



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

June 30, 2017

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (MD&A)	3
Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	20
Statement of Fiduciary Net Position – Fiduciary Funds	21
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	22
Notes to Financial Statements	23
Required Supplementary Information other than MD&A:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	48
Schedule of Funding Progress – Other Postemployment Benefits	50
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability	51
Schedule of District Pension Contributions	52
Other Supplementary Information:	
Schedules of Change from Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund	53
Schedule of Project Expenditures and Financing Resources – Capital Projects Fund	54
Net Investment in Capital Assets	55
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>	56

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Half Hollow Hills Central School District
Dix Hills, 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 Half Hollow Hills Central 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 Half Hollow Hills Central 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 14 and 48 through 52, 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 Half Hollow Hills Central School District's basic financial statements. The other supplementary information on pages 53 through 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information requested by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017 on our consideration of the Half Hollow Hills Central 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 Half Hollow Hills Central School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

October 13, 2017

**HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Half Hollow Hills Central 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.

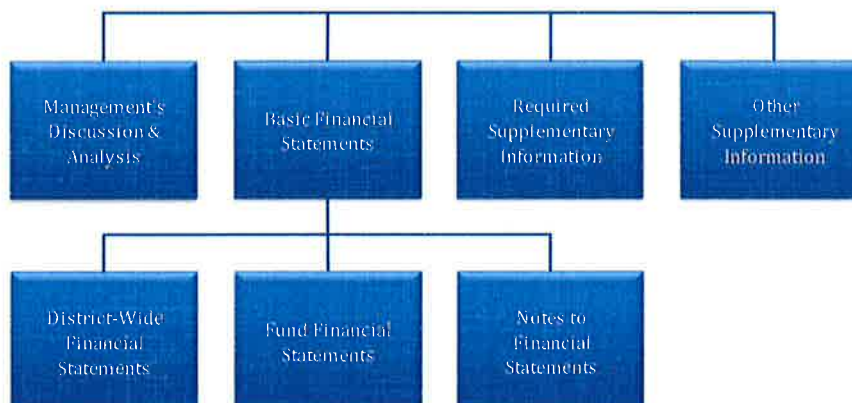
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2017 are as follows:

- The general fund's total fund balance, including restricted, assigned and unassigned balances, increased by \$1,658,014 to \$44,788,025. Total revenues and other sources were \$235,097,902 and expenditures and other uses totaled \$233,439,888.
- The District's total net position, as reflected in the district-wide financial statements is \$33,466,712, a decrease of \$15,933,377 from the prior year. This was due to an excess of expenses over revenues based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$258,684,388. Of this amount, \$9,396,118 was offset by program charges for services and operating grants. General revenues of \$233,354,893 amount to 96.1% of total revenues.
- The District's 2017 property tax levy of \$195,722,436 was a 0.18% increase over the 2016 tax levy and was equal to the property tax cap.
- The budget for the 2017-18 school year in the amount of \$248,047,565 was approved by the voters on May 16, 2017.
- The District aggressively and consistently managed its expenses throughout the year to ensure its year-end results created a strong foundation for entering into the 2017-18 school year, knowing that the District would be under even further financial constraints, as employee benefit costs continue to rise and property tax increases are limited by the property tax cap. These constraints create a challenging financial environment for the District.

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:



HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

A. District-wide Financial Statements

The District-wide financial statements 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.

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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 \$15,933,377 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:

	2017	2016	Increase (Decrease)	Percentage Change
Assets				
Current and Other Assets	\$ 67,519,106	\$ 66,490,000	\$ 1,029,106	1.55 %
Capital Assets, Net	108,716,205	112,266,569	(3,550,364)	(3.16)%
Net Pension Asset - Proportionate Share		62,315,454	(62,315,454)	(100.00)%
Total Assets	176,235,311	241,072,023	(64,836,712)	(26.90)%
Deferred Outflows of Resources	70,749,395	30,299,113	40,450,282	133.50 %
Liabilities				
Current and Other Liabilities	18,065,302	18,605,865	(540,563)	(2.91)%
Long-Term Liabilities	67,714,830	75,193,726	(7,478,896)	(9.95)%
Net OPEB Obligation	108,165,951	88,033,548	20,132,403	22.87 %
Net Pension Liability - Proportionate Share	15,753,288	16,687,754	(934,466)	(5.60)%
Total Liabilities	209,699,371	198,520,893	11,178,478	5.63 %
Deferred Inflows of Resources	3,818,623	23,450,154	(19,631,531)	(83.72)%
Net Position				
Net Investment in Capital Assets	67,474,679	65,219,759	2,254,920	3.46 %
Restricted	32,562,690	30,915,767	1,646,923	5.33 %
Unrestricted (deficit)	(66,570,657)	(46,735,437)	(19,835,220)	42.44 %
Total Net Position	\$ 33,466,712	\$ 49,400,089	\$ (15,933,377)	(32.25)%

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Current and other assets increased by \$1,029,106 to \$67,519,106. This was primarily due to an increase in cash of \$2,302,399 and amounts due from state and federal of \$431,634. These increases were offset by decreases in amounts due from other governments of \$284,638 and fiduciary funds of \$1,492,323.

Capital assets, net decreased during the year by \$3,550,364. The District capitalized \$5,002,096 of construction costs and equipment purchases, which was offset by depreciation expense in the amount of \$8,552,460.

Net pension asset – proportionate share was eliminated in the current year as the New York State Teachers' Retirement System experienced a loss, resulting in an ending balance that was a liability; therefore, the District's proportionate share is a liability.

Deferred outflows of resources represents contributions to the retirement plans subsequent to the measurement dates, actuarial adjustments at the plan level that will be amortized in future years and deferred charges from prior year bond refundings that are being amortized over the remaining term of the bonds.

Current and other liabilities decreased \$540,563, as compared to the prior year. This decrease is primarily due to the decrease in the District's required contribution to the New York State and Local Employees' and Teachers' Retirement Systems of \$1,541,866, as the employer contribution rates were reduced. This decrease was offset by an increase in accounts payable of \$1,045,674.

Long-term liabilities decreased by \$7,478,896, as compared to the prior year, principally due to the principal repayment of \$5,130,000 on outstanding serial bonds and \$675,284 on the energy performance contract debt.

Net other postemployment benefits (OPEB) obligation increased by \$20,132,403, 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 15 "Postemployment Healthcare Benefits", provides additional information.

Net pension liability – proportionate share decreased by \$934,466 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 calculated by taking the total cost of all asset acquisitions, net of accumulated depreciation and subtracting the amount of outstanding debt used for these acquisitions. The total cost of asset acquisitions includes expenditures to purchase land, construct and improve buildings and purchase vehicles, equipment and furniture to support District operations. This amount increased by \$2,254,920 over the prior year.

The restricted amount of \$32,562,690 relates to the District's reserves. This amount increased over the prior year by \$1,646,923. The increase to the restricted amount is primarily due to Board approved additions totaling \$7,078,512, net of the use of restricted amounts to pay current period expenses totaling \$5,484,399.

The unrestricted deficit amount of \$(66,570,657) relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. The deficit increased over the prior year by \$19,835,220.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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:

	2017	2016	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 3,760,683	\$ 3,813,221	\$ (52,538)	(1.38)%
Operating Grants	5,635,435	5,252,173	383,262	7.30 %
General Revenues				
Property Taxes and STAR	195,724,954	195,370,579	354,375	0.18 %
State Sources	32,391,682	29,268,029	3,123,653	10.67 %
Other	5,238,257	4,881,950	356,307	7.30 %
Total Revenues	<u>242,751,011</u>	<u>238,585,952</u>	<u>4,165,059</u>	1.75 %
Expenses				
General Support	27,535,090	24,254,012	3,281,078	13.53 %
Instruction	209,554,022	179,921,938	29,632,084	16.47 %
Pupil Transportation	16,506,724	15,665,945	840,779	5.37 %
Community Service	186,529	163,090	23,439	14.37 %
Debt Service - Interest	1,721,943	1,858,093	(136,150)	(7.33)%
Food Service Program	3,180,080	3,283,177	(103,097)	(3.14)%
Total Expenses	<u>258,684,388</u>	<u>225,146,255</u>	<u>33,538,133</u>	14.90 %
Increase / (Decrease) in Net Position	<u>\$ (15,933,377)</u>	<u>\$ 13,439,697</u>	<u>\$ (29,373,074)</u>	(218.55)%

The change in net position represents the District's operating profit (loss) on the accrual basis of accounting. For the year ended June 30, 2017, the loss was \$15,933,377 compared to a \$13,439,697 profit in the prior year.

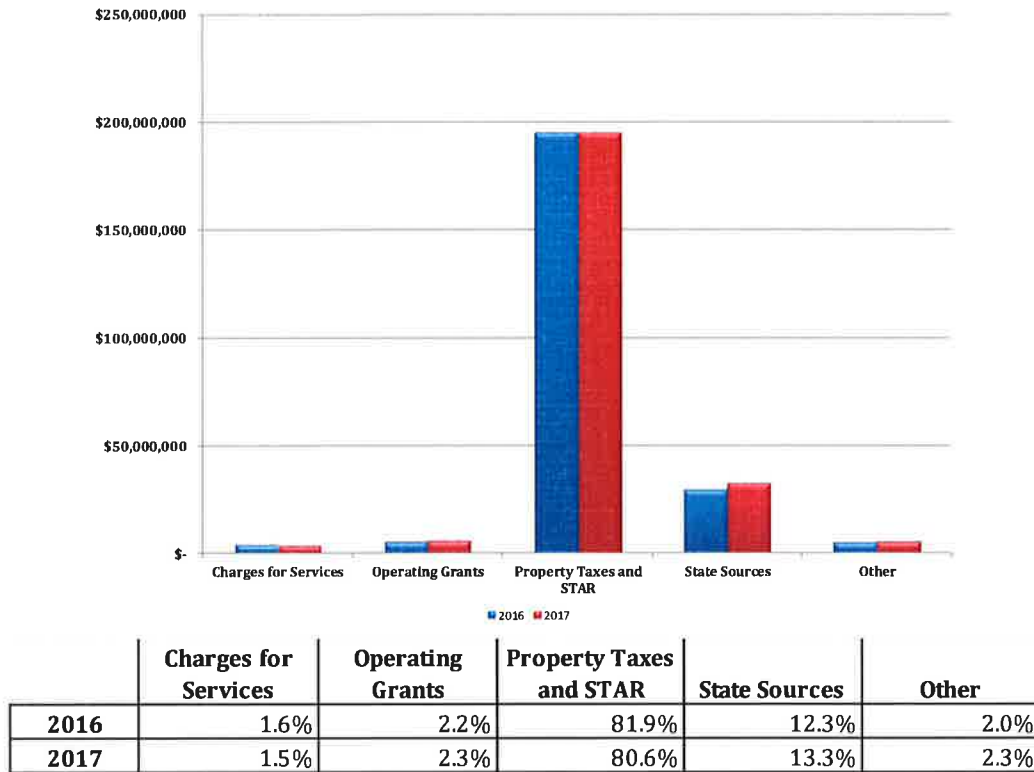
Revenues increased by \$4,165,059 or 1.75% as compared to the prior year. The increase was primarily the result of increases in state aid of \$3,123,653 and operating grants of \$383,262.

The District's expenses for the year increased by \$33,538,133 or 14.9%. The retirement costs related to the employees' and teachers' retirement system, which are actuarially calculated in accordance with GASB 68, increased by \$12,520,358. Costs associated with the District's net OPEB obligation increased by \$13,321,167 due to a change in actuarial assumptions.

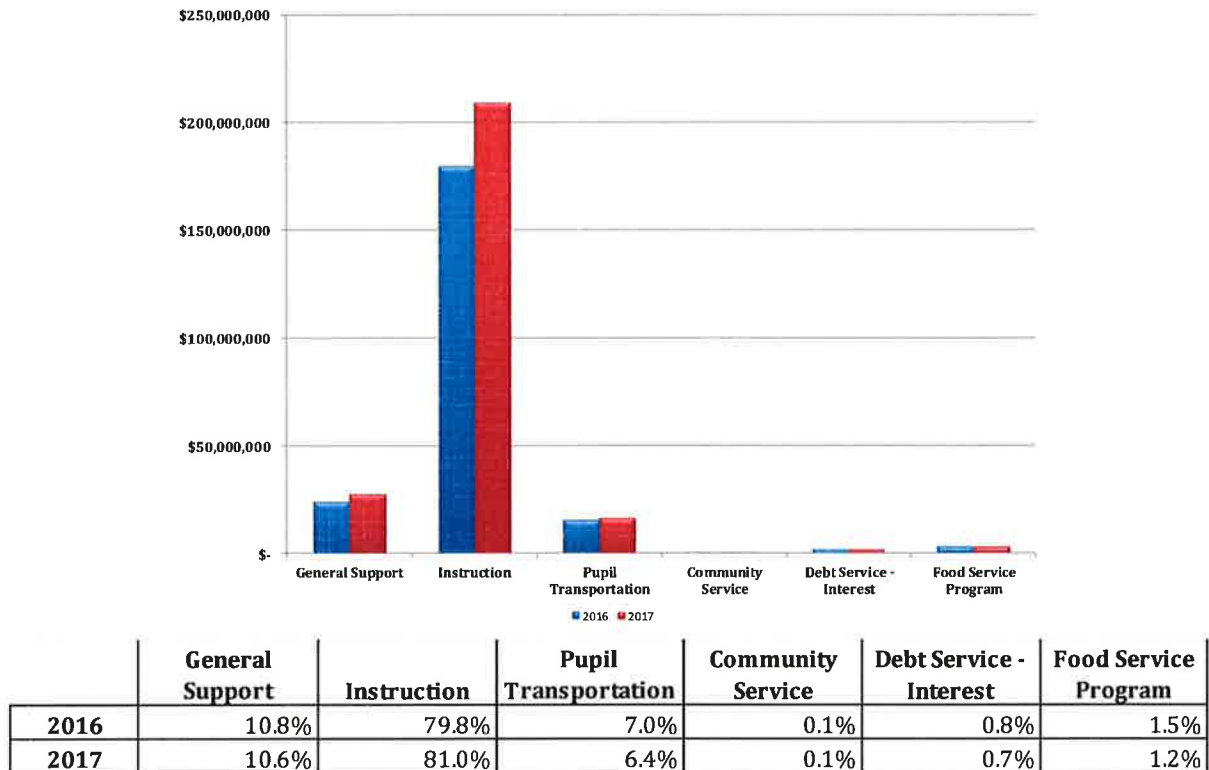
As indicated on the graphs that follow, property taxes and STAR is the largest component of revenues recognized (i.e., 80.6% and 81.9% of the total for the years 2017 and 2016, respectively). Instruction expense is the largest category of expenses incurred (i.e., 81.0% and 79.8% of the total for the years 2017 and 2016, respectively).

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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



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



HALF HOLLOW HILLS CENTRAL 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 \$47,592,170, which is an increase of \$1,143,524 over the prior year. A summary of the change in fund balance by fund is as follows:

	2017	2016	Increase (Decrease)
General Fund			
Restricted:			
Workers' compensation	\$ 6,102,919	\$ 5,113,409	\$ 989,510
Unemployment insurance	2,882,487	2,877,509	4,978
Retirement contribution	6,959,359	7,810,908	(851,549)
Property loss	489,676	488,830	846
Liability	18,147	18,116	31
Employee benefit accrued liability	15,281,624	13,779,273	1,502,351
Assigned:			
Appropriated fund balance	2,500,000	2,500,000	-
Unappropriated fund balance	631,910	890,020	(258,110)
Unassigned: Fund balance	9,921,903	9,651,946	269,957
	<u>44,788,025</u>	<u>43,130,011</u>	<u>1,658,014</u>
School Food Service Fund			
Nonspendable: Inventory	41,260	49,601	(8,341)
Assigned: Unappropriated fund balance		128,445	(128,445)
Unassigned: Fund balance (deficit)	(40,192)		(40,192)
	<u>1,068</u>	<u>178,046</u>	<u>(176,978)</u>
Debt Service Fund			
Restricted: Debt service	828,478	827,722	756
Capital Projects Fund			
Assigned: Unappropriated fund balance	1,974,599	2,312,867	(338,268)
 Total Fund Balance	 <u>\$ 47,592,170</u>	 <u>\$ 46,448,646</u>	 <u>\$ 1,143,524</u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$1,658,014, compared to an increase of \$929,618 in the prior year. Revenues and other sources increased \$4,066,689 over the prior year. The increase is primarily the result of increases in property taxes of \$1,220,405 and state sources of \$3,123,653. Expenditures and other financing uses increased by \$3,338,293 over the prior year. The increase is primarily the result of an increase in instruction expenditures of \$1,266,223, programs for students with disabilities of \$1,536,328 and employee benefits of \$3,583,681. These increases were offset by decreases in instructional media of \$1,216,919 and operating transfers out of \$2,482,995.

B. School Food Service Fund

The net change in the school food service fund – fund balance is a decrease of \$176,978, which was the operating loss of the food service program. In the prior year, the school food service fund operated at a \$127,256 loss. Declining sales revenue is the contributing factor to the continued operating losses.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

C. Debt Service Fund

The net change in the debt service fund – fund balance is an increase of \$756, which represents interest earned in the fund during the 2016-17 school year.

D. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$338,268. Interfund transfers from the general fund in the amount of \$2,500,000 were offset by expenditures on capital projects totaling \$2,832,351 and a transfer of \$5,917 of unspent general fund budgeted interfund transfer revenue back to the general fund.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2016-2017 Budget

The District's general fund adopted budget for the year ended June 30, 2017 was \$241,298,734. This amount was increased by encumbrances carried forward from the prior year in the amount of \$890,020 and budget revisions of \$323,368, for a total final budget of \$242,512,122.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$195,722,436 in estimated property taxes and STAR.

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

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

Opening, Unassigned Fund Balance	\$ 9,651,946
Revenues Over Budget	1,495,137
Expenditures and Encumbrances Under Budget	8,440,324
Interest Allocated to Reserves	(52,054)
Transfers to Reserves	(7,113,450)
Appropriated for June 30, 2018 Budget	<u>(2,500,000)</u>
Closing, Unassigned Fund Balance	<u><u>\$ 9,921,903</u></u>

Opening, Unassigned Fund Balance

The \$9,651,946 shown in the table is the portion of the District's June 30, 2016 fund balance that was retained as unassigned. This was 4% of the District's 2016-17 approved operating budget of \$241,298,734. It is the maximum unassigned fund balance permitted by law.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Revenues Over Budget

The District's 2016-17 final budget for revenues was \$233,602,765. Actual revenues for the year exceeded estimates by \$1,495,137. Other tax items, charges for services and miscellaneous revenues exceeded amounts estimated by \$1,080,068, which contributes directly to the change in 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 \$242,512,122. Actual expenditures as of June 30, 2017 were \$233,439,888 and outstanding encumbrances were \$631,910. The final budget was under expended by \$8,440,324, mainly in the areas of central services, instruction and employee benefits. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2016 to June 30, 2017.

Transfers to Reserves

The following transfers were made to the reserves during the year:

Board Approved Transfers	
Retirement contribution	\$ 3,000,000
Employee benefit accrued liability	2,578,512
Workers' compensation	1,500,000
	<u>7,078,512</u>
Unused Appropriated Reserves	
Employee benefit accrued liability	<u>34,938</u>
Total	<u>\$ 7,113,450</u>

Appropriated Fund Balance

The District has chosen to use \$2,500,000 of the available June 30, 2017 unassigned fund balance to partially fund the 2017-18 approved operating budget. As such, the June 30, 2017 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the table, the unassigned fund balance at June 30, 2017 was \$9,921,903. This amount equals 4% of the 2017-18 budget and is at the statutory limit.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

6. CAPITAL ASSET 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 decrease in capital assets is due to depreciation of \$8,552,460 in excess of capital additions of \$5,002,096 recorded for the year ended June 30, 2017. A summary of the District's capital assets, net of depreciation at June 30, 2017 and 2016 is as follows:

	2017	2016	Increase (Decrease)
Land	\$ 2,629,860	\$ 2,629,860	\$ -
Construction in progress	1,292,375	570,000	722,375
Buildings and improvements	94,898,652	99,250,340	(4,351,688)
Site improvements	3,168,330	3,515,174	(346,844)
Vehicles	1,598,790	1,720,081	(121,291)
Furniture and equipment	5,128,198	4,581,114	547,084
Capital assets, net	<u>\$ 108,716,205</u>	<u>\$ 112,266,569</u>	<u>\$ (3,550,364)</u>

B. Debt Administration

At June 30, 2017, the District had total bonds payable (par value) of \$35,185,000. The bonds were issued for school building improvements and the refunding of bonds originally issued for school building improvements. The District also had installment purchase debt outstanding of \$6,056,526 related to an energy performance contract. The decrease in outstanding debt represents current year principal payments. A summary of the outstanding debt at June 30, 2017 and 2016 is as follows:

Issue Date	Interest Rate	2017	2016	Increase (Decrease)
Bonds Payable				
2007	3.78% - 4.35%	\$ 7,750,000	\$ 9,595,000	\$ (1,845,000)
2008	3.50% - 4.00%	1,060,000	1,215,000	(155,000)
2013	3.00% - 5.00%	17,885,000	19,975,000	(2,090,000)
2013	2.00% - 5.00%	8,490,000	9,530,000	(1,040,000)
		<u>\$ 35,185,000</u>	<u>\$ 40,315,000</u>	<u>\$ (5,130,000)</u>
Installment Purchase Debt				
12/7/2010	2.89%	<u>\$ 6,056,526</u>	<u>\$ 6,731,810</u>	<u>\$ (675,284)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa1. The District's outstanding serial bonds at June 30, 2017 are approximately 3% of the District's debt limit.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Compensated absences	\$ 20,049,056	\$ 20,551,071	\$ (502,015)
Workers' compensation liabilities	4,148,301	4,687,838	(539,537)
Net OPEB obligation	108,165,951	88,033,548	20,132,403
Net Pension liability - proportionate share	<u>15,753,288</u>	<u>16,687,754</u>	<u>(934,466)</u>
	<u>\$ 148,116,596</u>	<u>\$ 129,960,211</u>	<u>\$ 18,156,385</u>

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 16, 2017, for the year ending June 30, 2018, is \$248,047,565. This is an increase of \$6,748,831 or 2.80% over the previous year's budget. The increase is principally in the instruction area of the budget.

The District budgeted revenues other than property taxes and STAR at a \$756,366 increase. This increase is principally due to estimated increases in PILOT and miscellaneous revenues. Additionally, the assigned fund balance and reserves appropriated to the 2017-18 budget is a \$2,210,529 increase over the previous year. A property tax levy increase of 1.93% was needed to meet the revenue shortfall and cover the increase in projected expenditures.

B. 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 2017-18 property tax increase of 1.93% was equal to the tax cap and did not require an override vote.

C. 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.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

D. Property Tax Relief Credit

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

8. CONTACTING THE DISTRICT

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

Ms. Anne Marie Marrone Caliendo
Assistant Superintendent Finance and Facilities
Half Hollow Hills Central School District
525 Half Hollow Road
Dix Hills, New York 11746

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

ASSETS

Cash	
Unrestricted	\$ 26,810,009
Restricted	32,562,690
Receivables	
Accounts receivable	282,319
Due from fiduciary funds	121,579
Due from state and federal	4,151,342
Due from other governments	3,549,907
Inventories	41,260
Capital assets:	
Not being depreciated	3,922,235
Being depreciated, net of accumulated depreciation	<u>104,793,970</u>
Total Assets	<u>176,235,311</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges on advance refunding of bonds	856,237
Pensions	<u>69,893,158</u>
Total Deferred Outflows of Resources	<u>70,749,395</u>

LIABILITIES

Payables	
Accounts payable	4,338,709
Accrued liabilities	689,428
Due to other governments	193
Due to teachers' retirement system	11,378,604
Due to employees' retirement system	1,231,170
Compensated absences payable	267,786
Unearned credits	
Collections in advance	159,412
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	5,880,235
Installment purchase debt payable	562,614
Compensated absences payable	1,200,000
Workers' compensation liabilities	800,000
Due and payable after one year	
Bonds payable, net	31,580,712
Installment purchase debt payable	5,493,912
Compensated absences payable	18,849,056
Workers' compensation liabilities	3,348,301
Net other postemployment benefits obligation	108,165,951
Net pension liability - proportionate share	<u>15,753,288</u>
Total Liabilities	<u>209,699,371</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	<u>3,818,623</u>
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NET POSITION

Net investment in capital assets	<u>67,474,679</u>
Restricted	
Workers' compensation	6,102,919
Unemployment insurance	2,882,487
Retirement contribution	6,959,359
Property loss	489,676
Liability	18,147
Employee benefit accrued liability	15,281,624
Debt service	<u>828,478</u>
	<u>32,562,690</u>
Unrestricted (deficit)	<u>(66,570,657)</u>
Total Net Position	<u>\$ 33,466,712</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2017

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS				
General support	\$ 27,535,090	\$	\$	\$ (27,535,090)
Instruction	209,554,022	1,662,551	4,766,787	(203,124,684)
Pupil transportation	16,506,724			(16,506,724)
Community service	186,529			(186,529)
Debt service - interest	1,721,943			(1,721,943)
Food service program	3,180,080	2,098,132	868,648	(213,300)
Total Functions and Programs	<u>\$ 258,684,388</u>	<u>\$ 3,760,683</u>	<u>\$ 5,635,435</u>	<u>(249,288,270)</u>
GENERAL REVENUES				
Real property taxes				183,952,382
Other tax items				15,459,237
Use of money and property				454,321
Sale of property and compensation for loss				202,622
Miscellaneous				787,866
State sources				32,391,682
Medicaid reimbursement				<u>106,783</u>
Total General Revenues				<u>233,354,893</u>
Change in Net Position				(15,933,377)
Total Net Position - Beginning of year				<u>49,400,089</u>
Total Net Position - End of year				<u>\$ 33,466,712</u>

HALF HOLLOW HILLS CENTRAL 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	\$ 24,065,131	\$ 33,426	\$ 285,932	\$	\$ 2,425,520	\$ 26,810,009
Restricted	32,077,591			485,099		32,562,690
Receivables						
Accounts receivable	282,319					282,319
Due from other funds	1,615,325			517,170	1,106,456	3,238,951
Due from state and federal	2,990,927	1,160,415				4,151,342
Due from other governments	3,549,907					3,549,907
Inventories			41,260			41,260
Total Assets	<u>\$ 64,581,200</u>	<u>\$ 1,193,841</u>	<u>\$ 327,192</u>	<u>\$ 1,002,269</u>	<u>\$ 3,531,976</u>	<u>\$ 70,636,478</u>
LIABILITIES						
Payables						
Accounts payable	\$ 4,118,864	\$ 13,966	\$ 6,113	\$	\$ 199,766	\$ 4,338,709
Accrued liabilities	272,906	17,047	3,279			293,232
Due to other funds	266,015	1,121,015	198,940	173,791	1,357,611	3,117,372
Due to other governments			193			193
Due to teachers' retirement system	11,378,604					11,378,604
Due to employees' retirement system	1,231,170					1,231,170
Compensated absences payable	267,786					267,786
Unearned credits						
Collections in advance		41,813	117,599			159,412
Total Liabilities	<u>17,535,345</u>	<u>1,193,841</u>	<u>326,124</u>	<u>173,791</u>	<u>1,557,377</u>	<u>20,786,478</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	<u>2,257,830</u>					<u>2,257,830</u>
FUND BALANCES						
Nonspendable: Inventories			41,260			41,260
Restricted:						
Workers' compensation	6,102,919					6,102,919
Unemployment insurance	2,882,487					2,882,487
Retirement contribution	6,959,359					6,959,359
Property loss	489,676					489,676
Liability	18,147					18,147
Employee benefit accrued liability	15,281,624					15,281,624
Debt service				828,478		828,478
Assigned:						
Appropriated fund balance	2,500,000					2,500,000
Unappropriated fund balance	631,910				1,974,599	2,606,509
Unassigned: Fund balance (deficit)	<u>9,921,903</u>		<u>(40,192)</u>			<u>9,881,711</u>
Total Fund Balances	<u>44,788,025</u>	<u>-</u>	<u>1,068</u>	<u>828,478</u>	<u>1,974,599</u>	<u>47,592,170</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 64,581,200</u>	<u>\$ 1,193,841</u>	<u>\$ 327,192</u>	<u>\$ 1,002,269</u>	<u>\$ 3,531,976</u>	<u>\$ 70,636,478</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017

Total Governmental Fund Balances	\$ 47,592,170
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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	\$ 251,964,450	
Accumulated depreciation	<u>(143,248,245)</u>	
		108,716,205

Deferred charges on the advance refunding of bonds are not reported on the Balance Sheet, but are reflected on the Statement of Net Position and amortized over the life of the related bonds.

Deferred charges on advance refunding	1,978,446	
Less: Accumulated amortization	<u>(1,122,209)</u>	
		856,237

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	69,893,158	
Net pension liability - teachers' retirement system	(6,446,785)	
Net pension liability - employees' retirement system	(9,306,503)	
Deferred inflows of resources	<u>(3,818,623)</u>	
		50,321,247

Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds, but are not deferred on the Statement of Net Position.

2,257,830

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	(396,196)	
Bonds payable, net	(37,460,947)	
Installment purchase debt payable	(6,056,526)	
Compensated absences payable	(20,049,056)	
Workers' compensation liabilities	(4,148,301)	
Net other postemployment benefits obligation	<u>(108,165,951)</u>	
		<u>(176,276,977)</u>

Total Net Position	\$ <u>33,466,712</u>
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HALF HOLLOW HILLS CENTRAL 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	\$ 183,952,382	\$	\$	\$	\$	\$ 183,952,382
Other tax items	15,296,027					15,296,027
Charges for services	1,515,719					1,515,719
Use of money and property	451,126		2,439	756		454,321
Sale of property and compensation for loss	202,622					202,622
Miscellaneous	787,866	8,996	56,858			853,720
Interfund revenues	2,798					2,798
State sources	32,391,682	1,694,535	38,156			34,124,373
Medicaid reimbursement	106,783					106,783
Federal sources	384,980	2,678,276	830,492			3,893,748
Sales			2,041,274			2,041,274
Total Revenues	235,091,985	4,381,807	2,969,219	756	-	242,443,767
EXPENDITURES						
General support	20,280,907	6,646				20,287,553
Instruction	130,065,745	4,666,363				134,732,108
Pupil transportation	13,974,977	418,422				14,393,399
Community service	116,612					116,612
Employee benefits	57,750,422		421,551			58,171,973
Debt service						
Principal				5,805,284		5,805,284
Interest	263,336			1,968,982		2,232,318
Food service program			2,728,645			2,728,645
Capital outlay					2,832,351	2,832,351
Total Expenditures	222,451,999	5,091,431	3,150,196	7,774,266	2,832,351	241,300,243
Excess (Deficiency) of Revenues Over Expenditures	12,639,986	(709,624)	(180,977)	(7,773,510)	(2,832,351)	1,143,524
OTHER FINANCING SOURCES AND (USES)						
Operating transfers in	5,917	709,624	3,999	7,774,266	2,500,000	10,993,806
Operating transfers (out)	(10,987,889)				(5,917)	(10,993,806)
Total Other Financing Sources and (Uses)	(10,981,972)	709,624	3,999	7,774,266	2,494,083	-
Net Change in Fund Balances	1,658,014	-	(176,978)	756	(338,268)	1,143,524
Fund Balances - Beginning of year	43,130,011	-	178,046	827,722	2,312,867	46,448,646
Fund Balances - End of year	\$ 44,788,025	\$ -	\$ 1,068	\$ 828,478	\$ 1,974,599	\$ 47,592,170

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2017

Net Change in Fund Balances \$ 1,143,524

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

Long-Term Revenue and Expense Differences

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

Change in unavailable revenue \$ 310,042

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 net other postemployment benefits obligation (20,132,403)

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

Decrease in compensated absences payable	502,015	
Decrease in workers' compensation liabilities	539,537	
	(18,780,809)	

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 depreciation exceeded capital outlays in the period.

Capital outlays	5,002,096	
Depreciation expense	(8,552,460)	
	(3,550,364)	

Long-Term Debt Transaction Differences

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. 394,272

Repayment of long-term debt principal 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	5,130,000	
Repayment of installment purchase debt	675,284	

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.

	116,103	
	6,315,659	

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	344,175	
Employees' retirement system	(1,405,562)	
	(1,061,387)	

Change in Net Position of Governmental Activities		\$ (15,933,377)
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HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2017

	<u>Agency</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash		
Unrestricted	\$ 1,877,199	\$
Restricted		<u>370,858</u>
	<u>\$ 1,877,199</u>	<u>370,858</u>
LIABILITIES		
Extraclassroom activity balances	\$ 469,892	
Due to governmental funds	121,579	
Other liabilities	<u>1,285,728</u>	
Total Liabilities	<u>\$ 1,877,199</u>	<u>-</u>
NET POSITION		
Restricted for scholarships		<u>\$ 370,858</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For The Year Ended June 30, 2017

	Private Purpose Trust
ADDITIONS	
Contributions	\$ 15,077
Investment earnings	
Interest	<u>342</u>
Total Additions	15,419
 DEDUCTIONS	
Scholarships and awards	<u>23,950</u>
Change in Net Position	(8,531)
Net Position - Beginning of year	<u>379,389</u>
Net Position - End of Year	<u><u>\$ 370,858</u></u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

Extraclassroom Activity Funds

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

B. Joint Venture

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, other postemployment benefits and pension costs, 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.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Real Property Taxes

Calendar

Real property taxes are levied annually by the Board no later than November 1st and become a lien on December 1st. Taxes are collected by the Towns of Huntington and Babylon and remitted to the District from December to June.

Enforcement

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

F. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted 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 the transfer of expenditure and revenues to provide financing or other services.

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

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

A detailed disclosure by individual fund for interfund receivables, payables and interfund expenditure and revenue 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.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Inventories

Inventories of food in the school food service fund are recorded at cost on a first-in, first-out basis or in the case of surplus food donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. Inventory is accounted for on the consumption method. Under the consumption method, a current asset for the inventories is recorded at the time of receipt and/or purchase and an expense/expenditure is reported in the year the goods are consumed.

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

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

L. Capital Assets

Capital assets are reflected in the District-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at 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	\$ 2,000	50 years
Site improvements	2,000	20 years
Furniture, equipment and vehicles	2,000	5-20 years

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 a prior year's refunding of bonds that is being amortized as a component of interest expense on a weighted average basis through June 30, 2025. 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 grant monies are received prior to the incurrence of qualifying expenditures or when charges for services monies are received in advance from payers prior to the services being rendered by the District. 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 two items that qualify for reporting in this category. First is unavailable revenues reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. This includes receivables for PILOT revenue and amounts due from other governments for tuition charges. In subsequent periods, when the availability criterion is met, unavailable revenues are reclassified as revenues. In the District-wide financial statements, unavailable revenues are treated as revenues. The second item is related to pensions reported in the district-wide Statement of Net Position and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense.

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 be eligible to receive a portion of the value of unused accumulated sick leave.

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

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Q. Other Benefits

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

District employees may choose to participate in the District's elective deferred compensation 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.

R. Short-Term Debt

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

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

S. Equity classifications

District-wide statements

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

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

Workers' Compensation Reserve

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

Unemployment Insurance Reserve

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Property Loss Reserve and Liability Reserve

Property Loss Reserve and Liability Reserve (Education Law §1709(8) (c)) are used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. These reserves are 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.

Restricted for Debt Service

Unexpended balances of proceeds of borrowings for capital projects; interest and earnings from investing proceeds of obligations, and premium and accrued interest 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 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.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Balance Classification

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

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

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

2. CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year June 30, 2017, the District implemented GASB Statement No. 77, *Tax Abatement Disclosures*, which requires the District to disclose information about 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.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

Pension Differences

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

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. During the year, the Board of Education approved the following supplemental appropriations:

Contingent expenditures funded by gifts and donations	\$ 43,037
Repairs funded by insurance recoveries	105,062
Instructional materials funded by fees	269
Program costs funded by state aid	<u>175,000</u>
	<u>\$ 323,368</u>

Budgets are adopted annually on a basis consistent with GAAP.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. School Food Service Fund Deficit

The school food service fund has an unassigned fund balance deficit of \$40,192. This will be funded by a transfer from the general fund budgeted for in 2017-18.

5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

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

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

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

6. PARTICIPATION IN BOCES

During the year ended June 30, 2017, the District was billed \$9,650,760 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$2,152,464. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, Dix Hills, NY 11746.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	\$ 835,745
BOCES aid	2,155,182
	<u>2,990,927</u>
Special Aid Fund	
State and federal grants	1,160,415
	<u>\$ 4,151,342</u>

8. DUE FROM OTHER GOVERNMENTS

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

General Fund	
Tuition and health services	\$ 1,073,511
PILOT payments	2,476,396
	<u>\$ 3,549,907</u>

9. INTERFUND TRANSACTIONS

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 1,615,325	\$ 266,015	\$ 5,917	\$ 10,987,889
Special Aid Fund		1,121,015	709,624	
School Food Service Fund		198,940	3,999	
Debt Service Fund	517,170	173,791	7,774,266	
Capital Projects Fund	1,106,456	1,357,611	2,500,000	5,917
Total Governmental Funds	<u>3,238,951</u>	<u>3,117,372</u>	<u>\$ 10,993,806</u>	<u>\$ 10,993,806</u>
Fiduciary Fund		121,579		
Total	<u>\$ 3,238,951</u>	<u>\$ 3,238,951</u>		

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 eliminate the balance of negative student accounts. The transfer to the debt service fund was for the payment of principal and interest on long-term outstanding indebtedness.

The transfer to the capital projects fund was the 2016-17 budgeted transfer plus a Board of Education approved budget revision to transfer grant funds received from the State and Municipal Facilities Program.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

10. 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	\$ 2,629,860	\$	\$	\$ 2,629,860
Construction in progress	570,000	1,227,850	(505,475)	1,292,375
Total capital assets not being depreciated	3,199,860	1,227,850	(505,475)	3,922,235
Capital assets being depreciated				
Buildings and improvements	217,862,118	2,109,976		219,972,094
Site improvements	7,501,375			7,501,375
Vehicles	7,304,576	324,859	(663,793)	6,965,642
Furniture and equipment	12,116,080	1,844,886	(357,862)	13,603,104
Total capital assets being depreciated	244,784,149	4,279,721	(1,021,655)	248,042,215
Less accumulated depreciation for:				
Buildings and improvements	118,611,778	6,461,664		125,073,442
Site improvements	3,986,201	346,844		4,333,045
Vehicles	5,584,495	446,150	(663,793)	5,366,852
Furniture and equipment	7,534,966	1,297,802	(357,862)	8,474,906
Total accumulated depreciation	135,717,440	8,552,460	(1,021,655)	143,248,245
Total capital assets being depreciated, net	109,066,709	(4,272,739)	-	104,793,970
Capital assets, net	\$ 112,266,569	\$ (3,044,889)	\$ (505,475)	\$ 108,716,205

Depreciation expense was charged to governmental functions as follows:

General support	\$ 297,324
Instruction	7,670,287
Pupil transportation	549,585
Food service	35,264
Total depreciation expense	\$ 8,552,460

11. SHORT-TERM DEBT

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

	Maturity	Effective Interest Rate	Balance June 30, 2016	Issued	Redeemed	Balance June 30, 2017
TAN	6/27/17	0.91%	\$	\$ 41,000,000	\$ (41,000,000)	\$

Interest on short-term debt for the year was \$569,736. The District received a premium of \$306,400 for a net interest cost of \$263,336.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

12. 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	\$ 40,315,000	\$	\$ (5,130,000)	\$ 35,185,000	\$ 5,320,000
Add: Deferred premium on refunding	2,908,007		(632,060)	2,275,947	560,235
	43,223,007	-	(5,762,060)	37,460,947	5,880,235
Installment purchase debt	6,731,810		(675,284)	6,056,526	562,614
	49,954,817	-	(6,437,344)	43,517,473	6,442,849
<u>Other long-term liabilities:</u>					
Compensated absences	20,551,071		(502,015)	20,049,056	1,200,000
Workers' compensation	4,687,838	551,613	(1,091,150)	4,148,301	800,000
	<u>\$ 75,193,726</u>	<u>\$ 551,613</u>	<u>\$ (8,030,509)</u>	<u>\$ 67,714,830</u>	<u>\$ 8,442,849</u>

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

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2017
Serial Bonds				
Refunding Bond	2007	2021	3.78% - 4.35%	\$ 7,750,000
District-wide construction	2008	2023	3.50% - 4.00%	1,060,000
Refunding Bond Series A	2013	2025	3.00% - 5.00%	17,885,000
Refunding Bond Series B	2013	2024	2.00% - 5.00%	8,490,000
				<u>\$ 35,185,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 5,320,000	\$ 1,544,644	\$ 6,864,644
2019	5,460,000	1,317,494	6,777,494
2020	5,590,000	1,079,512	6,669,512
2021	5,765,000	812,750	6,577,750
2022	4,015,000	537,250	4,552,250
2023-2025	9,035,000	620,425	9,655,425
Total	<u>\$ 35,185,000</u>	<u>\$ 5,912,075</u>	<u>\$ 41,097,075</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Advance Refunding

In 2013, the District advance refunded serial bonds, which resulted in a deferred charge and a refunding bond premium. These amounts are being amortized as a component of interest expense on a weighted average basis over the life of the bonds in the district-wide statements as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Premium</u>	<u>Deferred Charge</u>	<u>Total</u>
2018	\$ 560,235	\$ (210,767)	\$ 349,468
2019	485,865	(182,788)	303,077
2020	408,554	(153,703)	254,851
2021	327,906	(123,362)	204,544
2022	243,300	(91,532)	151,768
2023-2025	250,087	(94,085)	156,002
Total	<u>\$ 2,275,947</u>	<u>\$ (856,237)</u>	<u>\$ 1,419,710</u>

D. Installment Purchase Debt

Installment purchase debt is comprised of the following:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2017</u>
Energy performance contract	12/7/2010	7/15/2026	2.89%	<u>\$ 6,056,526</u>

The following is a summary of maturing debt service requirements for installment purchase debt:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 562,614	\$ 170,998	\$ 733,612
2019	578,991	154,621	733,612
2020	595,845	137,767	733,612
2021	613,189	120,423	733,612
2022	631,039	102,574	733,613
2023-2027	3,074,848	226,406	3,301,254
Total	<u>\$ 6,056,526</u>	<u>\$ 912,789</u>	<u>\$ 6,969,315</u>

E. Interest Expense

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

Interest paid	\$ 1,968,982
Less interest accrued in the prior year	(512,299)
Plus interest accrued in the current year	396,196
Less amortization of deferred amounts from bond refundings	<u>(394,272)</u>
Total	<u>\$ 1,458,607</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

13. PENSION PLANS – NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

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

Employees' Retirement System

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

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31st, and employer contributions are either paid by the prior December 15th less a 1% discount or by the prior February 1st. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year. The District's contribution rate was 13.26% of covered payroll for the TRS' fiscal year ended June 30, 2016. The District's average contribution rate was 14.17% 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 \$11,034,953 for TRS and \$4,124,018 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	\$ (6,446,785)	\$ (9,306,503)
District's portion of the Plan's total net pension liability	0.6019170%	0.0990451%
Change in proportion since the prior measurement date	0.0019690	(0.0049266)

For the year ended June 30, 2017, the District recognized pension expense of \$10,702,378 for TRS and \$3,779,843 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 TRS	Deferred Outflows of Resources ERS	Deferred Inflows of Resources TRS	Deferred Inflows of Resources ERS
Differences between expected and actual experience	\$	\$ 233,212	\$ 2,094,277	\$ 1,413,245
Changes of assumptions	36,724,991	3,179,442		
Net difference between projected and actual earnings on pension plan investment	14,495,762	1,858,886		
Changes in proportion and differences between the District's contributions and proportionate share of contributions	353,183	781,559	115,581	195,520
District's contributions subsequent to the measurement date	11,034,953	1,231,170		
Total	<u>\$ 62,608,889</u>	<u>\$ 7,284,269</u>	<u>\$ 2,209,858</u>	<u>\$ 1,608,765</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	TRS	ERS
2018	\$ 4,513,528	\$ 1,960,134
2019	4,513,528	1,960,134
2020	15,771,338	1,727,022
2021	12,268,706	(1,202,956)
Thereafter	12,296,978	
	<u>\$ 49,364,078</u>	<u>\$ 4,444,334</u>

Actuarial Assumptions

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

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

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

For TRS, the actuarial assumptions were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014. For ERS, the actuarial assumptions were based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Discount Rate

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

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

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

	1% Decrease (6.50)%	Current Assumption (7.50)%	1% Increase (8.50)%
TRS			
District's proportionate share of the net pension asset (liability)	\$ (84,112,961)	\$ (6,446,785)	\$ 58,695,532
	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
ERS			
District's proportionate share of the net pension asset (liability)	\$ (29,723,126)	\$ (9,306,503)	\$ 7,955,714

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Pension Plan Fiduciary Net Position

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

	TRS	ERS
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2016	March 31, 2017
Employers' total pension liability	\$ (108,577,184)	\$ (177,400,586)
Plan fiduciary net position	<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 \$11,034,953 of employer contributions and \$343,651 of employee contributions.

For ERS, employer contributions are paid annually based on the system's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2017, represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$1,231,170 of employer contributions. Employee contributions are remitted monthly.

14. 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 \$5,144,183 and \$2,336,088, respectively.

B. Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2017 totaled \$1,512,290.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

15. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. Plan Description

The District provides postemployment medical, and Medicare Part B and prescription drug 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 its share of the cost of premiums, which ranges from 60% – 85%, 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 \$10,768,255 for insurance premiums for 961 currently enrolled retirees and surviving spouses. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the “pay as you go” method.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution (ARC)	\$ 32,275,509
Interest on net OPEB obligation	3,521,342
Adjustment to ARC	<u>(4,896,193)</u>
Annual OPEB cost (expense)	30,900,658
Contributions made	<u>(10,768,255)</u>
 Increase in net OPEB obligation	 20,132,403
Net OPEB obligation - beginning of year	<u>88,033,548</u>
 Net OPEB obligation - end of year	 <u><u>\$ 108,165,951</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$ 30,900,658	34.8%	\$ 108,165,951
June 30, 2016	17,085,464	60.1%	88,033,548
June 30, 2015	18,186,821	51.6%	81,222,312

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Funded Status and Funding Progress

As of July 1, 2016, the plan was 0% funded. The actuarial accrued liability for benefits was \$316,297,374 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$316,297,374. The covered payroll (annual payroll of active employees covered by the plan) was \$111,804,651, and the ratio of the UAAL to the covered payroll was 283%.

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

The valuation of July 1, 2016, is an update derived from estimates from the previous valuation dated July 1, 2015, based on the fact that there were no material changes to any of the benefit packages, the cost sharing structures or the census.

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

In the July 1, 2016, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% discount rate and for medical inflation an ultimate healthcare cost trend rate of 8.0% in 2015, decreasing 0.5% per year to an ultimate rate of 5.0% in 2021. The UAAL is being amortized each year over a constant 30 year period, as a level dollar amount.

16. RISK MANAGEMENT

A. General Information

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; 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.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

	<u>2016</u>	<u>2017</u>
Unpaid claims at beginning of year	\$ 4,694,431	\$ 4,687,838
Incurred claims and claim adjustment expenses	812,515	551,613
Claim payments	<u>(819,108)</u>	<u>(1,091,150)</u>
Unpaid claims at year end	<u>\$ 4,687,838</u>	<u>\$ 4,148,301</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.

17. RESTRICTED FUND BALANCE – APPROPRIATED RESERVES

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

Workers' Compensation	\$ 1,100,000
Unemployment	150,000
Retirement Contributions	4,947,666
Employee Benefit Accrued Liability	<u>1,532,200</u>
	<u>\$ 6,479,866</u>

18. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$2,500,000 has been appropriated to reduce taxes for the year ending June 30, 2018.

19. TAX ABATEMENTS

The Town of Babylon Industrial Development Agency, enters into various property tax abatement programs for the purpose of economic development. The amount of the District's property taxes abated was \$3,784,310. The District received payment in lieu of taxes (PILOT) payments totaling \$2,256,989.

The Town of Huntington Industrial Development Agency, enters into various property tax abatement programs for the purpose of economic development. The amount of the District's property taxes abated was \$130,787. The District received payment in lieu of taxes (PILOT) payments totaling \$103,882.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Suffolk County Industrial Development Agency, enters into various property tax abatement programs for the purpose of economic development. The amount of the District's property taxes abated was \$1,533,731. The District received payment in lieu of taxes (PILOT) payments totaling \$1,419,317.

20. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

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

Assigned: Unappropriated Fund Balance:

General Fund

General support	\$ 464,387
Instruction	152,446
Transportation	<u>15,077</u>
	631,910

Capital Projects Fund

Capital projects	<u>910,642</u>
	<u><u>\$ 1,542,552</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. The District believes that the outcome of any matters will not have a material effect on these financial statements.

D. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$73,884. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 32,178
2019	<u>398</u>
	<u><u>\$ 32,576</u></u>

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.

HALF HOLLOW HILLS CENTRAL 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	\$ 183,122,436	\$ 183,949,864	\$ 183,952,382	\$ 2,518
Other tax items	15,918,666	15,091,238	15,296,027	204,789
Charges for services	1,085,000	1,085,269	1,515,719	430,450
Use of money and property	307,000	307,000	451,126	144,126
Sale of property and compensation for loss	90,000	195,062	202,622	7,560
Interfund revenues			2,798	2,798
Miscellaneous	300,000	343,037	787,866	444,829
Total Local Sources	200,823,102	200,971,470	202,208,540	1,237,070
State Sources	32,031,295	32,206,295	32,391,682	185,387
Medicaid reimbursement	25,000	25,000	106,783	81,783
Federal Sources	400,000	400,000	384,980	(15,020)
Total Revenues	233,279,397	233,602,765	235,091,985	1,489,220
OTHER FINANCING SOURCES				
Operating Transfers In			5,917	5,917
Total Revenues and Other Sources	233,279,397	233,602,765	235,097,902	\$ 1,495,137
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	2,500,000	2,500,000		
Prior Year's Encumbrances	890,020	890,020		
Appropriated Reserves	5,519,337	5,519,337		
Total Appropriated Fund Balance	8,909,357	8,909,357		
Total Revenues, Other Sources and Appropriated Fund Balance	\$ 242,188,754	\$ 242,512,122		

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.

HALF HOLLOW HILLS CENTRAL 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	\$ 136,531	\$ 142,781	\$ 120,279	\$ 63	\$ 22,439
Central administration	509,854	509,854	495,204		14,650
Finance	1,631,305	1,628,857	1,595,282		33,575
Staff	1,117,899	1,133,847	1,002,192		131,655
Central services	17,245,099	17,206,328	15,173,335	464,324	1,568,669
Special items	2,007,564	1,964,773	1,894,615		70,158
Total General Support	22,648,252	22,586,440	20,280,907	464,387	1,841,146
Instruction					
Administration & improvement	8,720,779	8,385,422	8,227,170	4,255	153,997
Teaching - regular school	75,410,364	73,889,952	72,670,037	88,954	1,130,961
Programs for students with disabilities	33,831,996	33,386,196	32,462,225	2,035	921,936
Occupational education	568,400	568,400	568,400		-
Teaching - special schools	294,923	294,923	273,448		21,475
Instructional media	5,083,438	5,246,061	5,112,483	13,515	120,063
Pupil services	11,270,494	11,138,795	10,751,982	43,687	343,126
Total Instruction	135,180,394	132,909,749	130,065,745	152,446	2,691,558
Pupil Transportation	14,933,841	14,777,186	13,974,977	15,077	787,132
Community Services	126,405	126,405	116,612		9,793
Employee Benefits	57,901,431	60,613,911	57,750,422		2,863,489
Debt Service					
Interest	400,000	295,740	263,336		32,404
Total Expenditures	231,190,323	231,309,431	222,451,999	631,910	8,225,522
OTHER USES					
Operating Transfers Out	10,998,431	11,202,691	10,987,889		214,802
Total Expenditures and Other Uses	\$ 242,188,754	\$ 242,512,122	233,439,888	\$ 631,910	\$ 8,440,324
Net Change in Fund Balance			1,658,014		
Fund Balance - Beginning of Year			43,130,011		
Fund Balance - End of Year			\$ 44,788,025		

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.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Funding Progress for Other Postemployment Benefits (OPEB)
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, 2015	\$ -	\$ 253,946,573	\$ 253,946,573	0%	\$ 106,594,570	238%
July 1, 2014	-	248,745,638	248,745,638	0%	109,542,625	227%
July 1, 2012	-	253,946,573	253,946,573	0%	106,594,570	238%

HALF HOLLOW HILLS CENTRAL 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)	0.6019170%	0.5999480%	0.6109300%
District's proportionate share of the net pension asset (liability)	\$ (6,446,785)	\$ 62,315,454	\$ 68,053,747
District's covered payroll	\$ 92,881,885	\$ 92,269,370	\$ 92,557,756
District's proportionate share of the net pension asset (liability) as a percentage of its covered payroll	6.94 %	67.54 %	73.53 %
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	0.0990451%	0.1039717%	0.1061533%
District's proportionate share of the net pension liability	\$ (9,306,503)	\$ (16,687,754)	\$ (3,586,120)
District's covered payroll	\$ 32,083,310	\$ 29,152,666	\$ 29,816,065
District's proportionate share of the net pension liability as a percentage of its covered payroll	29.01 %	57.24 %	12.03 %
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.

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of District Pension Contributions
Last Ten Fiscal Years

Teachers' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 11,034,953	\$ 12,316,138	\$ 15,798,088	\$ 14,664,619	\$ 10,790,484	\$ 9,353,515	\$ 7,754,344	\$ 5,419,441	\$ 6,568,109	\$ 6,722,100
Contributions in relation to the contractually required contribution	<u>11,034,953</u>	<u>12,316,138</u>	<u>15,798,088</u>	<u>14,664,619</u>	<u>10,790,484</u>	<u>9,353,515</u>	<u>7,754,344</u>	<u>5,419,441</u>	<u>6,568,109</u>	<u>6,722,100</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 94,154,889	\$ 92,881,885	\$ 92,269,370	\$ 92,557,756	\$ 93,517,489	\$ 92,522,055	\$ 92,529,810	\$ 90,010,826	\$ 84,834,144	\$ 81,431,110
Contributions as a percentage of covered payroll	12%	13%	17%	16%	12%	10%	8%	6%	8%	8%

Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 4,352,370	\$ 5,041,157	\$ 5,242,459	\$ 5,237,154	\$ 4,806,958	\$ 4,307,681	\$ 3,020,050	\$ 1,672,559	\$ 1,658,761	\$ 1,804,318
Contributions in relation to the contractually required contribution	<u>4,352,370</u>	<u>5,041,157</u>	<u>5,242,459</u>	<u>5,237,154</u>	<u>4,806,958</u>	<u>4,307,681</u>	<u>3,020,050</u>	<u>1,672,559</u>	<u>1,658,761</u>	<u>1,804,318</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 30,717,043	\$ 29,376,695	\$ 30,698,053	\$ 28,731,806	\$ 28,483,982	\$ 28,523,253	\$ 27,633,739	\$ 27,012,938	\$ 24,334,049	\$ 23,112,978
Contributions as a percentage of covered payroll	14%	17%	17%	18%	17%	15%	11%	6%	7%	8%

HALF HOLLOW HILLS CENTRAL 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	\$ 241,298,734
Additions:	
Prior year's encumbrances	<u>890,020</u>
Original Budget	242,188,754
Budget revisions	<u>323,368</u>
Final Budget	<u><u>\$ 242,512,122</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2017-18 voter-approved expenditure budget	<u><u>\$ 248,047,565</u></u>
Maximum allowed (4% of 2017-18 budget)	<u><u>\$ 9,921,903</u></u>

General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:

Unrestricted fund balance:		
Assigned fund balance	\$ 3,131,910	
Unassigned fund balance	<u>9,921,903</u>	
		\$ 13,053,813
Less:		
Appropriated fund balance	2,500,000	
Encumbrances	<u>631,910</u>	
Total adjustments		<u>3,131,910</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		<u><u>\$ 9,921,903</u></u>
Actual Percentage		4.00%

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Schedule of Project Expenditures and Financing Resources -
Capital Projects Fund
For The Year Ended June 30, 2017

PROJECT TITLE	Budget	Budget	Expenditures			Unexpended	Methods of Financing				Fund
	June 30, 2016	June 30, 2017	Prior Years	Current Year	Total	Balance	Proceeds of Obligations	Grant Aid	Local Sources	Total	Balance June 30, 2017
SH Paving, Fencing, Playground	\$ 483,841	\$ 483,841	\$ 480,797	\$	\$ 480,797	\$ 3,044	\$	\$	\$ 483,841	\$ 483,841	\$ 3,044
District Wide EPC	16,400,000	16,400,000	16,399,996		16,399,996	4	15,403,312	996,688		16,400,000	4
FP Roof and Fuel Tank Repair	398,756	398,756	398,691		398,691	65			398,756	398,756	65
Natatorium	225,675	225,675	223,207		223,207	2,468			225,675	225,675	2,468
West Hollow Ceiling	1,000,000	1,000,000	999,663		999,663	337			1,000,000	1,000,000	337
Emergency Generators	280,000	232,712	23,040	209,672	232,712	-			232,712	232,712	-
West Hollow Atrium	750,000	771,538	122,213	649,325	771,538	-			771,538	771,538	-
West Hollow Ceiling	800,000	825,750	80,246	745,504	825,750	-			825,750	825,750	-
HSE - Generators	248,400	248,400	248,400		248,400	-			248,400	248,400	-
HSE - HVAC	402,472	389,910	17,940	208,115	226,055	163,855			389,910	389,910	163,855
HSW - Auditorium/Tennis Court	717,552	717,552	717,552		717,552	-			717,552	717,552	-
Carbon Monoxide Detection	330,000	342,562	12,084	163,610	175,694	166,868			342,562	342,562	166,868
WH - Atrium	31,576	31,576	31,576		31,576	-			31,576	31,576	-
SH - Ceiling Tile Replacement		634,964		23,802	23,802	611,162			634,964	634,964	611,162
Sunquam - Drainage		139,721		3,845	3,845	135,876			139,721	139,721	135,876
Candlewood - Doors		50,098		1,831	1,831	48,267			50,098	50,098	48,267
HSE - Tennis Courts/Air Vents		873,580		792,390	792,390	81,190			873,580	873,580	81,190
HSW - Gym Doors		65,126		2,380	2,380	62,746			65,126	65,126	62,746
Natatorium - Renovations		500,776		14,648	14,648	486,128		100,000	400,776	500,776	486,128
HSE - HVAC		235,735		17,229	17,229	218,506			235,735	235,735	218,506
Totals	\$ 22,068,272	\$ 24,568,272	\$ 19,755,405	\$ 2,832,351	\$ 22,587,756	\$ 1,980,516	\$ 15,403,312	\$ 1,096,688	\$ 8,068,272	\$ 24,568,272	1,980,516
Transfer to general fund for completed projects											(5,917)
Fund Balance at June 30, 2017											<u>\$ 1,974,599</u>

HALF HOLLOW HILLS CENTRAL SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2017

Capital assets, net	<u>\$ 108,716,205</u>
Deduct:	
Short-term portion of bonds payable	(5,320,000)
Long-term portion of bonds payable	(29,865,000)
Short-term portion of installment purchase debt	(562,614)
Long-term portion of installment purchase debt	<u>(5,493,912)</u>
	<u>(41,241,526)</u>
Net investment in capital assets	<u>\$ 67,474,679</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
Half Hollow Hills Central School District
Dix Hills, 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 Half Hollow Hills Central School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Half Hollow Hills Central 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 Half Hollow Hills Central School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Half Hollow Hills Central 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 Half Hollow Hills Central 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*.

Purpose of this Report

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

Cullen & Danowski, LLP

October 13, 2017

