HERMON-DEKALB CENTRAL SCHOOL DISTRICT

FINANCIAL STATEMENTS
June 30, 2017

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HERMON-DEKALB CENTRAL SCHOOL DISTRICT

BOWERS & COMPANY
CPAs PLLC
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

BOARD OF EDUCATION
HERMON-DEKALB CENTRAL SCHOOL DISTRICT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hermon-DeKalb Central School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Hermon-DeKalb Central School 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.

Auditors' 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 auditors' 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 entity'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 entity'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.

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1120 Commerce Park Drive East, Watertown, NY 13601 Phone: 315.788.7690 Fax: 315.788.0966

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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 aggregate remaining fund information of the Hermon-DeKalb 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 4-18), Budgetary Comparison Information (pages 71-72), Schedule of Funding Progress for "the Plan" (page 70), Schedule of the District's Proportionate Share of the Net Pension Asset (Liability) - NYSLRS Pension Plan (page 73), and Schedule of District's Contributions - NYSLRS Pension Plan (page 74) 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hermon-DeKalb Central School District's basic financial statements. The Schedule of Change From Adopted Budget to Final Budget and The Real Property Tax Limit - General Fund, Schedule of Capital Project Fund - Project Expenditures and Financing Resources, Combined Balance Sheet - Non-Major Governmental Funds, Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds, and Net Investment in Capital Assets on pages (75-79) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Change From Adopted Budget to Final Budget and Real Property Tax Limit - General Fund, Schedule of Capital Projects Fund - Project Expenditures and Financing Resources, Combined Balance Sheet - Non-Major Governmental Funds, Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds, and Net Investment in Capital Assets on pages (75-79) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Change From Adopted Budget to Final Budget and Real Property Tax Limit - General Fund, Schedule of Capital Projects Fund - Project Expenditures and Financing Resources, Combined Balance Sheet - Non-Major Governmental Funds, Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds, and Net Investment in Capital Assets on pages (75-79) are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017 on our consideration of the Hermon-DeKalb 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 Hermon-DeKalb Central School District's internal control over financial reporting and compliance.

Bowers & Company

Watertown, New York
September 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

INTRODUCTION

The following is a discussion and analysis of Hermon-DeKalb Central School District's financial performance for the fiscal year ended June 30, 2017. This section is a summary of the School District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. Responsibility for completeness and fairness of the information contained rests with the School District.

FINANCIAL HIGHLIGHTS

The School District's purpose is to educate all students to high levels of academic performance while fostering positive growth in social/emotional behaviors and attitudes. The Board of Education is the governing body elected by the residents of the School District. Their mission is to maintain certain standards in excellence set by the New York State Board of Regents. This has to be accomplished with the least economic impact to the local taxpayer. The following financial highlights are the School District's attempt at completing this mission.

- For the year ending June 30, 2017, total revenues of $10,479,803 were $1,080,847 less than the $11,560,650 in expenses. The deficiency of $1,080,847 was deducted from the Net Position beginning of the year balance of $(1,477,952) for an ending Net Position of $(2,558,799) at June 30, 2017.
- The School District's portion of Assigned General Fund balance designated to reduce real estate taxes in 2016-2017 is $1,003,402 or 66% of the Assigned and Unassigned General Fund balance. At June 30, 2017, the General Fund Unassigned Fund Balance is $470,501 or 4.62% of the 2017-2018 budget.
- The total property assessment for the School District in the 2016-2017 school year was $138,834,886, which was a $200,891 or .14%, increase over the 2015-2016 school year. The true value tax rate for 2016-2017 was $17.71 per thousand of assessment.
- The School District employs about 80 full and part time employees. There are two unions; NYSUT(teachers) and CSEA(support Staff.) NYSUT has a collective bargaining agreement in place until June 30, 2018. CSEA also has a collective bargaining agreement in place until June 30, 2020.
- Total ending enrollment for the 2016-2017 school year was 423, a decrease of 21 students from the 2015-2016 school year. Our projected enrollment for fall 2017 is 437 students, which is stable for the district from previous years and similar to the current enrollment changes in neighboring school districts in the county.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School District.

- The first two statements are *district-wide* financial statements that provide both *short-term* and *long-term* information about the School District's *overall* financial status.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the School District, reporting the School District's operations in *more detail* than the district-wide statements. The fund financial statements concentrate on the School District's most significant funds with all other non-major funds listed in total in one column.

- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.

- *Fiduciary funds* statements provide information about the financial relationships in which the School District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District's budget and actual for the year.

The following summarizes the major features of the School District's financial statements, including the portion of the School District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

OVERVIEW OF FINANCIAL STATEMENTS - Continued

Table A-1	Major Features of the District-Wide and Fund Financial Statement		
		Fund Financial Statements	
	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the School District that are not fiduciary, such as instruction, special education and building maintenance	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities' monies
Required Financial Statements	1. Statement of Net Position 2. Statement of Activities	3. Balance Sheet 4. Statement of Revenues, Expenditures, and Changes in Fund Balance	5. Statement of Fiduciary Net Position 6. Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic focus
Type of Asset / Liability Information	All assets and liabilities, both financial and capital, short term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow / Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	Additions and deductions during the year, regardless of when cash is received or paid

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

OVERVIEW OF FINANCIAL STATEMENTS - Continued

District-Wide Statements

The district-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The *statement of net position* includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid.

The two district-wide statements report the School District's *net position* and how they have changed. Net position, the difference between the School District's assets and liabilities, are one way to measure the School District's financial health or *position.*

- Over time, increases or decreases in the School District's net position are in indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the School District's overall health, you need to consider additional nonfinancial factors such as changes in the School District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the School District's activities are shown as *Governmental activities:* Most of the School District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State and Federal aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The School District establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal grants).

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

FUND FINANCIAL STATEMENTS - Continued

The district has two kinds of funds:

- Governmental Funds: Most of the School District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

- Fiduciary Funds: The School District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. In the case of the School District, liabilities exceeded assets by $2,558,799 at June 30, 2017.

The largest portion of the School District's net position reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The School District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the School District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE - Continued

The following schedule summarizes the School District's Net Position. The complete Statement of Net Position can be found in the School District's basic financial statements.

Condensed Statement of Net Position
Comparison 2015-2016 and 2016-2017

	2015-2016	2016-2017	Change
Assets			
Current and Other Assets	$ 3,457,181	$ 3,922,900	$ 465,719
Capital Assets, Net	7,521,883	7,299,174	(222,709)
Net Pension Asset - Proportionate Share	1,694,679	-	(1,694,679)
Total Assets	$ 12,673,743	$ 11,222,074	$ (1,451,669)
Deferred Outflows of Resources			
Deferred Charge on Refunding	$ -	$ 188,926	$ 188,926
Pensions	805,923	1,949,433	1,143,510
Total Deferred Outflows of Resources	$ 805,923	$ 2,138,359	$ 1,332,436
Liabilities			
Current Liabilities	$ 1,145,459	$ 1,628,432	$ 482,973
Long-Term Liabilities	13,152,048	14,152,444	1,000,396
Total Liabilities	$ 14,297,507	$ 15,780,876	$ 1,483,369
Deferred Inflows of Resources			
Pensions	$ 660,111	$ 138,356	$ (521,755)
Total Deferred Inflows of Resources	$ 660,111	$ 138,356	$ (521,755)
Net Position			
Net Investment in Capital Assets, Net of Related Debt	$ 3,531,883	$ 3,532,226	$ 343
Restricted	1,273,865	1,383,049	109,184
Unrestricted	(6,283,700)	(7,474,074)	(1,190,374)
Total Net Position	$ (1,477,952)	$ (2,558,799)	$ (1,080,847)

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE - Continued

In general, current assets are those assets that are available to satisfy current obligations and current liabilities and those liabilities that will be paid within one year. Current assets consist primarily of cash equivalents of $3,060,283 and state, federal and BOCES aid receivable of $815,927.

Current liabilities consist principally of accounts payable and accrued expenses totaling $298,616 and the current portion of long-term debt totaling $618,234 and compensated absences of $319,414.

The Statement of Activities shows the cost of program services net of charges for services and grants offsetting those services. General revenues including tax revenue, investment earnings and unrestricted state and federal aid must support the net cost of the School District's programs.

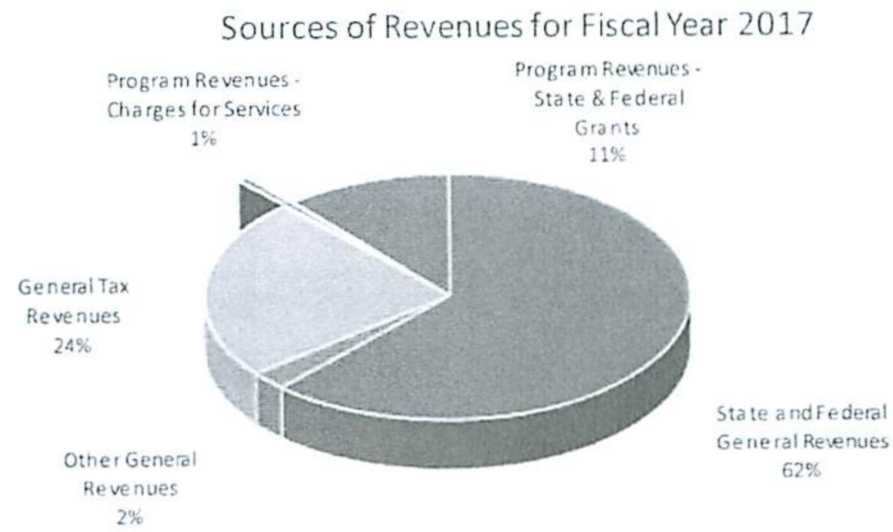
The following schedule summarizes the School District's activities. The complete Statement of Activities can be found in the School District's basic financial statements.

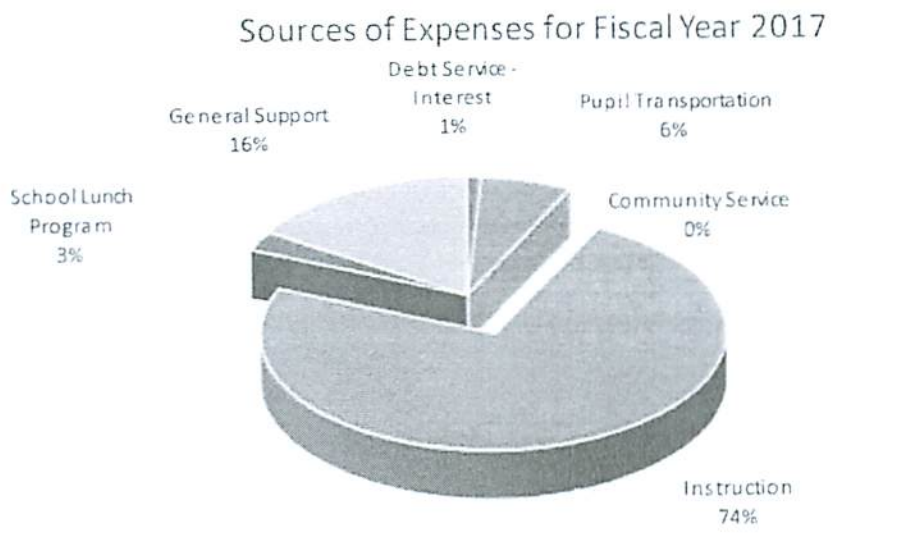
Condensed Statement of Activities
Comparison 2015-2016 and 2016-2017

	2015-2016	2016-2017	% Change
Revenues			
Program Revenues			
Charges for Services	$ 64,986	$ 86,850	33.6%
Operating Grants	640,566	1,145,835	78.9%
General Revenues			
Property and Other Tax Items	2,463,429	2,486,234	0.9%
Use of Money and Property	10,545	23,974	127.3%
Sale of Property and Compensation for Loss	5,032	7,802	55.0%
Gain on Sale of Fixed Assets	7,716	-	-100.0%
Interfund Revenue	-	4,003	N/A
Miscellaneous	162,262	223,256	37.6%
State Sources	6,810,243	6,492,915	-4.7%
Federal Sources	5,543	8,934	61.2%
Total Revenues	$ 10,170,322	$ 10,479,803	3.0%
Expenses			
General Support	1,666,814	1,827,636	9.6%
Instruction	7,951,768	8,557,380	7.6%
Pupil Transportation	732,663	746,888	1.9%
Community Service	-	2,482	N/A
Debt Service - Interest	170,559	114,052	-33.1%
School Lunch Program	213,995	312,212	45.9%
Total Expenses	10,735,799	11,560,650	7.7%
Change in Net Position	$ (565,477)	$ (1,080,847)	91.1%

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE - Continued





MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE - Continued

The School District is heavily dependent on both state and federal aid for its funding. State and Federal Grants and State and Federal General Revenues combined account for 62% of total revenues. General Tax Revenues account for 24% of revenues received for the year. These two sources account for 86% of the total revenues received in the 2016-2017 school year.

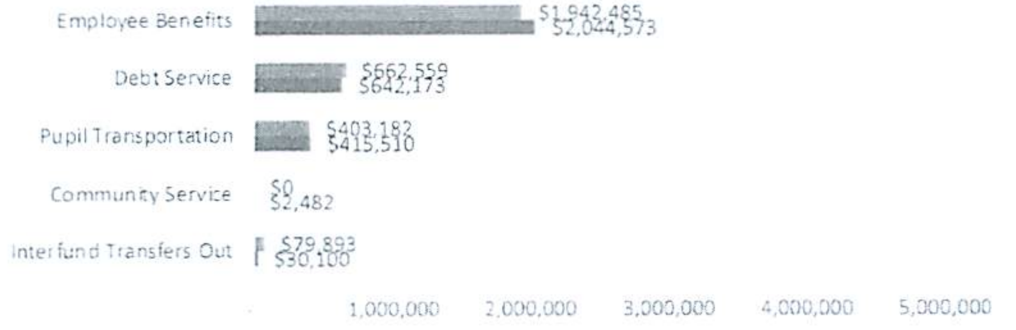
Instruction, transportation and general support account for 96% of the total expenses of the School District, which is comparative to prior year percentages.

The financial statements also include the Special Aid Fund and School Lunch Fund, which are primarily funded by state and federal aid and food sales.

General Fund Budgetary Highlights

The School District's budget of $9,825,693 for 2016-2017 was approved by referendum on May 17, 2016 (188 residents voted). The School District's total budget increase for 2016-2017 was $608,641 or a 6.6% increase from the prior year budget. The district had carryover encumbrances from 2015-2016 totaling $3,728.

Actual expenditures for 2016-2017 including transfers of $30,100 to other funds totaled $8,865,644, for a favorable variance of $926,695 (under budgeted amounts). The graph below shows how the actual expenditures are distributed for each budget over the past two budget years:



MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE - Continued

General Fund Budgetary Highlights - Continued

Fiscal year 2016-2017 expenditures were $305,279 or 3.57% more than the prior year expenditures. Expenditures for Instruction increased $229,106 in fiscal year 2016-2017 over the prior year. The district continues its efforts to continue to meet and exceed state standards, inclusive of Common Core, in all areas. The decrease of $20,386 in Debt Service expenditures was caused by refinancing the building project bond in the Fall of 2016. General Support expenditures increased by $29,454. The district continues to be fiscally prudent. Employee benefit expenditures increased by $102,088 in fiscal year 2016-2017 primarily due to increased health insurance costs.

The School District appropriated $834,001 of the fund balance to reduce taxes for the year ending June 30, 2017. Unspent appropriations provide cash flow at year-end when state aid is uncertain. The district had $3,728 appropriated for 2015-2016 carryover encumbrances.

On May 17, 2016, the voters authorized the establishment of a Capital Reserve Fund, which by Education Law §3651, must be used to pay the cost of any object or purpose for which bonds may be issued. The reserve was authorized for up to 10 years and in an amount not to exceed $550,000 with funding from budget appropriations or fund balances. The Board of Education approved funding the reserve $125,000 at the June 26, 2017 regular meeting, bringing the reserve total to $375,991.

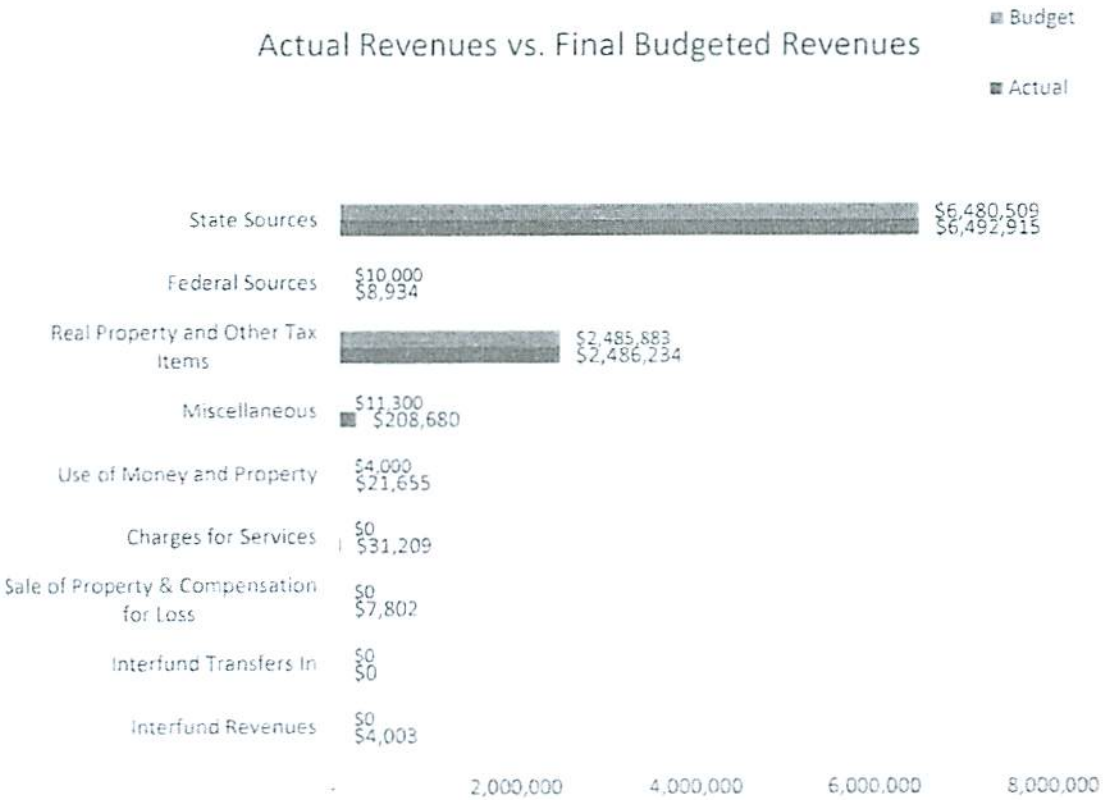
Revenues

State Aid and real property tax revenues closely match the budgeted revenues. Additional unbudgeted revenue comes from a BOCES refund based on the prior year expenses and State Aid for Homeless students.

As the district plans for future revenues, all districts in NYS were subject to the property tax cap legislation for the first time while developing the 2012-2013 budget. This limits the amount of revenue that can be raised via property taxes without a super majority and while the impact varies by district, it will be a factor for all districts going forward.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE - Continued



Expenditures

As the following graph portrays, expenditures were in line with the 2016-2017 final budget. The total unspent appropriation budget was $926,695 with year-end encumbrances of $37,082 at June 30, 2017.

The under-spent budgeted appropriations of $926,695 netted with positive revenue variances of $269,740 are used to fund the Assigned and Restricted Fund Balances for the subsequent year. The 2017-2018 Assigned Fund Balance is $1,003,402. The Assigned Fund Balance is 9.8% of the 2017-2018 school budget.

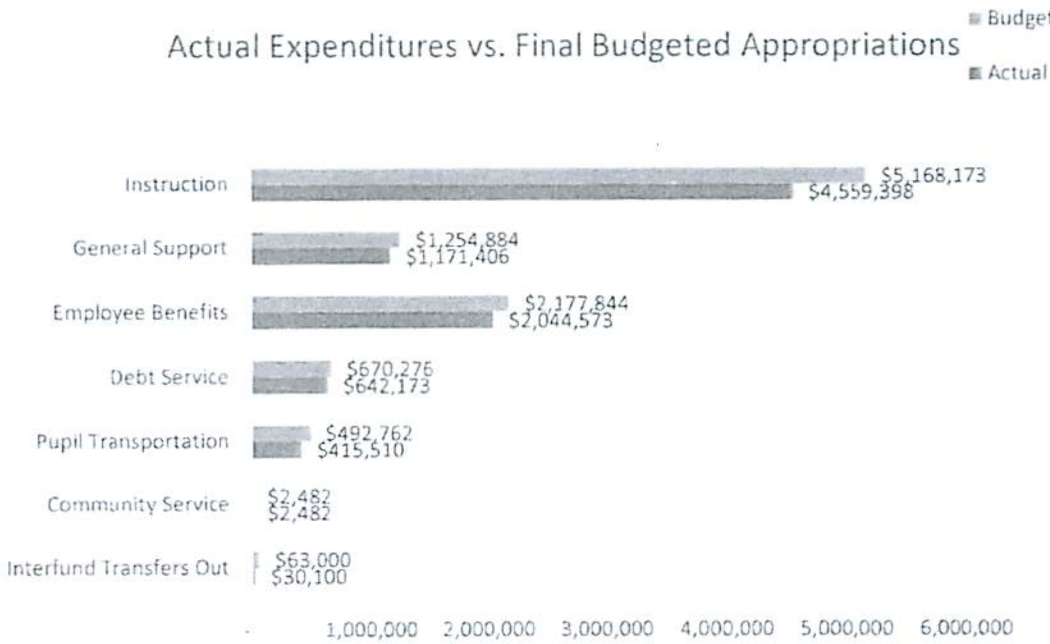
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE - Continued

Expenditures – Continued

The Assigned Fund Balance needs to be maintained to help the School District with cash flow at the end of the school year. In order to decrease assigned fund balance, without raising the tax levy in the subsequent year, other revenue sources (State Aid) would need to increase.

The following graph compares actual expenditures with final budgeted appropriations. Refer to Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund in the financial statements for more detailed information.



MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

Land is valued at acquisition cost and the School District only owns property with structures on or adjacent to it.

Building and improvements have various dates of construction from the initial construction in 1957 to the 1967 elementary and middle school wing with the auditorium project and in 1991 the weight room, gym storage, auxiliary gymnasium and more elementary classrooms were added.

Furniture and equipment are recorded for the entire School District and includes vehicles and school buses.

The Board of Education established a fixed asset policy on June 11, 2003 to capitalize fixed assets of at least $1,000.

Industrial Appraisal Company, conducted a physical inventory in November 2014. All assets are tagged and recorded, with updates for any purchases or deletions thru May 2017.

Capital Assets net of depreciation totaled $7,299,174 at June 30, 2017.

	Balance June 30, 2016	Additions	Retirements / Reclassifications	Balance June 30, 2017
Land	$ 110,143	$ -	$ -	$ 110,143
Building & Improvements	12,894,780	5,545	-	12,900,325
Furniture & Equipment	3,628,074	336,207	(105,765)	3,858,516
Less:				
Accumulated Depreciation	9,111,114	564,461	(105,765)	9,569,810
Total Net Position	$ 7,521,883	$ (222,709)	$ -	$ 7,299,174

For more information refer to Note 5 in the notes to financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION - Continued

Short-Term Debt

There was no short-term debt financing during the year ended June 30, 2017.

Long-Term Debt

The School District has a bond outstanding on a capital project originally issued in 2009 and refinanced in 2016. This bond will mature on June 15, 2024.

On September 21, 2016, the District issued $2,750,000 in a Serial Bond to advance refund the 2009 Serial Bonds. The lower interest rates obtained by the District resulted in savings of $136,135 over the remaining seven years of the bond. A serial bond was issued September 1, 2016 for the purchase of two school buses in the amount of $245,000.

The district has complied with GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. Regulations require the reporting of other post-employment benefits which was completed by securing the Armory Associates LLC. A complete actuarial valuation was completed during 2015-2016, with an interim valuation completed for 2016-2017.

The long-term debt is broken down by current (within one year) and long term (after one year). The School District had the following breakdown of debt June 30, 2017 and 2016:

Category	Fiscal Year 2016	Fiscal Year 2017	Total Change
General Obligation Bonds	$ 3,990,000	$ 3,650,000	$ (340,000)
Premium on Bonds	-	305,874	305,874
Other Post Employment Benefits Payable	8,920,014	10,364,947	1,444,933
Net Pension Liability - Proportionate Share	468,171	449,857	(18,314)
Total	$ 13,378,185	$ 14,770,678	$ 1,392,493

For more information, refer to Note 7 in the notes to financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION - Continued

Long-Term Debt - Continued

The District has implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The implementation of the statement requires the District to report as an asset and/or liability its portion of the collective net pensions asset and liability in the New York State Teachers' and Employees' Retirement Systems. The implementation of the Statement also requires the District to report a deferred outflow and/or deferred inflow for the effect of the net change in the District's proportion of the collective net pension asset and/or liability and difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. For more information, see Note 1.

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

- The uncertainty of federal and state funding can have a profound impact on the financial health of the District. The future impact of changes in Federal and New York State budgets cannot be predicted, but may require the District to consider spending cuts.

- The enactment of a Property Tax Cap may limit the Districts ability to raise funds to cover expenditures.

- The impact of health insurance premiums will continue to have a significant effect on the future financial health of the District. Health insurance premiums now account for 16.2% of our 2017-2018 budget. The District has successfully negotiated with its employee unions so that Hermon-Dekalb Central School requires all active and retired employees to contribute towards the cost of their health insurance.

- The District is in the early planning stages of a building renovation project. The District enjoys a high building aid rate and has established a Capital Reserve to assist with the financing of this future project.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District Clerk at the following address: Hermon Dekalb Central School, 709 E. Dekalb Road, Dekalb Junction, NY 13630.

STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
June 30, 2017

ASSETS		
Cash and Cash Equivalents		
Unrestricted	$	1,681,656
Restricted		1,378,627
Receivables		
State and Federal Aid		540,216
Due From Other Governments		275,711
Due From Fiduciary Funds		3,776
Other		28,633
Inventories		9,378
Prepaid Expenses		4,903
Capital Assets, Net		7,299,174
TOTAL ASSETS	$	11,222,074
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	$	1,949,433
Deferred Charge on Refunding		188,926
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	2,138,359
LIABILITIES		
Payables		
Accounts Payable	$	261,825
Accrued Liabilities		36,791
Due to Other Governments		6,194
Accrued Interest on Bonds Payable		10,164
Due to Teachers' Retirement System		335,562
Due to Employees' Retirement System		38,710
Unearned Credits		
Unearned Revenues - Other		1,538
Long-Term Liabilities		
Due and Payable Within One Year		
Bonds Payable, Net of Unamortized Premium		618,234
Compensated Absences Payable		319,414
Due and Payable After One Year		
Bonds Payable, Net of Unamortized Premium		3,337,640
Other Postemployment Benefits Payable		10,364,947
Net Pension Liability - Proportionate Share		449,857
TOTAL LIABILITIES	$	15,780,876
DEFERRED INFLOWS OF RESOURCES		
Pensions	$	138,356
TOTAL DEFERRED INFLOWS OF RESOURCES	$	138,356
NET POSITION		
Net Investment in Capital Assets	$	3,532,226
Restricted		1,383,049
Unrestricted (Deficit)		(7,474,074)
TOTAL NET POSITION	$	(2,558,799)

See notes to audited basic financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION – GOVERNMENTAL ACTIVITIES

Year Ended June 30, 2017

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS				
General Support	$ 1,827,636	$ 2,864	$ -	$ (1,824,772)
Instruction	8,557,380	28,158	960,324	(7,568,898)
Pupil Transportation	746,888	-	-	(746,888)
Community Service	2,482	-	-	(2,482)
Debt Service - Interest	114,052	-	-	(114,052)
School Lunch Program	312,212	55,828	185,511	(70,873)
Total Functions and Programs	$ 11,560,650	$ 86,850	$ 1,145,835	(10,327,965)
GENERAL REVENUES				
Real Property Taxes				2,008,059
Other Tax Items				478,175
Use of Money and Property				23,974
Sale of Property and Compensation for Loss				7,802
Interfund Revenue				4,003
State Sources				6,492,915
Federal Sources				8,934
Miscellaneous				223,256
Total General Revenues				9,247,118
Change in Net Position				(1,080,847)
Net Position - Beginning of Year , Restated				(1,477,952)
Net Position - End of Year				$ (2,558,799)

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	General	Special Aid	Total Non-Major Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents				
Unrestricted	$ 1,533,240	$ 96,994	$ 51,422	$ 1,681,656
Restricted	1,317,016	-	61,611	1,378,627
Receivables				
Due From Other Funds	422,506	270	4,422	427,198
State and Federal Aid	136,028	403,743	445	540,216
Due From Other Governments	266,616	-	9,095	275,711
Other	28,633	-	-	28,633
Inventories	-	-	9,378	9,378
Prepaid Expenditures	4,903	-	-	4,903
TOTAL ASSETS	$ 3,708,942	$ 501,007	$ 136,373	$ 4,346,322
LIABILITIES				
Payables				
Accounts Payable	$ 148,398	$ 112,722	$ 705	$ 261,825
Accrued Liabilities	36,016	775	-	36,791
Due to Other Funds	331	379,074	44,017	423,422
Due to Other Governments	-	6,043	151	6,194
Compensated Absences	319,414	-	-	319,414
Due to Teachers' Retirement System	333,169	2,393	-	335,562
Due to Employees' Retirement System	38,710	-	-	38,710
Unearned Credits				
Unearned Revenues	-	-	1,538	1,538
Total Liabilities	876,038	501,007	46,411	1,423,456
FUND BALANCES				
Nonspendable	4,903	-	9,378	14,281
Restricted	1,317,016	-	66,033	1,383,049
Assigned	1,040,484	-	14,551	1,055,035
Unassigned	470,501	-	-	470,501
Total Fund Balances	2,832,904	-	89,962	2,922,866
TOTAL LIABILITIES AND FUND BALANCES	$ 3,708,942	$ 501,007	$ 136,373	$ 4,346,322

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2017

Total Fund Balance - Governmental Funds			$ 2,922,866
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Net Pension Liability - Proportionate Share - TRS			(178,307)
Net Pension Liability - Proportionate Share - ERS			(271,550)
Deferred inflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds statements - Pensions			(138,356)
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds statements consist of:			
	Pensions	$ 1,949,433	
	Deferred Charge on Bond Refunding	188,926	2,138,359
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:			
	The Cost of Capital Assets is	$ 16,868,984	
	Accumulated Depreciation is	(9,569,810)	7,299,174
Long-term liabilities, including bonds payable and compensated absences, are not due in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities, at year end, consist of:			
	Bonds Payable	$ 3,650,000	
	Premium on Bonds Payable	305,874	
	Accrued Interest on Bonds Payable	10,164	
	Other Post Employment Benefits Payable	10,364,947	(14,330,985)
Total Net Position - Governmental Activities			$ (2,558,799)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	General	Special Aid	Total Non-Major Funds	Total Governmental Funds
REVENUES				
Real Property Taxes	$ 2,008,059	$ -	$ -	$ 2,008,059
Other Tax Items	478,175	-	-	478,175
Charges for Services	31,209	-	-	31,209
Use of Money and Property	21,655	-	2,319	23,974
Sale of Property and Compensation for Loss	7,802	-	-	7,802
Interfund Revenue	4,003	-	-	4,003
State Sources	6,492,915	449,859	6,009	6,948,783
Federal Sources	8,934	510,465	179,502	698,901
Sales - School Lunch	-	-	55,828	55,828
Miscellaneous	208,680	-	14,389	223,069
Total Revenues	9,261,432	960,324	258,047	10,479,803
EXPENDITURES				
General Support	1,171,408	4,003	87,848	1,263,259
Instruction	4,559,398	814,019	-	5,373,417
Pupil Transportation	415,510	21,850	-	437,360
Community Service	2,482	-	-	2,482
Employee Benefits	2,044,573	131,229	64,459	2,240,261
Debt Service				
Principal	538,285	-	16,715	555,000
Interest	103,888	-	-	103,888
Cost of Sales	-	-	123,227	123,227
Capital Outlay	-	-	240,902	240,902
Total Expenditures	8,835,544	971,101	533,151	10,339,796
Excess (Deficiency) of Revenues Over Expenditures	425,888	(10,777)	(275,104)	140,007
OTHER FINANCING SOURCES AND (USES)				
Proceeds of Refunding Bonds	-	-	2,968,926	2,968,926
Payment to Escrow Agent	-	-	(2,968,926)	(2,968,926)
Serial Bonds Issued	-	-	245,000	245,000
Operating Transfers In	-	10,777	23,744	34,521
Operating Transfers (Out)	(30,100)	-	(4,421)	(34,521)
Total Other Financing Sources (Uses)	(30,100)	10,777	264,323	245,000
Net Change in Fund Balance	395,788	-	(10,781)	385,007
Fund Balances - Beginning of Year	2,437,116	-	100,743	2,537,859
Fund Balances - End of Year	$ 2,832,904	$ -	$ 89,962	$ 2,922,866

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds			$	385,007
Amounts reported for governmental activities in the Statement of Net Position are different because:				
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.				
Capital Outlays	$	341,752		
Depreciation Expense		(564,461)		(222,709)
Repayment of bond principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Position. This is the amount of debt repayments made in the current period.				555,000
Advance Refunding Debt Issuance Costs				(86,948)
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 paid, 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 paid. The interest reported in the Statement of Activities is increased by the increase in accrued interest on bonds.				(10,164)
In the Statement of Activities, certain operating expenses including OPEB costs are measured by the amount earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).				(1,444,933)
Some of the capital assets acquired were financed with long-term debt. The amount financed by the long-term debt is reported in the governmental funds as a source of financing. On the other hand, long-term debt is not revenue in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.				(245,000)
(Increases) decreases in proportionate share of net pension asset (liability) and related deferred inflows and outflows reported in the Statement of Activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.				
Teachers' Retirement System	$	23,015		
Employees' Retirement System		(34,115)		(11,100)
Change in Net Position of Governmental Activities			$	(1,080,847)

See notes to audited basic financial statements.

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2017

	Trusts	Agency
ASSETS		
Cash	$ 119,719	$ 77,081
Total Assets	$ 119,719	$ 77,081
LIABILITIES		
Accounts Payable	$ -	$ 31,249
Due to Other Funds	-	3,776
Extraclassroom Activity Balances	-	42,056
Total Liabilities	-	$ 77,081
NET POSITION		
Reserved for Scholarships	$ 119,719	

See notes to audited basic financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2017

	Private Purpose Trusts
ADDITIONS	
Gifts and Contributions	$ 3,600
Interest Earnings	533
Total Additions	4,133
DEDUCTIONS	
Scholarships and Awards	4,600
Change in Net Position	(467)
Net Position - Beginning of Year	$ 120,186
Net Position - End of Year	$ 119,719

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hermon-DeKalb Central School District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the District are described below:

Reporting Entity

The Hermon-DeKalb Central School 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 nine 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 reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Component Units*. 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 is a brief description of certain entities included in the District's reporting entity.

Extra Classroom Activity Funds

The Extra Classroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extra Classroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extra Classroom Activity Funds can be found at the District's business office. The District accounts for assets held as an agent for various student organizations in an agency fund.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Joint Venture

The District is one of 18 component school districts in the St. Lawrence-Lewis Counties Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs that provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

BOCES are organized under §1950 of the New York State 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 §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (§1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n (a) of the New York State General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

During the year, the District was billed $2,146,861 for BOCES administrative and program costs.

The District's share of BOCES aid amounted to $741,076. This represents state aid distributions of $592,479 and 2016 fund balance returned to schools of $148,597.

Financial statements for the BOCES are available from the BOCES administrative office.

Basis of Presentation

District-Wide Statements

The *Statement of Net Position* and the *Statement of Activities* present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State and Federal aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation - Continued

The *Statement of Activities* presents a comparison between direct 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. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Statements

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Special Revenue Funds: These funds account for the proceeds of specific revenue sources, such as Federal and State grants, that are legally restricted to expenditures for specified purposes, child nutrition and school store operations or other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

The District reports the following fiduciary funds:

Fiduciary Funds: Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the District-wide financial statements, because their resources do not belong to the District, and are not available to be used. The District uses two classes of fiduciary funds:

> Private Purpose Trust Funds: These funds are used to account for trust arrangements in which principal and income benefit 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.
>
> 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 extra classroom activity funds and for payroll or employee withholding.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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 property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collectible 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, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property Taxes

Real property taxes are levied annually by the Board of Education no later than September 1, 2016, and became a lien on August 22, 2016. Taxes are collected during the period September 1, 2016 to October 31, 2016.

Uncollected real property taxes are subsequently enforced by St. Lawrence County. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following April 1.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Restricted Resources

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

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 may be 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.

Refer to Note 9 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States 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 the State and its municipalities and Districts.

Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

Inventories and Prepaid Items

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. These items are reported as assets on the Statement of Net Position or Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

A portion of the funds balance in the amount of these non-liquid assets (inventories and prepaid items) has been identified as not available for other subsequent expenditures.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Assets

Capital assets are reported at actual cost or estimated historical cost. Donated assets are reported at estimated fair market value at the time received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital assets accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and Improvements	$ 1,000	SL	40-50 Years
Site Improvements	1,000	SL	20 Years
Furniture and Equipment	1,000	SL	5-15 Years
Vehicles	1,000	SL	8 Years

The School District does not possess any infrastructure.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. First is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The third item is the District contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources - Continued

In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The District has one item that qualifies for reporting in this category. The item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect or the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense.

Pension Obligations

New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems).

Plan Descriptions and Benefits Provided

Teachers' Retirement System (TRS)

The District participates in the New York State Teachers' Retirement (NYSTRS) and the New York State and Local Employees' Retirement System (NYSERS). This is a cost-sharing multiple-employer defined benefit retirement system. The System provides retirement benefits as well as, death and disability benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System is governed by a 10-member Board of Trustees. System benefits are established under New York State Law. 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 TRS. Once a public employer elects to participate in the System, 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 System, may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395 or by referring to the NYSSTR Comprehensive Annual Financial report which can be found on the System's website at www.nystrs.org.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources - Continued

Employees' Retirement System (ERS)

The District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System 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 System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, 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 System 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 Retirement System, 110 State Street, Albany, NY 12244.

Plan Descriptions and Benefits Provided

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute three (3) percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0 to 3.5 percent of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education law.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources - Continued

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

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

	ERS	TRS
Measurement Date	March 31, 2017	June 30, 2016
District's Proportionate Share of the Net Pension Asset (Liability)	$ (271,550)	$ (178,307)
District's Portion (%) of the Plan's Total Net Pension Asset (Liability)	0.0028900%	0.016648%
Change in Proportion (%) Since the Prior Measurement Date	-0.0000269%	0.000332%

For the year ended June 30, 2017, the District's recognized pension expense of $160,849 for ERS and $290,585 for TRS. At June 30, 2017, the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources - Continued

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	ERS	TRS	ERS	TRS
Differences Between Expected and Actual Experience	$ 6,805	$ -	$ 41,236	$ 57,924
Changes of Assumptions	92,771	1,015,748	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	54,239	400,927	-	-
Changes in Proportion and Differences Between the District's Contributions and Proportionate Share of Contributions	20,493	6,207	3,867	35,329
District's Contributions Subsequent to the Measurement Date	38,710	313,533	-	-
Total	$ 213,018	$ 1,736,415	$ 45,103	$ 93,253

District contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended 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 for the year ended as follows:

	ERS	TRS
2018	$ 56,697	$ 119,665
2019	56,697	119,665
2020	49,746	431,036
2021	(33,935)	334,159
2022	-	150,899
Thereafter	-	174,205

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources - Continued

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.

Significant actuarial assumptions used in the valuations were as follows:

	ERS	TRS
Measurement Date	March 31, 2017	June 30, 2016
Actuarial Valuation Date	April 1, 2016	June 30, 2015
Interest Rate	7.0%	7.5%
Salary Scale	3.8%	1.9% - 4.72%
Decrement Tables	April 1, 2010 - March 31, 2015 System's Experience	July 1, 2009 - June 30, 2014 System's Experience
Inflation Rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014. For TRS, annuitant mortality rates are based on July 1, 2009 – June 30, 2014 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale AA.

For ERS, the actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015. For TRS, the actuarial assumptions used in the June 30, 2015 valuation are based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources - Continued

The long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

	ERS	TRS
Measurement Date	March 31, 2017	June 30, 2016
Asset Type		
Domestic Equity	4.55%	6.10%
International Equity	6.35%	7.30%
Private Equity	7.75%	
Real Estate	5.80%	5.40%
Absolute Return Strategies	4.00%	
Opportunistic Portfolio	5.89%	
Real Assets	5.54%	
Bonds and Mortgages	1.31%	
Cash	-0.25%	
Inflation - Indexed Bonds	1.50%	
Alternative Investments		9.20%
Domestic Fixes Income Securities		1.00%
Global Fixed Income Securities		0.80%
Short-Term		0.10%
Mortgages		3.10%

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources - Continued

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for ERS and 7.5% for TRS. 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. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension asset (liability) calculated using the discount rate of 7.0% for ERS and 7.5% for TRS, 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 (6.0% for ERS and 6.5% for TRS) or 1-percentage point higher (8.0% for ERS and 8.5% for TRS) than the current rate :

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's Proportionate Share of the Net Pension Asset (Liability)	$ (867,276)	$ (271,550)	$ 232,136

TRS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's Proportionate Share of the Net Pension Asset (Liability)	$ (2,326,416)	$ (178,307)	$ 1,623,414

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources - Continued

Pension Plan Fiduciary Net Position

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

	(In Thousands)		
	ERS	TRS	Total
Measurement Date	March 31, 2017	June 30, 2016	
Employer's Total Pension Asset (Liability)	$ (177,400,586)	$ (108,577,184)	$ (285,977,770)
Plan Net Position	168,004,363	107,506,142	275,510,505
Employer's Net Pension Asset (Liability)	$ (9,396,223)	$ (1,071,042)	$ (10,467,265)
Ratio of Plan Net Position to the Employer's Total Pension Asset (Liability)	94.70%	99.01%	

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31. 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 wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to $38,710.

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 employee and employer contributions for the fiscal year ended June 30, 2017 based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2017 amounted to $335,562.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Unearned Revenue

The District reports unearned revenues on its Statement of Net Position and its Balance Sheet. On the Statement of Net Position, unearned revenue arises when resources are received by the District before it has legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when the District has legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

Vested Employee Benefits

Compensated Absences

Compensated absences consist of unpaid accumulated annual sick leave and vacation time. Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts. Upon retirement or resignation, employees may contractually receive a payment based on unused accumulated sick leave.

District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the funds statements only the amount of matured liabilities is accrued within the General Fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you-go basis.

Other Benefits

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Other Benefits - Continued

In addition to providing pension benefits, the District provides post-employment health insurance coverage to retired employees in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become 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.

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 RAN's and TAN's represent a liability that will be extinguished by the use of expendable, available resources of the fund.

The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which there is an insufficient or no provision made in the annual budget. The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued.

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 BAN's issued for capital purposes be converted to long-term financing within five years after the original issue date.

The District may issue deficiency notes up to an amount not to exceed 5% of the amount of that same year's annual budget in any fund or funds arising from revenues being less than the amount estimated in the budget for that fiscal year. The deficiency notes may mature no later than the close of the fiscal year following the fiscal year in which they were issued. However, they may mature no later than the close of the second fiscal year after the fiscal year in which they were issued, if the notes were authorized and issued after the adoption of the budget for the fiscal year following the year in which they were issued.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the District-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, other postemployment benefits payable, and compensated absences that will be paid from governmental funds are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statement of Net Position.

Equity Classifications

District-Wide Statements

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

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

Restricted Net Position – 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 Net Position – reports all other net position that does not meet the definition of the above two classifications and are deemed to be available for general use by the District.

Funds Statements

Non-Spendable – includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the School Lunch Fund of $9,378 and a $4,903 deposit to School and Municipal Energy Cooperative of WNY in the General Fund.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Equity Classifications - Continued

Restricted - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balance. The School District has established the following restricted fund balances:

Capital

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

Debt Service

According to General Municipal Law §6-1, the Mandatory Reserve for Debt Service must be established for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of School District property or capital improvement.

Retirement Contributions

According to General Municipal Law §6-r, must be used for financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the Board.

Employee Benefit Accrued Liability

According to General Municipal Law §6-p, must be used for the payment of accrued employee benefit 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Equity Classifications - Continued

Unemployment Insurance

According to General Municipal Law §6-m, must be 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 School 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.

Insurance

According to General Municipal Law §6-n, must be used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action and funded by budgetary appropriations or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of $33,000 or 5% of the budget. Settled or compromised claims up to $25,000 may be paid from the reserve without judicial approval.

Repairs

According to General Municipal Law §6-d, must be used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. The Board of Education without voter approval may establish a repair reserve fund by a majority vote of its members. Voter approval is required to fund this reserve (Opinion of the New York State Comptroller 81-401). Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Encumbrances - Continued

Restricted fund balance includes the following at June 30, 2017:

General Fund		
Unemployment Insurance	$	84,048
Retirement Contributions		588,401
Insurance		30,059
Employee Benefit Accrued Liability		163,220
Capital		375,991
Repair		75,297
Debt Service Fund		66,033
Total Restricted Funds	$	1,383,049

Committed - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the school districts highest level of decision making authority, i.e., the Board of Education. The School District has no committed fund balances as of June 30, 2017.

Assigned - Includes amounts that are constrained by the school district's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the General Fund are classified as Assigned Fund Balance in the General Fund. Encumbrances reported in the General Fund at June 30, 2017 amounted to $37,082.

Unassigned – Includes all other General Fund and School Lunch Fund Net Position that do not meet the definition of the above four classifications and are deemed to be available for general use by the School District.

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the School District's budget for the General Fund for the ensuing fiscal year. Non-spendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Equity Classifications - Continued

Order of Use of Fund Balance

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

New Accounting Standards

The District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2017, the District implemented the following new statements issued by GASB:

GASB has issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the year ending June 30, 2017.

GASB has issued Statement No. 77, *Tax Abatement Disclosures,* effective for the year ending June 30, 2017.

GASB has issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the year ending June 30, 2017.

GASB has issued Statement No. 80, *Blending Requirements for Certain Components Units - an amendment of GASB Statement No. 14*, effective for the year ending June 30, 2017.

GASB has issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the year ending June 30, 2017.

Future Changes in Accounting Standards

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for the year ending June 30, 2018.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Future Changes in Accounting Standards - Continued

GASB has issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the year ending June 30, 2018.

GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for the year ending June 30, 2019.

GASB has issued Statement No. 84, *Fiduciary Activities*, effective for the year ending June 30, 2020.

GASB has issued Statement No. 85, *Omnibus 2017*, effective for the year ending June 30, 2018.

GASB has issued Statement No. 86 *Certain Debt Extinguishment Issues*, effective for the year ending June 30, 2018.

The School District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the funds 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 focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

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

Total fund balances of the District's governmental funds differs from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund Balance Sheet.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS – Continued

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

Differences between the funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of four broad categories. The amounts shown below represent:

1. Long-Term Revenue 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.

2. Capital Related Differences:

   Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental 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 governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

3. Long-Term Debt Transaction Differences:

   Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

4. Pension Differences:

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental fund for which legal (appropriated) budgets are adopted - General Fund.

The voters of the District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations 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 are increased by the planned use of specific reserves, and 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). 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. No supplemental appropriations occurred during the year ended June 30, 2017.

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

Special Revenue Funds have not been included in the comparison because they do not have a legally authorized (appropriated) budget.

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 reservations of fund balance 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.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Other

The District's unreserved undesignated fund balance was in excess of the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year. Actions the District plans to pursue to address this issue include a current appropriated fund balance for subsequent year expenditures for the year ending June 30, 2017 in the amount of $1,003,402. This appropriation will bring the balance of unreserved undesignated fund balance closer to 4%.

NOTE 4 - CASH (AND CASH EQUIVALENTS) - CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE AND FOREIGN CURRENCY RISKS

Cash

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. While the District does not have a specific policy for custodial credit risk, New York State statues govern the District's investment policies, as discussed previously in these Notes.

The District's aggregate bank balances (disclosed in the financial statements), included balances not covered by depository insurance at year-end, collateralized as follows:

Uncollateralized	$ -
Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the District's name	$ 298,071

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes $1,378,627 within the governmental funds.

The District does not typically purchase investments for long enough duration to cause it to believe that it is exposed to any material interest rate risk.

The District does not typically purchase investments denominated in a foreign currency and is not exposed to foreign currency risk.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - CASH (AND CASH EQUIVALENTS) - CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE AND FOREIGN CURRENCY RISKS - Continued

Investment Pool

The District participated in a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article5-G, §whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents. At June 30, 2017, the School District held $2,426,316 in the General Fund, $61,612 in the Debt Service Fund, and $117,076 in the Fiduciary Funds through the cooperative classified as unrestricted and restricted cash.

The above amounts represent the cost of the investment pool shares, and are considered to approximate market value. The investment pool is categorically exempt from the New York State collateral requirements. Additional information concerning the cooperative is presented in the annual report of NY Class.

NOTE 5 - CAPITAL ASSETS

Capital asset balances and activity were as follows:

Governmental Activities	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Capital Assets that are not depreciated:				
Land	$ 110,143	$ -	$ -	$ 110,143
Total Nondepreciable Assets	110,143	-	-	110,143
Capital Assets that are depreciated:				
Buildings and Improvements	$ 12,894,780	$ 5,545	$ -	$ 12,900,325
Furniture and Equipment	3,628,074	336,207	(105,765)	3,858,516
	16,522,854	341,752	(105,765)	16,758,841
Less - Accumulated Depreciation:				
Buildings and Improvements	6,288,619	424,904	-	6,713,523
Furniture and Equipment	2,822,495	139,557	(105,765)	2,856,287
Total Accumulated Depreciation	9,111,114	564,461	(105,765)	9,569,810
Total Depreciated Assets, Net	$ 7,411,740	$ (222,709)	$ -	$ 7,189,031

Depreciation expense was charged to governmental functions as follows:

General Support	$ 90,905
Instruction	433,614
Pupil Transportation	39,942
	$ 564,461

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - SHORT-TERM DEBT

There was no short-term debt financing during the year ended June 30, 2017.

NOTE 7 - LONG-TERM DEBT OBLIGATIONS

Long-term liability balances and activity for the year are summarized below:

Government Activities	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Debt:					
Serial Bonds	$ 3,990,000	$ 2,995,000	$ (3,335,000)	$ 3,650,000	$ 580,000
Premium on Bonds	-	305,874	-	305,874	38,234
Total Bonds and Notes Payable	3,990,000	3,300,874	(3,335,000)	3,955,874	618,234
Other Liabilities:					
Other Post Employment Benefits Payable	8,920,014	1,444,933	-	10,364,947	-
Net Pension Liability - Proportionate Share	468,171	-	(18,314)	449,857	-
Total Other Liabilities	9,388,185	1,444,933	(18,314)	10,814,804	-
Total Government Activities	$ 13,378,185	$ 4,745,807	$ (3,353,314)	$ 14,770,678	$ 618,234

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - LONG-TERM DEBT OBLIGATIONS - Continued

Existing serial and statutory obligations:

Description	Issue Date	Final Maturity	Interest Rate (%)	Balance
Serial Bonds - Refunded	7/8/09	6/15/18	4.00%	$ 440,000
Serial Bonds - Refunding	9/21/16	6/15/24	2.00-4.00%	2,725,000
Bus Purchase	9/1/16	9/1/21	1.625-1.75%	245,000
Bus Purchase	9/3/15	9/1/20	1.30-2.75%	100,000
Bus Purchase	9/4/14	9/1/19	1.875-2.125%	75,000
Bus Purchase	9/4/13	9/1/18	2.75-3.00%	50,000
Bus Purchase	11/29/12	9/1/17	2.50%	15,000
Total Serial Bonds				$ 3,650,000

The following is a summary of debt service requirements at year end June 30:

	Principal	Interest	Total
2018	$ 580,000	$ 124,884	$ 704,884
2019	580,000	102,434	682,434
2020	570,000	86,523	656,523
2021	560,000	70,657	630,657
2022	555,000	50,037	605,037
2023 - 2024	805,000	37,800	842,800
Totals	$ 3,650,000	$ 472,335	$ 4,122,335

Advance Refunding

The District issued $2,750,000 of general obligation refunding bonds to advance refund a portion of the 2011 Serial Bonds. The purpose of the refunding was to lower interest rates and provide taxpayers savings. As a result, the refunded bonds are considered to be defeased and the proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the portion of the old bonds that were refunded. Accordingly, the trust account assets and the liability of the defeased debt have been removed from the government-wide financial statements. At June 30, 2017, the amount of outstanding defeased bonds totaled $2,780,000. The reacquisition price exceeded the net carrying amount of the old debt by $188,926. This amount is reported as deferred outflows of resources and amortized over the remaining life of the new debt issued, which is the same life of the refunded debt. The balance of the deferred outflows of resources, net of fiscal year 2016/17 amortization as of June 30, 2017, is $188,926. This advance refunding was undertaken to reduce total debt service payments over the next seven years by $136,135 and resulted in an economic gain of $128,633.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - LONG-TERM DEBT OBLIGATIONS - Continued

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

Interest Paid	$	103,888
Plus Interest Accrued in the Current Year		10,164
Total Expense	$	114,052

The District had no capital lease obligations at June 30, 2017.

NOTE 8 - PENSION PLANS

General Information

The District participates in the New York State Teachers' Retirement System (NYSTRS). and the New York State Employees' Retirement System (NYSERS). These are cost-sharing multiple employer public employee defined benefit retirement systems. The Systems offer a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

Provisions and Administration

Teachers' Retirement System (TRS)

The New York State Teachers' Retirement Board administers NYSTRS. NYSTRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

Employees' Retirement System (ERS)

NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law govern obligations of employers and employees to contribute and benefits to employees. NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Office of the State Comptroller, 110 State Street, Albany, New York 12244.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 - PENSION PLANS - Continued

TRS Benefits Provided

Benefits

The benefits provided to members of the System are established by New York State law and may be amended only by the Legislature with the Governor's approval. Benefit provisions vary depending on date of membership and are subdivided into the following six classes:

Tiers 1

Members who last joined prior to July 1, 1973 are covered by the provisions of Article 11 of the Education Law.

Tiers 2

Members who last joined on or after July 1, 1973 and prior to July 27, 1976 are covered by the provisions of Article 11 of the Education Law and Article 11 of the Retirement and Social Security Law (RSSL).

Tiers 3

Members who last joined on or after July 27, 1996 and prior to September 1, 1983 are covered by the provisions of Article 14 and Article 15 of the RSSL.

Tiers 4

Members who last joined on or after September 1, 1983 and prior to January 1, 2010 are covered by the provisions of Article 15 of the RSSL.

Tiers 5

Members who joined on or after January 1, 2010 and prior to April 1, 2012 are covered by the provisions of Article 15 of the RSSL.

Tiers 6

Members who joined on or after April 1, 2012 are covered by the provisions of Article 15 of the RSSL.

Service Retirements

Tier 1 members are eligible, beginning at age 55, for a service retirement allowance of approximately 2% per year of credited service times final average salary.

Under Article 19 of the RSSL, eligible Tiers 1 and 2 members can receive additional service credit of one-twelfth of a year for each year of retirement credit as of the date of retirement or death up to a maximum of two additional years.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 - PENSION PLANS - Continued

TRS Benefits Provided - Continued

Tiers 2 through 5 are eligible for the same but with the following limitations: (1) Tiers 2 through 4 members receive an unreduced benefit for retirement at age 62 or retirement at ages 55 through 61 with 30 years of service or reduced benefit for retirement at ages 55 through 61 with less than 30 years of service. (2) Tier 5 members receive an unreduced benefit for retirement at age 62 or retirement at ages 57 through 61 with 30 years of service. They receive a reduced benefit for retirement at age 55 and 56 regardless of service credit, or ages 57 through 61 with less than 30 years of service.

Tier 6 members are eligible for a service retirement allowance of 1.75% per year of credited service for the first 20 years of service plus 2% per year for years of service in excess of 20 years times final average salary. Tier 6 members receive an unreduced benefit for retirement at age 63. They receive a reduced benefit at ages 55-62 regardless of service credit.

Vested Benefits

Retirement benefits vest after 5 years of credited service except for Tier 5 and 6 where 10 years of credited service are required. Benefits are payable at age 55 or greater with the limitations noted for service retirements above.

Disability Retirement

Members are eligible for disability retirement benefits after 10 years of credited New York State service except for Tier 3 where disability retirement is permissible after 5 years of credited New York State service pursuant to the provisions of Article 14 of the RSSL. The Tier 3 benefit is integrated with Social Security.

Death Benefits

Death benefits are paid to the beneficiary of active members who die in service. The benefit is based on final salary and the number of years of credited service.

Prior Service

After 2 years of membership, members of all tiers may claim and receive credit for prior New York State public or teaching service. Only Tier 1 and 2 members may, under certain conditions, claim out-of-state service.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 - PENSION PLANS - Continued

TRS Benefits Provided - Continued

Tier Retirement

In accordance with Chapter 640 of the Laws of 1998, any member who had a prior membership may elect to be reinstated to their original date and Tier of membership.

ERS Benefits Provided

The System provides retirement benefits as well as death and disability benefits.

Tiers 1 and 2

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit. There is no minimum service requirement for Tier 1 members. Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55, and the full benefit age for Tier 2 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

Final average salary is the average of the wages earned i n the three highest consecutive years. For Tier 1 members who joined on or after June 17, 1971, each year of final average salary is limited to no more than 20 percent of the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20 percent of the average of the previous two years.

Tiers 3, 4, and 5

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have 10 years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 - PENSION PLANS - Continued

TRS Benefits Provided - Continued

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2 percent of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5 percent of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with 10 or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 3, 4 and 5 members, each year of final average salary is limited to no more than 10 percent of the average of the previous two years.

Tier 6

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have 10 years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63 for ERS members.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75 percent of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2 percent of final average salary i s applied for each year of service over 20 years. Tier 6 members with 10 or more years of service can retire as early as age 55 with reduced benefits.

Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year of final average salary is limited to no more than 10 percent of the average of the previous four years.

Ordinary Disability Benefits

Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after 10 years of service; in some cases, they are provided after five years of service.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 - PENSION PLANS - Continued

ERS Benefits Provided - Continued

Accidental Disability Benefits

For all eligible Tier 1 and Tier 2 ERS members, the accidental disability benefit is a pension of 75 percent of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5 and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

Ordinary Death Benefits

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirement s as set forth by law. The first $50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for 10 years; (iii) all disability pensioners, regard less of age, who have been retired for five years; (iv) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed $18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

Contributions

The Systems are noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% to 3.5% of their salary. With the exception of ERS tier V and VI employees, employees in the system more than ten years are no longer required to contribute. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 - PENSION PLANS - Continued

Contributions - Continued

The District is required to contribute at a rate determined actuarially by the Systems. The District contributions made to the Systems were equal to 100% of the contributions required for each year. The District chose to prepay the required contributions by December 15, 2016 and received an overall discount of $1,086. Required contributions for the current year and two preceding years were:

	NYSTRS	NYSERS
2016-2017	$ 340,643	$ 127,871
2015-2016	429,632	136,237
2014-2015	419,750	167,627

Since 1989, the NYSERS billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability, which the District exercised.

NOTE 9 - INTERFUND TRANSACTIONS - GOVERNMENTAL FUNDS

Interfund balances at June 30, 2017 are as follows:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General	$ 422,506	$ 331	$ -	$ 30,100
Special Aid	270	379,074	10,777	-
Debt Service	4,422	-	4,421	-
School Lunch	-	39,595	19,000	-
Capital Projects	-	4,422	323	4,421
Total Government Activities	427,198	423,422	34,521	34,521
Fiduciary	-	3,776	-	-
Total	$ 427,198	$ 427,198	$ 34,521	$ 34,521

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – FUND BALANCE EQUITY

The following is a summary of the Governmental Funds fund balances of the District at the year ended June 30, 2017.

FUND BALANCES	General	Non-Major	Total Governmental Funds
Non-spendable			
Supplies Inventory	$ -	$ 9,378	$ 9,378
Prepaid Expenditures	4,903	-	4,903
Restricted			
Debt Service	-	66,033	66,033
Unemployment Insurance	84,048	-	84,048
Retirement Contributions	588,401	-	588,401
Insurance	30,059	-	30,059
Employee Benefit Accrued Liability	163,220	-	163,220
Capital	375,991	-	375,991
Repair	75,297	-	75,297
Assigned			
General Support	34,772	-	34,772
Instruction	2,091	-	2,091
Pupil Transportation	219	-	219
Designated for Next Fiscal Year	1,003,402	-	1,003,402
School Lunch Fund	-	14,551	14,551
Unassigned			
General Fund	470,501	-	470,501
Total Governmental Fund Balance	$ 2,832,904	$ 89,962	$ 2,922,866

NOTE 11 – POST EMPLOYMENT (HEALTH INSURANCE) BENEFITS

The District provides postemployment (health insurance, etc.) coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District's contractual agreements.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 - POST EMPLOYMENT (HEALTH INSURANCE) BENEFITS - Continued

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, in the school year ended June 30, 2010. This required the District to calculate and record a net other postemployment benefit obligation at year-end. The net other postemployment benefit obligation is basically the cumulative difference between the actuarially required contributions and the actual contributions made. The Statement requires the District to recognize the cost of these benefits, rather than continuing to use the pay as you go method (recognize the cost as the retiree premiums and reimbursements are paid). This cost is referred to as the annual required contribution (ARC) and includes two components:

- Amortization of the unfunded actuarial liability (UAL) for the current year, the UAL being the actuarially-determined and unfunded present value of all future OPEB costs associated with current employees and retirees as of the beginning of the year.

- The actuarially-determined cost of future OPEB ascribed to, or "earned" in the current year (normal cost).

The District participates in the St. Lawrence-Lewis Health Insurance Consortium (the Plan). The Plan allows eligible District employees and spouses to continue health coverage upon retirement. The Plan does issue a publicly available financial report.

The District provides post-employment health insurance coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions, and employer contributions are governed by the District's contractual agreements. Under both instructional and non-instructional contracts, the District's employees will continue to pay a portion of the total cost of health insurance coverage after retirement. The District remains responsible for the remaining cost with the exception of one employee where the District assumes the full cost of health insurance coverage after retirement.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 - POST EMPLOYMENT (HEALTH INSURANCE) BENEFITS - Continued

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 the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty 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 to the Plan:

Annual Required Contribution	$	2,203,532
Interest on Net OPEB Obligation		356,801
Adjustment to Annual Required Contribution		(577,306)
Annual OPEB Cost (Expense)		1,983,027
Contributions Made		(538,094)
Increase in Net OPEB Obligation		1,444,933
Net OPEB Obligation - Beginning of Year		8,920,014
Net OPEB Obligation - End of Year	$	10,364,947

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

Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
June 30, 2017	$	1,983,027	27.13%	$	10,364,947
June 30, 2016		1,894,997	26.94%		8,920,014
June 30, 2015		2,092,663	26.88%		7,535,535

Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $21,208,315, all of which is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $3,754,240, and the ratio of the UAAL to the covered payroll was approximately 564.92%.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 - POST EMPLOYMENT (HEALTH INSURANCE) BENEFITS - Continued

Actuarial Methods and Assumptions

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 schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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. A summary of the methods and assumptions is provided below:

Actuarial Methods and Assumptions	
Measurement Date	6/30/2017
Investment Rate of Return	4.00%
Expected Return on Plan Assets	N/A
Expected Return on Employer's Assets	4.00%
Rate of Compensation Increase	N/A
Inflation Rate	2.25%
Additional Information	
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Amortization Period	Single Amortization Period
Amortization Period (in Years)	23
Amortization Period Status	Open
Method Used to Determine Actuarial Value of Assets	N/A

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 12 - RISK MANAGEMENT

General

The District is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

Pooled Non-Risk-Retained

The District incurs costs related to an employee health insurance plan (Plan) sponsored by St. Lawrence-Lewis BOCES and its component districts. The Plan's objectives are to formulate, develop and administer a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Districts joining the Plan must remain members for a minimum of one (1) year; a member may withdraw from the Plan after that time by advance written notification to the Plan's Board of Directors. Plan members include eighteen (18) districts and the BOCES with the Hermon-Dekalb Central School District bearing a 2.45% share of the Plan's assets and claims liabilities.

Plan members are subject to a supplemental assessment in the event of deficiencies. If the Plan's assets were to be exhausted, members would be responsible for the plan's liabilities. The Plan uses a reinsurance agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the Plan as direct insurer of the risks reinsured. The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained in writing: St. Lawrence-Lewis Counties School District Employee Medical Plan, Post Office Box 697, Canton, New York 13617.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 13 - CONTINGENCIES AND COMMITMENTS

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 years' experience, the District's administration believes disallowances, if any, will be immaterial.

NOTE 14 – RESTATEMENT OF NET POSITION

Due to changes in the calculation of the District's contributions subsequent to the measurement date to the New York State Teachers' and Employees' retirement systems, adjustments to the respective deferred outflows of resources have been made in accordance with GASB Statement No. 68 Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27.

For the fiscal year ended June 30, 2017, certain errors resulting in an overstatement of previously reported Prepaid Expenses and an overstatement of Net Position were discovered during the current year. Accordingly, an adjustment of $401,097 was made in the current year to write off amounts in Prepaid Expenditures as of the beginning of the fiscal year. The District's net position in the Governmental Activities has been restated as follows:

Net Position Beginning of Year, as Previously Stated	$ (1,457,345)
GASB Statement No. 68 Adjustments	
Increase in Deferred Outflows - Teachers' Retirement System	340,643
Increase in Deferred Outflows - Employees' Retirement System	39,847
Correction of Prior Period Error - Prepaid Expense	(401,097)
Net Position Beginning of Year, as Restated	$ (1,477,952)

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 15 – DONOR RESTRICTED ENDOWMENTS

The District administers endowment funds, which are restricted by the donor for the purposes of Scholarships.

Donor-restricted endowments are reported at fair value.

The District authorizes expenditures form donor-restricted endowments in compliance with the wishes expressed by the donor, which varies among the unique endowments administered by the District.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 28, 2017, which is the date of the issuance of the financial statements.

SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS PLAN
Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio a/b	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
July 1, 2016	$ -	$ 21,208,315	$ 21,208,315	0%	$ 3,754,240	564.92%
July 1, 2015	$ -	$ 20,166,018	$ 20,166,018	0%	$ 3,548,071	568.37%
July 1, 2014	$ -	$ 21,264,683	$ 21,264,683	0%	$ 3,333,148	637.98%

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND

Year Ended June 30, 2017

	Original Budget	Final Budget
REVENUES		
Local Sources		
Real Property Taxes	$ 2,476,183	$ 2,008,059
Other Tax Items	9,700	477,824
Charges for Services	-	-
Use of Money and Property	4,000	4,000
Sale of Property and Compensation for Loss	-	-
Interfund Revenue	-	-
Miscellaneous	11,300	11,300
Total Local Sources	2,501,183	2,501,183
State Sources	6,480,509	6,480,509
Medicaid Reimbursement	10,000	10,000
Total Revenues	8,991,692	8,991,692
EXPENDITURES		
General Support		
Board of Education	9,748	9,748
Central Administration	135,567	133,668
Finance	268,169	268,709
Staff	54,108	54,843
Central Services	552,823	544,107
Special Items	243,185	243,809
Total General Support	1,263,600	1,254,884
Instruction		
Instruction, Administration and Improvement	162,989	185,659
Teaching - Regular School	2,189,989	2,146,873
Programs for Children with Handicapping Conditions	1,572,550	1,572,550
Occupational Education	299,611	299,611
Teaching - Special School	164,968	164,968
Instructional Media	412,303	412,302
Pupil Services	386,212	386,210
Total Instruction	5,188,622	5,168,173
Pupil Transportation	464,794	492,762
Community Service	1,285	2,482
Employee Benefits	2,177,844	2,177,844
Debt Service	670,276	670,276
Total Expenditures	9,766,421	9,766,421
OTHER FINANCING USES		
Operating Transfers to Other Funds	63,000	63,000
Total Expenditures and Other Financing Uses	9,829,421	9,829,421
Net Change in Fund Balance	(837,729)	(837,729)
Fund Balances - Beginning	2,437,116	2,437,116
Fund Balances - End	$ 1,599,387	$ 1,599,387

Actual		Final Budget Variance With Actual
$ 2,008,059		$ -
478,175		351
31,209		31,209
21,655		17,655
7,802		7,802
4,003		4,003
208,680		197,380
2,759,583		258,400
6,492,915		12,406
8,934		(1,066)
9,261,432		$ 269,740

	Year-End Encumbrances	Final Budget Variance With Actual And Encumbrances
6,799	$ 533	$ 2,416
129,677	273	3,718
266,666	273	1,770
38,476	-	16,367
486,996	33,693	23,418
242,794	-	1,015
1,171,408	34,772	48,704
184,604	-	1,055
1,910,297	305	236,271
1,322,513	-	250,037
299,611	-	-
94,840	-	70,128
385,540	1,365	25,397
361,993	421	23,796
4,559,398	2,091	606,684
415,510	219	77,033
2,482	-	-
2,044,573	-	133,271
642,173	-	28,103
8,835,544	37,082	893,795
30,100	-	32,900
8,865,644	$ 37,082	$ 926,695
395,788		
2,437,116		
$ 2,832,904		

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.

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY) - NYSLRS PENSION PLAN LAST 3 FISCAL YEARS

Ended June 30, 2017

	2017	2016	2015
Teachers' Retirement System (TRS)			
District's Proportion of the Net Pension Asset (Liability)	0.016648%	0.016316%	0.015740%
District's Proportionate Share of the Net Pension Asset (Liability)	$ (178,307)	$ 1,694,679	$ 1,753,390
District's Covered Payroll	$ 2,675,195	$ 2,940,386	$ 2,474,266
District's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered Payroll	6.67%	57.63%	70.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)	99.01%	110.46%	111.48%
Employees' Retirement System (ERS)			
District's Proportion of the Net Pension Asset (Liability)	0.0028900%	0.0029169%	0.0031027%
District's Proportionate Share of the Net Pension Asset (Liability)	$ (271,550)	$ (468,171)	$ (104,816)
District's Covered Payroll	$ 854,222	$ 810,716	$ 838,142
District's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered Payroll	31.79%	57.75%	12.51%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.70%	90.68%	97.95%

10 years of historical information was not available upon implementation. An additional year of historical information will be added each year subsequent to the year of implementation until 10 years of historical data is available.

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – NYSLRS PENSION PLAN
LAST 3 FISCAL YEARS
Ended June 30, 2017

	2017	2016	2015
Teachers' Retirement System (TRS)			
Contractually Required Contribution	$ 340,643	$ 429,632	$ 419,750
Contributions in Relation to the Contractually Required Contribution	340,643	429,632	419,750
Contribution Deficiency (Excess)	$ -	$ -	$ -
District's Covered Payroll	$ 2,675,195	$ 2,940,386	$ 2,474,266
Contributions as a Percentage of Covered Payroll	12.73%	14.61%	16.96%
Employees' Retirement System (ERS)			
Contractually Required Contribution	$ 127,871	$ 136,237	$ 167,627
Contributions in Relation to the Contractually Required Contribution	127,871	136,237	167,627
Contribution Deficiency (Excess)	$ -	$ -	$ -
District's Covered Payroll	$ 854,222	$ 810,716	$ 838,142
Contributions as a Percentage of Covered Payroll	14.97%	16.80%	20.00%

10 years of historical information was not available upon implementation. An additional year of historical information will be added each year subsequent to the year of implementation until 10 years of historical data is available.

SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET AND THE REAL PROPERTY TAX LIMIT – GENERAL FUND
Year Ended June 30, 2017

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	$ 9,825,693
Add: Prior Year's Encumbrances	3,728
Original Budget	9,829,421
Budget Revision	-
Final Budget	$ 9,829,421

SECTION 1318 OF REAL PROPERTY TAX LAW CALCULATION

2017-2018 Voter Approved Expenditure Budget		$ 10,195,037
Maximum Allowed 4% of 2017-2018 Budget		$ 407,801
General Fund Balance Subject to Section 1318 of Real Property Tax Law		
Unrestricted Fund Balance:		
Assigned Fund Balance	$ 1,040,484	
Unassigned Fund Balance	470,501	
Total Unrestricted Fund Balance	1,510,985	
Less:		
Appropriated Fund Balance	1,003,402	
Encumbrances Included in Assigned Fund Balance	37,082	
Total Adjustments	1,040,484	
General Fund Balance Subject to Section 1318 of Real Property Tax Law		$ 470,501
Actual Percentage		4.62%

SCHEDULE OF CAPITAL PROJECT FUND - PROJECT EXPENDITURES AND FINANCING RESOURCES

Year Ended June 30, 2017

PROJECT TITLE	Original Appropriation	Revised Appropriation	Expenditures: Prior Year	Expenditures: Current Year	Expenditures: Total	Unexpended Balance	Methods of Financing: BANS Redeemed From Appropriations	Methods of Financing: Proceeds Of Obligations	Methods of Financing: State Aid	Methods of Financing: Local Sources	Fund Balance 6/30/2017
Buses 6/30/17	$ 245,000	$ 245,000	$ -	$245,000	$ 245,000	$ -	$ -	$ 245,000	$ -	$ -	$ -
Totals	$ 245,000	$ 245,000	$ -	$245,000	$ 245,000	$ -	$ -	$ 245,000	$ -	$ -	$ -

See paragraph on supplementary schedules included in independent auditors' report.

COMBINED BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2017

	School Lunch	Debt Service	Capital Projects	Total Non-Major Funds
ASSETS				
Cash and Cash Equivalents				
Unrestricted	$ 47,000	$ -	$ 4,422	$ 51,422
Restricted	-	61,611	-	61,611
Receivables				
Due From Other Funds	-	4,422	-	4,422
State and Federal Aid	445	-	-	445
Due From Other Governments	9,095	-	-	9,095
Inventories	9,378	-	-	9,378
TOTAL ASSETS	$ 65,918	$ 66,033	$ 4,422	$ 136,373
LIABILITIES				
Payables				
Accounts Payable	$ 705	$ -	$ -	$ 705
Due to Other Funds	39,595	-	4,422	44,017
Due to Other Governments	151	-	-	151
Unearned Credits				
Unearned Revenues	1,538	-	-	1,538
Total Liabilities	41,989	-	4,422	46,411
FUND BALANCES				
Nonspendable	9,378	-	-	9,378
Restricted	-	66,033	-	66,033
Assigned	14,551	-	-	14,551
Total Fund Balances	23,929	66,033	-	89,962
TOTAL LIABILITIES AND FUND BALANCE	$ 65,918	$ 66,033	$ 4,422	$ 136,373

COMBINED REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	School Lunch	Debt Service	Capital Projects	Total Non-Major Funds
REVENUES				
Use of Money and Property	$ 5	$ 2,314	$ -	$ 2,319
State Sources	6,009	-	-	6,009
Federal Sources	179,502	-	-	179,502
Sales - School Lunch	55,828	-	-	55,828
Miscellaneous	14,389	-	-	14,389
Total Revenues	255,733	2,314	-	258,047
EXPENDITURES				
General Support	87,848	-	-	87,848
Employee Benefits	64,459	-	-	64,459
Debt Service:				
Principal	-	16,715	-	16,715
Cost of Sales	123,227	-	-	123,227
Capital Outlay	-	-	240,902	240,902
Total Expenditures	275,534	16,715	240,902	533,151
Excess (Deficiency) of Revenues Over Expenditures	(19,801)	(14,401)	(240,902)	(275,104)
OTHER FINANCING SOURCES AND (USES)				
Proceeds of Refunding Bonds	-	2,968,926	-	2,968,926
Payment to Escrow Agent	-	(2,968,926)	-	(2,968,926)
Serial Bonds Issued	-	-	245,000	245,000
Operating Transfers In	19,000	4,421	323	23,744
Operating Transfers (Out)	-	-	(4,421)	(4,421)
Total Other Financing Sources and (Uses)	19,000	4,421	240,902	264,323
Net Change in Fund Balance	(801)	(9,980)	-	(10,781)
Fund Balances - Beginning of Year	24,730	76,013	-	100,743
Fund Balances - End of Year	$ 23,929	$ 66,033	$ -	$ 89,962

See paragraph on supplementary schedules included in independent auditors' report.

NET INVESTMENT IN CAPITAL ASSETS
Year Ended June 30, 2017

Capital Assets, Net		$ 7,299,174
Add:		
Deferred Charge on Refunding	$ 188,926	188,926
Deduct:		
Short-Term Portion of Bonds Payable	$ 618,234	
Long-Term Portion of Bonds Payable	3,337,640	3,955,874
Net Investment in Capital Assets		$ 3,532,226

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INDEPENDENT AUDITORS' 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*

BOARD OF EDUCATION
HERMON-DEKALB CENTRAL SCHOOL DISTRICT

We have audited, in accordance with the auditing standards of 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 aggregate remaining fund information of the Hermon-DeKalb Central School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Hermon-DeKalb Central School District's basic financial statements and have issued our report thereon dated September 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hermon-DeKalb 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 Hermon-DeKalb Central School District's internal control. Accordingly, we do not express an opinion of the effectiveness of Hermon-DeKalb 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 reasonable possibility that a material misstatement of the entity'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.

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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 Hermon-DeKalb 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 statements 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bowers & Company

Watertown, New York
September 28, 2017

EXTRA CLASSROOM ACTIVITY FUNDS

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INDEPENDENT AUDITORS' REPORT ON EXTRA CLASSROOM ACTIVITY FUNDS

TO THE PRESIDENT AND MEMBERS OF THE
BOARD OF EDUCATION
HERMON-DEKALB CENTRAL SCHOOL DISTRICT

We have audited the accompanying statement of cash receipts and disbursements of the Extra Classroom Activity Funds of Hermon-DeKalb Central School District for the year ended June 30, 2017, and the related note to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for 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.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Appendix E of the Minimum Program for Audit of Financial Records of New York State School Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 entity'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 statement.

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

Opinion

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the statement of cash receipts and disbursements of Extra Classroom Activity Funds of Hermon-DeKalb Central School District for the year ended June 30, 2017, in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. This financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Bowers & Company

Watertown, New York
September 28, 2017

EXTRA CLASSROOM ACTIVITY FUNDS – STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

Year Ended June 30, 2017

	Cash Balance 7/1/2016	Cash Receipts	Cash Disbursements	Cash Balance 6/30/2017
Class of:				
2015	$ 9	$ -	$ 9	$ -
2016	1,360	-	-	1,360
2017	9,925	6,012	15,937	-
2018	8,588	9,147	5,005	12,730
2019	939	1,854	738	2,055
2020	-	17,228	9,150	8,078
Art Club	287	-	-	287
Athletic Account	2,306	405	1,016	1,695
Cheerleading	40	-	-	40
Drama Club	3,246	1,470	1,046	3,670
Fine Arts Club	1,278	385	450	1,213
Interest Account	65	8	-	73
National Honor Society	369	1,903	1,361	911
Newspaper	216	-	-	216
NYS Sales Tax	228	903	863	268
Outing Club	3,667	6,773	6,533	3,907
Student Council	2,684	3,154	2,270	3,568
Yearbook	1,839	3,948	3,802	1,985
	$ 37,046	$ 53,190	$ 48,180	$ 42,056

See note to the financial statement.

EXTRA CLASSROOM ACTIVITY FUNDS - NOTE TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The Extra Classroom Activity Funds of the Hermon-DeKalb Central School District represents funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extra Classroom Activity Funds are independent of the School District with respect to its financial transactions and the designation of student management.

The accounts of the Extra Classroom Activity Funds of the Hermon-DeKalb Central School District are maintained on a cash basis and the statement of cash receipts and disbursements reflects only cash received and disbursed. Therefore, receivables and payables, inventories, long-lived assets and accrued income and expenses, which would be recognized under generally accepted accounting principles and, which may be material in amount, are not recognized in the accompanying financial statement.

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To the Board of Education
Hermon-DeKalb Central School District

In planning and performing our audit of the financial statements of Hermon-DeKalb Central School District for the year ended June 30, 2017, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and recommendations regarding the matters:

Condition: New Regulatory Requirements for Federal Awards (Uniform Guidance)

On December 26, 2014 the Office of Management and Budget's (OMB's) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, more commonly referred to as the "Uniform Guidance," became effective for all Federal awards, whether the funds are provided directly from a Federal agency or passed-through another state or local agency.

The District currently has effective procedural controls in place over the management of Federal Award Programs. Key changes under the Uniform Guidance expand the rules regarding internal controls over Federal Awards to require that they be documented in writing in the District's policies and that management should evaluate and document the results of ongoing monitoring to identify internal control issues. The written internal controls should specifically address each of the 12 compliance requirements of the Federal Award Programs.

Recommendation

The District should document in writing internal controls over federal award programs. We understand that it will take time and resources for the District to become fully compliant with the new regulatory requirements and we recommend that the District continue to make the procedural changes deemed necessary in order to fully adopt the applicable provisions under the Uniform Guidance.

Management's Response

The District will document these procedures and will work towards becoming fully compliant.

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Condition: Documentation to Support Delayed Implementation of Procurement Standards 2 CFR §200.110 Effective/Applicability Date

The Uniform Guidance requires non-Federal entities choosing to use the previous procurement standards for an additional three fiscal years after the Uniform Guidance goes into effect, to document this decision in their internal procurement policies.

Recommendation

We recommend the Board of Education adopt a resolution to continue to comply with the procurement standards in previous OMB guidance (superseded by 2 CFR §200.110 Effective/Applicability Date as described in 2 CFR §200.104) for three additional fiscal years after 2 CFR §200.110 goes into effect, with implementation required for the fiscal year beginning July 1, 2018.

Management's Response

The District will adopt the above resolution.

Condition: Increase Capitalization Threshold

The District currently has a written capitalization policy in place to capitalize assets with a useful life of more than one year and a cost greater than $1,000.

Recommendation

We recommend that the threshold for capitalization could be increased to $5,000. Purchases costing less than $5,000 should be expensed, since the cost of maintaining fixed asset records for such items would exceed the benefits.

Management's Response

The District will increase our capitalization threshold to $5,000.

Condition: Compensated Absences Reported in General Fund

Currently, all compensated absences are reported in the general fund as a current liability. In the general fund only the current portion of the liability should be reported. The remaining long-term portion of the compensated absences liability should be reported in the long-term debt (W) fund and reported as a long-term liability on the government-wide financial statements.

Recommendation

The District should consider moving the long-term portion of compensated absences to the long-term debt (W) fund and report as a long-term liability on the government-wide financial statements.

Management's Response

We will review the status of compensated absence liabilities and will begin reporting the long term portion in the long-term debt (W) fund and as a long-term liability on the government wide financial statements.

Condition: Extra Classroom Activity Funds

The following items were noted during our audit of the Extra Classroom Activity Fund:

- Profit and Loss Statements should be used for sales and events.
- We examined ten receipts and noted that nine transactions did not have supporting documentation attached to the receipt form.

Recommendation

We suggest the treasurer and advisors review the NYS SED Publication, *The Safeguarding, Accounting and Auditing of Extra Classroom Activity Funds*, which outlines the procedures that should be followed regarding receipts, profit and loss statements and record keeping within the Extra Classroom Activity Fund.

Management's Response

The District will review the referenced publication and will endeavor to improve documentation. However, we recognize the inherent risk with the cash management of extra classroom activity.

We appreciate the opportunity to conduct the audit and would like to express our thanks to the staff for the fine cooperation extended to us during the course of the audit.

Bowers & Company

Watertown, New York
September 28, 2017

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September 28, 2017

To the President and Members
of the Board of Education
Hermon-DeKalb Central School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hermon-DeKalb Central School District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 17, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hermon-DeKalb Central School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by Hermon-DeKalb Central School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the depreciation is based on economic useful lives of capital asset classes. We evaluated the key factors and assumptions used to develop the depreciation calculations in determining that it is reasonable in relation to the financial statements taken as a whole.

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The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, were material, either individually, or in the aggregate, to each opinion unit's financials statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Hermon-DeKalb Central School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Hermon-DeKalb Central School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to *Management's Discussion and Analysis, Budgetary Comparison Information, Schedule of Funding Progress – Other Post Employment Benefits Plan, Schedule of the District's Proportionate Share of the Net Pension Asset (Liability) – NYSLRS Pension Plan, and Schedule of District's Contributions – NYSLRS Pension Plan*, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on *Schedule of Change from Adopted Budget to Final Budget and Real Property Tax Limit – General Fund, Schedule of Capital Projects Fund – Project Expenditures and Financing Resources, Combined Balance Sheet – Non-Major Governmental Funds, Combined Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds, and Net Investment in Capital Assets*, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of Board of Education and management of Hermon-DeKalb Central School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Bowers & Company