</u>		<u>382,175</u>	<u>-</u>
	<u>\$ 25,602,615</u>	<u>\$ 101,996</u>	<u>\$ (3,300,705)</u>	<u>\$ 22,403,906</u>	<u>\$ 2,351,747</u>

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

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2016
Construction serial bond - non refunding portion	7/15/2006	7/15/2017	4.25-5.00%	\$ 700,000
Construction serial bond - non refunding portion	7/15/2008	7/15/2018	3.75-4.00%	700,000
Construction serial bond	6/26/2014	6/15/2029	2.625-3.125%	870,000
Refunding bonds	4/30/2015	7/15/2029	2.00-5.00%	14,505,000
Refunding bonds	4/30/2015	6/15/2018	2.00-5.00%	<u>1,545,000</u>
				<u>\$ 18,320,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,935,000	\$ 808,099	\$ 2,743,099
2018	1,875,000	717,986	2,592,986
2019	1,360,000	622,536	1,982,536
2020	1,150,000	561,136	1,711,136
2021	1,080,000	506,736	1,586,736
2022-2026	5,700,000	1,724,000	7,424,000
2027-2030	<u>5,220,000</u>	<u>361,310</u>	<u>5,581,310</u>
Total	<u>\$ 18,320,000</u>	<u>\$ 5,301,803</u>	<u>\$ 23,621,803</u>

C. Energy Performance Contract

The District entered into an agreement for an energy performance contract on December 23, 2008 for \$1,644,903. The proceeds were used for various capital improvements and are being financed over 15 years at 3.09%. The assets and related obligations are accounted for in the district-wide financial statements and are included in the summary of capital assets.

The 2015-16 budget included \$101,709 and \$21,958 in principal and interest, respectively, for the energy performance contract. The Board authorized an increase in the appropriated fund balance of \$640,872, which represents \$634,122 in principal and \$6,749 in interest to satisfy the balance on the contract.

D. Refunding Bonds

In the prior year, the District defeased certain general obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The outstanding principal balance of the defeased bonds is \$15,800,000 at June 30, 2016 and the bonds are callable on July 15, 2016.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The District is amortizing deferred charges on the advance refunding and a refunding bond premium as a component of interest expense. The bond premium balance is netted against the bonds payable and amortization is calculated on a weighted average basis over the respective bond term, as applicable. The future net amortization is as follows:

Fiscal Year Ending June 30,	Deferred Premium	Deferred Charge	Interest Expense Increase / (Decrease)
2017	\$ 266,166	\$ (121,994)	\$ 144,172
2018	246,588	(113,021)	133,567
2019	223,011	(102,214)	120,797
2020	202,667	(92,890)	109,777
2021	184,707	(84,658)	100,049
2022-2026	657,158	(301,200)	355,958
2027-2030	173,599	(79,567)	94,032
Total	<u>\$ 1,953,896</u>	<u>\$ (895,544)</u>	<u>\$ 1,058,352</u>

E. Interest Expense

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

Interest paid	\$ 706,712
Less interest accrued in the prior year	(164,282)
Plus interest accrued in the current year	337,917
Plus amortization of deferred charges	129,582
Less amortization of deferred bond premium	<u>(282,721)</u>
Total interest expense on long-term debt	<u>\$ 727,208</u>

12. PENSION PLANS - NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

The TRS is administered by the New York State Teachers' Retirement Board. The TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in the TRS. Once a public employer elects to participate in the TRS, the

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the TRS may be found on the TRS website at www.nystrs.org or obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

Obligations of employers and employees to contribute and benefits to employees are governed by the NYSRSSL. The net position of the ERS is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the ERS. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as the trustee of the Fund and is the administrative head of the ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of its funds. Once a public employer elects to participate in the ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found on the NYS Comptroller's website at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

C. Funding Policies

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

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

Year	TRS	ERS
2016	\$ 2,135,007	\$ 476,522
2015	2,830,302	490,130
2014	2,024,366	529,607

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

At June 30, 2016, the District reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for each of the Systems. The net pension asset/(liability) was measured as of June 30, 2015, for TRS and March 31, 2016 for ERS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The District's proportion of the net pension asset/(liability) was based on a projection of the District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and ERS Systems in reports provided to the District.

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2015	March 31, 2016
District's proportionate share of the net pension asset/(liability)	\$ 11,162,565	\$ (1,484,524)
District's portion of the Plan's total net pension asset/(liability)	0.1074690%	0.0092492%
Change in proportion since the prior measurement date	(0.0007090)	(0.0000255)

For the year ended June 30, 2016, the District recognized pension expense (credit) of \$(733,933) for TRS and \$552,645 for ERS. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>
Differences between expected and actual experience	\$	\$ 7,502	\$ 309,362	\$ 175,966
Changes of assumptions		395,878		
Net difference between projected and actual earnings on pension plan investments		880,701	3,528,545	
Changes in proportion and differences between the District's contributions and proportionate share of contributions	37,002	92,846		547
District's contributions subsequent to the measurement date	<u>2,135,007</u>	<u>131,233</u>		
Total	<u>\$ 2,172,009</u>	<u>\$ 1,508,160</u>	<u>\$ 3,837,907</u>	<u>\$ 176,513</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	TRS	ERS
2017	\$ (1,418,816)	\$ 305,698
2018	(1,418,816)	305,698
2019	(1,418,816)	305,698
2020	591,197	283,320
2021	(34,177)	
Thereafter	(101,477)	
	<u>\$ (3,800,905)</u>	<u>\$ 1,200,414</u>

Actuarial Assumptions

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

	TRS	ERS
Measurement date	June 30, 2015	March 31, 2016
Actuarial valuation date	June 30, 2014	April 1, 2015
Interest rate	8.0%	7.0%
Salary scale	4.01-10.91%	3.8%
Decrement tables	July 1, 2005 - June 30, 2010 System's Experience	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	3.0%	2.5%

For TRS, annuitant mortality rates are based on July 1, 2005 – June 30, 2010 System’s experience with adjustments for mortality improvements based on the Society of Actuaries’ Scale AA. For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on the Society of Actuaries’ Scale MP-2014.

For TRS, the actuarial assumptions used in the June 30, 2014 valuation are based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010. For ERS, the actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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.

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	TRS		ERS	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Measurement date		June 30, 2015		March 31, 2016
Asset type				
Domestic equity	37.0%	6.50%	38.0%	7.30%
International equity	18.0%	7.70%	13.0%	8.55%
Real estate	10.0%	4.60%	8.0%	8.25%
Alternative investments	7.0%	9.90%	19.0%	6.75-11.00%
Domestic fixed income securities	17.0%	2.10%		
Global fixed income securities	2.0%	1.90%		
Bonds and mortgages	8.0%	3.40%	18.0%	4.00%
Short-term	1.0%	1.20%		
Cash			2.0%	2.25%
Inflation indexed bonds			2.0%	4.00%
	100.0%		100.0%	

Discount Rate

The discount rate used to calculate the total pension liability was 8.0% for TRS and 7.0% for ERS (the discount rate used by the ERS at the prior year's measurement date of March 31, 2015, was 7.5%). The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments 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 Asset/Liability to the Discount Rate Assumption

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% for TRS and 7.0% for ERS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (7.0% for TRS and 6.0% for ERS) or 1 percentage point higher (9.0% for TRS and 8.0% for ERS) than the current rate:

TRS	1% Decrease (7.00)%	Current Assumption (8.00)%	1% Increase (9.00)%
District's proportionate share of the net pension asset (liability)	\$ (761,431)	\$ 11,162,565	\$ 21,331,229
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	\$ (3,347,493)	\$ (1,484,524)	\$ 89,606

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Pension Plan Fiduciary Net Position

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

	TRS	ERS
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2015	March 31, 2016
Employers' total pension liability	\$ (99,332,104)	\$ (172,303,544)
Plan fiduciary net position	109,718,917	156,253,265
Employers' net pension asset/(liability)	\$ 10,386,813	\$ (16,050,279)
Ratio of plan fiduciary net position to the employers' total pension liability	110.46%	90.68%

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2016, are paid to the System in September, October and November 2016 through a state aid intercept. Accrued retirement contributions as of June 30, 2016, represent employer and employee contributions for the fiscal year ended June 30, 2016, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2016 amounted to \$2,135,007 of employer contributions and \$85,997 of employee contributions.

For ERS, employer contributions are paid annually based on the System's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2016, represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2016 amounted to \$131,233 of employer contributions. Employee contributions are remitted monthly.

13. PENSION PLANS - OTHER

Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2016, totaled \$17,895 and \$948,462, respectively.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

14. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. Plan Description

The District effectively provides medical, and Medicare part B reimbursement and vision coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the Empire Plan (for health benefits only). The vision benefits is an add on to the Empire Plan. The add on vision plan is self funded. The plan does not issue a stand-alone financial report.

B. Funding Policy

The District and employees share in the cost of the premiums. The District recognizes its share of the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums mature (come due for payment). For the year ended June 30, 2016, the District recognized a general fund expenditure of \$1,727,706 for insurance premiums for 155 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the “pay as you go” method.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution (ARC)	\$ 4,335,116
Interest on net OPEB obligation	767,973
Adjustment to ARC	<u>(1,067,815)</u>
Annual OPEB cost (expense)	4,035,274
Contributions made	<u>(1,727,706)</u>
Increase in net OPEB obligation	2,307,568
Net OPEB obligation - beginning of year	<u>19,199,315</u>
Net OPEB obligation - end of year	<u><u>\$ 21,506,883</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	\$ 4,035,274	42.8%	\$ 21,506,883
June 30, 2015	4,071,830	42.5%	19,199,315
June 30, 2014	4,105,319	40.0%	16,858,525

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$49,803,488 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$49,803,488. The covered payroll (annual payroll of active employees covered by the plan) was \$17,166,990, and the ratio of the UAAL to the covered payroll was 290.1%.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 5% after 9 years and a 4% inflation rate. The UAAL is being amortized utilizing the level dollar amortization method.

15. RISK MANAGEMENT

A. General Information

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

B. Public Entity Risk Pool – Risk Retained

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

The District pays an annual assessment to the pool for its workers' compensation claims coverage and related expenses. The EEWCC has obtained an excess compensation insurance policy to buffer the effect that a single large claim may have on the District's loss experience. The EEWCC established a non-

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

discounted liability for both reported and unreported insured events, which includes estimates of both future payments or losses and related claim adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported.

The District's liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2016, as processed by the EEWCC, is \$382,175. Claims activity is summarized as follows:

	2015	2016
Claims at beginning of year	\$ 44,306	\$ 280,179
Incurred claims and claim adjustment expenses	(189,081)	(170,173)
Claim payments and expenses	424,954	272,169
Claim liabilities at end of year	\$ 280,179	\$ 382,175

The EEWCC is holding \$483,452 of cash on account for the District to satisfy these liabilities at June 30, 2016. In addition, the District has reserved \$708,611 in the general fund for potential supplemental assessments due to catastrophic losses and future claims.

The EEWCC has issued financial statements for the year ended June 30, 2016. Copies of these statements can be obtained from the District's Administrative Office.

C. Public Entity Risk Pool – Risk Sharing

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

16. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$1,000,000 has been appropriated to reduce taxes for the year ending June 30, 2017.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

17. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2016, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance:	
General Fund	
General Support	\$ 17,891
Instruction	14,648
Operating transfers out	<u>10,000</u>
	<u>\$ 42,539</u>

B. Grants

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

C. Litigation

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

D. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$6,645. The minimum remaining operating lease payment is as follows:

Fiscal Year Ending June 30,	Amount
2016	<u>\$ 1,661</u>

18. SUBSEQUENT

The District has evaluated subsequent events through September 30, 2016, which is the date the financial statements were available to be issued. No significant events were identified that would require adjustment of or disclosure in the financial statements, except for the following:

Issuance of TANs

On August 26, 2016, the District issued a tax anticipation note in the amount of \$9,200,000, which is due on June 28, 2017 and bears interest at a rate of 2.0%. The District received a premium of \$97,428 with the borrowing to yield an effective interest rate of 0.7376%.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 34,118,327	\$ 34,118,327	\$ 34,123,899	\$ 5,572
Other tax items	1,844,235	1,844,235	1,846,782	2,547
Charges for services	351,000	351,000	536,958	185,958
Use of money and property	108,000	108,000	102,608	(5,392)
Miscellaneous	130,000	130,000	99,987	(30,013)
Total Local Sources	36,551,562	36,551,562	36,710,234	158,672
State Sources	2,690,800	2,690,800	2,553,353	(137,447)
Medicaid Reimbursement	51,700	51,700	10,340	(41,360)
Total Revenues	39,294,062	39,294,062	39,273,927	(20,135)
OTHER FINANCING SOURCES				
Operating transfers in			95,129	95,129
Total Revenues and Other Sources	39,294,062	39,294,062	39,369,056	\$ 74,994
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	990,000	1,630,872		
Prior Year's Encumbrances	54,419	54,419		
Appropriated Reserves		148,064		
Total Appropriated Fund Balance	1,044,419	1,833,355		
Total Revenues, Other Sources and Appropriated Fund Balance	\$ 40,338,481	\$ 41,127,417		

Note to Required Supplementary Information

Budget Basis of Accounting

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 34,552	\$ 42,552	\$ 39,858		\$ 2,694
Central administration	261,464	261,464	258,691		2,773
Finance	449,248	460,548	448,652	85	11,811
Staff	80,000	51,000	37,126		13,874
Central services	2,977,229	3,006,229	2,606,227	17,806	382,196
Special items	380,874	380,874	370,985		9,889
Total General Support	4,183,367	4,202,667	3,761,539	17,891	423,237
Instruction					
Administration & improvement	896,301	899,121	871,464		27,657
Teaching - regular school	12,042,226	11,923,602	11,498,856	292	424,454
Programs for students with disabilities	4,683,571	4,694,338	4,177,571	14,297	502,470
Occupational education	494,657	494,657	395,526		99,131
Teaching - special schools	35,341	35,341	31,105		4,236
Instructional media	363,055	364,055	339,276	59	24,720
Pupil services	2,209,297	2,228,102	2,127,986		100,116
Total Instruction	20,724,448	20,639,216	19,441,784	14,648	1,182,784
Pupil Transportation	1,642,361	1,643,061	1,449,491		193,570
Community Service	47,563	62,163	-		62,163
Employee Benefits	9,683,256	9,847,720	9,434,724		412,996
Debt Service					
Principal	2,111,709	2,955,832	2,955,831		1
Interest	1,020,213	820,562	820,295		267
Total Debt Service	3,131,922	3,776,394	3,776,126	-	268
Total Expenditures	39,412,917	40,171,221	37,863,664	32,539	2,275,018
OTHER USES					
Operating transfers out	925,564	956,196	946,196	10,000	-
Total Expenditures and Other Uses	\$ 40,338,481	\$ 41,127,417	38,809,860	\$ 42,539	\$ 2,275,018
Net Change in Fund Balance			559,196		
Fund Balance - Beginning of Year			9,284,772		
Fund Balance - End of Year			\$ 9,843,968		

Note to Required Supplementary Information

Budget Basis of Accounting

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of Funding Progress - Other Postemployment Benefits
 June 30, 2016

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2014	\$ -	\$ 49,803,488	\$ 49,803,488	0%	\$ 17,166,990	290.1%
July 1, 2012	-	48,878,712	48,878,712	0%	16,054,060	304.5%
July 1, 2010	-	49,225,515	49,225,515	0%	15,766,320	312.2%

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability
June 30, 2016

Teachers' Retirement System

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension asset	0.1074690%	0.1081780%
District's proportionate share of the net pension asset	\$ 11,162,565	\$ 12,050,409
District's covered payroll	\$ 16,191,317	\$ 16,280,098
District's proportionate share of the net pension asset as a percentage of its covered payroll	68.94 %	74.02 %
Plan fiduciary net position as a percentage of the total pension asset	110.46%	111.48%

Employees' Retirement System

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0092492%	0.0092747%
District's proportionate share of the net pension liability	\$ 1,484,524	\$ 313,322
District's covered payroll	\$ 2,762,139	\$ 2,720,270
District's proportionate share of the net pension liability as a percentage of its covered payroll	53.75 %	11.52 %
Plan fiduciary net position as a percentage of the total pension liability	90.68%	97.95%

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of District Contributions
June 30, 2016

Teachers' Retirement System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 2,135,007	\$ 2,830,302	\$ 2,024,366	\$ 1,954,480	\$ 1,754,763	\$ 1,315,222	\$ 949,613	\$ 1,096,553	\$ 1,121,105	\$ 1,107,499
Contributions in relation to the contractually required contribution	<u>2,135,007</u>	<u>2,830,302</u>	<u>2,024,366</u>	<u>1,954,480</u>	<u>1,754,763</u>	<u>1,315,222</u>	<u>949,613</u>	<u>1,096,553</u>	<u>1,121,105</u>	<u>1,107,499</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$16,294,039	\$16,191,317	\$16,280,098	\$16,510,159	\$16,103,636	\$15,651,989	\$15,280,536	\$14,973,973	\$13,952,119	\$13,262,386
Contributions as a percentage of covered payroll	13%	17%	12%	12%	11%	8%	6%	7%	8%	8%

Employees' Retirement System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 476,522	\$ 490,130	\$ 529,607	\$ 471,767	\$ 434,023	\$ 289,113	\$ 250,555	\$ 181,741	\$ 216,494	\$ 227,393
Contributions in relation to the contractually required contribution	<u>476,522</u>	<u>490,130</u>	<u>529,607</u>	<u>471,767</u>	<u>434,023</u>	<u>289,113</u>	<u>250,555</u>	<u>181,741</u>	<u>216,494</u>	<u>227,393</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 2,809,765	\$ 2,756,231	\$ 2,693,749	\$ 2,660,459	\$ 2,628,091	\$ 2,578,797	\$ 2,536,835	\$ 2,592,946	\$ 2,159,390	\$ 2,189,626
Contributions as a percentage of covered payroll	17%	18%	20%	18%	17%	11%	10%	7%	10%	10%

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
and the Real Property Tax Limit - General Fund
For The Year Ended June 30, 2016

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 40,284,062
Additions:		
Prior year's encumbrances		54,419
Original Budget		40,338,481
Budget revision		788,936
Final Budget		\$ 41,127,417

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2016-17 voter-approved expenditure budget		\$ 40,333,921
Maximum allowed (4% of 2016-17 budget)		\$ 1,613,357
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 1,042,539	
Unassigned fund balance	1,613,357	\$ 2,655,896
Less:		
Appropriated fund balance	1,000,000	
Encumbrances	42,539	1,042,539
Total adjustments		
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		\$ 1,613,357
Actual Percentage		4.00%

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund
For The Year Ended June 30, 2016

PROJECT TITLE	Budget June 30, 2015	Budget June 30, 2016	Expenditures			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2016
			Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total	
Stage Lighting	\$ 67,565	\$ 67,565	\$ 59,313	\$	\$ 59,313	\$ 8,252	\$	\$	\$ 67,565	\$ 67,565	\$ 8,252
Computer Equipment	2,090,448	2,643,442	1,946,992	528,104	2,475,096	168,346			2,643,442	2,643,442	168,346
Elementary Building Needs	286,867	286,867	286,867		286,867	-			286,867	286,867	-
Building Condition Survey	42,300	42,300	21,150	15,607	36,757	5,543			42,300	42,300	5,543
Playground Cutchogue East	99,520	99,520	98,226		98,226	1,294			99,520	99,520	1,294
HS Building Renovation	948,296	1,310,865	924,805	368,863	1,293,668	17,197			1,310,865	1,310,865	17,197
Cutchogue West Renovation	23,645	23,645	23,645		23,645	-			23,645	23,645	-
Laurel Roof	26,080	26,080	25,689		25,689	391			26,080	26,080	391
HS Tennis Courts	21,500	21,500	21,500		21,500	-			21,500	21,500	-
JHS Skylights	22,900	22,900	4,821		4,821	18,079			22,900	22,900	18,079
All Weather Track	925,000	925,000	925,000		925,000	-	925,000			925,000	-
Totals	\$ 4,554,121	\$ 5,469,684	\$ 4,338,008	\$ 912,574	\$ 5,250,582	\$ 219,102	\$ 925,000	\$ -	\$ 4,544,684	\$ 5,469,684	\$ 219,102

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2016

Capital assets, net	<u>\$ 36,321,811</u>
Deduct:	
Short-term portion of bonds payable	(1,935,000)
Long-term portion of bonds payable	<u>(16,385,000)</u>
	<u>(18,320,000)</u>
Net investment in capital assets	<u><u>\$ 18,001,811</u></u>

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

To the Board of Education
Mattituck-Cutchogue Union Free School District
Cutchogue, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the Mattituck-Cutchogue Union Free School District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 30, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Mattituck-Cutchogue Union Free School District in a separate letter dated September 30, 2016.

Purpose of this Report

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

Cullen & Danowski, LLP

September 30, 2016

