

MATTITUCK-CUTCHOGUE

UNION FREE SCHOOL DISTRICT



FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH INDEPENDENT AUDITOR'S REPORTS

June 30, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As described in Note 2 to the financial statements, "Changes in Accounting Principles", the District has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of revenues, expenditures and changes in fund balance – budget and actual – general fund, schedule of the District's proportionate share of the net pension asset/(liability), schedule of District pension contributions and schedule of changes in the District's total OPEB liability and related ratios on pages 3 through 15 and 50 through 54, 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 55 through 57 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 18, 2018 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 the effectiveness of the Mattituck-Cutchogue Union Free School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mattituck-Cutchogue Union Free School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

October 18, 2018

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

The Mattituck-Cutchoque 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, 2018 in comparison with the year ended June 30, 2017, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

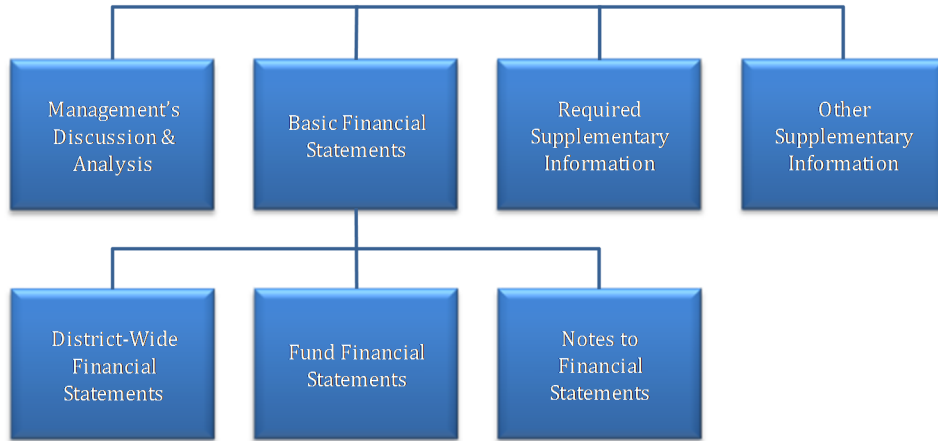
Key financial highlights for fiscal year 2018 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, decreased by \$829,894. This was due to an excess of expenses over revenues based on the economic resources measurement focus and the accrual basis of accounting.
- The District's total net position at June 30, 2017 was restated and decreased by \$42,319,219, as a result of the required implementation of a new GASB accounting standard during the 2018 fiscal year. This new GASB accounting standard has no impact on the governmental funds financial statements.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$41,224,071. Of this amount, \$1,234,776 was offset by program charges for services, operating grants and capital grants. General revenues of \$39,159,401 amount to 96.9% of total revenues.
- The District's operating revenues and expenses for the year, as reflected in the district-wide financial statements were \$40,394,177 and \$41,224,071, respectively.
- The District received \$571,718 in operating grants to support instructional programs.
- The general fund's total fund balance of \$10,988,749, as reflected in the fund financial statements, increased by \$188,592 over the prior year. This was due to an excess of revenues over expenditures based on the current financial resources measurement focus and the modified accrual basis of accounting.
- On the balance sheet, the general fund's unassigned fund balance at year end was \$1,627,074. This represents a decrease of \$3,539 from the prior year. The unassigned fund balance is at a level which leaves the District in a fiscally prudent position.
- The District's 2018 property tax levy of \$36,109,638 was a 0.02% increase over the 2017 tax levy. The District's property tax cap was 1.32%.
- On May 15, 2018, the voters approved the creation of a capital reserve to pay for repairs, renovations and improvements. Such capital reserve will be for a probable term of ten years in an amount not to exceed \$6,000,000. The capital reserve proposition approved the immediate funding of the reserve in the amount of \$3,000,000, with \$2,500,000 to come from the retirement contribution reserve and \$500,000 from the unemployment insurance reserve. In addition, the capital reserve may be funded annually in an amount not to exceed \$750,000 from monies remaining in the general fund and/or other reserves. The reserve is accounted for in the general fund.
- During the current year, the District funded this reserve for the initial approved amount of \$3,000,000 and an additional \$750,000 from end of year budget surplus funds. Additionally, interest of \$964 was added to the reserve.

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 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 economic resources measurement focus and the accrual basis of accounting. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Position

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

The Statement of Activities

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

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

B. Fund Financial Statements

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

Governmental Funds

These statements utilize the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period when they become measurable and available. It recognizes expenditures in the period when the District incurs the liability, except for certain expenditures such as debt service on general long-term indebtedness, claims and judgments, compensated absences, workers' compensation, 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 economic resources measurement focus and 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-wide financial statements because the District cannot use these assets to finance its operations.

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

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position decreased by \$829,894 between fiscal year 2018 and 2017. The June 30, 2017 net position has been decreased by \$42,319,219, resulting from the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Additionally, the June 30, 2017 balances reflect total OPEB liabilities in accordance with the new GASB Statement. A summary of the District's Statements of Net Position follows:

	2018	As Restated 2017	Increase (Decrease)	Percentage Change
Assets				
Current and Other Assets	\$ 14,923,673	\$ 14,800,506	\$ 123,167	0.83 %
Capital Assets, Net	35,306,422	36,321,918	(1,015,496)	(2.80)%
Net Pension Asset - Proportionate Share	781,385		781,385	N/A
Total Assets	51,011,480	51,122,424	(110,944)	(0.22)%
Deferred Outflows of Resources	12,149,089	12,488,188	(339,099)	(2.72)%
Liabilities				
Current and Other Liabilities	3,193,978	3,324,704	(130,726)	(3.93)%
Long-Term Liabilities	17,564,670	20,222,173	(2,657,503)	(13.14)%
Net Pension Liability - Proportionate Share	291,853	1,946,636	(1,654,783)	(85.01)%
Total OPEB Obligation	68,587,292	66,339,666	2,247,626	3.39 %
Total Liabilities	89,637,793	91,833,179	(2,195,386)	(2.39)%
Deferred Inflows of Resources	3,078,450	503,213	2,575,237	511.76 %
Net Position (Deficit)				
Net Investment in Capital Assets	20,796,422	19,936,918	859,504	4.31 %
Restricted	8,568,645	8,053,463	515,182	6.40 %
Unrestricted (deficit)	(58,920,741)	(56,716,161)	(2,204,580)	(3.89)%
Total Net Position (Deficit)	\$ (29,555,674)	\$ (28,725,780)	\$ (829,894)	(2.89)%

Current and other assets increased by \$123,167, as compared to the prior year. This increase is primarily attributable to increases in taxes receivable of \$525,302 and due from other governments of \$43,121, which were offset by a decrease in cash (\$140,599), due from state and federal (\$242,722) and other assets (\$78,100).

Capital assets, net decreased by \$1,015,496, as compared to the prior year. This decrease is due to depreciation expense in excess of capital asset additions. The accompanying Notes to Financial Statements, Note 9 "Capital Assets" provides additional information.

Net pension asset – proportionate share has a balance of \$781,385, as the New York State Teachers' Retirement System experienced a gain resulting in an ending balance that was an asset. The prior year balance was a liability.

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

Deferred outflows of resources represents contributions to the retirement plans subsequent to the measurement dates and actuarial adjustments at the plan level that will be amortized in future years as well as the amount of deferred charges from the bond refunding that is being amortized over the remaining term of the bond.

Current and other liabilities decreased by \$130,726, as compared to the prior year. This decrease is mainly attributable to decreases in due to other governments of \$460,623 and the teachers' retirement system liability of \$282,918. The decrease in due to other governments is due to a decrease in amounts due to the public libraries for taxes collected. The decrease in amounts due to the teachers' retirement system is due to a lower contribution rate than in the prior year. These decreases were offset by an increase in compensated absences payable of \$585,227, due to the District offering a retirement incentive in the current year.

Long-term liabilities decreased by \$2,657,503 as compared to the prior year. The decrease is mainly attributable to the District making principal payments of \$1,875,000 on serial bonds and the amortization of the premium on the bond refunding of \$246,588 during the current year. Additionally, the liability for compensated absences decreased \$422,067, mainly due to a retirement incentive in the current year, and the liability for workers' compensation decreased \$113,848.

Net pension liability – proportionate share decreased by \$1,654,783 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 liability at the measurement date of the respective year. The decrease is due to the shift of the net pension liability to an asset for the TRS and a decrease in the pension liability for the ERS. The accompanying Notes to Financial Statements, Note 13 "Pension Plans – New York State", provides additional information.

Total other postemployment benefits (OPEB) obligation increased by \$2,247,626, as compared to the prior year. This increase is the result of the current year OPEB costs using the economic resources measurement focus and the accrual basis of accounting in excess of the amount reflected in the governmental funds using the current financial resources measurement focus and the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 15 "Postemployment Healthcare Benefits", provides additional information.

Deferred inflows of resources represents actuarial adjustments of the pension plans 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	\$ 806,549
Principal debt reduction of construction bonds, net	1,875,000
Depreciation expense	(1,822,045)
	\$ 859,504

The restricted amount of \$8,568,645 relates to the District's reserves. This number increased over the prior year by \$515,182. The District funded the retirement contribution and capital reserves in the amounts of \$437,620, and \$750,000, respectively. Interest of \$30,831 was also allocated to the reserves. These increases

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

were offset by the usage of the workers' compensation (\$122,525); and employee benefit accrued liability (\$580,744) reserves.

The unrestricted deficit amount of \$(58,920,741) 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 \$2,204,580.

B. Changes in Net Position

The results of 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, 2018 and 2017 is as follows:

	2018	2017	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 497,489	\$ 478,409	\$ 19,080	3.99 %
Operating Grants	701,768	648,617	53,151	8.19 %
Capital Grants	35,519	212,498	(176,979)	(83.29)%
General Revenues				
Property Taxes and STAR	36,109,638	36,103,654	5,984	0.02 %
State Sources	2,668,696	2,926,722	(258,026)	(8.82)%
Other	381,067	282,933	98,134	34.68 %
Total Revenues	<u>40,394,177</u>	<u>40,652,833</u>	<u>(258,656)</u>	<u>(0.64)%</u>
Expenses				
General Support	6,614,093	5,373,699	1,240,394	23.08 %
Instruction	31,950,061	32,016,963	(66,902)	(0.21)%
Pupil Transportation	1,693,899	1,599,363	94,536	5.91 %
Debt Service - Interest	712,329	795,967	(83,638)	(10.51)%
Food Service Program	253,689	265,555	(11,866)	(4.47)%
Total Expenses	<u>41,224,071</u>	<u>40,051,547</u>	<u>1,172,524</u>	<u>2.93 %</u>
Increase / (Decrease) in Net Assets	<u>\$ (829,894)</u>	<u>\$ 601,286</u>	<u>\$ (1,431,180)</u>	<u>(238.02)%</u>

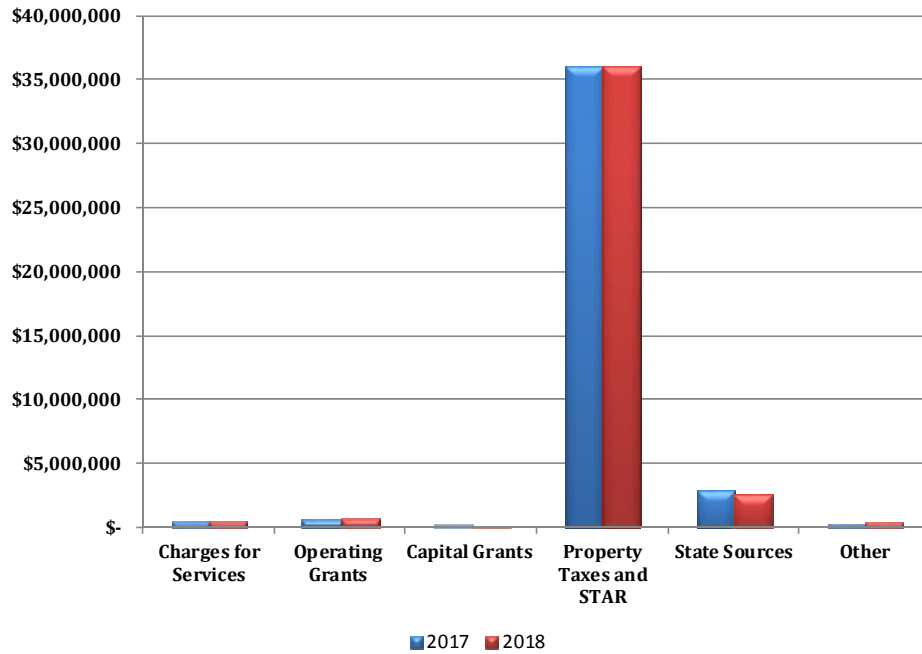
The District's net position decreased by \$829,894 and increased by \$601,287 for the years ended June 30, 2018 and 2017, respectively.

The District's revenues decreased by \$258,656 or 0.64%. The major factor that contributed to the decrease was the decrease in state sources of \$258,026. The District's expenses increased \$1,172,154 or 2.93% over the prior year

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 89.4% and 88.8% of the total for the years 2018 and 2017, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 77.6% and 79.9% of the total for the years 2018 and 2017, respectively).

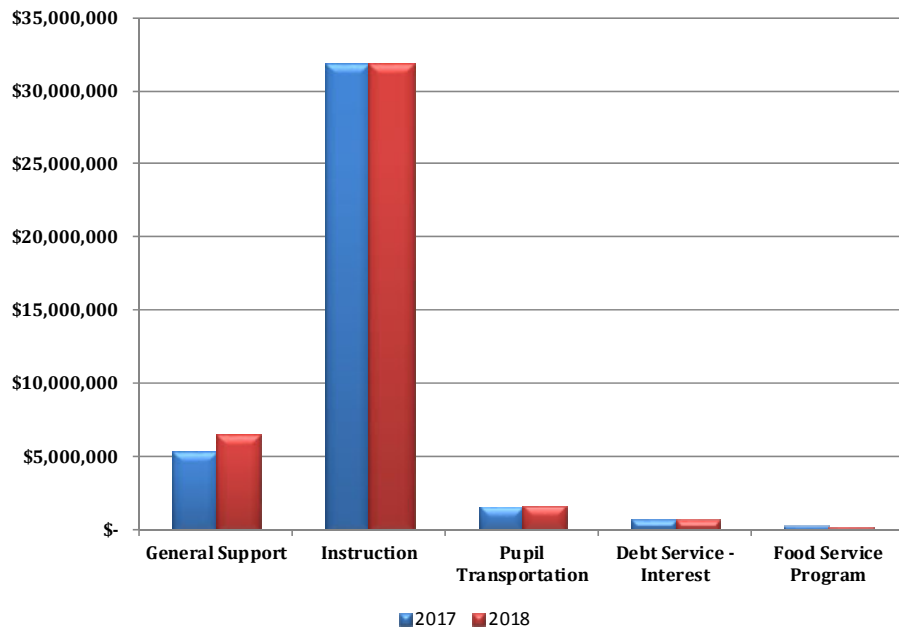
MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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



	Charges for Services	Operating Grants	Capital Grants	Property Taxes and STAR	State Sources	Other
2017	1.2%	1.6%	0.5%	88.8%	7.2%	0.7%
2018	1.2%	1.7%	0.1%	89.4%	6.6%	1.0%

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
2017	13.4%	79.9%	4.0%	2.0%	0.7%
2018	16.0%	77.6%	4.1%	1.7%	0.6%

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

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2018, the District's governmental funds reported a combined fund balance of \$11,599,287, which is an increase of \$288,885 over the prior year. This increase is due to an excess of revenues over expenditures based upon the current financial resources measurement focus and the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
General Fund			
Restricted:			
Workers' compensation	\$ 650,467	\$ 770,062	\$ (119,595)
Unemployment insurance	95,652	593,523	(497,871)
Retirement contribution	2,583,508	4,628,840	(2,045,332)
Employee benefit accrued liability	1,488,054	2,061,038	(572,984)
Capital	3,750,964		3,750,964
Assigned:			
Appropriated fund balance	500,000	1,000,000	(500,000)
Unappropriated fund balance	293,030	116,081	176,949
Unassigned: Fund balance	<u>1,627,074</u>	<u>1,630,613</u>	<u>(3,539)</u>
	<u>10,988,749</u>	<u>10,800,157</u>	<u>188,592</u>
School Food Service Fund			
Nonspendable: Inventory	3,612	4,398	(786)
Assigned: Unappropriated fund balance	<u>69,330</u>	<u>181,205</u>	<u>(111,875)</u>
	<u>72,942</u>	<u>185,603</u>	<u>(112,661)</u>
Capital Projects Fund			
Assigned: Unappropriated fund balance	<u>537,596</u>	<u>324,642</u>	<u>212,954</u>
 Total Fund Balance	 <u>\$ 11,599,287</u>	 <u>\$ 11,310,402</u>	 <u>\$ 288,885</u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$188,592 compared to an increase of \$956,189 in 2017. This resulted from revenues in excess of expenditures and other uses. Revenues and other financing sources decreased \$105,502 (0.27%) from 2017, primarily in state sources, offset by an increase in property taxes and STAR. Expenditures and other financing uses increased \$662,095 (1.71%) over the prior year. Increases in general support (\$586,676) and instruction (\$275,679) were offset by a decrease in debt service of \$168,968.

B. School Food Service Fund

The net change in the school food service fund – fund balance is a decrease of \$112,661, which was the operating deficit of the school food service program. This decrease is primarily attributed to equipment purchases made during the year.

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 \$212,954. The District transferred \$926,258 into the capital projects fund for various projects and the purchase of computer equipment. Expenditures of \$713,304 were less than these interfund transfer amounts resulting in the increase in fund balance.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2017-2018 Budget

The District's general fund voter-approved budget for the year ended June 30, 2018 was \$40,765,316. This amount was increased by encumbrances carried forward from the prior year in the amount of \$116,081 and board approved budget revisions in the amount of \$274,745, for a total final budget of \$41,156,142.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$36,109,638 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	\$ 1,630,613
Revenues Over Budget	201,791
Expenditures and Encumbrances Under Budget	1,544,597
Allocation to Reserves	(1,187,620)
Unused Appropriated Reserves	(31,475)
Interest Earned on Restricted Reserves	(30,832)
Appropriated for the 2018-2019 Budget	<u>(500,000)</u>
Closing, Unassigned Fund Balance	<u>\$ 1,627,074</u>

Opening, Unassigned Fund Balance

The \$1,630,613 shown in the table is the portion of the District's June 30, 2017 fund balance that was retained as unassigned. This was 4% of the District's 2017-2018 approved operating budget of \$40,765,316. It is the maximum unassigned fund balance permitted by law.

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

Revenues Over Budget

The 2017-2018 final budget for revenues was \$39,305,316. Actual revenues received for the year were \$39,507,107. The excess of actual revenue over estimated or budgeted revenue was \$201,791, which is primarily due to the District receiving \$97,206 more in charges for services, and \$218,796 more in miscellaneous revenue than anticipated. This was offset by the District receiving \$171,304 less in state sources than anticipated.

Expenditures and Encumbrances Under Budget

The 2017-2018 final budget for expenditures was \$41,156,142. Actual expenditures as of June 30, 2018 were \$39,318,515 and outstanding encumbrances were \$293,030. Combined, the expenditures plus encumbrances for 2017-2018 were \$39,611,545. The final budget was under expended by \$1,544,597. This under expenditure is principally within the teaching regular school, programs for students with disabilities, transportation, and employee benefits areas of the budget.

Allocation to Reserves

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

The \$1,187,620 shown in the above table is made up of two transfers; \$437,620 to the retirement contribution reserve; and a \$750,000 transfer to the capital reserve.

Unused Appropriated Reserves

In the 2017-2018 budget, \$500,000 of reserves was appropriated to reduce the tax levy. Due to lower than anticipated expenditures, \$31,475 of this funding was not needed and, therefore, it was returned to the reserves for future use.

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 \$30,832 shown in the previous table represents interest earned on restricted reserves. The reserves earned interest as follows:

Workers' compensation	\$ 2,930
Unemployment insurance	2,128
Retirement contribution	17,048
Employee benefit accrued liability	7,762
Capital	<u>964</u>
	<u>\$ 30,832</u>

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

Appropriated Fund Balance

The District has chosen to use \$500,000 of the available June 30, 2018 unassigned fund balance to partially fund the 2018-19 approved operating budget. As such, the June 30, 2018 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, 2018 was \$1,627,074. This amount is 4% of the 2018-19 budget and is equal to the statutory limit.

6. CAPITAL ASSETS, DEBT ADMINISTRATION AND OTHER LONG-TERM LIABILITIES

A. Capital Assets

At June 30, 2018, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to depreciation of \$1,822,045 recorded in excess of capital additions of \$806,549 for the year ended June 30, 2018. A summary of the District's capital assets, net of depreciation at June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Land	\$ 18,000	\$ 18,000	\$ -
Construction in progress	17,964	480,996	(463,032)
Buildings and improvements	31,948,341	32,787,723	(839,382)
Site improvements	1,289,413	1,115,930	173,483
Furniture and equipment	<u>2,032,704</u>	<u>1,919,269</u>	<u>113,435</u>
Capital assets, net	<u>\$ 35,306,422</u>	<u>\$ 36,321,918</u>	<u>\$ (1,015,496)</u>

B. Debt Administration

At June 30, 2018, the District had total bonds payable (par value) of \$14,510,000. 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, 2018. A summary of the outstanding debt at June 30, 2018 and 2017 is as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
7/15/2008	3.75-4.00%	\$	\$ 350,000	\$ (350,000)
6/26/2014	2.625-3.125%	760,000	815,000	(55,000)
4/30/2015	2.00-5.00%	<u>13,750,000</u>	<u>15,220,000</u>	<u>(1,470,000)</u>
		<u>\$ 14,510,000</u>	<u>\$ 16,385,000</u>	<u>\$ (1,875,000)</u>

The District's latest credit rating from Standard & Poors is AA. The District's outstanding serial bonds at June 30, 2018 are approximately 3.50% of the District's debt limit.

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

C. Other Long-Term Liabilities

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

	2018	As Restated 2017	Increase (Decrease)
Compensated absences	\$ 1,175,345	\$ 1,597,412	\$ (422,067)
Workers' compensation	438,183	552,031	(113,848)
Net pension liability - proportionate share	291,853	1,946,636	(1,654,783)
Total OPEB obligation	<u>68,587,292</u>	<u>66,339,666</u>	<u>2,247,626</u>
	<u>\$ 70,492,673</u>	<u>\$ 70,435,745</u>	<u>\$ 56,928</u>

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 15, 2018, for the year ending June 30, 2019, is \$40,676,947. This is a decrease of \$88,369 from the previous year's budget. Decreases in the instructional and debt service areas of the budget were offset by increases in the employee benefits area of the budget.

The District's 2018-2019 budget is funded through a combination of property taxes (including STAR) and other revenues (including state aid) and appropriated fund balance. The estimated other revenues for 2018-2019 are \$3,529,725, use of reserves is \$484,097, appropriated fund balance is \$500,000 and the balance of \$36,163,125 will be raised through the tax levy. The 2018-2019 budget represents a property tax increase of 0.15% over the prior year.

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 2018-19 property tax increase of 0.15% was less than the tax cap of 0.97% and did not require an override vote.

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

D. Property Tax Relief Credit

New York State law provides a "Property Tax Relief Credit" to eligible taxpayers through the 2019-20 school year. 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 received a tax credit in the form of a check. The amount of the credit (check) 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, 2018

ASSETS

Cash	
Unrestricted	\$ 4,324,490
Restricted	8,568,645
Receivables	
Accounts receivable	21,890
Taxes receivable	994,709
Due from fiduciary funds	188,313
Due from state and federal	91,083
Due from other governments	328,030
Inventory	3,612
Other assets	402,901
Capital assets not being depreciated	35,964
Capital assets being depreciated, net of accumulated depreciation	35,270,458
Net pension asset - proportionate share	<u>781,385</u>
Total Assets	<u>51,011,480</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges from advance refunding, net	660,529
Pensions	<u>11,488,560</u>
Total Deferred Outflows of Resources	<u>12,149,089</u>

LIABILITIES

Payables	
Accounts payable	177,816
Accrued liabilities	364,182
Due to other governments	237,918
Due to teachers' retirement system	1,705,165
Due to employees' retirement system	109,286
Compensated absences payable	585,227
Unearned credits	
Collections in advance	14,384
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	1,583,011
Compensated absences payable	92,488
Due and payable after one year	
Bonds payable, net	14,368,131
Workers' compensation liabilities	438,183
Compensated absences payable	1,082,857
Net pension liability - proportionate share	291,853
Total other postemployment benefits obligation	<u>68,587,292</u>
Total Liabilities	<u>89,637,793</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	<u>3,078,450</u>
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NET POSITION (Deficit)

Net investment in capital assets	<u>20,796,422</u>
Restricted	
Workers' compensation	650,467
Unemployment insurance	95,652
Retirement contribution	2,583,508
Employee benefit accrued liability	1,488,054
Capital	<u>3,750,964</u>
	<u>8,568,645</u>
Unrestricted (deficit)	<u>(58,920,741)</u>
Total Net Position (Deficit)	<u>\$ (29,555,674)</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	Capital Grants	
FUNCTIONS/PROGRAMS					
General support	\$ 6,614,093	\$	\$	\$	\$ (6,614,093)
Instruction	31,950,061	351,399	571,718	35,519	(30,991,425)
Pupil transportation	1,693,899				(1,693,899)
Debt service - interest	712,329				(712,329)
Food service program	253,689	146,090	130,050		22,451
Total Functions and Programs	\$ 41,224,071	\$ 497,489	\$ 701,768	\$ 35,519	(39,989,295)
GENERAL REVENUES					
Real property taxes					34,594,755
Other tax items					1,523,379
Use of money and property					94,658
Sale of property and compensation for loss					21,570
Miscellaneous					250,796
State sources					2,668,696
Medicaid reimbursement					5,547
Total General Revenues					39,159,401
Change in Net Position					(829,894)
Total Net Position (Deficit) - Beginning of year, as Restated					(28,725,780)
Total Net Position (Deficit) - End of year					\$ (29,555,674)

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2018

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 4,011,119	\$ 59,656	\$ 26,171	\$ 227,544	\$ 4,324,490
Restricted	8,568,645				8,568,645
Receivables					
Accounts receivable	21,890				21,890
Taxes receivable	994,709				994,709
Due from other funds	261,099		82,211	441,923	785,233
Due from state and federal	9,522	46,042		35,519	91,083
Due from other governments	328,030				328,030
Inventory					
			3,612		3,612
Total Assets	<u>\$ 14,195,014</u>	<u>\$ 105,698</u>	<u>\$ 111,994</u>	<u>\$ 704,986</u>	<u>\$ 15,117,692</u>
LIABILITIES					
Payables					
Accounts payable	\$ 119,316		\$ 32,555	\$ 25,945	\$ 177,816
Accrued liabilities	56,170				56,170
Due to other funds	393,356	97,638		105,926	596,920
Due to other governments	237,745		173		237,918
Due to teachers' retirement system	1,705,165				1,705,165
Due to employees' retirement system	109,286				109,286
Compensated absences payable	585,227				585,227
Unearned credits					
Collections in advance		8,060	6,324		14,384
Total Liabilities	<u>3,206,265</u>	<u>105,698</u>	<u>39,052</u>	<u>131,871</u>	<u>3,482,886</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues					
				35,519	35,519
FUND BALANCES					
Nonspendable: Inventories					
			3,612		3,612
Restricted:					
Workers' compensation	650,467				650,467
Unemployment insurance	95,652				95,652
Retirement contribution	2,583,508				2,583,508
Employee benefit accrued liability	1,488,054				1,488,054
Capital	3,750,964				3,750,964
Assigned:					
Appropriated fund balance	500,000				500,000
Unappropriated fund balance	293,030		69,330	537,596	899,956
Unassigned: Fund balance	1,627,074				1,627,074
Total Fund Balances	<u>10,988,749</u>	<u>-</u>	<u>72,942</u>	<u>537,596</u>	<u>11,599,287</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 14,195,014</u>	<u>\$ 105,698</u>	<u>\$ 111,994</u>	<u>\$ 704,986</u>	<u>\$ 15,117,692</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2018

Total Governmental Fund Balances		\$ 11,599,287
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.		402,901
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	\$ 63,993,842	
Accumulated depreciation	<u>(28,687,420)</u>	35,306,422
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	1,046,193	
Less: accumulated amortization	<u>(385,664)</u>	660,529
Proportionate share of long-term asset and liability and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.		
Net pension asset - teachers' retirement system	781,385	
Deferred outflows of resources	11,488,560	
Net pension liability - employees' retirement system	(291,853)	
Deferred inflows of resources	<u>(3,078,450)</u>	8,899,642
Total other postemployment benefits obligation related to providing benefits in retirement is not a current financial resource or obligation and is not reported in the funds.		(68,587,292)
Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds, but are not deferred on the Statement of Net Position.		35,519
Long-term liabilities 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	(308,012)	
Bonds payable, net	(15,951,142)	
Workers' compensation liabilities	(438,183)	
Compensated absences payable	<u>(1,175,345)</u>	<u>(17,872,682)</u>
Total Net Position (Deficit)		<u>\$ (29,555,674)</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2018

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$ 34,594,755	\$	\$	\$	\$ 34,594,755
Other tax items	1,523,379				1,523,379
Charges for services	347,706	3,693			351,399
Use of money and property	94,658				94,658
Sale of property and compensation for loss	21,570				21,570
Miscellaneous	250,796				250,796
State sources	2,668,696	190,944	4,062		2,863,702
Medicaid reimbursement	5,547				5,547
Federal sources		380,774	125,988		506,762
Sales			146,090		146,090
Total Revenues	39,507,107	575,411	276,140	-	40,358,658
EXPENDITURES					
General support	4,527,028				4,527,028
Instruction	20,074,064	586,923			20,660,987
Pupil transportation	1,483,093	20,103			1,503,196
Employee benefits	9,547,971				9,547,971
Debt service					
Principal	1,875,000				1,875,000
Interest	853,486				853,486
Food service program			388,801		388,801
Capital outlay				713,304	713,304
Total Expenditures	38,360,642	607,026	388,801	713,304	40,069,773
Excess (Deficiency) of Revenues Over Expenditures	1,146,465	(31,615)	(112,661)	(713,304)	288,885
OTHER FINANCING SOURCES AND (USES)					
Operating transfers in		31,615		926,258	957,873
Operating transfers (out)	(957,873)				(957,873)
Total Other Financing Sources and (Uses)	(957,873)	31,615	-	926,258	-
Net Change in Fund Balances	188,592	-	(112,661)	212,954	288,885
Fund Balances - Beginning of year	10,800,157	-	185,603	324,642	11,310,402
Fund Balances - End of year	\$ 10,988,749	\$ -	\$ 72,942	\$ 537,596	\$ 11,599,287

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, 2018

Net Change in Fund Balances \$ 288,885

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

Long-Term Revenue and Expense Differences

In the Statement of Activities, certain operating revenues are measured by the amounts earned during the year. In the governmental funds, however, revenues for these items are measured by the amount of financial resources provided (essentially, the amounts actually received). \$ 35,519

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. (78,100)

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

Decrease in compensated absences payable	422,067	
Decrease in workers' compensation liabilities	113,848	
		493,334

Capital Related Differences

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

Capital outlays	806,549	
Depreciation expense	(1,822,045)	
		(1,015,496)

Long-Term Debt Transaction Differences

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	246,588	
Amortization of deferred charges	(113,020)	

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	1,875,000	
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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, 2017 to June 30, 2018.

	7,589	2,016,157
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Pension and Other Postemployment Benefits Differences

The change in the proportionate share of the collective pension expense of the state retirement plans and the change in other postemployment benefits expense reported in the Statement of Activities did not affect current financial resources and, therefore, are not reported in the governmental funds.

Teachers' retirement system	(395,530)	
Employees' retirement system	30,383	
Other postemployment benefits	(2,247,627)	
		(2,612,774)

Change in Net Position of Governmental Activities	\$ (829,894)	
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MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2018

	Agency	Private Purpose Trusts
ASSETS		
Cash		
Unrestricted	\$ 367,804	\$
Restricted		95,932
Total Assets	\$ 367,804	95,932
 LIABILITIES		
Extraclassroom activities	\$ 74,340	
Due to governmental funds	188,313	
Other liabilities	105,151	-
Total Liabilities	\$ 367,804	-
 NET POSITION		
Restricted for scholarships		\$ 95,932

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For The Year Ended June 30, 2018

	<u>Private Purpose Trusts</u>
ADDITIONS	
Gifts and contributions	\$ 6,100
DEDUCTIONS	
Scholarships and awards	<u>14,675</u>
Change in Net Position	(8,575)
Net Position - Beginning of year	<u>104,507</u>
Net Position - End of Year	<u><u>\$ 95,932</u></u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

Extraclassroom Activity Funds

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

B. Joint Venture

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

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

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.

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:

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

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-CUTCHOGUE 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. 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.

L. Other Assets

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

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-CUTCHOGUE 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 District has two items that qualify for reporting in this category. First is unavailable revenues reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. This includes receivables of certain state aid allocations. In subsequent periods, when the availability criterion is met, unavailable revenues are reclassified as revenues. In the district-wide financial statements, unavailable revenues are treated as revenues. The second item is 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.

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

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).

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 economic resources measurement focus and the accrual basis of accounting in accordance with GASB Statement No. 75.

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.

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

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:

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

Capital Reserve

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

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. CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of the Statement requires the District to report other postemployment benefits liabilities, expenses, deferred outflows of resources and deferred inflows of resources on the full accrual basis.

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

3. 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.

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 current financial resources measurement focus and the modified accrual basis, whereas the economic resources measurement focus and the accrual basis of accounting is used on the Statement of Activities, thereby affecting expenses such as compensated absences.

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 and Other Postemployment Benefits Differences

Pension differences occur as a result of recognizing pension costs using the current financial resources measurement focus and the modified accrual basis of accounting, whereby an expenditure is recognized based on the contractually required contribution as calculated by the plan, versus the economic resources measurement focus and 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.

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

Other postemployment benefit differences occur as a result of recognizing OPEB costs using the current financial resources measurement focus and the modified accrual basis of accounting, whereby an expenditure is recognized for insurance premiums and other postemployment benefit costs as they mature (come due for payment), versus the economic resources measurement focus and the accrual basis of accounting, whereby an expense is recognized related to the future cost of benefits in retirement over the term of employment.

4. 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 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 appropriation for:	
Software funded by grant revenue	\$ 40,000
Retirement payouts funded by the employee benefit accrued liability reserve	<u>234,745</u>
	<u>\$ 274,745</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.

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

C. Over Expenditure of Certain Appropriations

Certain general fund appropriations were over expended. These were in the following appropriation categories of the budget: central services, administration and improvement and debt service interest. The general fund budget in total was not over expended.

5. 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.

6. PARTICIPATION IN BOCES

During the year ended June 30, 2018, the District was billed \$1,423,031 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$254,652. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

7. DUE FROM STATE AND FEDERAL

Due from state and federal at June 30, 2018 consisted of the following:

General Fund	
New York State - basic cost aid	\$ 449
New York State - excess cost aid	9,073
	<u>9,522</u>
Special Aid Fund	
Federal and state grants	46,042
Capital Projects Fund	
New York State - Smart Schools Bond Act	35,519
	<u>\$ 91,083</u>

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

8. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2018 consisted of the following:

General Fund		
BOCES aid	\$	254,652
Services provided for other districts		49,892
Other districts - athletics		<u>23,486</u>
	<u>\$</u>	<u>328,030</u>

9. CAPITAL ASSETS

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

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Governmental activities				
Capital assets not being depreciated				
Land	\$ 18,000	\$	\$	\$ 18,000
Construction in progress	<u>480,996</u>	<u>17,964</u>	<u>(480,996)</u>	<u>17,964</u>
Total capital assets not being depreciated	<u>498,996</u>	<u>17,964</u>	<u>(480,996)</u>	<u>35,964</u>
Capital assets being depreciated				
Buildings and improvements	53,428,762	204,106		53,632,868
Site improvements	2,319,391	277,203		2,596,594
Furniture and equipment	<u>7,054,319</u>	<u>788,272</u>	<u>(114,175)</u>	<u>7,728,416</u>
Total capital assets being depreciated	<u>62,802,472</u>	<u>1,269,581</u>	<u>(114,175)</u>	<u>63,957,878</u>
Less accumulated depreciation for:				
Buildings and improvements	20,641,039	1,043,488		21,684,527
Site improvements	1,203,461	103,720		1,307,181
Furniture and equipment	<u>5,135,050</u>	<u>674,837</u>	<u>(114,175)</u>	<u>5,695,712</u>
Total accumulated depreciation	<u>26,979,550</u>	<u>1,822,045</u>	<u>(114,175)</u>	<u>28,687,420</u>
Total capital assets, being depreciated, net	<u>35,822,922</u>	<u>(552,464)</u>	<u>-</u>	<u>35,270,458</u>
Capital assets, net	<u>\$ 36,321,918</u>	<u>\$ (534,500)</u>	<u>\$ (480,996)</u>	<u>\$ 35,306,422</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 224,353
Instruction	1,560,585
Pupil transportation	<u>37,107</u>
Total depreciation expense	<u>\$ 1,822,045</u>

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

10. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2018, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 261,099	\$ 393,356	\$	\$ 957,873
Special Aid Fund		97,638	31,615	
School Food Service Fund	82,211			
Capital Projects Fund	441,923	105,926	926,258	
Total Governmental Funds	785,233	596,920	\$ 957,873	\$ 957,873
Fiduciary Funds		188,313		
Total	\$ 785,233	\$ 785,233		

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 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.

11. SHORT-TERM DEBT

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

	Maturity	Stated Interest Rate	Balance June 30, 2017	Issued	Redeemed	Balance June 30, 2018
TAN	6/27/2018	2.25%	\$	\$ 8,000,000	\$ (8,000,000)	\$

Interest on short-term debt for the year was \$135,500. The District received a premium of \$71,280, which is included in miscellaneous revenue in the general fund.

12. 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, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 16,385,000	\$	\$ (1,875,000)	\$ 14,510,000	\$ 1,360,000
Add: Premium on refunding	1,687,730		(246,588)	1,441,142	223,011
	18,072,730	-	(2,121,588)	15,951,142	1,583,011
Other long-term liabilities:					
Compensated absences	1,597,412		(422,067)	1,175,345	92,488
Workers' compensation	552,031	99,753	(213,601)	438,183	-
	\$ 20,222,173	\$ 99,753	\$ (2,757,256)	\$ 17,564,670	\$ 1,675,499

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

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

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2018
Construction serial bond	6/26/2014	6/15/2029	2.625-3.125%	\$ 760,000
Refunding bonds	4/30/2015	7/15/2029	2.00-5.00%	<u>13,750,000</u>
				<u>\$ 14,510,000</u>

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

Year Ending June 30,	Principal	Interest	Total
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	1,105,000	400,799	1,505,799
2024-2028	6,070,000	1,151,200	7,221,200
2029-2030	<u>2,660,000</u>	<u>79,225</u>	<u>2,739,225</u>
Total	<u>\$ 14,510,000</u>	<u>\$ 3,775,718</u>	<u>\$ 18,285,718</u>

C. Refunding Bonds

The District advance refunded serial bonds which resulted in a deferred charge and a refunding bond premium. These amounts are being amortized as a component of interest expense on a weighted average basis over the respective bond term, as applicable. The bond premium balance is netted against the bonds payable. The future net amortization is as follows:

Year Ending June 30,	Deferred Premium	Deferred Charge	Interest Expense Increase / (Decrease)
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	(149,809)	68,663	(81,146)
2024-2028	(469,173)	215,040	(254,133)
2029-2030	<u>(44,432)</u>	<u>20,365</u>	<u>(24,067)</u>
Total	<u>\$ (1,441,142)</u>	<u>\$ 660,529</u>	<u>\$ (780,613)</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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D. Interest Expense

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

Interest paid	\$ 717,986
Less interest accrued in the prior year	(315,601)
Plus interest accrued in the current year	308,012
Plus amortization of deferred charges	113,020
Less amortization of deferred bond premium	<u>(246,588)</u>
 Total interest expense on long-term debt	 <u>\$ 576,829</u>

13. 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.

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

C. Funding Policies

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to ERS or 3.5% of their salary to TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the TRS' fiscal year ended June 30th, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31st, and employer contributions are either paid by the prior December 15th less a 1% discount or by the prior February 1st. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year. The District's contribution rate was 11.72% of covered payroll for the TRS' fiscal year ended June 30, 2017. The District's average contribution rate was 15.03% of covered payroll for the ERS' fiscal year ended March 31, 2018.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2018 was \$1,622,511 for TRS and \$445,933 for ERS.

D. Pension Asset/(Liability), Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for each of the systems. The net pension asset/(liability) was measured as of June 30, 2017, for TRS and March 31, 2018 for ERS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The District's proportion of the net pension asset/(liability) was based on a projection of the District's long-term share of contributions to the systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and the ERS in reports provided to the District.

	TRS	ERS
Measurement date	June 30, 2017	March 31, 2018
District's proportionate share of the net pension asset/(liability)	\$ 781,385	\$ (291,853)
District's portion of the Plan's total net pension asset/(liability)	0.1028000%	0.0090429%
Change in proportion since the prior measurement date	(0.0015430)	(0.0009571)

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

For the year ended June 30, 2018, the District recognized pension expense of \$2,018,170 for TRS and \$408,212 for ERS. At June 30, 2018, 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>	
	TRS	ERS	TRS	ERS
Differences between expected and actual experience	\$ 642,888	\$ 104,095	\$ 304,653	\$ 86,020
Changes of assumptions	7,950,744	193,523		
Net difference between projected and actual earnings on pension plan investments		423,893	1,840,388	836,723
Changes in proportion and differences between the District's contributions and proportionate share of contributions	275,646	165,974		10,666
District's contributions subsequent to the measurement date	<u>1,622,511</u>	<u>109,286</u>		
Total	<u>\$ 10,491,789</u>	<u>\$ 996,771</u>	<u>\$ 2,145,041</u>	<u>\$ 933,409</u>

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>TRS</u>	<u>ERS</u>
2019	\$ 234,496	\$ 117,854
2020	2,157,198	95,834
2021	1,558,990	(181,574)
2022	427,369	(78,038)
2023	1,554,610	
Thereafter	<u>791,574</u>	
	<u>\$ 6,724,237</u>	<u>\$ (45,924)</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:

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2017	March 31, 2018
Actuarial valuation date	June 30, 2016	April 1, 2017
Inflation	2.50%	2.50%
Salary increases	1.90-4.72%	3.80%
Investment rate of return (net of investment expense, including inflation)	7.25%	7.00%
Cost of living adjustments	1.50%	1.30%

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

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.

For TRS, 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.

For ERS, the long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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, 2017		March 31, 2018
Asset type				
Domestic equity	35.0%	5.90%	36.0%	4.55%
International equity	18.0%	7.40%	14.0%	6.35%
Real estate	11.0%	4.30%	10.0%	5.55%
Private equities	8.0%	9.00%	10.0%	7.50%
Alternative investments			8.0%	3.75-5.68%
Domestic fixed income securities	16.0%	1.60%		
Global fixed income securities	2.0%	1.30%		
High-yield fixed income securities	1.0%	3.90%		
Bonds and mortgages	8.0%	2.80%	17.0%	1.31%
Short-term	1.0%	0.60%		
Cash			1.0%	(0.25)%
Inflation indexed bonds			4.0%	1.25%
	100.0%		100.0%	

Real rates of return are net of a long-term inflation assumption of 2.2% for TRS and 2.5% for ERS.

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

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for TRS and 7.0% for ERS (the discount rate used by the TRS at the prior year's measurement date of June 30, 2016, was 7.5%). The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension asset/(liability) calculated using the discount rate of 7.25% 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 (6.25% for TRS and 6.0% for ERS) or 1 percentage point higher (8.25% for TRS and 8.0% for ERS) than the current rate:

TRS	1% Decrease (6.25)%	Current Assumption (7.25)%	1% Increase (8.25)%
District's proportionate share of the net pension asset (liability)	\$ (13,460,948)	\$ 781,385	\$ 12,708,632
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	\$ (2,208,239)	\$ (291,853)	\$ 1,329,333

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, 2017	March 31, 2018
Employers' total pension liability	\$ (114,708,261)	\$ (183,400,590)
Plan fiduciary net position	115,468,360	180,173,145
Employers' net pension asset/(liability)	\$ 760,099	\$ (3,227,445)
Ratio of plan fiduciary net position to the employers' total pension liability	100.66%	98.24%

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

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2018, are paid to the system in September, October and November 2018 through a state aid intercept. Accrued retirement contributions as of June 30, 2018, represent employer and employee contributions for the fiscal year ended June 30, 2018, 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. Accrued retirement contributions as of June 30, 2018 amounted to \$1,622,511 of employer contributions and \$82,654 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, 2018, represent the projected employer contribution for the period of April 1, 2018 through June 30, 2018 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2018 amounted to \$109,286 of employer contributions. Employee contributions are remitted monthly.

14. 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, 2018, totaled \$71,710 and \$1,021,548, respectively.

15. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. General Information about the OPEB Plan

Plan Description – The District's defined benefit OPEB plan, provides OPEB for all permanent full-time employees of the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided – The District effectively provides medical, 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 plan is self-funded.

Employees Covered by Benefit Terms – At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	163
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>205</u>
	<u><u>368</u></u>

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

B. Total OPEB Liability

The District's total OPEB liability of \$68,587,292 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

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

Salary increases	2.50%
Discount rate	3.60%
Healthcare cost trend rates	5.2% to 9.5% for 2018, decreasing to an ultimate rate of 5%
Retirees' share of benefit-related costs	
Administrators	0% individual, family difference between the individual and family plan
MCTA, CSEA	Hired on or before 6/30/88 - 0%; hired 7/1/88 or thereafter 0% individual family difference between the individual and family plan

The discount rate was based on the 20 year AA Municipal GO Bond Rate Index, as of July 1, 2017.

Mortality rates were based on the SOA RP-2014 total dataset, as appropriate, with adjustments for mortality improvements based on the SOA scale MP-2014.

Withdrawal and Retirement Decrements are based on the Buck Consultants report entitled "Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation – Participating Agency Version" and is dated December 27, 2012.

C. Changes in the Total OPEB Liability

Balance at June 30, 2017	<u>\$ 66,339,666</u>
Changes for the year	
Service cost	1,982,390
Interest	2,388,228
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	-
Benefit payments	<u>(2,122,992)</u>
	<u>2,247,626</u>
Balance at June 30, 2018	<u><u>\$ 68,587,292</u></u>

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.6%) or 1 percentage point higher (4.6%) than the current discount rate:

OPEB	1% Decrease (2.60)%	Discount Rate (3.60)%	1% Increase (4.60)%
Total OPEB liability	<u>\$(81,206,003)</u>	<u>\$(68,587,292)</u>	<u>\$(58,712,338)</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4.2 to 8.5%) or 1 percentage point higher (6.2 to 10.5%) than the current healthcare cost trend rate:

OPEB	1% Decrease (4.2% to 8.5%)	Healthcare Cost Trend Rates (5.2% to 9.5%)	1% Increase (6.2% to 10.5%)
Total OPEB liability	<u>\$(57,285,001)</u>	<u>\$(68,587,292)</u>	<u>\$(83,352,494)</u>

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$4,370,618. At June 30, 2018, the District reported no deferred outflows of resources or deferred inflows of resources related to OPEB.

16. 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 considering the effects of inflation,

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

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, 2018, as processed by the EEWCC, is \$438,183. Claims activity is summarized as follows:

	2017	2018
Claims at beginning of year	\$ 382,175	\$ 552,031
Incurred claims and claim adjustment expenses	338,217	99,753
Claim payments and expenses	(168,361)	(213,601)
Claim liabilities at end of year	\$ 552,031	\$ 438,183

The EEWCC is holding \$402,901 of cash on account for the District to satisfy these liabilities at June 30, 2018. In addition, the District has reserved \$650,467 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, 2018. 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.

17. CAPITAL RESERVE

On May 15, 2018, the voters approved the creation of a capital reserve fund to pay for repairs, renovations and improvements. Such capital reserve fund will be for a probable term of ten years in an amount not to exceed \$6,000,000. The capital reserve fund proposition approved the immediate funding of the reserve in the amount of \$3,000,000, with \$2,500,000 to come from the retirement contribution reserve and \$500,000 from the unemployment insurance reserve. In addition, the capital reserve fund may be funded annually in an amount not to exceed \$750,000 from monies remaining in the general fund and/or other reserves. The reserve is accounted for in the general fund.

During the current year, the District funded this reserve for the initial approved amount of \$3,000,000 and an additional \$750,000 from end of year budget surplus funds. Additionally, interest of \$964 was added to the reserve.

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

18. RESTRICTED FUND BALANCE – APPROPRIATED RESERVES

The District expects to appropriate the following amounts from reserves, which are reported in the June 30, 2018 restricted fund balances, to fund the budget and reduce taxes for the year ending June 30, 2019:

Workers' compensation	\$	75,000
Unemployment insurance		13,523
Retirement contribution		275,000
Employee benefit accrued liability		<u>120,574</u>
	\$	<u>484,097</u>

19. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$500,000 has been appropriated to reduce taxes for the year ending June 30, 2019.

20. RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75. The implementation of Statement No. 75 resulted in the reporting of a change in the liability for other postemployment benefits obligation. The District's net position has been restated as follows:

Net position beginning of year, as previously stated		<u>\$ 13,593,439</u>
GASB Statement No. 75 implementation		
Beginning total other		
postemployment benefits obligation		(66,339,666)
Less: Net other postemployment benefits obligation		
under GASB Statement No. 45		<u>24,020,447</u>
		<u>(42,319,219)</u>
Net position (deficit) beginning of year, as restated		<u>\$(28,725,780)</u>

21. TAX ABATEMENTS

The Suffolk County Industrial Development Agency, enters into various property tax abatement programs for the purpose of economic development. The District's property tax revenue was reduced \$12,577. The District received payment in lieu of tax (PILOT) payments totaling \$8,496.

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

22. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2018, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance:

General Fund	
General support	\$ 268,786
Instruction	24,244
	<u>293,030</u>
 Capital Projects Fund	
Capital projects	<u>276,280</u>
	<u>\$ 569,310</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 not aware of any material pending or threatened litigation claims against the District. The District is also unaware of any unasserted claims or assessments that would require financial statement disclosure.

23. SUBSEQUENT EVENTS

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 TAN

On September 26, 2018, the District issued a tax anticipation note in the amount of \$7,500,000, which is due on June 27, 2019 and bears interest at a rate of 3.0%. The District received a premium of \$53,852 with the borrowing to yield an effective interest rate of 2.0462%.

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, 2018

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 34,474,040	\$ 34,586,259	\$ 34,594,755	\$ 8,496
Other tax items	1,635,598	1,523,379	1,523,379	-
Charges for services	250,500	250,500	347,706	97,206
Use of money and property	62,838	62,838	94,658	31,820
Sale of property and compensation for loss			21,570	21,570
Miscellaneous	32,000	32,000	250,796	218,796
Total Local Sources	36,454,976	36,454,976	36,832,864	377,888
State Sources	2,800,000	2,840,000	2,668,696	(171,304)
Medicaid Reimbursement	10,340	10,340	5,547	(4,793)
Total Revenues	39,265,316	39,305,316	39,507,107	\$ 201,791
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	1,000,000	1,000,000		
Prior Year's Encumbrances	116,081	116,081		
Appropriated Reserves	500,000	734,745		
Total Appropriated Fund Balance	1,616,081	1,850,826		
Total Revenues and Appropriated Fund Balance	\$ 40,881,397	\$ 41,156,142		

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 Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 41,070	\$ 48,070	\$ 44,648	\$	\$ 3,422
Central administration	280,794	287,591	284,661		2,930
Finance	459,794	514,294	481,162	28,775	4,357
Staff	68,000	68,000	49,225		18,775
Central services	2,991,660	3,476,141	3,300,974	240,011	(64,844)
Special items	385,274	372,274	366,358		5,916
Total General Support	4,226,592	4,766,370	4,527,028	268,786	(29,444)
Instruction					
Administration & improvement	931,947	1,006,286	1,040,991		(34,705)
Teaching - regular school	12,320,973	12,174,507	11,791,731	17,380	365,396
Programs for students with disabilities	4,659,224	4,582,523	4,278,901	270	303,352
Occupational education	452,983	452,983	391,974		61,009
Teaching - special schools	35,311	35,311	23,459		11,852
Instructional media	557,791	557,405	535,215		22,190
Pupil services	2,224,875	2,115,156	2,011,793	6,594	96,769
Total Instruction	21,183,104	20,924,171	20,074,064	24,244	825,863
Pupil Transportation	1,600,375	1,600,375	1,483,093		117,282
Community Service	88,392	46,792	-		46,792
Employee Benefits	10,094,171	10,092,671	9,547,971		544,700
Debt Service					
Principal	1,875,000	1,875,000	1,875,000		-
Interest	851,986	848,986	853,486		(4,500)
Total Debt Service	2,726,986	2,723,986	2,728,486	-	(4,500)
Total Expenditures	39,919,620	40,154,365	38,360,642	293,030	1,500,693
OTHER USES					
Operating Transfers Out	961,777	1,001,777	957,873		43,904
Total Expenditures and Other Uses	\$ 40,881,397	\$ 41,156,142	39,318,515	\$ 293,030	\$ 1,544,597
Net Change in Fund Balance			188,592		
Fund Balance - Beginning of Year			10,800,157		
Fund Balance - End of Year			<u>\$ 10,988,749</u>		

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 the District's Proportionate Share of the Net Pension Asset/(Liability)
 Last Four Fiscal Years

Teachers' Retirement System

	2018	2017	2016	2015
District's proportion of the net pension asse/(liability)	0.1028000%	0.1043430%	0.1074690%	0.1081780%
District's proportionate share of the net pension asset/(liability)	\$ 781,385	\$ (1,117,553)	\$ 11,162,565	\$ 12,050,409
District's covered payroll	\$ 16,476,349	\$ 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	4.74 %	6.86 %	68.94 %	74.02 %
Plan fiduciary net position as a percentage of the total pension asset	100.66%	99.01%	110.46%	111.48%

Employees' Retirement System

	2018	2017	2016	2015
District's proportion of the net pension liability	0.0090429%	0.0100000%	0.0092492%	0.0092747%
District's proportionate share of the net pension liability	\$ (291,853)	\$ (829,083)	\$ (1,484,524)	\$ (313,322)
District's covered payroll	\$ 2,814,842	\$ 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	10.37 %	27.95 %	53.75 %	11.52 %
Plan fiduciary net position as a percentage of the total pension liability	98.24%	94.70%	90.68%	97.95%

Note to Required Supplementary Information

Teachers' Retirement System

The discount rate decreased from 8.0% to 7.5% to 7.25% as reflected in 2016, 2017 and 2018 above.

Employees' Retirement System

The discount rate decreased from 7.5% to 7.0% as reflected in 2016, 2017 and 2018 above.

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

Teachers' Retirement System

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 1,622,511	\$ 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
Contributions in relation to the contractually required contribution	<u>1,622,511</u>	<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>
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	\$ 16,634,298	\$ 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
Contributions as a percentage of covered payroll	10%	12%	13%	17%	12%	12%	11%	8%	6%	7%

Employees' Retirement System

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 445,933	\$ 418,598	\$ 476,522	\$ 490,130	\$ 529,607	\$ 471,767	\$ 434,023	\$ 289,113	\$ 250,555	\$ 181,741
Contributions in relation to the contractually required contribution	<u>445,933</u>	<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>
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	\$ 2,824,403	\$ 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
Contributions as a percentage of covered payroll	16%	15%	17%	18%	20%	18%	17%	11%	10%	7%

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Last Fiscal Year

	2018
Total OPEB liability	
Service cost	\$ 1,982,390
Interest	2,388,228
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	-
Benefit payments	(2,122,992)
Net change in total OPEB liability	2,247,626
Total OPEB liability, beginning	66,339,666
Total OPEB liability, ending	\$ 68,587,292
Covered employee payroll	\$ 16,559,047
Total OPEB liability as a percentage of covered employee payroll	414.20%

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, 2018

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 40,765,316
Additions:		
Prior year's encumbrances		<u>116,081</u>
Original Budget		40,881,397
Budget revision		<u>274,745</u>
Final Budget		<u>\$ 41,156,142</u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2018-19 voter-approved expenditure budget		<u>\$ 40,676,947</u>
Maximum allowed (4% of 2018-19 budget)		<u>\$ 1,627,078</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 793,030	
Unassigned fund balance	<u>1,627,074</u>	
		\$ 2,420,104
Less:		
Appropriated fund balance	500,000	
Encumbrances	<u>293,030</u>	
Total adjustments		<u>793,030</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		<u>\$ 1,627,074</u>
Actual Percentage		4.00%

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures and Financing Resources -
Capital Projects Fund
June 30, 2018

PROJECT TITLE	Budget June 30, 2017	Budget June 30, 2018	Expenditures			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2018	
			Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total		
Stage Lighting	\$ 67,565	\$ 67,565	\$ 61,899	\$	\$ 61,899	\$ 5,666	\$	\$	\$ 67,565	\$ 67,565	\$ 5,666	
Computer Equipment	3,022,729	3,237,169	2,803,004	196,917	2,999,921	237,248			3,237,169	3,237,169	237,248	
Playground Cutchogue East	99,520	99,520	98,226		98,226	1,294			99,520	99,520	1,294	
HS Building Renovation	1,892,347	2,324,165	1,796,392	462,905	2,259,297	64,868			2,324,165	2,324,165	64,868	
HS Tennis Courts	53,000	53,000	50,998		50,998	2,002			53,000	53,000	2,002	
Smart Schools Bond Act	212,498	248,017	212,498	35,519	248,017	-		248,017		248,017	-	
High School Pole Barn		130,000		5,045	5,045	124,955			130,000	130,000	124,955	
High School Columns		150,000		10,690	10,690	139,310			150,000	150,000	139,310	
Energy Performance Contract		1,752,512		2,228	2,228	1,750,284	1,752,512			1,752,512	1,750,284	
Totals	<u>\$ 5,347,659</u>	<u>\$ 8,061,948</u>	<u>\$ 5,023,017</u>	<u>\$ 713,304</u>	<u>\$ 5,736,321</u>	<u>\$ 2,325,627</u>	<u>\$ 1,752,512</u>	<u>\$ 248,017</u>	<u>\$ 6,061,419</u>	<u>\$ 8,061,948</u>	2,325,627	
											Unissued Debt Smart Schools Bond Aid not yet realized	(1,752,512) (35,519)
											Find Balance	<u>\$ 537,596</u>

MATTITUCK-CUTCHOGUE UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2018

Capital assets, net	<u>\$ 35,306,422</u>
Deduct:	
Short-term portion of bonds payable	(1,360,000)
Long-term portion of bonds payable	<u>(13,150,000)</u>
	<u>(14,510,000)</u>
Net investment in capital assets	<u>\$ 20,796,422</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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 18, 2018.

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 18, 2018.

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 18, 2018

