



FREEPORT UNION FREE SCHOOL DISTRICT

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITOR'S REPORTS

June 30, 2017

FREEPORT UNION FREE SCHOOL DISTRICT
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (MD&A)	2
Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Balance Sheet – Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	21
Statement of Fiduciary Net Position – Fiduciary Funds	22
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	23
Notes to Financial Statements	24
Required Supplementary Information other than MD&A:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	51
Schedule of Funding Progress – Other Postemployment Benefits	53
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability	54
Schedule of District Pension Contributions	55
Other Supplementary Information:	
Schedules of Change from Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund	56
Schedule of Project Expenditures and Financing Resources – Capital Projects Fund	57
Net Investment in Capital Assets	58
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Freeport Union Free School District
Freeport, 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 Freeport Union Free School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the Freeport Union Free School District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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. 77, *Tax Abatement Disclosures*, as of June 30, 2017. 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, budgetary comparison information and the schedules of funding progress – other postemployment benefits, the District's proportionate share of the net pension asset/liability, and District pension contributions on pages 3 through 15 and 51 through 55, 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 Freeport Union Free School District's basic financial statements. The other supplementary information on pages 56 through 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information requested by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2017 on our consideration of the Freeport Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Freeport Union Free School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

September 27, 2017

**FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Freeport Union Free School District's discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017 in comparison with the year ended June 30, 2016, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2017 are as follows:

- Based on a consistently strong and stable profile, low direct debt and highly rated fiscal management, the District continues to enjoy a bond rating of AA. This puts the District among the top few districts rated by Standard & Poor's.
- The District received the highest fiscal stress monitoring rating of "No Designation" with a score of 0% from the State Comptroller's Office.
- The District's per-pupil spending is the lowest in Nassau County when compared to other K-12 school districts; the District's per-pupil tax levy is the third lowest among all Nassau County school districts.
- The community demonstrated its continuing support by approving the 2017-18 school budget, with an overwhelming majority of 81.9%.
- The 2017-18 budget carried a 0.09% decrease in the tax levy, which is the third year in a row that it decreased and the fifth time in ten years. The District's 2016-17 budgeted property tax levy of \$87,125,440 was a 0.09% reduction from the 2015-16 tax levy of \$87,203,940.
- The District received \$12,439,356 in operating and capital grants to support its instructional and capital programs.
- The general fund's total fund balance at June 30, 2017, as reflected in the fund financial statements, is \$60,033,237, an increase of \$3,209,599, as total revenues exceeded expenditures and other uses based on the modified accrual basis of accounting. The District also utilized \$1,891,781 of its restricted reserves towards workers' compensation, unemployment insurance, retiring employees compensated absences, and employees' retirement system contribution expenditures.
- On May 16, 2017, the District's residents voted and authorized the District to establish a capital reserve for the purpose of district-wide facilities improvements pursuant to Education Law Section 3651. The maximum amount of the capital reserve is \$25,000,000, plus investment income, for a term of ten years. As of June 30, 2017, the District transferred \$2,500,000 from surplus monies into the reserve as authorized by voters.
- During the fiscal year, the District completed two advanced refundings associated with the 2006 and 2009 outstanding serial bond issues. The refundings included District contributions totaling \$5,000,000 to pay down these debts and also shortened the life of the loan payback by three years. This resulted in savings of approximately \$3,800,000 over the life of the bonds.

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



A. District-Wide Financial Statements

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

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

The Statement of Net Position

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

The Statement of Activities

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

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

B. Fund Financial Statements

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

Governmental Funds

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period in which the District incurs the liability, except for certain expenditures such as debt service on general long-term indebtedness, claims and judgments, compensated absences, pension costs and other postemployment benefits, 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 fund Balance Sheet and the governmental fund 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 five individual governmental funds: general fund, special aid fund, school food service fund, debt service fund, and capital projects fund, each of which is considered to be a major fund and is presented separately in the fund financial statements.

Fiduciary Funds

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

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position decreased by \$8,078,624 between fiscal year 2017 and 2016. The decrease is due to expenses in excess of revenues based on the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	2017	2016	Increase (Decrease)	Percentage Change
Asset				
Current and Other Assets	\$ 80,732,326	\$ 79,772,793	\$ 959,533	1.20 %
Capital Assets, Net	80,481,245	79,700,580	780,665	0.98 %
Net Pension Asset - Proportionate Share		45,694,752	(45,694,752)	(100.00)%
Total Assets	161,213,571	205,168,125	(43,954,554)	(21.42)%
Deferred Outflows of Resources	48,889,658	15,804,807	33,084,851	209.33 %
Liabilities				
Current and Other Liabilities	16,121,567	14,589,235	1,532,332	10.50 %
Long-Term Liabilities	44,519,663	50,987,754	(6,468,091)	(12.69)%
Net OPEB Obligation	131,302,844	116,824,453	14,478,391	12.39 %
Net Pension Liability - Proportionate Share	7,979,373	5,935,480	2,043,893	34.44 %
Total Liabilities	199,923,447	188,336,922	11,586,525	6.15 %
Deferred Inflows of Resources	2,151,304	16,528,908	(14,377,604)	(86.98)%
Net Position				
Net investment in capital assets	54,911,585	43,753,408	11,158,177	25.50 %
Restricted	42,916,542	41,855,836	1,060,706	2.53 %
Unrestricted (Deficit)	(89,799,649)	(69,502,142)	(20,297,507)	(29.20)%
Total Net Position	\$ 8,028,478	\$ 16,107,102	\$ (8,078,624)	(50.16)%

Current and other assets increased by \$959,533, as compared to the prior year. The increase is primarily related to increases in prepaids and various receivables, including due from state and federal and due from agency fund, offset by a decrease in cash.

Capital assets, net increased by \$780,665, as compared to the prior year. This increase is due to capital asset additions in excess of depreciation expense. The accompanying Notes to Financial Statements, Note 9 "Capital Assets" provides additional information.

Net pension asset – proportionate share decreased by \$45,694,752, as compared to the prior year. This was a result of the prior year GASB 68 actuarial valuation that yielded an asset for the District's share of the New York State Teachers' Retirement System's collective net pension asset at the measurement date. In the current year, this was determined to be a liability based on the actuarial valuation.

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 and the amount of deferred charges from the bond refunding that is being amortized over the remaining term of the bonds.

Current and other liabilities increased by \$1,532,332, as compared to the prior year. This is primarily a result of an increase in accounts payable, offset by a decrease in the District's liability to the teachers' retirement system for the current year's contribution at a decreased contribution rate.

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Long-term liabilities decreased by \$6,468,091, as compared to the prior year. This decrease is primarily the result of the repayment of the current maturity of the bond indebtedness and energy performance contract debt, plus an additional \$5,000,000 used by the District as part of advanced refundings to help further reduce the District's overall debt.

Net other postemployment benefits (OPEB) obligation increased by \$14,478,391, as compared to the prior year. This increase is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 14 "Postemployment Healthcare Benefits", provides additional information.

Net pension liability – proportionate share increased by \$2,043,893 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.

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

The net investment in capital assets is the investment in capital assets at cost such as land; construction in progress; buildings and improvements; site improvements; and, furniture and equipment, net of depreciation and related outstanding debt.

The restricted amount of \$42,916,542 relates to the District's legally established reserves. This number increased over the prior year by \$1,060,706, principally due to funding of the capital reserves, offset partially by a decrease in the capital projects fund's capital reserve used for capital outlays.

The unrestricted deficit amount of \$89,799,649 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 from the prior year by \$20,297,507.

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2017 and 2016 is as follows:

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	2017	2016	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 835,761	\$ 1,011,443	\$ (175,682)	(17.37)%
Operating Grants	11,367,519	10,053,905	1,313,614	13.07 %
Capital Grants	1,071,837		1,071,837	N/A
General Revenues				
Property Taxes and STAR	87,125,440	87,273,448	(148,008)	(0.17)%
State Sources	72,048,205	67,260,185	4,788,020	7.12 %
Other	2,751,972	2,394,316	357,656	14.94 %
Total Revenues	<u>175,200,734</u>	<u>167,993,297</u>	<u>7,207,437</u>	4.29 %
Expenses				
General Support	19,181,316	17,743,542	1,437,774	8.10 %
Instruction	151,455,258	131,801,475	19,653,783	14.91 %
Pupil Transportation	7,896,307	7,515,784	380,523	5.06 %
Debt Service - Interest	1,212,333	1,449,571	(237,238)	(16.37)%
Food Service Program	3,534,144	3,317,667	216,477	6.52 %
Total Expenses	<u>183,279,358</u>	<u>161,828,039</u>	<u>21,451,319</u>	13.26 %
Increase / (Decrease) in Net Position	<u>\$ (8,078,624)</u>	<u>\$ 6,165,258</u>	<u>\$(14,243,882)</u>	(231.03)%

The District's net position decreased by \$8,078,624 and increased by \$6,165,258 for the years ended June 30, 2017 and 2016, respectively.

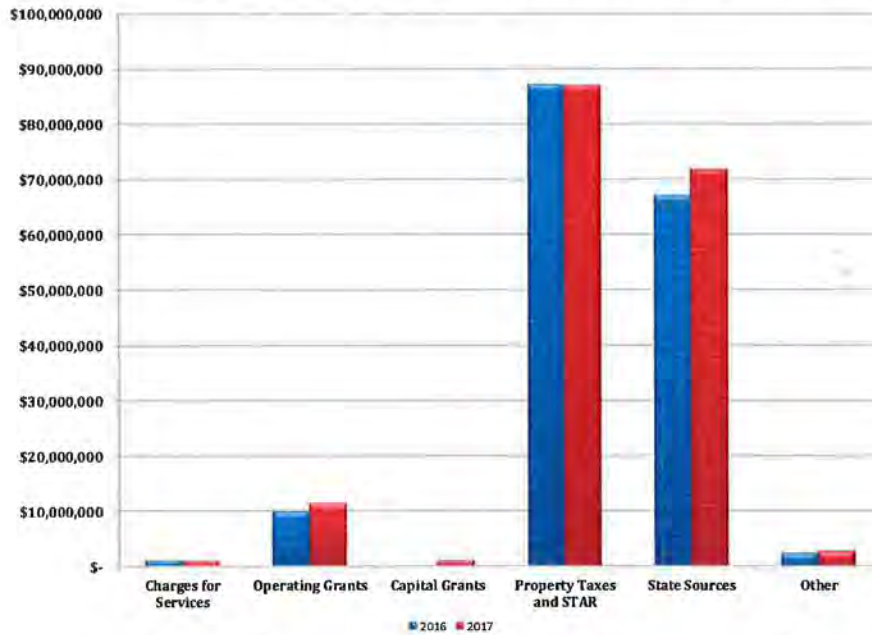
The District's revenues increased by \$7,207,437 or 4.29%. The major factor that contributed to the increase was the District received more state aid, including funding from the State's Smart Schools Bond Act.

The District's expenses for the year increased \$21,451,319 or 13.26%, primarily due to higher employee benefits allocation resulting from increases in long-term compensated absences and workers' compensation claims liabilities, as well as changes in the net position liability valuations by the TRS and the ERS.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 50% and 52% of the total for the years 2017 and 2016, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 83% and 81% of the total for the years 2017 and 2016, respectively).

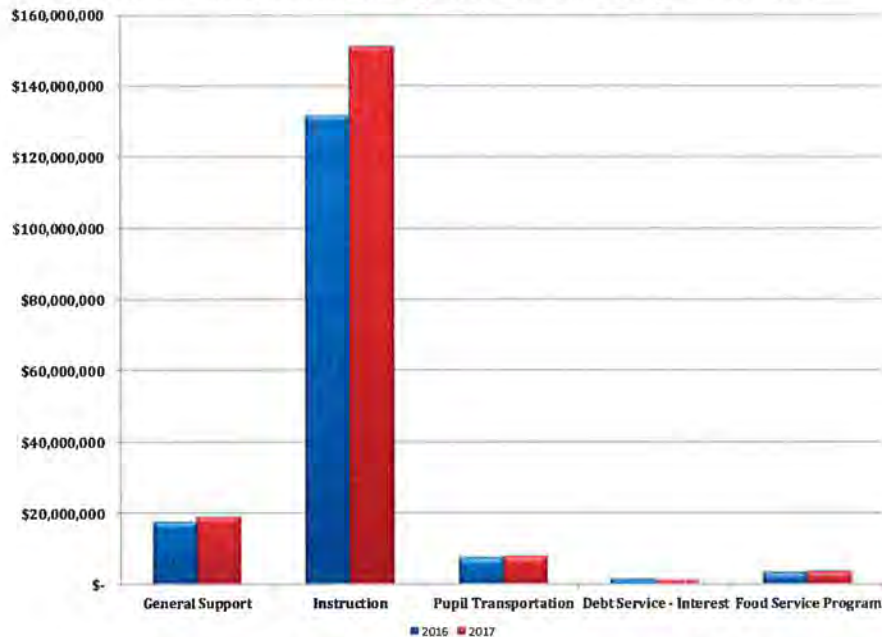
**FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



	Charges for Services	Operating Grants	Capital Grants	Property Taxes and STAR	State Sources	Other
2016	0.6%	6.0%	0.0%	52.0%	40.0%	1.4%
2017	0.5%	6.5%	0.6%	49.7%	41.1%	1.6%

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
2016	11.0%	81.4%	4.6%	0.9%	2.1%
2017	10.5%	82.6%	4.3%	0.7%	1.9%

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2017, the District's governmental funds reported a combined fund balance of \$64,753,822, which is a decrease of \$614,268 from the prior year. This decrease is due to an excess of expenditures over revenues based upon the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	2017	As Restated 2016	Increase (Decrease)
General Fund			
Nonspendable: Prepaids	\$ 1,011,000	\$	\$ 1,011,000
Restricted			
Workers' compensation	7,183,184	7,115,395	67,789
Unemployment insurance	822,901	787,713	35,188
Retirement contribution	11,324,930	11,022,374	302,556
Employee benefit accrued liability	14,612,714	14,775,775	(163,061)
Capital	6,119,885	2,114,599	4,005,286
Assigned:			
Appropriated fund balance	8,000,000	8,000,000	-
Designated for debt service		2,500,000	(2,500,000)
Unappropriated fund balance	506,188	1,184,075	(677,887)
Unassigned: Fund balance	10,452,435	9,323,707	1,128,728
	<u>60,033,237</u>	<u>56,823,638</u>	<u>3,209,599</u>
School Food Service Fund			
Nonspendable: Inventory	126,514	92,683	33,831
Assigned: Unappropriated fund balance	210,975	146,989	63,986
	<u>337,489</u>	<u>239,672</u>	<u>97,817</u>
Debt Service Fund			
Restricted: Debt service	377,463	3,241,528	(2,864,065)
Capital Projects Fund			
Restricted:			
Capital	2,475,465	2,798,452	(322,987)
Unspent bond proceeds	421,746	367,969	53,777
Assigned: Unappropriated fund balance	1,108,422	1,896,831	(788,409)
	<u>4,005,633</u>	<u>5,063,252</u>	<u>(1,057,619)</u>
Total Fund Balance	<u>\$ 64,753,822</u>	<u>\$ 65,368,090</u>	<u>\$ (614,268)</u>

A. General Fund

The 2016 general fund restricted fund balance for debt service of \$326,628 has been reclassified to the debt service fund to conform to the 2017 presentation.

The net change in the general fund balance is an increase of \$3,209,599 compared to a \$2,952,223 increase in the prior year, as revenues of \$162,416,701 exceeded expenditures and other uses of \$15,207,102. Revenues increased by \$4,803,939 (3.05%) over fiscal 2016 totals, primarily because of the increase in state sources of \$4,788,020. Expenditures and other uses increased \$4,546,563 (2.94%) over fiscal 2016 totals, primarily due to increases in general support of \$1,268,483, instruction of \$4,183,661 and employee benefits of \$1,179,012, offset by the decrease of \$2,455,629 in other financing uses. The

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

increase in instruction was mainly due to teaching regular school of \$1,238,434 and programs for students with disabilities of \$1,536,635, while the increase in general support was mainly in central services of \$1,290,338, which included the emergency replacement of the chiller at Dodd Middle School.

Nonspendable: prepaids reflects the amount of prepaid expenditures as of June 30, 2017. Changes to restricted fund balances were primarily from allocated interest earnings plus Board-authorized funding of reserves, net of amounts appropriated from the reserves for expenditures during the 2016-17 fiscal year. Reserves funding included \$1,500,000 to the 2009 capital reserve, and \$2,500,000 to the 2017 capital reserve newly established with authorization from the District's voters.

The District expects to appropriate \$3,600,000 from reserves to fund the budget and reduce taxes for the year ending June 30, 2018.

The District also appropriates \$8,000,000 from unrestricted fund balance to fund the 2017-18 budget. The fund balance assigned-designated for debt service of \$2,500,000 in 2016 was the amount earmarked by the Board of Education last year to be used towards paying down a portion of the outstanding 2006 bond issue in 2016-17 as part of the District's advance refunding plan.

B. School Food Service Fund

The net change in the school food service fund – fund balance is an increase of \$97,817. This included a transfer of \$100,000 from the general fund to offset an operating deficit in the food service program.

C. Debt Service Fund

The net change in the debt service fund – fund balance is a decrease of \$2,864,065. This is primarily the result of the District using \$2,500,000 transferred from the general fund in the prior year to pay down principal as part of an advanced refunding of the 2009 serial bonds in July 2016.

D. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$1,057,619, due to expenditures incurred in excess of revenues during the year on capital projects.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2016-17 Budget

The District's general fund adopted budget for the year ended June 30, 2017 was \$170,138,538. This amount was increased by encumbrances carried forward from the prior year in the amount of \$1,184,075 and a budget revision of \$2,500,000 for a transfer to debt service to repay outstanding debt for a total final budget of \$173,822,613.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$87,125,440 in estimated property taxes and STAR.

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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, encumbrances and amounts classified as nonspendable. 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	\$ 9,323,707
Plus: Designed for Debt Service	<u>2,500,000</u>
Total Opening, Unassigned Fund Balance	11,823,707
Revenues Over Budget	3,378,163
Expenditures and Encumbrances Under Budget	14,109,323
Amount appropriated for Advance Refunding	(2,500,000)
Change in Nonspendable Fund Balance	(1,011,000)
Unused Appropriated Reserves	(1,208,219)
Allocation to Reserves	(6,139,539)
Appropriated for the June 30, 2018 Budget	<u>(8,000,000)</u>
Closing, Unassigned Fund Balance	<u>\$ 10,452,435</u>

Total Opening, Unassigned Fund Balance

The \$11,823,707 shown in the table is the portion of the District's June 30, 2016 fund balance retained as unassigned plus the amount designated by the Board of Education for advance refunding of debt in 2016-17. This was 6.95% of the District's 2016-17 approved operating budget of \$170,138,538.

Revenues Over Budget

The 2016-17 budget for revenues was \$159,038,538. Actual revenues received for the year were \$162,416,701. The excess of actual revenue over estimated or budgeted revenue was \$3,378,163, which contributes directly to the change to the general fund unassigned fund balance from June 30, 2016 to June 30, 2017.

Expenditures and Encumbrances Under Budget

The 2016-17 final budget for expenditures was \$173,822,613. Actual expenditures as of June 30, 2017 were \$159,207,102 and outstanding encumbrances were \$506,188. Combined, the expenditures plus encumbrances for 2016-17 were \$159,713,290. The final budget was under expended by \$14,109,323. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2016 to June 30, 2017, and allows the District to replenish and fund its reserves, and continue to appropriate fund balance towards the 2017-18 budget.

**FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

Amount Appropriated for Advance Refunding

In February 2017, the District used \$2,500,000 of its unrestricted fund balance towards the advance refunding of the 2006 bond issue as authorized and designated by the Board of Education in June 2016. The use of unrestricted fund balance for expenditures reduces total unassigned fund balance.

Change in Nonspendable Fund Balance

The District prepaid health insurance premiums at June 30, 2017. The resulting balance sheet asset (prepaids) cannot be spent because it is not in spendable form, meaning it will not be converted to cash. Accordingly, an equal amount of fund balance is classified as Nonspendable. The increase in Nonspendable fund balance reduces unassigned fund balance.

Unused Appropriated Reserves

In the 2016-17 budget, \$3,100,000 of reserves was appropriated to reduce the tax levy. Due to lower than anticipated expenditures, only \$1,891,781 of this funding was needed and the remainder of \$1,208,219 was returned to the reserves and is available for future use.

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 \$(6,139,539) shown in the previous table is made up of \$89,539 interest income allocated to the reserves, and transfers into the following reserves; \$1,500,000 to the 2009 capital reserve, \$2,500,000 to the 2017 capital reserve, \$1,000,000 to replenish the workers' compensation reserve, \$50,000 to replenish the unemployment insurance reserve and \$1,000,000 to replenish the retirement contribution reserve for amounts used for 2016-17 expenditures.

Appropriated Fund Balance

The District has chosen to use \$8,000,000 of the available June 30, 2017 unassigned fund balance to partially fund the 2017-18 approved operating budget and help reduce property tax levy. As such, the June 30, 2017 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2017 was \$10,452,435. This amount equals 5.97% of the 2017-18 budget.

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2017, the District had invested in a broad range of capital assets, as indicated in the table below. The net increase in capital assets is due to net capital additions of \$2,876,850 in excess of depreciation of \$2,096,185 recorded for the year ended June 30, 2017. A summary of the District's capital assets, net of depreciation at June 30, 2017 and 2016 is as follows:

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	2017	2016	Increase (Decrease)
Land	\$ 800,000	\$ 800,000	\$ -
Construction in progress	3,084,048	1,621,854	1,462,194
Buildings and improvements	71,693,492	72,636,977	(943,485)
Site improvements	2,918,138	3,027,721	(109,583)
Furniture and equipment	1,985,567	1,614,028	371,539
Capital assets, net	<u>\$ 80,481,245</u>	<u>\$ 79,700,580</u>	<u>\$ 780,665</u>

B. Debt Administration

At June 30, 2017, the District had total bonds payable of \$21,370,000. The bonds were issued for school building improvements and the refunding of bonds originally issued for school building improvements. The decrease in outstanding debt represents principal payments, and advance refundings of bonds, each of which included a \$2,500,000 payment to the escrow agent as part of the refundings. The increases in outstanding debt reflects proceeds from the issuances of debt in July 2016 and February 2017 to advance refund all of the bonds issued in 2006 and a portion of bonds issued in 2009. A summary of the outstanding debt at June 30, 2017 and 2016 is as follows:

Issue Date	Interest Rate	2017	2016	Increase (Decrease)
2006	3.5-4.375%	\$	\$ 19,670,000	\$ (19,670,000)
2009	3.1-4.0%	855,000	7,545,000	(6,690,000)
2012	0.8 - 4.0%	3,515,000	3,815,000	(300,000)
2016	5.00%	3,190,000		3,190,000
2017	5.00%	13,810,000		13,810,000
		<u>\$ 21,370,000</u>	<u>\$ 31,030,000</u>	<u>\$ (9,660,000)</u>

The District's latest underlying, long-term credit rating from Standard & Poor's, Inc. is AA. The District's outstanding serial bonds at June 30, 2017 are approximately 6.0% of the District's debt limit.

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 on May 16, 2017, for the year ending June 30, 2018, is \$175,028,809. This is an increase of \$4,890,271 or 2.87% over the previous year's budget. The increase is principally in the instructional program area of the budget.

The District budgeted revenues other than property taxes and STAR at a \$4,468,684 increase over the prior year's estimate, which is principally due to an estimated increase in state aid. The assigned, appropriated fund balance applied to the budget in the amount of \$8,000,000 is the same as the previous year. Additionally, the District has elected to appropriate \$3,600,000 of reserves towards the next year's budget, which is an increase of \$500,000 over the previous year. The budgeted 2017-18 property tax levy is a decrease of \$78,413 or (0.09)%, levy to levy, from the 2016-17 adjusted tax levy.

FREEPORT UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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. Based on the law, the District's tax levy cap for 2017-18 is 0.98%. The District's 2017-18 property tax levy of \$87,047,027 is a 0.09% decrease from the 2016-17 adjusted tax levy and did not require an override vote.

D. Property Tax Relief Credit

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

Dr. Kishore Kuncham
Superintendent of Schools
Freeport Union Free School District
235 N. Ocean Avenue
Freeport, New York 11520

FREEPORT UNION FREE SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

ASSETS

Cash	
Unrestricted	\$ 14,794,681
Restricted	43,390,051
Receivables	
Accounts receivable	766,695
Due from fiduciary funds	2,487,515
Due from state and federal	11,121,143
Due from other governments	7,034,727
Prepays	1,011,000
Inventories	126,514
Capital assets:	
Not being depreciated	3,884,048
Being depreciated, net of accumulated depreciation	76,597,197
Total Assets	<u>161,213,571</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges from advance refunding, net	504,432
Pensions	<u>48,385,226</u>
Total Deferred Outflows of Resources	<u>48,889,658</u>

LIABILITIES

Payables	
Accounts payable	5,471,550
Accrued liabilities	922,219
Due to other governments	35,799
Due to teachers' retirement system	8,500,523
Due to employees' retirement system	444,202
Compensated absences payable	724,118
Unearned credits	
Collections in advance	23,156
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	3,335,791
Energy performance contract	675,916
Compensated absences payable	500,000
Due and payable after one year	
Bonds payable, net	20,079,608
Energy performance contract	3,945,490
Compensated absences payable	12,116,655
Workers' compensation liabilities	3,866,203
Net other postemployment benefits obligation	131,302,844
Net pension liability - proportionate share	<u>7,979,373</u>
Total Liabilities	<u>199,923,447</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	<u>2,151,304</u>
----------	------------------

NET POSITION

Net investment in capital assets	<u>54,911,585</u>
Restricted	
Workers' compensation	7,183,184
Unemployment insurance	822,901
Retirement contribution	11,324,930
Employee benefit accrued liability	14,612,714
Capital	8,595,350
Debt service	377,463
	<u>42,916,542</u>
Unrestricted (deficit)	<u>(89,799,649)</u>
Total Net Position	<u>\$ 8,028,478</u>

FREEPORT UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2017

		Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants	Capital Grants	Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS					
General support	\$ 19,181,316	\$	\$	\$	\$ (19,181,316)
Instruction	151,455,258	277,077	8,687,134	1,071,837	(141,419,210)
Pupil transportation	7,896,307				(7,896,307)
Debt service - interest	1,212,333				(1,212,333)
Food service program	3,534,144	558,684	2,680,385		(295,075)
Total Functions and Programs	<u>\$ 183,279,358</u>	<u>\$ 835,761</u>	<u>\$ 11,367,519</u>	<u>\$ 1,071,837</u>	<u>(170,004,241)</u>
GENERAL REVENUES					
Real property taxes					77,191,113
Other tax items					11,395,676
Use of money and property					177,084
Sale of property and compensation for loss					135,316
Miscellaneous					811,259
State sources					72,048,205
Medicaid reimbursement					166,964
Total General Revenues					<u>161,925,617</u>
Change in Net Position					(8,078,624)
Total Net Position - Beginning of Year					<u>16,107,102</u>
Total Net Position - End of Year					<u>\$ 8,028,478</u>

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

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 13,358,450	\$ 367,760	\$ 518,925	\$	\$ 549,546	\$ 14,794,681
Restricted	40,115,377			371,885	2,902,789	43,390,051
Receivables						
Accounts receivable	742,954		23,741			766,695
Due from other funds	9,242,152	419,028		5,578	8,059	9,674,817
Due from state and federal	3,989,250	6,009,081	204,760		918,052	11,121,143
Due from other governments	7,034,727					7,034,727
Prepays	1,011,000					1,011,000
Inventories			126,514			126,514
Total Assets	\$ 75,493,910	\$ 6,795,869	\$ 873,940	\$ 377,463	\$ 4,378,446	\$ 87,919,628
LIABILITIES						
Payables						
Accounts payable	\$ 4,564,386	\$ 454,556	\$ 84,556	\$	\$ 368,052	\$ 5,471,550
Accrued liabilities	772,803	424	5,929			779,156
Due to other funds	419,144	6,340,889	422,508		4,761	7,187,302
Due to other governments	35,497		302			35,799
Due to teachers' retirement system	8,500,523					8,500,523
Due to employees' retirement system	444,202					444,202
Compensated absences payable	724,118					724,118
Unearned credits						
Collections in advance			23,156			23,156
Total Liabilities	15,460,673	6,795,869	536,451	-	372,813	23,165,806
FUND BALANCES						
Nonspendable:						
Prepays	1,011,000					1,011,000
Inventories			126,514			126,514
Restricted:						
Workers' compensation	7,183,184					7,183,184
Unemployment insurance	822,901					822,901
Retirement contribution	11,324,930					11,324,930
Employee benefit accrued liability	14,612,714					14,612,714
Capital	6,119,885				2,475,465	8,595,350
Debt service				377,463		377,463
Unspent bond proceeds					421,746	421,746
Assigned:						
Appropriated fund balance	8,000,000					8,000,000
Unappropriated fund balance	506,188		210,975		1,108,422	1,825,585
Unassigned: Fund balance	10,452,435					10,452,435
Total Fund Balances	60,033,237	-	337,489	377,463	4,005,633	64,753,822
Total Liabilities and Fund Balances	\$ 75,493,910	\$ 6,795,869	\$ 873,940	\$ 377,463	\$ 4,378,446	\$ 87,919,628

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

Total Governmental Fund Balances	\$ 64,753,822
----------------------------------	---------------

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

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	\$ 128,611,412	
Accumulated depreciation	<u>(48,130,167)</u>	80,481,245

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.

504,432

Proportionate share of long-term liability and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.

Deferred outflows of resources	48,385,226	
Net pension liability - teachers' retirement system	(4,619,219)	
Net pension liability - employees' retirement system	(3,360,154)	
Deferred inflows of resources	<u>(2,151,304)</u>	38,254,549

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Accrued interest on bonds payable	(143,063)	
Bonds payable	(23,415,399)	
Energy performance contract	(4,621,406)	
Compensated absences payable	(12,616,655)	
Workers' compensation liabilities	(3,866,203)	
Net other postemployment benefits obligation	<u>(131,302,844)</u>	(175,965,570)

Total Net Position	<u>\$ 8,028,478</u>
--------------------	---------------------

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

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 77,191,113	\$	\$	\$	\$	\$ 77,191,113
Other tax items	11,395,676					11,395,676
Charges for services	277,077					277,077
Use of money and property	171,071			6,013		177,084
Sale of property and compensation for loss	135,316					135,316
Miscellaneous	811,259	254,670	25,294			1,091,223
Interfund revenue	100,009					100,009
State sources	72,048,205	2,987,401	73,334		1,071,837	76,180,777
Medicaid reimbursement	166,964					166,964
Federal sources	120,011	5,325,052	2,607,051			8,052,114
Sales			533,390			533,390
Total Revenues	162,416,701	8,567,123	3,239,069	6,013	1,071,837	175,300,743
EXPENDITURES						
General support	14,033,984			185,664		14,219,648
Instruction	98,924,316	7,721,059				106,645,375
Pupil transportation	7,822,443					7,822,443
Employee benefits	31,327,475	1,159,520	723,211			33,210,206
Debt service						
Principal				3,563,735		3,563,735
Interest				1,000,332		1,000,332
Food service program			2,518,041			2,518,041
Capital outlay					2,129,456	2,129,456
Total Expenditures	152,108,218	8,880,579	3,241,252	4,749,731	2,129,456	171,109,236
Excess (Deficiency) of Revenues Over Expenditures	10,308,483	(313,456)	(2,183)	(4,743,718)	(1,057,619)	4,191,507
OTHER FINANCING SOURCES AND (USES)						
Proceeds of advance refunding				17,010,000		17,010,000
Premium on obligation				2,586,714		2,586,714
Payment to escrow agent				(24,402,489)		(24,402,489)
Operating transfers in		313,456	100,000	6,685,428		7,098,884
Operating transfers (out)	(7,098,884)					(7,098,884)
Total Other Financing Sources and (Uses)	(7,098,884)	313,456	100,000	1,879,653	-	(4,805,775)
Net Change in Fund Balances	3,209,599	-	97,817	(2,864,065)	(1,057,619)	(614,268)
Fund Balances -						
Beginning of Year, as Restated	56,823,638		239,672	3,241,528	5,063,252	65,368,090
End of Year	\$ 60,033,237	\$ -	\$ 337,489	\$ 377,463	\$ 4,005,633	\$ 64,753,822

FREEPORT UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2017

Net Change in Fund Balances \$ (614,268)

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

Long-Term Revenue and Expense Differences

Certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, but are expensed in the Statement of Activities.

Increase in compensated absences	\$ (509,000)	
Increase in workers' compensation claims liability	(1,301,245)	
Increase in net other postemployment benefits obligation	<u>(14,478,391)</u>	
		(16,288,636)

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 expenses in the Statement of Activities. This is the amount by which capital outlays exceeded depreciation in the period.

Capital outlays	2,876,850	
Depreciation expense	<u>(2,096,185)</u>	
		780,665

Long-Term Debt Transactions Differences

Proceeds and premium from the issuance of bonds are other funding sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position and do not affect the Statement of Activities.

(19,596,714)

Payment to escrow agent is an expenditure in the governmental funds, but it decreases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities

24,402,489

The amortization of the deferred premium, net of the amortization of the deferred charges on the advance refunding of bonds, decreases interest expense in the Statement of Activities.

(253,470)

Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

Repayment of bond principal	2,900,000	
Repayment of installment purchase debt	663,735	

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2016 to June 30, 2017.

	<u>41,469</u>	8,157,509
--	---------------	-----------

Pension Differences

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

Teachers' retirement system	349,096	
Employees' retirement system	<u>(462,990)</u>	
		(113,894)

Change in Net Position of Governmental Activities		<u>\$ (8,078,624)</u>
---	--	-----------------------

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

	<u>Agency</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash		
Unrestricted	\$ 2,184,774	\$
Restricted		294,411
Accounts receivable	<u>475,602</u>	
Total Assets	<u><u>\$ 2,660,376</u></u>	<u>294,411</u>
 LIABILITIES		
Extraclassroom activity balances	\$ 145,907	
Due to governmental funds	2,487,515	
Other liabilities	<u>26,954</u>	
Total Liabilities	<u><u>\$ 2,660,376</u></u>	<u>-</u>
 NET POSITION		
Restricted for scholarships		<u><u>\$ 294,411</u></u>

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

	Private Purpose Trust
ADDITIONS	
Contributions	\$ 32,756
Investment earnings	
Interest	<u>161</u>
Total Additions	32,917
 DEDUCTIONS	
Scholarships and awards	<u>35,400</u>
Change in Net Position	(2,483)
Net Position - Beginning of Year	<u>296,894</u>
Net Position - End of Year	<u><u>\$ 294,411</u></u>

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Freeport 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 five 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 Nassau (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).

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 present 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.

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Debt Service Fund - accounts for the accumulation of resources and the payment of principal and interest on long-term general obligation debt and to account for the advance refundings of the District's outstanding serial bonds of governmental activities.

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:

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

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.

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Real Property Taxes

Calendar

Real property taxes are levied annually by the Board no later than August and become a lien on October 1st and April 1st. Taxes are collected by the Town of Hempstead and remitted to the District from November to June.

Enforcement

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

Payments in Lieu of Taxes (PILOT)

The District reports payments in lieu of taxes (PILOT) revenues in the general fund as part of other tax items revenue. These PILOT revenues are often the results of tax abatements granted by industrial development agencies of the town and/or the County to help promote local economic development. Property owners make PILOT payments to the government agencies, which in turn remit the collected PILOTs to the District.

The District's PILOT revenues also include payments from the Long Island Power Authority (LIPA) remitted by Nassau County. Beginning in the 2015-16 fiscal year, the Nassau County Legislature removed properties owned by LIPA from the assessment and tax rolls and, instead, allowed LIPA to make payments in lieu of taxes with annual increases of no more than 2% in response to the New York State Public Authorities Law Section 1020-q (the "LIPA Reform Act") enacted by the state in 2013. These LIPA PILOT payments are not the result of tax abatement agreements as defined by GASB Statement No. 77, "Tax Abatement Disclosures", under which an entity receiving a reduction in tax revenues promises to take specific action that contributes to economic development or otherwise benefits the governments or residents of the governments.

F. Restricted Resources

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

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

K. Inventory and Prepaid Items

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. Inventory is accounted for on the consumption method.

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

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments for health insurance premiums reflect costs applicable to a future accounting period and are recorded as assets on the Statement of Net Position and Balance Sheet using the consumption method.

Under the consumption method, a current asset for the inventory and/or prepaid item is recorded at the time of receipt and/or purchase and an expense/expenditure is reported in the year the goods are consumed.

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

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

L. Capital Assets

Capital assets are reflected in the district-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at 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	\$ 1,000	50 years
Site improvements	1,000	20-50 years
Furniture and equipment	500	5-10 years

M. Deferred Outflows of Resources

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has three items that qualify for reporting in this category. First is the unamortized amount of deferred charges from refunding of bonds that is being amortized as a component of interest expense on a straight-line basis over the remaining life of the 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 Systems) subsequent to the measurement date.

N. Collections in Advance

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

O. Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, which 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.

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

P. Employee Benefits – Compensated Absences

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

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

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

Q. Other Benefits

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

District employees may choose to participate in the District's elective deferred compensation plans established under Internal Revenue Code Sections 403(b) and 457.

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

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

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

R. Short-Term Debt

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

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

No short-term debt was issued during the year ended June 30, 2017.

S. Equity Classifications

District-Wide Statements

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

Net investment in capital assets – Consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisitions, construction and improvements of those assets (net of unspent bond proceeds).

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

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

Fund Statements

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

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 and prepaids for health insurance premiums, which are recorded in the general 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:

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Workers' Compensation Reserve

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

Unemployment Insurance Reserve

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

Retirement Contribution Reserve

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

Employee Benefit Accrued Liability Reserve

Employee Benefit Accrued Liability Reserve (GML §6-p) is used to reserve funds for the payment of accrued employee benefit primarily based on unused and unpaid sick leave, personal leave, holiday leave or vacation time due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the general fund.

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 and capital projects fund.

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Restricted for Debt Service

Unexpended balances of proceeds of borrowings for capital projects, interest and earnings from investing proceeds of obligations, and premiums and accrued interest on long-term borrowings are recorded in the debt service fund and held until appropriated for debt payments. These restricted amounts are accounted for in the debt service fund.

Restricted – Unspent Bond Proceeds

Unspent long-term bond proceeds are recorded as restricted fund balance because they are subject to external constraints contained in the debt agreement. These restricted funds are accounted for in the capital projects 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 also 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 Board will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classification will be charged.

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2017, the District implemented GASB Statement No. 77, *Tax Abatement Disclosures*, which requires the District to disclose information about tax abatement agreements impacting real property tax revenue.

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, including pensions.

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

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

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Pension Differences

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

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:

Fund balance appropriated for transfer to debt service	<u>\$ 2,500,000</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.

C. Unassigned Fund Balance

The District's general fund unassigned fund balance was in excess of the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year. The District is in the process of formulating a plan to reduce the unassigned fund balance to be within the permissible limit. This plan will address funding its reserves to a fiscally prudent level and addressing the capital needs of the District.

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Investments are stated at fair value.

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.

6. PARTICIPATION IN BOCES

During the year ended June 30, 2017, the District was billed \$18,709,048 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$4,183,432. Financial statements for the BOCES are available from the BOCES administrative offices at 71 Clinton Road, P.O. Box 9195, Garden City, New York 11530-9195.

7. DUE FROM STATE AND FEDERAL

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

General Fund	
New York State - excess cost aid	\$ 3,538,056
New York State - general aid	426,442
Medicaid reimbursement	<u>24,752</u>
	3,989,250
Special Aid Fund	
Federal and state grants	6,009,081
School Food Service Fund	
Federal and state food service program reimbursements	204,760
Capital Projects Fund	
New York State - Smart Schools Bond Act	<u>918,052</u>
	<u>\$ 11,121,143</u>

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

8. DUE FROM OTHER GOVERNMENTS

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

General Fund	
Nassau County - property taxes and PILOT	\$ 4,890,641
BOCES aid	<u>2,144,086</u>
	<u>\$ 7,034,727</u>

9. CAPITAL ASSETS

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Governmental activities				
Capital assets not being depreciated				
Land	\$ 800,000	\$	\$	\$ 800,000
Construction in progress	<u>1,621,854</u>	<u>2,129,456</u>	<u>(667,262)</u>	<u>3,084,048</u>
Total capital assets not being depreciated	<u>2,421,854</u>	<u>2,129,456</u>	<u>(667,262)</u>	<u>3,884,048</u>
Capital assets being depreciated				
Buildings and improvements	107,785,197	567,882		108,353,079
Site improvements	6,012,756	99,380		6,112,136
Furniture and equipment	<u>9,514,755</u>	<u>747,394</u>		<u>10,262,149</u>
Total capital assets being depreciated	<u>123,312,708</u>	<u>1,414,656</u>	<u>-</u>	<u>124,727,364</u>
Less accumulated depreciation for:				
Buildings and improvements	35,148,220	1,511,367		36,659,587
Site improvements	2,985,035	208,963		3,193,998
Furniture and equipment	<u>7,900,727</u>	<u>375,855</u>		<u>8,276,582</u>
Total accumulated depreciation	<u>46,033,982</u>	<u>2,096,185</u>	<u>-</u>	<u>48,130,167</u>
Total capital assets, being depreciated, net	<u>77,278,726</u>	<u>(681,529)</u>	<u>-</u>	<u>76,597,197</u>
Capital assets, net	<u>\$ 79,700,580</u>	<u>\$ 1,447,927</u>	<u>\$ (667,262)</u>	<u>\$ 80,481,245</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 964,245
Instruction	<u>1,131,940</u>
Total depreciation expense	<u>\$ 2,096,185</u>

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

10. INTERFUND TRANSACTIONS

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 9,242,152	\$ 419,144	\$	\$ 7,098,884
Special Aid Fund	419,028	6,340,889	313,456	
School Food Service Fund		422,508	100,000	
Debt Service Fund	5,578		6,685,428	
Capital Projects Fund	8,059	4,761		
Total Governmental Funds	9,674,817	7,187,302	\$ 7,098,884	\$ 7,098,884
Fiduciary Funds		2,487,515		
Total	\$ 9,674,817	\$ 9,674,817		

The District typically transfers from the general fund to the special aid fund, school food service fund and debt service fund. The transfer to the special aid fund was for the District's share of the costs for the summer program for students with disabilities and the state-supported Section 4201 schools. The transfer to the school food service fund was to provide support for the program per the approved budget. The transfer to the debt service fund was for the payment of principal and interest on long-term outstanding indebtedness, and for payment to escrow agent as part of an advanced refunding of bonds.

11. LONG-TERM LIABILITIES

A. Changes

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
<u>Long-term debt:</u>					
Bonds payable	\$ 27,215,000	\$ 17,010,000	\$ (26,370,000)	\$ 17,855,000	\$ 2,545,000
Add: Premium on refunding	-	2,586,715	(541,316)	2,045,399	485,791
	27,215,000	19,596,715	(26,911,316)	19,900,399	3,030,791
Qualified school construction bond	3,815,000		(300,000)	3,515,000	305,000
Energy performance contract	5,285,141		(663,735)	4,621,406	675,916
	36,315,141	19,596,715	(27,875,051)	28,036,805	4,011,707
<u>Other long-term liabilities</u>					
Compensated absences	12,107,655	1,332,447	(823,447)	12,616,655	500,000
Workers' compensation	2,564,958	2,525,450	(1,224,205)	3,866,203	
	14,672,613	3,857,897	(2,047,652)	16,482,858	500,000
	\$ 50,987,754	\$ 23,454,612	\$ (29,922,703)	\$ 44,519,663	\$ 4,511,707

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

FREEPORT 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, 2017
Serial bond	2009	4/1/2018	3.1-4.0%	\$ 855,000
Qualified school construction bond	2012	6/15/2027	0.8 - 4.0%	3,515,000
Refunding bond	2016	4/1/2024	5.00%	3,190,000
Refunding bond	2017	12/1/2028	5.00%	13,810,000
				<u>\$ 21,370,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 2,850,000	\$ 958,168	\$ 3,808,168
2019	2,550,000	835,750	3,385,750
2020	2,675,000	712,805	3,387,805
2021	2,800,000	582,440	3,382,440
2022	2,940,000	445,510	3,385,510
2023-2027	6,375,000	951,555	7,326,555
2028-2029	1,180,000	59,500	1,239,500
Total	<u>\$ 21,370,000</u>	<u>\$ 4,545,728</u>	<u>\$ 25,915,728</u>

C. Energy Performance Contract

Energy performance contract is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2017
Energy performance contract	2012	7/15/2023	1.827%	<u>\$ 4,621,406</u>

The following is a summary of debt service requirements for energy performance contract payable:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 675,916	\$ 81,360	\$ 757,276
2019	688,322	68,955	757,277
2020	700,955	56,321	757,276
2021	713,820	43,456	757,276
2022	726,920	30,355	757,275
2023-2024	1,115,473	20,442	1,135,915
Total	<u>\$ 4,621,406</u>	<u>\$ 300,889</u>	<u>\$ 4,922,295</u>

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Advance Refunding

On July 19, 2016, the District issued \$3,200,000 in general obligation bonds with an interest rate of 5.0% to advance refund \$5,865,000 of outstanding 2009 serial bonds with an average interest rate of 3.55%. The net proceeds of \$3,760,960 (including a premium of \$645,709, and after payment of \$84,749 in underwriting fees, insurance and other issuance costs) was used to purchase United States government securities. Those securities, along with a \$2,500,000 payment funded in 2015-16 by the District, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$591,000. The outstanding principal balance of the defeased bonds is \$855,000 at June 30, 2017 and the bonds will be redeemed in full on April 1, 2018.

On February 23, 2017, the District issued \$13,810,000 in general obligation bonds with an interest rate of 5.0% to advance refund \$17,905,000 of outstanding 2006 serial bonds with an average interest rate of 4.05%. The net proceeds of \$15,647,577 (including a premium of \$1,941,005, and after payment of \$103,428 in underwriting fees, insurance and other issuance costs) was used to purchase United States government securities. Those securities, along with a \$2,500,000 payment by the District, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$3,245,000.

In the district-wide statements, the District is amortizing deferred charges on the advance refunding and a refunding bond premium as a component of interest expense on a weighted average basis as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amortization of Deferred Charges</u>	<u>Amortization of Premium</u>	<u>Interest Expense Increase / (Decrease)</u>
2018	\$ 120,976	\$ (485,791)	\$ (364,815)
2019	108,062	(418,385)	(310,323)
2020	88,927	(338,264)	(249,337)
2021	68,874	(254,212)	(185,338)
2022	49,497	(179,722)	(130,225)
2023-2027	66,896	(359,419)	(292,523)
2028	1,200	(9,606)	(8,406)
Total	<u>\$ 504,432</u>	<u>\$ (2,045,399)</u>	<u>\$ (1,540,967)</u>

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Interest Expense

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

Interest paid	\$ 1,000,332
Less interest accrued in the prior year	(184,532)
Plus interest accrued in the current year	143,063
Plus elimination of deferred amounts on refunded bond (GASB 65)	666,729
Less net amortization of premium and deferred charge on refunded bonds	<u>(413,259)</u>
Total interest expense on long-term debt	<u>\$ 1,212,333</u>

12. PENSION PLANS – NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

The TRS is administered by the New York State Teachers' Retirement Board. The TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in the TRS. Once a public employer elects to participate in the TRS, the 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 on the NYS Comptroller's website at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

FREEPORT 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 average rate was 13.26% of covered payroll for the TRS' fiscal year ended June 30, 2016. The District's average contribution rate was 13.43% of covered payroll for the ERS' fiscal year ended March 31, 2017.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2017, was \$8,055,763 for TRS and \$1,707,906 for ERS.

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

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

	TRS	ERS
Measurement date	June 30, 2016	March 31, 2017
District's proportionate share of the net pension liability	\$ (4,619,219)	\$ (3,360,154)
District's portion of the Plan's total net pension liability	0.4312830%	0.0400000%
Change in proportion since the prior measurement date	(0.0086470)	0.0030195

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$7,706,666 for TRS and \$2,170,896 for ERS. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	TRS	ERS	TRS	ERS
Differences between expected and actual experience	\$	\$ 84,202	\$ 1,500,581	\$ 510,258
Changes of assumptions	26,314,010	1,147,952		
Net difference between projected and actual earnings on pension plan investments	10,386,432	671,159		
Changes in proportion and differences between the District's contributions and proportionate share of contributions	507,537	774,227	100,750	39,715
District's contributions subsequent to the measurement date	8,055,505	444,202		
Total	<u>\$ 45,263,484</u>	<u>\$ 3,121,742</u>	<u>\$ 1,601,331</u>	<u>\$ 549,973</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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	TRS	ERS
2018	\$ 3,280,572	\$ 882,134
2019	3,280,572	882,134
2020	11,346,963	755,432
2021	8,837,274	(392,133)
2022	4,089,737	
Thereafter	4,771,530	
	<u>\$ 35,606,648</u>	<u>\$ 2,127,567</u>

Actuarial Assumptions

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

	TRS	ERS
Measurement date	June 30, 2016	March 31, 2017
Actuarial valuation date	June 30, 2015	April 1, 2016
Inflation	2.5%	2.5%
Salary increases	1.90-4.72%	3.8%
Investment rate of return (net of investment expense, including inflation)	7.5%	7.0%
Cost of living adjustments	1.5%	1.3%

FREEPORT 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.

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.

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

	TRS		ERS	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Measurement date		June 30, 2016		March 31, 2017
Asset type				
Domestic equity	37.0%	6.10%	36.0%	4.55%
International equity	18.0%	7.30%	14.0%	6.35%
Real estate	10.0%	5.40%	10.0%	5.80%
Alternative investments	7.0%	9.20%	18.0%	4.00-7.75%
Domestic fixed income securities	17.0%	1.00%		
Global fixed income securities	2.0%	0.80%		
Bonds and mortgages	8.0%	3.10%	17.0%	1.31%
Short-term	1.0%	0.10%		
Cash			1.0%	-0.25%
Inflation indexed bonds			4.0%	1.50%
	100.0%		100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for TRS and 7.0% for ERS (the discount rate used by the TRS at the prior year's measurement date of June 30, 2015 was 8.0%). The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 7.5% for TRS and 7.0% for ERS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5% for TRS and 6.0% for ERS) or 1 percentage point higher (8.5% for TRS and 8.0% for ERS) than the current rate:

	1% Decrease (6.50)%	Current Assumption (7.50)%	1% Increase (8.50)%
<u>TRS</u>			
District's proportionate share of the net pension asset (liability)	<u>\$ (60,268,205)</u>	<u>\$ (4,619,219)</u>	<u>\$ 42,056,234</u>
	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
<u>ERS</u>			
District's proportionate share of the net pension asset (liability)	<u>\$ (10,731,665)</u>	<u>\$ (3,360,154)</u>	<u>\$ 2,872,445</u>

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:

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

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017, are paid to the system in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017, represent employer and employee contributions for the fiscal year ended June 30, 2017, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS system. Accrued retirement contributions as of June 30, 2017 amounted to \$8,055,505 of employer contributions and \$445,018 of employee contributions.

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

For ERS, employer contributions are paid annually based on the system's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2017, represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$444,202 of employer contributions. Employee contributions are remitted monthly.

13. PENSION PLANS - OTHER

A. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain compensated absence payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2017, totaled \$549,313 and \$4,492,503, respectively.

B. Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. Contributions made by the eligible employees for the year ended June 30, 2017 totaled \$517,586.

14. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. Plan Description

The District provides medical and Medicare part B reimbursement 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 New York State Health Insurance Program - Empire Plan. The plan does not issue a stand-alone financial report.

B. Funding Policy

The District assumes the 50%-90% of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums mature (come due for payment). For the year ended June 30, 2017, the District recognized a general fund expenditure of \$2,206,270 for insurance premiums for 441 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the "pay as you go" method.

C. Annual OPEB Cost and Net OPEB Obligation

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

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Annual required contribution (ARC)	\$ 18,966,180
Interest on net OPEB obligation	3,504,734
Adjustment to ARC	<u>(5,786,253)</u>
Annual OPEB cost (expense)	16,684,661
Contributions made	<u>(2,206,270)</u>
 Increase in net OPEB obligation	 14,478,391
Net OPEB obligation - beginning of year	<u>116,824,453</u>
 Net OPEB obligation - end of year	 <u>\$ 131,302,844</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 16,684,661	13.2%	\$ 131,302,844
June 30, 2016	16,651,484	14.9%	116,824,453
June 30, 2015	16,656,027	6.0%	102,646,306

D. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date the plan was 0% funded. The actuarial accrued liability for benefits was \$176,141,180 and the actuarial value of assets was -\$0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$176,141,180. The covered payroll (annual payroll of active employees covered by the plan) was \$85,139,819, and the ratio of the UAAL to the covered payroll was 206.9%.

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

E. Actuarial Methods and Assumptions

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

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

In the July 1, 2016, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.0% discount rate and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 4.5% as of June 30, 2022 and a 2.6% inflation rate. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

15. RISK MANAGEMENT

A. General Information

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by a combination of self-insurance reserves 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. Risk Retention

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unreported claims which were incurred on or before year end but not reported (IBNR). Claims activity is summarized below:

	2016	2017
Unpaid claims at beginning of year	\$ 2,300,315	\$ 2,564,958
Incurred claims and claim adjustment expenses	1,347,802	2,525,450
Claim payments	<u>(1,083,159)</u>	<u>(1,224,205)</u>
Unpaid claims at year end	<u>\$ 2,564,958</u>	<u>\$ 3,866,203</u>

C. Public Entity Risk Pool

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

16. RESTRICTED FUND BALANCE – APPROPRIATED RESERVES

The District expects to appropriate \$3,600,000 from reserves, which are reported in the June 30, 2017 restricted fund balances, to fund the budget and reduce taxes for the year ending June 30, 2018.

17. ASSIGNED – APPROPRIATED FUND BALANCE

The amount of \$8,000,000 has been appropriated to reduce taxes for the year ending June 30, 2018.

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

18. TAX ABATEMENTS

The Nassau County Industrial Development Agency enters into various property tax abatement programs for the purpose of economic development. The District's 2016-17 property tax revenue was reduced by \$2,699,358. The District received payment in lieu of taxes (PILOT) payments totaling \$924,755.

19. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

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

Restricted Fund Balance	
Capital Projects Fund	
Capital projects	<u>\$ 1,872,490</u>
Assigned: Unappropriated Fund Balance	
General Fund	
General Support	285,183
Instruction	<u>221,005</u>
	506,188
Capital Projects Fund	
Capital projects	<u>1,077,653</u>
	<u><u>\$ 3,456,331</u></u>

B. Grants

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

C. Litigation

The District is involved in lawsuits arising from the normal conduct of its affairs. However, it is not possible to determine the District's potential exposure, if any, at this time.

D. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$436,414. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 454,597
2019	144,274
2020	58,389
2021	<u>41,212</u>
	<u><u>\$ 698,472</u></u>

FREEPORT UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

20. RESTATEMENT OF BEGINNING FUND BALANCE

The beginning fund balance of the general fund was reduced and the debt service fund was increased by \$326,628 to account for funds that were recovered from legal actions taken against a contractor associated with a previous bond project. The recovered funds which were deposited in the general fund are restricted for debt service of the bond and should be reported in the debt service fund.

21. 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.

FREEPORT UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 77,191,113	\$ 77,191,113	\$ 77,191,113	\$ -
Other tax items	11,337,285	11,337,285	11,395,676	58,391
Charges for services	505,000	505,000	277,077	(227,923)
Use of money and property	359,495	359,495	171,071	(188,424)
Sale of property and compensation for loss	142,000	142,000	135,316	(6,684)
Miscellaneous	272,951	272,951	811,259	538,308
Interfund revenues	100,000	100,000	100,009	9
Total Local Sources	89,907,844	89,907,844	90,081,521	173,677
State Sources	68,985,694	68,985,694	72,048,205	3,062,511
Medicaid Reimbursement	120,000	120,000	166,964	46,964
Federal Sources	25,000	25,000	120,011	95,011
Total Revenues	159,038,538	159,038,538	162,416,701	\$ 3,378,163
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	8,000,000	10,500,000		
Prior Year's Encumbrances	1,184,075	1,184,075		
Appropriated Reserves	3,100,000	3,100,000		
Total Appropriated Fund Balance	12,284,075	14,784,075		
Total Revenues and Appropriated Fund Balance	\$ 171,322,613	\$ 173,822,613		

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.

FREEPORT UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 91,441	\$ 110,086	\$ 53,895	\$	\$ 56,191
Central administration	427,046	465,206	461,744		3,462
Finance	987,626	974,906	882,044	1,896	90,966
Staff	871,574	864,601	784,095		80,506
Central services	10,112,598	11,095,760	10,204,025	283,287	608,448
Special items	1,716,967	1,683,976	1,648,181		35,795
Total General Support	14,207,252	15,194,535	14,033,984	285,183	875,368
Instruction					
Administration & improvement	8,883,918	9,184,511	8,890,125	105,134	189,252
Teaching - regular school	58,783,937	57,807,273	53,525,236	56,570	4,225,467
Programs for students with disabilities	25,532,820	25,303,802	24,678,546	636	624,620
Teaching - special school	588,040	528,783	458,423		70,360
Instructional media	3,463,714	4,381,167	4,158,470	43,918	178,779
Pupil services	7,673,863	7,733,614	7,213,516	14,747	505,351
Total Instruction	104,926,292	104,939,150	98,924,316	221,005	5,793,829
Pupil Transportation	9,089,928	8,429,119	7,822,443		606,676
Employee Benefits	38,007,734	37,479,946	31,327,475		6,152,471
Total Expenditures	166,231,206	166,042,750	152,108,218	506,188	13,428,344
OTHER USES					
Operating Transfers Out	5,091,407	7,779,863	7,098,884		680,979
Total Expenditures and Other Uses	\$ 171,322,613	\$ 173,822,613	159,207,102	\$ 506,188	\$ 14,109,323
Net Change in Fund Balance			3,209,599		
Fund Balances - Beginning of Year, as Restated			56,823,638		
Fund Balances - End of Year			\$ 60,033,237		

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.

FREEPORT UNION FREE SCHOOL DISTRICT
Schedule of Funding Progress - Other Postemployment Benefits
June 30, 2017

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ -	\$ 176,141,180	\$ 176,141,180	0%	\$ 85,139,819	206.9%
July 1, 2014	-	165,495,508	165,495,508	0%	81,743,706	202.5%
July 1, 2012	-	160,908,391	160,908,391	0%	81,938,642	196.4%

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

Teachers' Retirement System

	2017	2016	2015
District's proportion of the net pension asset (liability)	0.4312830%	0.4399300%	0.4368150%
District's proportionate share of the net pension asset (liability)	\$ (4,619,219)	\$ 45,694,752	\$ 48,658,441
District's covered payroll	\$ 66,551,271	\$ 66,083,521	\$ 64,524,342
District's proportionate share of the net pension asset (liability) as a percentage of its covered payroll	6.94 %	69.15 %	75.41 %
Plan fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%

Employees' Retirement System

	2017	2016	2015
District's proportion of the net pension liability	0.0400000%	0.0369805%	0.0360605%
District's proportionate share of the net pension liability	\$ (3,360,154)	\$ (5,935,480)	\$ (1,218,212)
District's covered payroll	\$ 12,977,410	\$ 11,521,488	\$ 11,479,147
District's proportionate share of the net pension liability as a percentage of its covered payroll	25.89 %	51.52 %	10.61 %
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.68%	97.95%

Note to Required Supplementary Information

Teachers' Retirement System

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

Employees' Retirement System

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

FREEPORT UNION FREE SCHOOL DISTRICT
Schedule of District Pension Contributions
Last Ten Fiscal Years

Teachers' Retirement System

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 8,055,763	\$ 8,824,699	\$ 11,584,441	\$ 10,590,655	\$ 7,514,033	\$ 7,221,374	\$ 5,635,644	\$ 3,772,191	\$ 4,725,025	\$ 5,224,423
Contributions in relation to the contractually required contribution	8,055,763	8,824,699	11,584,441	10,590,655	7,514,033	7,221,374	5,635,644	3,772,191	4,725,025	5,224,423
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 68,735,179	\$ 66,551,271	\$ 66,083,521	\$ 64,524,342	\$ 63,497,687	\$ 64,998,865	\$ 65,390,306	\$ 64,332,562	\$ 63,085,148	\$ 59,844,485
Contributions as a percentage of covered payroll	12%	13%	18%	16%	12%	11%	9%	6%	7%	9%

Employees' Retirement System

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 1,707,906	\$ 2,097,478	\$ 2,036,533	\$ 2,140,908	\$ 2,303,641	\$ 1,709,054	\$ 1,257,466	\$ 894,550	\$ 685,510	\$ 786,243
Contributions in relation to the contractually required contribution	1,707,906	2,097,478	2,036,533	2,140,908	2,303,641	1,709,054	1,257,466	894,550	685,510	786,243
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 12,721,486	\$ 11,521,217	\$ 11,515,860	\$ 11,524,591	\$ 10,988,248	\$ 10,715,249	\$ 11,305,534	\$ 11,053,691	\$ 9,791,367	\$ 9,836,522
Contributions as a percentage of covered payroll	13%	18%	18%	19%	21%	16%	11%	8%	7%	8%

FREEPORT UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
and the Real Property Tax Limit - General Fund
For The Year Ended June 30, 2017

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 170,138,538
Additions:	
Prior year's encumbrances	<u>1,184,075</u>
Original Budget	171,322,613
Budget revisions	<u>2,500,000</u>
Final Budget	<u><u>\$ 173,822,613</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2017-18 voter-approved expenditure budget	<u><u>\$ 175,028,809</u></u>
Maximum allowed (4% of 2017-18 budget)	<u><u>\$ 7,001,152</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	
Unrestricted fund balance:	
Assigned fund balance	\$ 8,506,188
Unassigned fund balance	<u>10,452,435</u>
	\$ 18,958,623
Less:	
Appropriated fund balance	8,000,000
Encumbrances	<u>506,188</u>
Total adjustments	<u>8,506,188</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	<u><u>\$ 10,452,435</u></u>
Actual Percentage	5.97%

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

PROJECT TITLE	Expenditures					Methods of Financing					Fund
	Budget June 30, 2016	Budget June 30, 2017	Prior Years	Current Year	Total	Unexpended Balance	Proceeds of Obligations	State Aid	Local Sources	Total	Balance June 30, 2017
Unallocated Prior Years	\$ 1,284,699	\$ 1,192,791	\$ -	\$ -	\$ -	\$ 1,192,791	\$ -	\$ -	\$ 1,192,791	\$ 1,192,791	\$ 1,192,791
Building Additions & Alterations	39,615,237	39,615,237	39,551,926		39,551,926	63,311	35,600,000		4,015,237	39,615,237	63,311
Transfer to Capital 02/03	475,000	475,000	470,785	4,215	475,000	-			475,000	475,000	-
Transfer to Capital 03/04	550,000	550,000	450,088	99,912	550,000	-			550,000	550,000	-
Transfer to Capital 04/05	819,275	819,275	648,376	170,899	819,275	-			819,275	819,275	-
Transfer to Capital 05/06	1,707,953	1,707,953	1,700,839		1,700,839	7,114			1,707,953	1,707,953	7,114
Transfer to Capital 07/08	861,764	861,764	850,733	11,025	861,758	6			861,764	861,764	6
Transfer to Capital 08/09	1,228,895	1,228,895	1,116,727	106,550	1,223,277	5,618			1,228,895	1,228,895	5,618
Transfer to Capital 09/10	975,000	980,996	1,002,667		1,002,667	(21,671)			980,996	980,996	(21,671)
Transfer to Capital 10/11	256,584	256,584	214,991	32,889	247,880	8,704			256,584	256,584	8,704
Transfer to Capital 11/12	337,814	337,814	268,393	69,421	337,814	-			337,814	337,814	-
EXCEL Projects	16,993,003	16,993,003	16,634,471		16,634,471	358,532	11,910,000	5,083,003		16,993,003	358,532
QSCB	4,974,900	5,000,000	4,990,563	9,534	5,000,097	[97]	5,000,000			5,000,000	[97]
Freeport HS- Steam Piping		91,908	91,908		91,908	-			91,908	91,908	-
Capital Reserve 10/11	1,493,949	1,500,001	1,280,108	(95,341)	1,184,767	315,234			1,500,001	1,500,001	315,234
Capital Reserve 11/12	1,900,043	1,900,000	1,755,592		1,755,592	144,408			1,900,000	1,900,000	144,408
Capital Reserve 12/13	1,300,000	1,300,000	1,028,220	150,137	1,178,357	121,643			1,300,000	1,300,000	121,643
Capital Reserve 13/14	1,200,000	1,200,000	1,032,702	(153,179)	879,523	320,477			1,200,000	1,200,000	320,477
Capital Reserve 14/15	1,500,000	1,500,000	858,880	310,760	1,169,640	330,360			1,500,000	1,500,000	330,360
Capital Reserve 15/16	1,500,000	1,500,000		256,656	256,656	1,243,344			1,500,000	1,500,000	1,243,344
Smart Schools Bond Act		5,944,521		1,155,978	1,155,978	4,788,543		5,944,521		5,944,521	4,788,543
	<u>\$ 78,974,116</u>	<u>\$ 84,955,742</u>	<u>\$ 73,947,969</u>	<u>\$ 2,129,456</u>	<u>\$ 76,077,425</u>	<u>\$ 8,878,317</u>	<u>\$ 52,510,000</u>	<u>\$ 11,027,524</u>	<u>\$ 21,418,218</u>	<u>\$ 84,955,742</u>	<u>8,878,317</u>
Unrealized state aid from Smart Schools Bond Act											(4,872,684)
Fund Balance											\$ 4,005,633

FREEPORT UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2017

Capital assets, net	<u>\$ 80,481,245</u>
Deduct:	
Short-term portion of bonds payable	2,850,000
Long-term portion of bonds payable	18,520,000
Less:	
Unspent bond proceeds	(421,746)
Short-term portion of energy performance contract	675,916
Long-term portion of energy performance contract	<u>3,945,490</u>
	<u>25,569,660</u>
Net Investment in Capital Assets	<u><u>\$ 54,911,585</u></u>

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

To the Board of Education
Freeport Union Free School District
Freeport, 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 Freeport Union Free School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Freeport 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 Freeport Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Freeport 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 Freeport 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 Freeport Union Free School District in a separate letter dated September 27, 2017.

Purpose of this Report

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

Cullen & Danowski, LLP

September 27, 2017

