

MATTITUCK-CUTCHOGUE
UNION FREE SCHOOL DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITOR'S REPORTS**

June 30, 2017

MATTITUCK-CUTCHOGUE 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 pension contributions on pages 3 through 14 and 47 through 51, 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 52 through 54 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 October 9, 2017 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

October 9, 2017

**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, 2017 in comparison with the year ended June 30, 2016, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

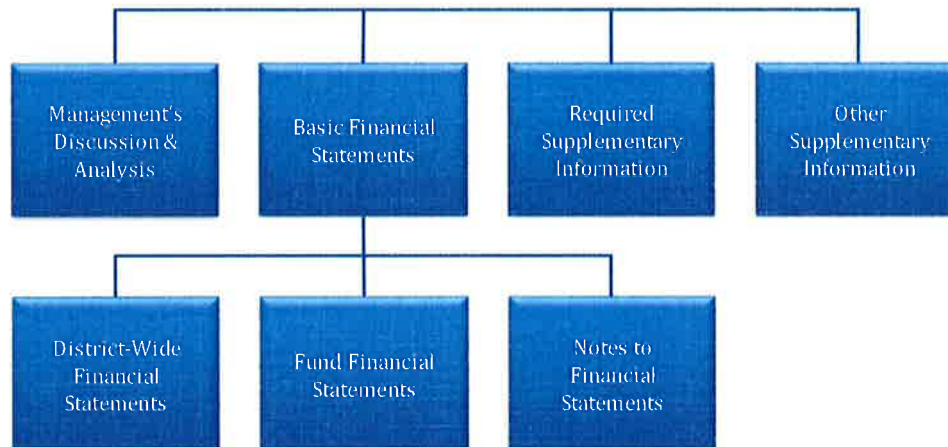
Key financial highlights for fiscal year 2017 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, increased by \$601,287. 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 \$40,051,546. Of this amount, \$1,339,524 was offset by program charges for services, operating grants and capital grants. General revenues of \$39,313,309 amount to 97% 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 \$40,652,833 and \$40,051,546, respectively.
- The District received \$512,670 in operating grants to support instructional programs.
- The general fund's total fund balance of \$10,800,157, as reflected in the fund financial statements, increased by \$956,189. 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 \$1,630,613. This represents an increase of \$17,256 over the prior year. The unassigned fund balance is at a level which leaves the District in a fiscally prudent position.
- The District's 2017 property tax levy of \$36,103,583 was a 0.39% increase over the 2016 tax levy. The District's property tax cap was 0.464%.

MATTITUCK-CUTCHOQUE 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-CUTCHOQUE 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 fund, special aid fund, school food service fund and capital projects fund; 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-CUTCHOQUE 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 \$11,714,638. Deferred outflows also includes \$773,550, 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 increased by \$37,401, as compared to the prior year. Amounts due to other governments increased \$313,980. This increase was offset by a decrease in accounts payable and accrued liabilities of \$63,955. Additionally, the District's liability to the teachers' retirement system and employees' retirement system decreased by \$232,921 and \$14,609, respectively due to lower contribution rates than in the prior year.

Long-term liabilities decreased by \$2,181,733, as compared to the prior year. The District made principal payments of \$1,935,000 on serial bonds; compensated absences decreased by \$150,423, and the premium on the District's bond refunding decreased \$266,166. These decreases were offset by an increase in the workers' compensation liability of \$169,856.

Net other postemployment benefits (OPEB) obligation increased by \$2,513,564, 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 \$462,112 in the current year. This liability represents the District's share of the New York State Teachers' Retirement System and the New York State and Local Employees' Retirement System's collective net pension liabilities 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	\$ 1,535,641
Principal debt reduction of construction bonds, net	1,935,000
Depreciation expense	(1,535,534)
	\$ 1,935,107

The restricted amount of \$8,053,463 relates to the District's reserves. This number increased over the prior year by \$865,391. The District funded the workers' compensation and retirement contribution reserves in the amounts of \$100,000, and \$851,421, respectively. Interest of \$15,383 was also allocated to the reserves. These increases were offset by the usage of the workers' compensation (\$40,000); unemployment insurance (\$1,044) and retirement contribution (\$60,369) reserves.

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

The unrestricted deficit amount of \$(14,396,942) 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 \$2,199,211.

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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Program Revenues				
Charges for Services	\$ 478,409	\$ 717,117	\$ (238,708)	(33.29)%
Operating Grants	648,617	765,454	(116,837)	(15.26)%
Capital Grants	212,498		212,498	N/A
General Revenues				
Property Taxes and STAR	36,103,654	35,968,134	135,520	0.38 %
State Sources	2,926,722	2,553,353	373,369	14.62 %
Other	282,933	215,482	67,451	31.30 %
Total Revenues	<u>40,652,833</u>	<u>40,219,540</u>	<u>433,293</u>	1.08 %
Expenses				
General Support	5,373,699	5,741,493	(367,794)	(6.41)%
Instruction	32,016,963	28,917,666	3,099,297	10.72 %
Pupil Transportation	1,599,363	1,567,599	31,764	2.03 %
Debt Service - Interest	795,966	840,791	(44,825)	(5.33)%
Food Service Program	265,555	290,029	(24,474)	(8.44)%
Total Expenses	<u>40,051,546</u>	<u>37,357,578</u>	<u>2,693,968</u>	7.21 %
Increase in Net Assets	<u>\$ 601,287</u>	<u>\$ 2,861,962</u>	<u>\$ (2,260,675)</u>	(78.99)%

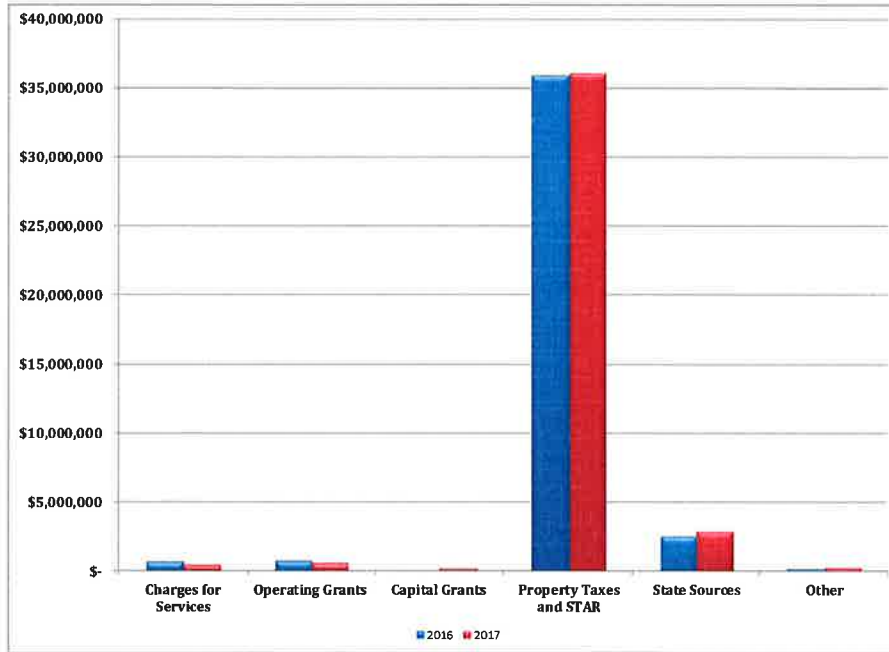
The District's net position increased by \$601,287 and \$2,861,962 for the years ended June 30, 2017 and 2016, respectively.

The District's revenues increased by \$433,293 or 1.08%. The major factor that contributed to the increase was the increase in state sources of \$373,369.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 88.8% and 89.4% of the total for the years 2017 and 2016, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 79.9% and 77.3% of the total for the years 2017 and 2016, respectively).

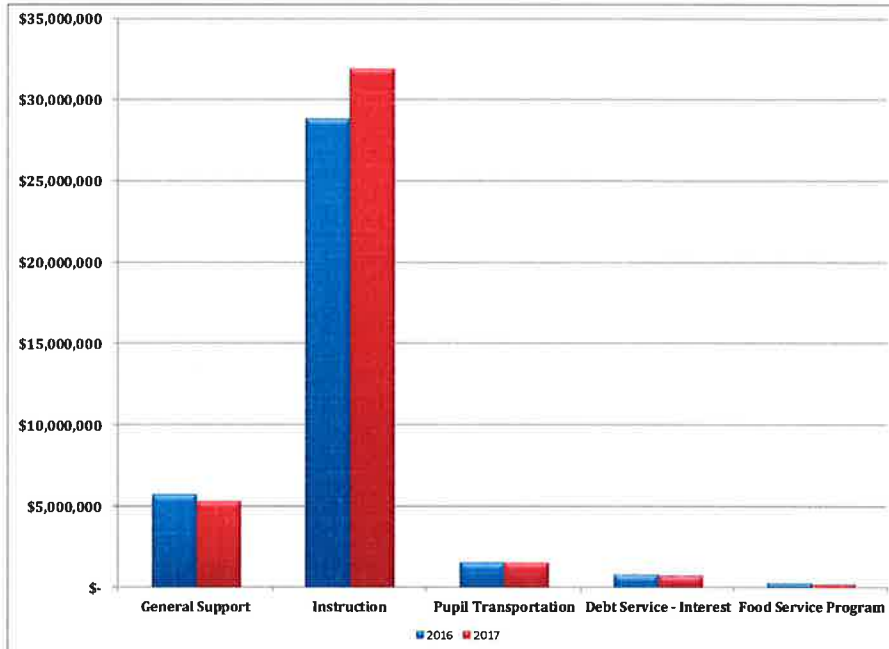
**MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



	Charges for Services	Operating Grants	Capital Grants	Property Taxes and STAR	State Sources	Other
2016	1.8%	1.9%	0.0%	89.4%	6.3%	0.6%
2017	1.2%	1.6%	0.5%	88.8%	7.2%	0.7%

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
2016	15.4%	77.3%	4.2%	2.3%	0.8%
2017	13.4%	79.9%	4.0%	2.0%	0.7%

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

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2017, the District's governmental funds reported a combined fund balance of \$11,310,402, which is an increase of \$1,114,141 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>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
General Fund			
Restricted:			
Workers' compensation	\$ 770,062	\$ 708,611	\$ 61,451
Unemployment insurance	593,523	593,281	242
Retirement contribution	4,628,840	3,829,606	799,234
Employee benefit accrued liability	2,061,038	2,056,574	4,464
Assigned:			
Appropriated fund balance	1,000,000	1,000,000	-
Unappropriated fund balance	116,081	42,539	73,542
Unassigned: Fund balance	<u>1,630,613</u>	<u>1,613,357</u>	<u>17,256</u>
	<u>10,800,157</u>	<u>9,843,968</u>	<u>956,189</u>
School Food Service Fund			
Nonspendable: Inventory	4,398	3,012	1,386
Assigned: Unappropriated fund balance	<u>181,205</u>	<u>130,179</u>	<u>51,026</u>
	<u>185,603</u>	<u>133,191</u>	<u>52,412</u>
Capital Projects Fund			
Assigned: Unappropriated fund balance	<u>324,642</u>	<u>219,102</u>	<u>105,540</u>
 Total Fund Balance	 <u>\$ 11,310,402</u>	 <u>\$ 10,196,261</u>	 <u>\$ 1,114,141</u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$956,189 compared to an increase of \$559,196 in 2016. This resulted from revenues and other sources in excess of expenditures and other uses. Revenues and other financing sources increased \$243,553 (0.62%) over 2016 primarily in property taxes and STAR and state sources. Expenditures and other financing uses decreased \$153,440 (0.40%) from the prior year. Increases in instruction, (\$356,601), general support (\$178,813), employee benefits (\$82,965) and operating transfers out (\$77,013) were offset by a decrease in debt service of \$878,672. The District paid off the outstanding balance of \$634,122 on its energy performance contract in the prior year.

B. School Food Service Fund

The net change in the school food service fund – fund balance is an increase of \$52,412, which was the operating profit of the food service program.

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 \$105,540. The District transferred \$992,269 into the capital projects fund for various projects, mainly the purchase of computer equipment and received \$212,498 in state aid from the Smart Schools Bond Act. Expenditures of \$1,099,227 were less than these amounts resulting in the increase.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2016-17 Budget

The District's general fund voter-approved budget for the year ended June 30, 2017 was \$40,333,921. This amount was increased by encumbrances carried forward from the prior year in the amount of \$42,539 and board approved budget revisions in the amount of \$101,413 funded by the use of reserves, for a total final budget of \$40,477,873.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$36,103,583 in property taxes and STAR.

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

The general fund's unassigned fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves, appropriations to fund the subsequent year's budget 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	\$ 1,613,357
Revenues Over Budget	278,688
Expenditures and Encumbrances Under Budget	1,705,372
Allocation to Reserves	(951,421)
Interest Earned on Restricted Reserves	(15,383)
Appropriated to Fund the June 30, 2018 Budget	<u>(1,000,000)</u>
Closing, Unassigned Fund Balance	<u>\$ 1,630,613</u>

Opening, Unassigned Fund Balance

The \$1,613,357 shown in the table is the portion of the District's June 30, 2016 fund balance that was retained as unassigned. This was 4% of the District's 2016-17 approved operating budget of \$40,333,921. It is the maximum unassigned fund balance permitted by law.

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

Revenues Over Budget

The 2016-17 final budget for revenues was \$39,333,921. Actual revenues received for the year were \$39,612,609. The excess of actual revenue over estimated or budgeted revenue was \$278,688, which is primarily due to the District receiving \$77,051 more in charges for services, \$126,722 more in state sources, and \$84,821 more in miscellaneous revenue than anticipated. This was offset by the District receiving \$32,599 less in use of money and property revenue than anticipated.

Expenditures and Encumbrances Under Budget

The 2016-17 final budget for expenditures was \$40,477,873. Actual expenditures as of June 30, 2017 were \$38,656,420 and outstanding encumbrances were \$116,081. Combined, the expenditures plus encumbrances for 2016-17 were \$38,772,501. The final budget was under expended by \$1,705,372. This under expenditure is principally within the teaching regular school, programs for students with disabilities, transportation, 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 \$(951,421) shown in the above table is made up of two transfers; \$100,000 to the workers' compensation reserve; and a \$851,421 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 \$(15,383) shown in the table above represents interest earned on restricted reserves. The reserves earned interest as follows:

Workers' compensation	\$ 1,451
Unemployment insurance	1,286
Retirement contribution	8,182
Employee benefit accrued liability	<u>4,464</u>
	<u>\$ 15,383</u>

Appropriated Fund Balance

The District has chosen to use \$1,000,000 of the available June 30, 2017 unassigned fund balance to partially fund the 2017-18 approved operating budget. As such, the June 30, 2017 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the summary table, the unassigned fund balance at June 30, 2017 was \$1,630,613. This amount is 4% of the 2017-18 budget and is equal to the statutory limit.

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

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2017, the District had invested in a broad range of capital assets, as indicated in the table below. The net increase in capital assets is due to capital additions of \$1,535,641 in excess of depreciation of \$1,535,534 recorded for the year ended June 30, 2017. A summary of the District's capital assets, net of depreciation at June 30, 2017 and 2016 is as follows:

	2017	2016	Increase (Decrease)
Land	\$ 18,000	\$ 18,000	\$ -
Construction in progress	480,996		480,996
Buildings and improvements	32,787,723	33,809,899	(1,022,176)
Site improvements	1,115,930	1,099,824	16,106
Furniture and equipment	1,919,269	1,394,088	525,181
Capital assets, net	<u>\$ 36,321,918</u>	<u>\$ 36,321,811</u>	<u>\$ 107</u>

B. Debt Administration

At June 30, 2017, the District had total bonds payable (par value) of \$16,385,000. 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, 2017. A summary of the outstanding debt at June 30, 2017 and 2016 is as follows:

Issue Date	Interest Rate	2017	2016	Increase (Decrease)
7/15/2006	4.25-5.00%	\$	\$ 700,000	\$ (700,000)
7/15/2008	3.75-4.00%	350,000	700,000	(350,000)
6/26/2014	2.625-3.125%	815,000	870,000	(55,000)
4/30/2015	2.00-5.00%	14,495,000	14,505,000	(10,000)
4/30/2015	2.00-5.00%	725,000	1,545,000	(820,000)
		<u>\$ 16,385,000</u>	<u>\$ 18,320,000</u>	<u>\$ (1,935,000)</u>

The District's latest credit rating from Standard & Poors is AA. The District's outstanding serial bonds at June 30, 2017 are approximately 4.30% of the District's debt limit.

Included in the District's long-term liabilities are the estimated amounts due for compensated absences, workers' compensation liability, net other postemployment benefits obligation and net pension liability - proportionate share. The compensated absences liability is based on employment contracts. The workers' compensation liability, the net other postemployment benefits obligation, and the net pension liability - proportionate share are based on actuarial valuations.

	2017	2016	Increase (Decrease)
Compensated absences	\$ 1,597,412	\$ 1,747,835	\$ (150,423)
Workers' compensation	552,031	382,175	169,856
Net OPEB obligation	24,020,447	21,506,883	2,513,564
Net pension liability - proportionate share	1,946,636	1,484,524	462,112
	<u>\$ 28,116,526</u>	<u>\$ 25,121,417</u>	<u>\$ 2,995,109</u>

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 16, 2017, for the year ending June 30, 2018, is \$40,765,316. This is an increase of \$431,395 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 and STAR at a \$74,660 decrease from the prior year's estimate. The assigned, appropriated fund balance applied to the budget in the amount of \$1,000,000 is the same as the previous year. Additionally, the District has elected to appropriate \$500,000 of reserves towards next year's budget, which it did not do in the previous year. A property tax increase of \$6,055 (0.02%), levy to levy, was needed to meet the funding shortfall and cover the increase in projected 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 2017-18 property tax increase of 0.02% was less than the tax cap of 1.324% and did not require an override vote.

D. Property Tax Relief Credit

New York State law 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, who 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. This program provides an incentive for the District to be tax cap compliant.

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. Kevin J. Coffey, CPA
Business and Operations Administrator
Mattituck-Cutchogue Union Free School District
385 Depot Lane
Cutchogue, NY 11935

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

ASSETS

Cash	
Unrestricted	\$ 4,968,958
Restricted	8,064,776
Receivables	
Accounts receivable	4,939
Taxes receivable	469,407
Due from fiduciary funds	188,313
Due from state and federal	333,805
Due from other governments	284,909
Inventory	4,398
Other assets	481,001
Capital assets not being depreciated	498,996
Capital assets being depreciated, net of accumulated depreciation	<u>35,822,922</u>
Total Assets	<u>51,122,424</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges from advance refunding, net	773,550
Pensions	<u>11,714,638</u>
Total Deferred Outflows of Resources	<u>12,488,188</u>

LIABILITIES

Payables	
Accounts payable	119,912
Accrued liabilities	349,071
Due to other governments	698,541
Due to teachers' retirement system	1,988,083
Due to employees' retirement system	116,624
Unearned credits	
Collections in advance	52,473
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	2,121,588
Compensated absences payable	112,418
Due and payable after one year	
Bonds payable, net	15,951,142
Workers' compensation liabilities	552,031
Compensated absences payable	1,484,994
Net other postemployment benefits obligation	24,020,447
Net pension liability - proportionate share	<u>1,946,636</u>
Total Liabilities	<u>49,513,960</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	<u>503,213</u>
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NET POSITION

Net investment in capital assets	<u>19,936,918</u>
Restricted	
Workers' compensation	770,062
Unemployment insurance	593,523
Retirement contribution	4,628,840
Employee benefit accrued liability	<u>2,061,038</u>
	<u>8,053,463</u>
Unrestricted (deficit)	<u>(14,396,942)</u>
Total Net Position	<u>\$ 13,593,439</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2017

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS/PROGRAMS				
General support	\$ 5,373,699	\$	\$	\$ (5,373,699)
Instruction	32,016,963	296,389	512,670	(30,995,406)
Pupil transportation	1,599,363			(1,599,363)
Debt service - interest	795,966			(795,966)
Food service program	<u>265,555</u>	<u>182,020</u>	<u>135,947</u>	<u>52,412</u>
Total Functions and Programs	<u>\$ 40,051,546</u>	<u>\$ 478,409</u>	<u>\$ 648,617</u>	<u>\$ (38,712,022)</u>
GENERAL REVENUES				
Real property taxes				34,468,056
Other tax items				1,638,903
Use of money and property				69,401
Sale of property and compensation for loss				25,406
Miscellaneous				184,821
State sources				<u>2,926,722</u>
Total General Revenues				<u>39,313,309</u>
Change in Net Position				601,287
Total Net Position - Beginning of year				<u>12,992,152</u>
Total Net Position - End of year				<u>\$ 13,593,439</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2017

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 3,985,064	\$ 86,291	\$ 5,794	\$ 891,809	\$ 4,968,958
Restricted	8,064,776				8,064,776
Receivables					
Accounts receivable	4,939				4,939
Taxes receivable	469,407				469,407
Due from other funds	896,436		173,808	89,256	1,159,500
Due from state and federal	51,003	61,901	8,403	212,498	333,805
Due from other governments	284,909				284,909
Inventory			4,398		4,398
Total Assets	<u>\$ 13,756,534</u>	<u>\$ 148,192</u>	<u>\$ 192,403</u>	<u>\$ 1,193,563</u>	<u>\$ 15,290,692</u>
LIABILITIES					
Payables					
Accounts payable	\$ 119,912				\$ 119,912
Accrued liabilities	33,470				33,470
Due to other funds		102,266		868,921	971,187
Due to other governments	698,288		253		698,541
Due to teachers' retirement system	1,988,083				1,988,083
Due to employees' retirement system	116,624				116,624
Unearned credits					
Collections in advance		45,926	6,547		52,473
Total Liabilities	<u>2,956,377</u>	<u>148,192</u>	<u>6,800</u>	<u>868,921</u>	<u>3,980,290</u>
FUND BALANCES					
Nonspendable: Inventories			4,398		4,398
Restricted:					
Workers' compensation	770,062				770,062
Unemployment insurance	593,523				593,523
Retirement contribution	4,628,840				4,628,840
Employee benefit accrued liability	2,061,038				2,061,038
Assigned:					
Appropriated fund balance	1,000,000				1,000,000
Unappropriated fund balance	116,081		181,205	324,642	621,928
Unassigned: Fund balance	<u>1,630,613</u>				<u>1,630,613</u>
Total Fund Balances	<u>10,800,157</u>	<u>-</u>	<u>185,603</u>	<u>324,642</u>	<u>11,310,402</u>
Total Liabilities and Fund Balances	<u>\$ 13,756,534</u>	<u>\$ 148,192</u>	<u>\$ 192,403</u>	<u>\$ 1,193,563</u>	<u>\$ 15,290,692</u>

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

Total Governmental Fund Balances \$ 11,310,402

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. 481,001

The costs 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	\$ 63,301,468	
Accumulated depreciation	<u>(26,979,550)</u>	36,321,918

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>(385,664)</u>	773,550

Proportionate share of long-term 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.

Deferred outflows of resources	11,714,638	
Net pension liability - teachers' retirement system	(1,117,553)	
Net pension liability - employees' retirement system	(829,083)	
Deferred inflows of resources	<u>(503,213)</u>	9,264,789

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	(315,601)	
Bonds payable, net	(18,072,730)	
Workers' compensation liabilities	(552,031)	
Compensated absences payable	(1,597,412)	
Net other postemployment benefits obligation	<u>(24,020,447)</u>	<u>(44,558,221)</u>

Total Net Position \$ 13,593,439

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2017

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$ 34,468,056	\$	\$	\$	\$ 34,468,056
Other tax items	1,638,903				1,638,903
Charges for services	296,389				296,389
Use of money and property	69,401				69,401
Sale of property and compensation for loss	25,406				25,406
Miscellaneous	184,821				184,821
State sources	2,926,722	186,749	4,699	212,498	3,330,668
Federal sources		325,921	131,248		457,169
Sales			182,020		182,020
Total Revenues	39,609,698	512,670	317,967	212,498	40,652,833
EXPENDITURES					
General support	3,940,352				3,940,352
Instruction	19,798,385	540,699			20,339,084
Pupil transportation	1,479,331				1,479,331
Employee benefits	9,517,689				9,517,689
Debt service					
Principal	1,935,000				1,935,000
Interest	962,454				962,454
Food service program			265,555		265,555
Capital outlay				1,099,227	1,099,227
Total Expenditures	37,633,211	540,699	265,555	1,099,227	39,538,692
Excess (Deficiency) of Revenues Over Expenditures	1,976,487	(28,029)	52,412	(886,729)	1,114,141
OTHER FINANCING SOURCES AND (USES)					
Operating transfers in	2,911	30,941		992,269	1,026,121
Operating transfers (out)	(1,023,209)	(2,912)			(1,026,121)
Total Other Financing Sources and (Uses)	(1,020,298)	28,029	-	992,269	-
Net Change in Fund Balances	956,189	-	52,412	105,540	1,114,141
Fund Balances - Beginning of year	9,843,968	-	133,191	219,102	10,196,261
Fund Balances - End of year	\$ 10,800,157	\$ -	\$ 185,603	\$ 324,642	\$ 11,310,402

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, 2017

Net Change in Fund Balances		\$ 1,114,141
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. The cash held by the third-party administrator is treated as long-term asset and included in net position. This is the amount by which other assets decreased in the current period.	\$ (2,451)	
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	150,423	
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	(169,856)	
Increase in net other postemployment benefits obligation	<u>(2,513,564)</u>	(2,535,448)
<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 capital outlays exceeded depreciation in the period.		
Capital outlays	1,535,641	
Depreciation expense	<u>(1,535,534)</u>	107
<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	266,166	
Amortization of deferred charges	(121,994)	
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	1,935,000	
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2016 to June 30, 2017.	<u>22,316</u>	2,101,488
<u>Pension Differences</u>		
The change 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	26,996	
Employees' retirement system	<u>(105,997)</u>	<u>(79,001)</u>
Change in Net Position of Governmental Activities		<u>\$ 601,287</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2017

	Agency	Private Purpose Trusts
ASSETS		
Cash		
Unrestricted	\$ 328,516	\$
Restricted		104,507
Total Assets	\$ 328,516	104,507
 LIABILITIES		
Extraclassroom activities	\$ 68,320	
Due to governmental funds	188,313	
Other liabilities	71,883	
Total Liabilities	\$ 328,516	-
 NET POSITION		
Restricted for scholarships		\$ 104,507

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For The Year Ended June 30, 2017

	<u>Private Purpose Trusts</u>
ADDITIONS	
Gifts and contributions	\$ 7,225
 DEDUCTIONS	
Scholarships and awards	<u>11,250</u>
Change in Net Position	(4,025)
Net Position - Beginning of year	<u>108,532</u>
Net Position - End of Year	<u><u>\$ 104,507</u></u>

MATTITUCK-CUTCHOQUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mattituck-Cutchoque 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 Food Service 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 to finance District operations. 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. 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.

Enforcement

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

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

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 contingencies 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.

J. Receivables

Receivables are shown net of an allowance for uncollectibles, if any. However, no allowance for uncollectibles has been provided since it is believed that such allowance would not be material.

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

K. Other Assets

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

L. Inventory

Inventory of food in the school food service fund is 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. This inventory is 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 inventoriable 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 inventory does not constitute available spendable resources.

M. 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 acquisition 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

N. 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. The second item is related to pensions and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense. The third item is the District's contributions to the pension systems (TRS and ERS) subsequent to the measurement date.

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

O. 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.

P. 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 and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense.

Q. 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.

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.

Certain collectively bargained agreements require these payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

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.

R. 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.

S. 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.

T. 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 inventory, which is recorded in the school food service fund.

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 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 of available resources. 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-CUTCHOGUE 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 recognizing pension costs under the modified accrual basis of accounting (whereby an expenditure is recognized based on the contractually required contribution as calculated by the plan) versus the accrual basis of accounting (whereby an expense is recognized related to the District's proportionate share of the collective pension expense of the plan).

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 established by the adoption of the budget, are recorded at the program line item level, and constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of

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

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 employee benefit appropriations funded by:

Workers' compensation reserve	\$ 40,000
Unemployment insurance reserve	1,044
Retirement contribution reserve	<u>60,369</u>
	<u>\$ 101,413</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.

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.

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

5. PARTICIPATION IN BOCES

During the year ended June 30, 2017, the District was billed \$1,423,438 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$252,045. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

6. DUE FROM STATE AND FEDERAL

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

General Fund	
New York State - basic cost aid	\$ 47,935
New York State - excess cost aid	3,068
	<u>51,003</u>
Special Aid Fund	
Federal and state grants	61,901
School Food Service Fund	
Federal and state food service program reimbursements	8,403
Capital Projects Fund	
New York State - Smart Schools Bond Act	212,498
	<u>\$ 333,805</u>

7. DUE FROM OTHER GOVERNMENTS

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

General Fund	
BOCES aid	\$ 252,046
Services provided for other districts	15,190
Other districts - athletics	17,673
	<u>\$ 284,909</u>

8. INTERFUND TRANSACTIONS

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 896,436	\$	\$ 2,911	\$ 1,023,209
Special Aid Fund		102,266	30,941	2,912
School Food Service Fund	173,808			
Capital Projects Fund	89,256	868,921	992,269	
Total Governmental Funds	<u>1,159,500</u>	<u>971,187</u>	<u>\$ 1,026,121</u>	<u>\$ 1,026,121</u>
Fiduciary Funds		188,313		
Total	<u>\$ 1,159,500</u>	<u>\$ 1,159,500</u>		

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

The District typically transfers from the general fund to the special aid fund and capital projects fund. The transfer to the special aid fund was for the District's share of the costs for the summer program for students with disabilities. The transfer to the capital projects fund was in accordance with the District's approved general fund budget.

9. CAPITAL ASSETS

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

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 18,000	\$	\$	\$ 18,000
Construction in progress		480,996		480,996
Total capital assets not being depreciated	<u>18,000</u>	<u>480,996</u>	<u>-</u>	<u>498,996</u>
Capital assets being depreciated				
Buildings and improvements	53,403,404	25,358		53,428,762
Site improvements	2,222,456	96,935		2,319,391
Furniture and equipment	<u>6,401,071</u>	<u>932,352</u>	<u>(279,104)</u>	<u>7,054,319</u>
Total capital assets being depreciated	<u>62,026,931</u>	<u>1,054,645</u>	<u>(279,104)</u>	<u>62,802,472</u>
Less accumulated depreciation for:				
Buildings and improvements	19,593,505	1,047,534		20,641,039
Site improvements	1,122,632	80,829		1,203,461
Furniture and equipment	<u>5,006,983</u>	<u>407,171</u>	<u>(279,104)</u>	<u>5,135,050</u>
Total accumulated depreciation	<u>25,723,120</u>	<u>1,535,534</u>	<u>(279,104)</u>	<u>26,979,550</u>
Total capital assets, being depreciated, net	<u>36,303,811</u>	<u>(480,889)</u>	<u>-</u>	<u>35,822,922</u>
Capital assets, net	<u>\$ 36,321,811</u>	<u>\$ 107</u>	<u>\$ -</u>	<u>\$ 36,321,918</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 174,682
Instruction	1,334,700
Pupil transportation	<u>26,152</u>
Total depreciation expense	<u>\$ 1,535,534</u>

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

10. SHORT-TERM DEBT

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

	Maturity	Stated Interest Rate	Balance June 30, 2016	Issued	Redeemed	Balance June 30, 2017
TAN	6/28/2017	1.50%	\$	\$ 9,200,000	\$ (9,200,000)	\$

Interest on short-term debt for the year was \$154,356. The District received a premium of \$97,428, 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:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 18,320,000	\$	\$ (1,935,000)	\$ 16,385,000	\$ 1,875,000
Add: Premium on refunding	1,953,896		(266,166)	1,687,730	246,588
	<u>20,273,896</u>	-	<u>(2,201,166)</u>	<u>18,072,730</u>	<u>2,121,588</u>
Other long-term liabilities:					
Compensated absences	1,747,835		(150,423)	1,597,412	112,418
Workers' compensation	382,175	338,217	(168,361)	552,031	-
	<u>\$ 22,403,906</u>	<u>\$ 338,217</u>	<u>\$ (2,519,950)</u>	<u>\$ 20,222,173</u>	<u>\$ 2,234,006</u>

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

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2017
Construction serial bond - non refunding portion	7/15/2008	7/15/2018	3.75-4.00%	\$ 350,000
Construction serial bond	6/26/2014	6/15/2029	2.625-3.125%	815,000
Refunding bonds	4/30/2015	7/15/2029	2.00-5.00%	14,495,000
Refunding bonds	4/30/2015	6/15/2018	2.00-5.00%	725,000
				<u>\$ 16,385,000</u>

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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	1,085,000	454,086	1,539,086
2023-2027	5,870,000	1,442,144	7,312,144
2028-2030	3,965,000	189,080	4,154,080
Total	<u>\$ 16,385,000</u>	<u>\$ 4,493,704</u>	<u>\$ 20,878,704</u>

C. 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 principal balance of the defeased bonds of \$15,800,000 were called on July 15, 2016.

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)
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	(167,343)	76,699	(90,644)
2023-2027	(564,634)	258,793	(305,841)
2028-2030	(98,780)	45,275	(53,505)
Total	<u>\$ (1,687,730)</u>	<u>\$ 773,550</u>	<u>\$ (914,180)</u>

D. Interest Expense

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

Interest paid	\$ 808,098
Less interest accrued in the prior year	(337,917)
Plus interest accrued in the current year	315,601
Plus amortization of deferred charges	121,994
Less amortization of deferred bond premium	<u>(266,166)</u>
Total interest expense on long-term debt	<u>\$ 641,610</u>

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

12. PENSION PLANS – NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

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

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. Once a public employer elects to participate in the ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

C. Funding Policies

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to 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

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

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. The District's contribution rate was 13.26% of covered payroll for the TRS' fiscal year ended June 30, 2016. The District's average contribution rate was 13.55% of covered payroll for the ERS' fiscal year ended March 31, 2017.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2017 was \$1,909,243 for TRS and \$418,598 for ERS.

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

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

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2016	March 31, 2017
District's proportionate share of the net pension liability	\$ (1,117,553)	\$ (829,083)
District's portion of the Plan's total net pension liability	0.1043430%	0.0100000%
Change in proportion since the prior measurement date	(0.0031260)	0.0007508

For the year ended June 30, 2017, the District recognized pension expense of \$1,881,932 for TRS and \$507,110 for ERS. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<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	\$	\$ 20,776	\$ 363,044	\$ 125,901
Changes of assumptions	6,366,291	283,245		
Net difference between projected and actual earnings on pension plan investments	2,512,846	165,602		
Changes in proportion and differences between the District's contributions and proportionate share of contributions	215,880	124,131		14,268
District's contributions subsequent to the measurement date	1,909,243	116,624		
Total	<u>\$ 11,004,260</u>	<u>\$ 710,378</u>	<u>\$ 363,044</u>	<u>\$ 140,169</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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	TRS	ERS
2018	\$ 811,418	\$ 191,997
2019	811,418	191,997
2020	2,762,963	170,359
2021	2,155,780	(100,768)
2022	1,007,183	
Thereafter	1,183,211	
	<u>\$ 8,731,973</u>	<u>\$ 453,585</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, 2016	March 31, 2017
Actuarial valuation date	June 30, 2015	April 1, 2016
Inflation	2.5%	2.5%
Salary increases	1.90-4.72%	3.8%
Investment rate of return (net of investment expense, including inflation)	7.5%	7.0%
Cost of living adjustments	1.5%	1.3%

For TRS, annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2014, applied on a generational basis. Active member mortality rates are based on plan member experience. For ERS, annuitant mortality rates are based on system experience with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2014.

For TRS, the actuarial assumptions were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014. For ERS, the actuarial assumptions were 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, 2016		March 31, 2017
Asset type				
Domestic equity	37.0%	6.10%	36.0%	4.55%
International equity	18.0%	7.30%	14.0%	6.35%
Real estate	10.0%	5.40%	10.0%	5.80%
Alternative investments	7.0%	9.20%	18.0%	4.00-7.75%
Domestic fixed income securities	17.0%	1.00%		
Global fixed income securities	2.0%	0.80%		
Bonds and mortgages	8.0%	3.10%	17.0%	1.31%
Short-term	1.0%	0.10%		
Cash			1.0%	(0.25)%
Inflation indexed bonds			4.0%	1.50%
	100.0%		100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for TRS and 7.0% for ERS (the discount rate used by the TRS at the prior year's measurement date of June 30, 2015, was 8.0%). The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the systems' fiduciary net position was projected to be available to make all projected future benefit payments 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 7.5% for TRS and 7.0% for ERS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5% for TRS and 6.0% for ERS) or 1 percentage point higher (8.5% for TRS and 8.0% for ERS) than the current rate:

	1% Decrease (6.50)%	Current Assumption (7.50)%	1% Increase (8.50)%
TRS			
District's proportionate share of the net pension asset (liability)	\$ (14,581,013)	\$ (1,117,553)	\$ 10,174,893
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	\$ (2,647,928)	\$ (829,083)	\$ 708,746

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

Pension Plan Fiduciary Net Position

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

	TRS	ERS
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2016	March 31, 2017
Employers' total pension liability	\$ (108,577,184)	\$ (177,400,586)
Plan fiduciary net position	107,506,142	168,004,363
Employers' net pension liability	\$ (1,071,042)	\$ (9,396,223)
Ratio of plan fiduciary net position to the employers' total pension liability	99.01%	94.70%

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017, are paid to the system in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017, represent employer and employee contributions for the fiscal year ended June 30, 2017, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS system. Accrued retirement contributions as of June 30, 2017 amounted to \$1,909,243 of employer contributions and \$78,840 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, 2017, represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$116,624 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 compensated absence payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2017, totaled \$16,762 and \$989,787, 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, 2017, the District recognized a general fund expenditure of \$1,849,158 for insurance premiums for 148 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)	\$ 4,698,603
Interest on net OPEB obligation	860,275
Adjustment to ARC	<u>(1,196,156)</u>
Annual OPEB cost (expense)	4,362,722
Contributions made	<u>(1,849,158)</u>
Increase in net OPEB obligation	2,513,564
Net OPEB obligation - beginning of year	<u>21,506,883</u>
Net OPEB obligation - end of year	<u><u>\$ 24,020,447</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, 2017 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, 2017	\$ 4,362,722	42.4%	\$ 24,020,447
June 30, 2016	4,035,274	42.8%	21,506,883
June 30, 2015	4,071,830	42.5%	19,199,315

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

D. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$52,142,121 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$52,142,121. The covered payroll (annual payroll of active employees covered by the plan) was \$18,017,635, and the ratio of the UAAL to the covered payroll was 289%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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, 2016, actuarial valuation, the entry age normal, as a level percentage of salary 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-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

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

considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported.

The District's liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2017, as processed by the EEWCC, is \$552,031. Claims activity is summarized as follows:

	2016	2017
Claims at beginning of year	\$ 280,179	\$ 382,175
Incurred claims and claim adjustment expenses	209,895	338,217
Claim payments and expenses	(107,899)	(168,361)
Claim liabilities at end of year	\$ 382,175	\$ 552,031

The EEWCC is holding \$481,001 of cash on account for the District to satisfy these liabilities at June 30, 2017. In addition, the District has reserved \$770,062 in the general fund for potential supplemental assessments due to catastrophic losses and future claims.

The EEWCC has issued financial statements for the year ended June 30, 2017. Copies of these statements can be obtained from the District's Business 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. RESTRICTED FUND BALANCE – APPROPRIATED RESERVES

The District expects to appropriate the following amounts from reserves, which are reported in the June 30, 2017 restricted fund balances, to fund the budget and reduce taxes for the year ending June 30, 2018:

Workers' compensation	\$	154,000
Employee benefit accrued liability		346,000
	\$	500,000

17. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$1,000,000 has been appropriated to reduce taxes for the year ending June 30, 2018.

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

18. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

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

Assigned: Unappropriated Fund Balance:

General Fund	
General Support	\$ 22,895
Instruction	34,629
Operating transfers out	58,557
	<u>116,081</u>
Capital Projects Fund	
Capital projects	17,199
	<u>\$ 133,280</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. The District believes that the outcome of any matters will not have a material effect on these financial statements.

19. SUBSEQUENT

The District has evaluated subsequent events through the date of the auditor's report, 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 September 26, 2017, the District issued a tax anticipation note in the amount of \$8,000,000, which is due on June 27, 2018 and bears interest at a rate of 2.25%. The District received a premium of \$71,280 with the borrowing to yield an effective interest rate of 1.0664%.

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, 2017

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 34,259,348	\$ 34,467,985	\$ 34,468,056	\$ 71
Other tax items	1,844,235	1,635,598	1,638,903	3,305
Charges for services	219,338	219,338	296,389	77,051
Use of money and property	102,000	102,000	69,401	(32,599)
Sale of property and compensation for loss			25,406	25,406
Miscellaneous	100,000	100,000	184,821	84,821
Total Local Sources	36,524,921	36,524,921	36,682,976	158,055
State Sources	2,800,000	2,800,000	2,926,722	126,722
Medicaid Reimbursement	9,000	9,000		(9,000)
Total Revenues	39,333,921	39,333,921	39,609,698	275,777
OTHER FINANCING SOURCES				
Operating Transfers In			2,911	2,911
Total Revenues and Other Sources	39,333,921	39,333,921	39,612,609	\$ 278,688
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	1,000,000	1,000,000		
Prior Year's Encumbrances	42,539	42,539		
Appropriated Reserves			101,413	
Total Appropriated Fund Balance	1,042,539	1,143,952		
Total Revenues, Other Sources and Appropriated Fund Balance	\$ 40,376,460	\$ 40,477,873		

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, 2017

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 53,632	\$ 51,832	\$ 41,620		\$ 10,212
Central administration	266,525	275,725	271,701		4,024
Finance	443,050	446,860	445,786	1,032	42
Staff	70,000	70,000	41,052		28,948
Central services	2,984,252	2,986,252	2,770,566	21,863	193,823
Special items	380,231	380,231	369,627		10,604
Total General Support	4,197,690	4,210,900	3,940,352	22,895	247,653
Instruction					
Administration & improvement	908,805	943,305	899,682	225	43,398
Teaching - regular school	12,241,882	12,097,402	11,840,200	4,555	252,647
Programs for students with disabilities	4,614,897	4,447,227	4,078,430	28,048	340,749
Occupational education	479,436	479,436	461,434		18,002
Teaching - special schools	36,342	36,342	23,062		13,280
Instructional media	376,440	380,440	365,948	1,178	13,314
Pupil services	2,229,756	2,233,596	2,129,629	623	103,344
Total Instruction	20,887,558	20,617,748	19,798,385	34,629	784,734
Pupil Transportation	1,692,964	1,697,164	1,479,331		217,833
Community Service	63,888	35,288	-		35,288
Employee Benefits	9,680,435	9,936,848	9,517,689		419,159
Debt Service					
Principal	1,935,000	1,935,000	1,935,000		-
Interest	868,099	963,099	962,454		645
Total Debt Service	2,803,099	2,898,099	2,897,454	-	645
Total Expenditures	39,325,634	39,396,047	37,633,211	57,524	1,705,312
OTHER USES					
Operating Transfers Out	1,050,826	1,081,826	1,023,209	58,557	60
Total Expenditures and Other Uses	\$ 40,376,460	\$ 40,477,873	38,656,420	\$ 116,081	\$ 1,705,372
Net Change in Fund Balance			956,189		
Fund Balance - Beginning of Year			9,843,968		
Fund Balance - End of Year			\$ 10,800,157		

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, 2017

Valuation Date	Actuarial		Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Valuation Date	Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ -	\$ 52,142,121	\$ 52,142,121	0%	\$ 18,017,635	289.4%
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%

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability
 Last Three Fiscal Years

Teachers' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension asset (liability)	0.1043430%	0.1074690%	0.1081780%
District's proportionate share of the net pension asset (liability)	\$ (1,117,553)	\$ 11,162,565	\$ 12,050,409
District's covered payroll	\$ 16,294,039	\$ 16,191,317	\$ 16,280,098
District's proportionate share of the net pension asset (liability) as a percentage of its covered payroll	6.86 %	68.94 %	74.02 %
Plan fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%

Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0100000%	0.0092492%	0.0092747%
District's proportionate share of the net pension liability	\$ (829,083)	\$ (1,484,524)	\$ (313,322)
District's covered payroll	\$ 2,966,484	\$ 2,762,139	\$ 2,720,270
District's proportionate share of the net pension liability as a percentage of its covered payroll	27.95 %	53.75 %	11.52 %
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.68%	97.95%

Note to Required Supplementary Information

Teachers' Retirement System

The discount rate decreased from 8.0% to 7.5% as reflected in 2016 and 2017 above.

Employees' Retirement System

The discount rate decreased from 7.5% to 7.0% as reflected in 2015 and 2016 above.

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of District Pension Contributions
 Last Ten Fiscal Years

Teachers' Retirement System

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 1,909,243	\$ 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
Contributions in relation to the contractually required contribution	<u>1,909,243</u>	<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>
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	\$ 16,476,349	\$ 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
Contributions as a percentage of covered payroll	12%	13%	17%	12%	12%	11%	8%	6%	7%	8%

Employees' Retirement System

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 418,598	\$ 476,522	\$ 490,130	\$ 529,607	\$ 471,767	\$ 434,023	\$ 289,113	\$ 250,555	\$ 181,741	\$ 216,494
Contributions in relation to the contractually required contribution	<u>418,598</u>	<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>
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	\$ 2,866,706	\$ 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
Contributions as a percentage of covered payroll	15%	17%	18%	20%	18%	17%	11%	10%	7%	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, 2017

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 40,333,921
Additions:		
Prior year's encumbrances		<u>42,539</u>
Original Budget		40,376,460
Budget revision		<u>101,413</u>
Final Budget		<u><u>\$ 40,477,873</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2017-18 voter-approved expenditure budget		<u>\$ 40,765,316</u>
Maximum allowed (4% of 2017-18 budget)		<u><u>\$ 1,630,613</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 1,116,081	
Unassigned fund balance	<u>1,630,613</u>	
		\$ 2,746,694
Less:		
Appropriated fund balance	1,000,000	
Encumbrances	<u>116,081</u>	
Total adjustments		<u>1,116,081</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		<u><u>\$ 1,630,613</u></u>
Actual Percentage		4.00%

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures and Financing Resources -
Capital Projects Fund
For The Year Ended June 30, 2017

PROJECT TITLE	Budget June 30, 2016	Budget June 30, 2017	Expenditures			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2017
			Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total	
Stage Lighting	\$ 67,565	\$ 67,565	\$ 59,313	\$ 2,586	\$ 61,899	\$ 5,666	\$ -	\$ -	\$ 67,565	\$ 67,565	\$ 5,666
Computer Equipment	2,643,442	3,022,729	2,475,096	327,908	2,803,004	219,725	-	-	3,022,729	3,022,729	219,725
Elementary Building Needs	286,867	286,867	286,867	-	286,867	-	-	-	286,867	286,867	-
Building Condition Survey	42,300	42,300	36,757	5,543	42,300	-	-	-	42,300	42,300	-
Playground Cutchogue East	99,520	99,520	98,226	-	98,226	1,294	-	-	99,520	99,520	1,294
HS Building Renovation	1,310,865	1,892,347	1,293,668	502,724	1,796,392	95,955	-	-	1,892,347	1,892,347	95,955
Cutchogue West Renovation	23,645	23,645	23,645	-	23,645	-	-	-	23,645	23,645	-
Laurel Roof	26,080	26,080	25,689	391	26,080	-	-	-	26,080	26,080	-
HS Tennis Courts	21,500	53,000	21,500	29,498	50,998	2,002	-	-	53,000	53,000	2,002
JHS Skylights	22,900	22,900	4,821	18,079	22,900	-	-	-	22,900	22,900	-
All Weather Track	925,000	925,000	925,000	-	925,000	-	925,000	-	-	925,000	-
Smart Schools Bond Act	-	212,498	-	212,498	212,498	-	-	212,498	-	212,498	-
Totals	\$ 5,469,684	\$ 6,674,451	\$ 5,250,582	\$ 1,099,227	\$ 6,349,809	\$ 324,642	\$ 925,000	\$ 212,498	\$ 5,536,953	\$ 6,674,451	\$ 324,642

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2017

Capital assets, net	<u>\$ 36,321,918</u>
Deduct:	
Short-term portion of bonds payable	(1,875,000)
Long-term portion of bonds payable	<u>(14,510,000)</u>
	<u>(16,385,000)</u>
Net investment in capital assets	<u>\$ 19,936,918</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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2017.

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 October 9, 2017.

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

October 9, 2017

