

HERMON-DEKALB CENTRAL
SCHOOL DISTRICT

Financial Statements and Management's
Discussion and Analysis

June 30, 2016

(With Independent Auditor's Report Thereon)

Hermon-DeKalb Central School District
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INDEPENDENT AUDITOR'S REPORT

To the 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 the Hermon-DeKalb Central School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the 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.

Auditor's Responsibility

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

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

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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 on pages 4 through 10, the budgetary comparison information on page 54, the Other Postemployment Benefits Plan information on page 55, the schedules of district contributions – NYSTRS/NYSERS on page 59 and the schedules of district's proportionate share of the net pension liability – NYSTRS/NYSERS on page 58 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 the Hermon-DeKalb Central School District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.


The introductory and statistical sections have not been subjected to the auditing

procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016, 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 the Hermon-DeKalb Central School District's internal control over financial reporting and compliance.

Very truly yours,


Certified Public Accountants, P.C.

Ogdensburg, New York
October 21, 2016

Hermon-DeKalb Central School District
Management's Discussion and Analysis (MD&A)
June 30, 2016

INTRODUCTION

Our discussion and analysis of Hermon-DeKalb Central School District (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ❑ Total net position was \$(1,457,345) at June 30, 2016. This was a decrease of \$1,823,756 from the previous year. The decrease is largely attributable to a \$1.66 Million decrease in capital assets as a result of a physical re-appraisal and a \$1.384 Million increase in post-employment benefits other than pensions. This post employment benefit liability is being recognized pursuant to GASB 45.
- ❑ Expenditures of \$10,715,192 exceeded revenues of \$10,170,322 by \$544,870.
- ❑ During the year ended 6/30/16, the District incurred new debt of \$120,000 to finance the purchase of a new school bus. Principal payments on debt for the period equaled \$502,000. Post-employment benefits other than pensions increased \$1,384,479. To comply with the new GASB reporting requirements deferred inflows/outflows related to pensions were reported with outflows of \$425,433 and inflows of \$660,111.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ❑ **District-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- ❑ **Fund financial statements** focus on reporting the individual parts of the District operations in more detail. The fund financial statements comprise the remaining statements.
 - **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 fund** statements provide information about the financial relationships in which the 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 basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Hermon-DeKalb Central School District
Management's Discussion and Analysis (MD&A)
June 30, 2016

District-wide Statements

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

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

- ❑ Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- ❑ To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in enrollment, changes in the property tax base, and changes in program funding by the Federal and State governments, and condition of facilities.

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues. The District has two kinds of funds:

- ❑ Governmental funds - Most of the 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 District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information at the bottom of the government funds statements that explains the relationship (or differences) between them.
- ❑ Fiduciary funds - the District is the trustee, or fiduciary, for assets that belong to others; for the district, the student body activities fund is an agency fund. The District is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use the assets to finance its operations.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$(1,457,345) at June 30, 2016. The most significant change during the year was the higher liabilities incurred for post employment benefits is recognized pursuant to GASB 45 and an adjustment in net capital assets based on a physical re-appraisal.

Hermion-DeKalb Central School District
Management's Discussion and Analysis (MD&A)
June 30, 2016

Table1:
Net Position

| | Governmental Activities | | Total Dollar Change |
|---|-------------------------|-------------------|---------------------|
| | 2016 | 2015 | 2016-2015 |
| Assets | | | |
| Cash | 2,583,151 | 2,213,631 | 369,520 |
| State and Federal Aids Receivable | 570,032 | 480,477 | 89,555 |
| Other Receivables | 283,983 | 283,662 | 321 |
| Due from Other Funds | 3,777 | 3,713 | 64 |
| Prepaid Expenditures | 409,283 | 552,379 | (143,096) |
| Inventories | 8,052 | 9,180 | (1,128) |
| Net Pension Asset, Prop Share | 1,694,679 | 1,753,390 | (58,711) |
| Capital Assets, Net of Accumulated Depreciation | 7,521,883 | 9,182,054 | (1,660,171) |
| TOTAL ASSETS | 13,074,840 | 14,478,486 | (1,403,646) |
| Deferred Outflow of Resources | 425,433 | 37,370 | 388,063 |
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES | 13,500,273 | 14,515,856 | (1,015,583) |
| Liabilities | | | |
| Accounts Payable | 191,447 | 95,261 | 96,186 |
| Accrued Liabilities Due Currently | 424,012 | 559,690 | (135,678) |
| Short Term Debt Obligations | 0 | 0 | 0 |
| Other Long Term Debt | 9,692,048 | 7,919,262 | 1,772,786 |
| Debt Related to Capital Assets | 3,990,000 | 4,372,000 | (382,000) |
| TOTAL LIABILITIES | 14,297,507 | 12,946,213 | 1,351,294 |
| Deferred Inflows of Resources | 660,111 | 1,203,232 | (543,121) |
| TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES | 14,957,618 | 14,149,445 | 808,173 |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 3,531,883 | 4,810,054 | (1,278,171) |
| Restricted | 1,273,865 | 1,177,342 | 96,523 |
| Unrestricted | (6,263,093) | (5,620,985) | (642,108) |
| TOTAL NET POSITION | (1,457,345) | 366,411 | (1,823,756) |

Changes in Net Position

The District's total revenues were \$10,170,322. Some of the revenue comes from property taxes (24.0%). The property tax levy increased 1.74% or \$41,865, which represents the amount needed to fund the increased budget approved by the voters.

Federal and state aid for specific programs accounted for another 73% of total revenues. Charges for services increased 6.8% or \$4,168. Operating grants & contributions increased by 28.1% or \$140,106. Hermion Dekalb Central School has been named a FOCUS School and has received additional funding through Title 1 to support

Hermon-DeKalb Central School District
Management's Discussion and Analysis (MD&A)
June 30, 2016

academic improvement and staff development activities. Other revenues are up \$55,903 or 41% because of the increased BOCES refund at year end.

The total cost of all programs and services was \$10,715,192. The District's expenses are predominately related to educating and caring for students (80.9%). Administrative activities accounted for 15.5% of total costs. The remaining expenses were for interest on debt and school lunch program.

Table 2:
Changes in Net Assets

| | Governmental Activities | | Total Percentage |
|---|-------------------------|-------------------|---------------------|
| | 2016 | 2015 | Change 2015-2014 |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services | 65,169 | 61,001 | 6.8% |
| Operating Grants & Contributions | 639,230 | 499,124 | 28.1% |
| Capital Grants and Contributions | 0 | 0 | N/A |
| General Revenues | | | |
| Property Taxes | 2,463,429 | 2,422,524 | 1.7% |
| State Revenues | 6,810,243 | 6,577,059 | 3.5% |
| Other Revenues | 192,251 | 136,348 | 41.0% |
| TOTAL REVENUES | 10,170,322 | 9,696,056 | 4.9% |
| Expenses | | | |
| General Support | 1,663,723 | 1,799,067 | -7.5% |
| Instruction | 7,935,901 | 7,758,392 | 2.3% |
| Pupil Transportation | 731,014 | 656,147 | 11.4% |
| Community Services | 0 | 1,201 | N/A |
| Interest Expense | 170,559 | 185,912 | -8.3% |
| Capital Outlay | 0 | 0 | N/A |
| Depreciation | N/A | N/A | N/A |
| School Lunch Program | 213,995 | 175,287 | 22.1% |
| Loss on Disposal of Fixed Assets | 0 | 6,794 | N/A |
| TOTAL EXPENSES | 10,715,192 | 10,582,800 | 1.3% |
| Excess (Deficiency) Before Transfers | (544,870) | (886,744) | -38.6% |
| Transfers In (Out) | 0 | 0 | N/A |
| INCREASE OR (DECREASE) IN NET ASSETS | (544,870) | (886,744) | -38.6% |

Governmental Activities

The cost of all governmental activities this year was \$10,715,192; a 1.3% increase from the previous year.

Table 3 presents the cost of each of the District's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions.

Hermion-DeKalb Central School District
Management's Discussion and Analysis (MD&A)
June 30, 2016

Table 3
Net Cost of Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|---------------------------------|------------------------|---------------------|----------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 |
| General Support | 1,663,723 | 1,799,067 | 1,663,723 | 1,799,067 |
| Instruction | 7,935,901 | 7,758,392 | 7,472,059 | 7,388,864 |
| Pupil Transportation | 731,014 | 656,147 | 731,014 | 656,147 |
| Community Services | 0 | 1,201 | 0 | 1,201 |
| Interest Expense | 170,559 | 185,912 | 170,559 | 185,912 |
| School Lunch Program | 213,995 | 175,287 | (27,715) | (15,310) |
| Loss on Disposal of Fixed Asset | 0 | 6,794 | 0 | 6,794 |
| TOTAL | \$10,715,192 | \$10,582,800 | \$10,009,640 | \$10,022,675 |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The strong financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,537,859.

General Fund Budgetary Highlights

As projected in the original budget for the year, the District applied some of last year's fund balance to fund the cost of current year programs. The budget to actual comparison for the General Fund is shown in the first Supplemental Schedule.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had invested \$7,521,883(net of depreciation) in a broad range of capital assets, including land, buildings and improvements, equipment and vehicles. See Table 4. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Hermon-DeKalb Central School District
Management's Discussion and Analysis (MD&A)
June 30, 2016

Table 4
Capital Assets

| | Governmental Activities | | Total Dollar Change |
|--------------------------------------|-------------------------|------------------|---------------------|
| | 2016 | 2015 | 2016-2015 |
| Land | 110,143 | 110,143 | 0 |
| Buildings | 12,894,780 | 12,894,780 | 0 |
| Machinery and Equipment | 2,577,587 | 2,562,848 | 14,739 |
| Vehicles | 1,050,487 | 1,157,670 | (107,183) |
| Totals at Historical Cost | 16,632,997 | 16,725,441 | (92,444) |
| Less: Total Accumulated Depreciation | 9,111,114 | 8,820,773 | (290,341) |
| NET CAPITAL ASSETS | 7,521,883 | 7,904,668 | (382,785) |

Long-Term Debt

At year end, the District had \$13,682,048 in long term debt, consisting of general obligation bonds, amounts owed to employees upon their separation from service for accrued sick/vacation time, in accordance with labor contracts, post employment benefits other than pension[most notably health insurance], and net pension liability as shown in Table 5.

The liability recorded for post employment benefits is required by GASB 45. This is an accounting requirement which was implemented by the District in July 2009. This recorded liability represents the actuarially determined amount which would be necessary to fund current employees and retirees for their future benefit.

In large part, the general obligation bonds proceeds have been used to finance the most recent capital renovation project.

Table 5
Long-Term Debt

| | Governmental Activities | | Total Dollar Change |
|--|-------------------------|-------------------|---------------------|
| | 2016 | 2015 | 2016-2015 |
| General Obligation Bonds | 3,990,000 | 4,372,000 | (382,000) |
| Compensated Absences | 303,863 | 278,911 | 24,952 |
| Post-Employment Benefits | 8,920,014 | 7,535,535 | 1,384,479 |
| Net Pension Liability-Proportional Share | 468,171 | 104,816 | 363,355 |
| TOTAL LONG-TERM DEBT | 13,682,048 | 12,291,262 | 1,390,786 |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health:

- ❑ The uncertainty of federal and state funding can have a profound impact on the financial health of the District. The Gap Elimination Adjustment which had reduced the State Aid that would have otherwise been

**Hermon-DeKalb Central School District
Management's Discussion and Analysis (MD&A)
June 30, 2016**

received has been eliminated in the 2016-2017 school year. 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 District's 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 14.6% of our 2016-2017 budget. The District has successfully negotiated with its employee unions so that Hermon-DeKalb Central School District requires its active and retired employees to contribute towards the cost of their health insurance.
- ❑ In 2013, the District was advised of two Article 7 Petitions that had been filed. The largest one by Iroquois Gas Transmission System LP. Subsequently in 2014, Iroquois Gas Transmission filed another Article 7 Petition for 2014-2015 and again in 2015 for 2015-2016. They were seeking a substantial assessment reduction. This Article 7 Petition was terminated by Iroquois Gas Transmission System LP in December 2015.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Janet Boyd, Hermon-DeKalb Central School District.

HERMON-DEKALB CENTRAL SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

ASSETS

| | |
|--|-------------------|
| Cash | |
| Unrestricted | 1,308,864 |
| Restricted | 1,274,287 |
| Receivables | |
| Accounts Receivable | 23,890 |
| Due from Other Funds | 3,777 |
| Due from Other Governments | 260,093 |
| State and Federal Aid Receivable | 570,032 |
| Prepaid Expenditures | 409,283 |
| Inventories | 8,052 |
| Net Pension Asset - Proportionment Share | 1,694,679 |
| Capital assets, net | 7,521,883 |
| Total Assets | <u>13,074,840</u> |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|----------|----------------|
| Pensions | <u>425,433</u> |
|----------|----------------|

LIABILITIES

Payables:

| | |
|--------------------------|---------|
| Accounts payable | 191,447 |
| Accrued liabilities | 11,348 |
| Accrued interest payable | 9,862 |

Long-term liabilities:

| | |
|-------------------------------------|---------|
| Due and payable within one year: | |
| Serial bonds | 530,000 |
| Due to teachers' retirement system | 362,852 |
| Due to employees' retirement system | 39,847 |
| Due to other governments | 103 |

 Due and payable after one year:

| | |
|--|-------------------|
| Serial bonds | 3,460,000 |
| Compensated absences payable | 303,863 |
| Other postemployment benefits payable | 8,920,014 |
| Net Pension Liability - Proportionment Share | 468,171 |
| Total Liabilities | <u>14,297,507</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|----------|----------------|
| Pensions | <u>660,111</u> |
|----------|----------------|

NET POSITION

| | |
|---|-----------------------|
| Investment in capital assets, net of related debt | 3,531,883 |
| Restricted for: | |
| Debt Service | 76,013 |
| Other Legal Restrictions | 1,197,852 |
| Unrestricted (deficit) | (6,263,093) |
| Total Net Position | <u>\$ (1,457,345)</u> |

HERMON-DEKALB CENTRAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

| | <u>Expenses</u> | <u>Program Revenues</u> Charges for <u>Services</u> | <u>Operating</u> <u>Grants</u> | <u>Net (Expense)</u> <u>Revenue</u> <u>and Changes</u> <u>in Net Assets</u> |
|---|-------------------|---|-----------------------------------|--|
| FUNCTIONS/PROGRAMS | | | | |
| General support | 1,663,723 | \$ - | \$ - | \$ (1,663,723) |
| Instruction | 7,935,901 | 8,391 | 455,451 | (7,472,059) |
| Pupil transportation | 731,014 | - | - | (731,014) |
| Community service | - | - | - | - |
| Debt service - interest | 170,559 | - | - | (170,559) |
| School Food Service program | 213,995 | 56,595 | 185,115 | 27,715 |
| | <u>10,715,192</u> | <u>64,986</u> | <u>640,566</u> | <u>(10,009,640)</u> |
| GENERAL REVENUES | | | | |
| Real property taxes | | | | 1,980,231 |
| Other tax items | | | | 483,198 |
| Use of money and property | | | | 10,545 |
| Sale of property and compensation for loss | | | | 5,032 |
| State sources | | | | 6,810,243 |
| Miscellaneous | | | | 162,262 |
| Federal sources | | | | 5,543 |
| Gain on sale of fixed assets | | | | 7,716 |
| | | | | <u>9,464,770</u> |
| Total General Revenues | | | | <u>9,464,770</u> |
| Change in Net Position | | | | (544,870) |
| Total Net Position - Beginning of year, as restated | | | | <u>(912,475)</u> |
| Total Net Position - End of year | | | | <u>\$ (1,457,345)</u> |

HERMON-DEKALB CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

| | <u>General</u> | <u>Special Aid</u> | <u>School Food Service</u> | <u>Debt Service</u> | <u>Capital Project</u> | <u>Total Governmental Funds</u> |
|--|---------------------|------------------------|------------------------------------|-------------------------|----------------------------|---|
| Assets | | | | | | |
| Cash | | | | | | |
| Unrestricted | 1,136,449 | 107,683 | 64,732 | \$ - | \$ - | \$ 1,308,864 |
| Restricted | 1,198,274 | - | - | 75,899 | 114 | 1,274,287 |
| Accounts Receivable | 23,890 | - | - | - | - | 23,890 |
| Due from Other Funds | 522,092 | 237 | - | 114 | - | 522,443 |
| Due from Other Governments | 260,093 | - | - | - | - | 260,093 |
| State and Federal Aid Receivable | 121,230 | 436,393 | 12,409 | - | - | 570,032 |
| Prepaid Expenditures | 8,186 | - | - | - | - | 8,186 |
| Inventories | - | - | 8,052 | - | - | 8,052 |
| Total Assets | <u>3,270,214</u> | <u>544,313</u> | <u>85,193</u> | <u>76,013</u> | <u>114</u> | <u>3,975,847</u> |
| Liabilities | | | | | | |
| Accounts Payable | 107,286 | 84,136 | 25 | - | - | 191,447 |
| Accrued Liabilities | 9,388 | 343 | 1,617 | - | - | 11,348 |
| Due to Other Funds | - | 459,834 | 58,718 | - | 114 | 518,666 |
| Due to Other Governments | - | - | 103 | - | - | 103 |
| Due to NYSTRS | 362,852 | - | - | - | - | 362,852 |
| Due to NYSERS | 39,847 | - | - | - | - | 39,847 |
| Accrued Interest Payable | 9,862 | - | - | - | - | 9,862 |
| Compensated Absences Payable | 303,863 | - | - | - | - | 303,863 |
| Total Liabilities | <u>833,098</u> | <u>544,313</u> | <u>60,463</u> | <u>-</u> | <u>114</u> | <u>1,437,988</u> |
| Fund Balances | | | | | | |
| Nonspendable | 4,903 | - | 8,052 | - | - | 12,955 |
| Restricted | 1,198,696 | - | - | 76,013 | - | 1,274,709 |
| Assigned | 834,001 | - | - | - | - | 834,001 |
| Unassigned | 399,516 | - | 16,678 | - | - | 416,194 |
| Total Fund Balances | <u>2,437,116</u> | <u>-</u> | <u>24,730</u> | <u>76,013</u> | <u>-</u> | <u>2,537,859</u> |
| Total Liabilities and Fund Balances | <u>\$ 3,270,214</u> | <u>\$ 544,313</u> | <u>\$ 85,193</u> | <u>\$ 76,013</u> | <u>\$ 114</u> | <u>\$ 3,975,847</u> |

Amounts reported for governmental activities in the statement of net position are different because:

- Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation.
- Long-term liabilities including serial bonds payable, compensated absences and post-employment benefits are not due and payable in the current period and thus are not reported in the funds.
- Proportionate share of long-term assets and liabilities associated with participation in the state retirement system are not current financial resources or obligations and are not reported in the funds.
- Net accrued interest expense for bonds is not reported in the funds.

Hermon-Dekalb Central School District
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016

| | <u>Total</u> <u>Governmental</u> <u>Funds</u> | <u>Long-term</u> <u>Assets,</u> <u>Liabilities</u> | <u>Reclassifications</u> <u>and</u> <u>Eliminations</u> | <u>Statement of</u> <u>Net Position</u> <u>Totals</u> |
|--|---|--|---|---|
| ASSETS | | | | |
| Cash | | | | |
| Unrestricted | 1,308,864 | \$ - | \$ - | \$ 1,308,864 |
| Restricted | 1,274,287 | - | - | 1,274,287 |
| Receivables | | | | |
| Accounts Receivable | 23,890 | - | - | 23,890 |
| Due from Other Funds | 522,443 | - | (518,666) | 3,777 |
| Due from Other Governments | 260,093 | - | - | 260,093 |
| State and Federal Aid Receivable | 570,032 | - | - | 570,032 |
| Prepaid Expenditures | 8,186 | 401,097 | - | 409,283 |
| Inventories | 8,052 | - | - | 8,052 |
| Net Pension Asset | - | 1,694,679 | - | 1,694,679 |
| Land, Buildings and Equipment (net) | - | 7,521,883 | - | 7,521,883 |
| Total Assets | 3,975,847 | 9,617,659 | (518,666) | 13,074,840 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Outflows - Pension | - | 425,433 | - | 425,433 |
| LIABILITIES | | | | |
| Payables | | | | |
| Accounts Payable | 191,447 | - | - | 191,447 |
| Accrued Liabilities | 11,348 | - | - | 11,348 |
| Due to Other Funds | 518,666 | - | (518,666) | - |
| Due to Other Governments | 103 | - | - | 103 |
| Due to NYSTRS | 362,852 | - | - | 362,852 |
| Due to NYSERS | 39,847 | - | - | 39,847 |
| Accrued Interest Payable | 9,862 | - | - | 9,862 |
| Bonds Payable | - | 3,990,000 | - | 3,990,000 |
| Net Pension Liability | - | 468,171 | - | 468,171 |
| Compensated Absences | 303,863 | - | - | 303,863 |
| Post Employment Benefits Other Than Pensions | - | 8,920,014 | - | 8,920,014 |
| Total Liabilities | 1,437,988 | 13,378,185 | (518,666) | 14,297,507 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Inflows - Pension | - | 660,111 | - | 660,111 |
| FUND BALANCE/NET POSITION | | | | |
| Total Fund Balance/Net Assets | 2,537,859 | (3,995,204) | - | (1,457,345) |
| Total Liabilities, deferred Inflows of Resources, and Fund Balance/Net Position | \$ 3,975,847 | \$ 10,043,092 | \$ (518,666) | \$ 13,500,273 |

Reconciling items could include items recorded in the Statement of Net Position, but not in the Government Funds, such as:

- Land, buildings, and equipment
- Long-term portion due NYSTRS / NYSERS
- Compensated Absences payable
- Pension asset/liability and pension related deferred inflows and outflows
- Bonds payable
- Defeasance loss
- Long-term portion of judgements and claims payable

Reconciling items could also include transactions recorded in Governmental Funds, but not in the Statement of Net Position, such

- Unearned revenue
- Deferred revenue

Reclassifications and eliminations could include interfund debt.

Hermon-DeKalb Central School District
Statement of Revenues, Expenditures,
and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2016

| | <u>General</u> | <u>Special Aid</u> | <u>School Food Service</u> | <u>Debt Service</u> | <u>Capital Project</u> | <u>Total Governmental Funds</u> |
|---|---------------------|------------------------|------------------------------------|-------------------------|----------------------------|---|
| REVENUES | | | | | | |
| Real Property Taxes | 1,980,231 | \$ - | \$ - | \$ - | \$ - | \$ 1,980,231 |
| Other Tax Items | 483,198 | - | - | - | - | 483,198 |
| Charges for Services | 8,391 | - | - | - | - | 8,391 |
| Use of Money and Property | 10,406 | - | 4 | 135 | - | 10,545 |
| Sale of Property and Compensation for Loss | 5,032 | - | - | - | - | 5,032 |
| Miscellaneous | 162,262 | - | 4,849 | - | - | 167,111 |
| State Sources | 6,338,344 | 471,899 | 6,185 | - | - | 6,816,428 |
| Federal Sources | 5,543 | 455,451 | 168,182 | - | - | 629,176 |
| Surplus Food | - | - | 10,748 | - | - | 10,748 |
| Sales - School Lunch | - | - | 51,746 | - | - | 51,746 |
| Gain on Sale of Fixed Asset | 7,716 | - | 0 | - | - | 7,716 |
| Total Revenues | 9,001,123 | 927,350 | 241,714 | 135 | - | 10,170,322 |
| EXPENDITURES | | | | | | |
| General Support | 1,141,954 | 9,601 | 81,365 | - | - | 1,232,920 |
| Instruction | 4,330,292 | 781,429 | - | - | - | 5,111,721 |
| Pupil Transportation | 403,182 | - | - | - | - | 403,182 |
| Community Service | - | - | - | - | - | - |
| Employee Benefits | 1,942,485 | 131,712 | 64,237 | - | - | 2,138,434 |
| Debt Service | | | | | | |
| Principal | 492,000 | - | - | 10,000 | - | 502,000 |
| Interest | 170,559 | - | - | - | - | 170,559 |
| Cost of Sales | - | - | 109,017 | - | - | 109,017 |
| Other Expenditures | - | - | 10,048 | - | - | 10,048 |
| Capital Outlay | - | - | - | - | 134,786 | 134,786 |
| Total Expenditures | 8,480,472 | 922,742 | 264,667 | 10,000 | 134,786 | 9,812,667 |
| Excess (Deficiency) of Revenues Over Expenditures | 520,651 | 4,608 | (22,953) | (9,865) | (134,786) | 357,655 |
| OTHER FINANCING SOURCES AND USES | | | | | | |
| Proceeds from Debt | - | - | - | - | 120,000 | 120,000 |
| Operating Transfers In | 9,601 | 4,993 | 60,000 | 114 | 14,900 | 89,608 |
| Operating Transfers (Out) | (79,893) | (9,601) | - | - | (114) | (89,608) |
| Total Other Sources (Uses) | (70,292) | (4,608) | 60,000 | 114 | 134,786 | 120,000 |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | 450,359 | - | 37,047 | (9,751) | - | 477,655 |
| Fund Balances - Beginning of year | 1,986,757 | - | (12,317) | 85,764 | - | 2,060,204 |
| Fund Balances - End of Year | \$ 2,437,116 | - | \$ 24,730 | \$ 76,013 | \$ - | \$ 2,537,859 |

Hermon-DeKalb Central School District
Reconciliation of Governmental Funds Revenues, Expenditures,
and Changes in Fund Balance to Statement of Activities
For the Year Ended June 30, 2016

| | Total Governmental Funds | Long-term Revenue, Expenses | Capital Related Items | Long-term Debt Transactions | Statement of Activities Totals |
|--|--------------------------------|-----------------------------------|-----------------------------|-----------------------------------|--------------------------------------|
| Revenues | | | | | |
| Real Property Taxes | 1,980,231 | \$ - | \$ - | \$ - | \$ 1,980,231 |
| Other Tax Items | 483,198 | - | - | - | 483,198 |
| Charges for Services | 8,391 | - | - | - | 8,391 |
| Use of Money and Property | 10,545 | - | - | - | 10,545 |
| Sale of Property and Compensation for Loss | 5,032 | - | - | - | 5,032 |
| Miscellaneous | 167,111 | - | - | - | 167,111 |
| State Sources | 6,816,428 | - | - | - | 6,816,428 |
| Federal Sources | 629,176 | - | - | - | 629,176 |
| Surplus Food | 10,748 | - | - | - | 10,748 |
| Sales - School Lunch | 51,746 | - | - | - | 51,746 |
| Gain on Sale of Fixed Asset | 7,716 | - | - | - | 7,716 |
| Total Revenues | 10,170,322 | - | - | - | 10,170,322 |
| Expenditures/Expenses | | | | | |
| General Support | 1,232,920 | 283,112 | 12,421 | 135,270 | 1,663,723 |
| Instruction | 5,111,721 | 1,621,117 | 428,496 | 774,567 | 7,935,901 |
| Pupil Transportation | 403,182 | 169,968 | 76,654 | 81,210 | 731,014 |
| Community Service | - | - | - | - | - |
| Employee Benefits | 2,138,434 | (2,138,434) | - | - | - |
| Debt Service | | | | | |
| Principal | 502,000 | - | - | (502,000) | - |
| Interest | 170,559 | - | - | - | 170,559 |
| Cost of Sales | 109,017 | (109,017) | - | - | - |
| Other Expenditures | 10,048 | (10,048) | - | - | - |
| Capital Outlay | 134,786 | - | (134,786) | - | - |
| School Food Service Program | - | 183,302 | - | 30,693 | 213,995 |
| Total Expenditures | 9,812,667 | - | 382,785 | 519,740 | 10,715,192 |
| Excess (Deficiency) Of Revenues Over Expenditures | 357,655 | - | (382,785) | (519,740) | (544,870) |
| Other Sources and Uses | | | | | |
| Proceeds from Debt | 120,000 | - | - | (120,000) | - |
| Operating Transfers In | 89,608 | - | - | - | 89,608 |
| Operating transfers (out) | (89,608) | - | - | - | (89,608) |
| Total Other Sources (Uses) | 120,000 | - | - | (120,000) | - |
| Net Change For The Year | \$ 477,655 | \$ - | \$ (382,785) | \$ (639,740) | \$ (544,870) |

See notes to financial statements.

Hermon-Dekalb Central School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Activities
June 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Net change in fund balances - total governmental funds \$ 477,655

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, net of related losses on disposal of capital assets.

| | | |
|----------------------|------------------|-----------|
| Capital Outlays | 164,747 | |
| Depreciation Expense | <u>(547,532)</u> | (382,785) |

In the statement of activities, the gain / loss on the disposal of assets is reported as an increase / decrease in the financial resources. Thus the change in net position differs from the change in fund balance by the net book value of the assets disposed.

-

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of debt repayments made in the current period.

502,000

Proceeds of long-term debt is recorded as another financing source for governmental funds but it is not recorded in the Statement of Activities. This is the amount of proceeds from long-term debt received in the current period.

(120,000)

(Increases) decreases in accrued compensated absences and Due to ERS reported in the Statement of Activities do not provide for or require the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds.

-

On the Statement of Activities, the actual and projected long term expenditures for post employment benefits are reported whereas on the governmental funds only the actual expenditures are recorded for post employment benefits.

(1,384,479)

(Increases) decreases in proportionate share of net pension assets / liabilities, prepaid pension expenditures, and deferred outflows/inflows of resources - pension 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.

362,739

Change in net position of governmental activities

\$ (544,870)

Hermon-DeKalb Central School District
Statement of Fiduciary Net Position
June 30, 2016

| | Private Purpose Trusts | Agency |
|------------------------------------|------------------------------|-----------------|
| ASSETS | | |
| Cash | 120,186 | 36,649 |
| Total Assets | <u>\$ 120,186</u> | <u>\$36,649</u> |
| LIABILITIES | | |
| Due to Other Funds | \$ - | 3,777 |
| Other Liabilities | <u>-</u> | <u>32,872</u> |
| Total Liabilities | <u>-</u> | <u>\$36,649</u> |
| NET POSITION | | |
| Reserved for Scholarships | <u>120,186</u> | |
| Total Liabilities and Net Position | <u>\$ 120,186</u> | |

Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016

| | Private Purpose Trusts |
|----------------------------------|------------------------------|
| ADDITIONS | |
| Gifts and Contributions | \$ 4,505 |
| Investment Earnings | <u>189</u> |
| Total Additions | <u>4,694</u> |
| DEDUCTIONS | |
| Scholarships and Awards | <u>5,133</u> |
| Change in net position | (439) |
| Net Position - Beginning of year | <u>120,625</u> |
| Net Position - End of year | <u>\$ 120,186</u> |

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

Note 1 - Summary of accounting policies:

The financial statements of Hermon-DeKalb Central School District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the standard-setting body for establishing governmental accounting and financial reporting principles.

A) 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.

Extraclassroom Activity Fund

The Extraclassroom Activity Fund of the District represents funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Fund is independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom 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.

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

B) Joint Venture

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

BOCES Boards are organized under §1950 of the New York State Education Law. A BOCES Board is considered a corporate body. The members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of §1950. 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 comprises 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 \$2,116,213 for BOCES administrative and program costs. Participating school districts issue debt on behalf of BOCES. During the year, the District issued \$ -0- of serial bonds on behalf of BOCES. As of year-end, the District had outstanding BOCES debt of \$ 10,362. The District's share of BOCES aid amounted to \$575,794. Financial statements for BOCES are available from the BOCES administrative office.

C) Basis of Presentation

i) District-wide Statements:

The Statement of Activities presents a comparison between program expense 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.

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

ii) 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.

The District reports the following major 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 and child nutrition 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.

Capital Projects Funds: These funds are used to account for the financial resources used for acquisition, construction, or major repair of capital facilities. For these funds, each capital project is assessed to determine whether it is a major or non-major fund. These capital projects that are determined to be major are reported in separate columns in the financial statements. Those that are determined to be non-major are reported in the supplemental schedules either separately or in the aggregate.

Debt Service Fund: This fund accounts for the accumulation of resources and the payment of principal and interest on long-term general obligation debt of governmental activities. When a capital asset is sold and all or a portion of the bonds used to finance the capital asset are outstanding, this fund must be used to account for the proceeds from the sale of capital assets up to the balance of related bonds outstanding.

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.

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

There are two classes of fiduciary funds:

Private purpose trust funds: These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.

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

D) Measurement Focus and Basis of Accounting

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. Non-exchange 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 governmental 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 collected within 90 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.

E) Property Taxes

Real property taxes are levied annually by the Board of Education no later than September 1, and became a lien on August 17, 2015. Taxes are collected during the period September 1 to October 31.

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

Uncollected real property taxes are subsequently enforced by St. Lawrence County where the District is located. 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.

F) 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 associated legal requirements, many of which are described elsewhere in these Notes.

G) Interfund Transactions

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditures 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 12 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

H) 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

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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.

I) Cash (and Cash Equivalents)/Investments

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. Investments are stated at fair value.

J) Receivable (or Accounts Receivable)

Accounts receivable are shown gross. Uncollectable amounts are recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since management believes that such allowance would be immaterial.

K) 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 inventorable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial.

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 reserve for these non-liquid assets (inventories and prepaid items) has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

L) Capital Assets

Capital assets are reported at actual cost for acquisitions subsequent to 1970. For assets acquired prior to 1970, estimated historical costs, based on appraisals conducted by independent third-party professionals were used. Donated assets are reported at estimated fair market value at the time received. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives reported in the District-wide statements are as follows.

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|---------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land/Site improvements | \$1,000 | Straight-Line (SL) | 20 years |
| Building and improvements | \$1,000 | SL | 40-50 years |
| Furniture and equipment | \$1,000 | SL | 5-15 years |
| Vehicles | \$1,000 | SL | 8 years |

M) 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 government 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. Lastly are the District contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. First arises only under a modified accrual basis of accounting and is reported as unavailable revenue - property taxes. The second item is related to pensions reported

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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 liability (ERS System) 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 System (TRS). This is a cost-sharing multiple-employer 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.nystsr.org.

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

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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.

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 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.

Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

| <u>CONTRIBUTIONS</u> | <u>ERS</u> | <u>TRS</u> |
|----------------------|------------|------------|
| 2016 | \$ 123,010 | \$ 334,851 |
| 2015 | \$ 156,743 | \$ 419,750 |
| 2014 | \$ 177,193 | \$ 373,253 |

ERS has provided additional disclosures through entities that elected to participate in Chapter 260, 57, and 105.

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERED OUTFLOWS OF RESOURCES AND DEFERED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2016, 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, 2016 for ERS and June 30, 2015 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

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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.

| | <u>ERS</u> | <u>TRS</u> |
|----------------------------------|---------------------|-------------------|
| Actuarial Valuation Date | 4/1/2016 | 6/30/2015 |
| Net Pension Asset/Liability | \$ (16,050,279,000) | \$ 10,386,812,916 |
| District's Portion of the Plan's | \$ (468,171) | \$ 1,694,679 |
| Total Net Pension | | |
| Asset/Liability | .0029169% | .016316% |

For the year ended June 30, 2016, the District's recognized pension expense (income) of \$ 170,070 for ERS and \$ (113,306) for TRS. At June 30, 2016 the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Inflows</u> | | <u>Deferred Outflows</u> | |
|---|-------------------------|-----------------|--------------------------|-------------------|
| | <u>ERS</u> | <u>TRS</u> | <u>ERS</u> | <u>TRS</u> |
| Difference Between Expected and Actual Experience | \$ 2,366 | \$ - | \$ - | \$ 46,967 |
| Changes of Assumptions | 124,847 | - | - | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 277,745 | - | - | 535,697 |
| Changes in Proportion and Differences Between the District's Contributions and Proportionate Share of Contributions | 13,328 | 7,147 | - | 17,966 |
| District's Contributions Subsequent to the Measurement Date | - | - | - | - |
| Total | <u>\$ 418,286</u> | <u>\$ 7,147</u> | <u>\$ -</u> | <u>\$ 600,630</u> |

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, 2016. Other amounts

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Notes to Financial Statements
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reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended: | <u>ERS</u> | <u>TRS</u> |
|-------------|------------|--------------|
| 2016 | \$ - | \$ (217,297) |
| 2017 | 91,450 | (217,297) |
| 2018 | 91,450 | (217,297) |
| 2019 | 91,450 | 87,859 |
| 2020 | 84,453 | (7,084) |
| Thereafter | - | (22,366) |

ACTUARIAL ASSUMPTIONS

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

Significant actuarial assumptions used in the valuations were as follows:

| | <u>ERS</u> | <u>TRS</u> |
|--------------------------|---|---|
| Measurement Date | 3/31/2015 | 6/30/2014 |
| Actuarial Valuation Date | 4/01/2014 | 6/30/2013 |
| Interest Rate | 7.5% | 8.0% |
| Salary Scale | 4.9% | 4.01 - 10.91% |
| Decrement Tables | 4/01/2005-3/31/2010 Systems Experience | 7/01/2005-6/30/2010 Systems Experience |
| Inflation Rate | 2.7% | 3.0% |

For ERS, annuitant mortality rates are based on April 1, 2005 - March 31, 2011 System's experience with adjustments for mortality improvements based on MP-2014. For TRS, annuitant mortality rates are based on July 1, 2005 - June 30, 2010 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, 2011 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31,

Hermion-DeKalb Central School District
Notes to Financial Statements
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2010. 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, 2005 - June 30, 2010.

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:

| | <u>ERS</u> | <u>TRS</u> |
|----------------------------------|------------------|------------------|
| Measurement Date | <u>3/31/2016</u> | <u>6/30/2015</u> |
| <u>Asset Class:</u> | | |
| Domestic Equity | 7.30% | 6.5% |
| International Equity | 8.55% | 7.7% |
| Private Equity | 11.00% | 9.9% |
| Real Estate | 8.25% | 4.6% |
| Absolute Return Strategies | 6.75% | - |
| Opportunistic Strategies | 8.60% | - |
| Real Assets | 8.65% | - |
| Bonds & Mortgages | 4.00% | 3.4% |
| Cash | 2.25% | - |
| Inflation-Indexed Bonds | 4.00% | - |
| Domestic Fixed Income Securities | - | 2.10% |
| Global Fixed Income Securities | - | 1.90% |
| Short-Term | - | 1.20% |

DISCOUNT RATE

The discount rate used to calculate the total pension liability was 7.0% for ERS and 8.0% 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.

Hermon-DeKalb Central School District
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For the Year Ended June 30, 2016

SENSITIVITY OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO THE DISCOUNT RATE ASSUMPTION

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0% for ERS and 8.0% 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 7.0% for TRS) or 1 percentage point higher (8.0% for ERS and 9.0% for TRS) than the current rate:

| | 1% Decrease (6.0%) | Current Assumption (7.0%) | 1% Increase (8.0%) |
|--|--------------------------|---------------------------------|--------------------------|
| <u>ERS</u> | | | |
| Employer's Proportionate Share of the Net Pension Asset (Liability) | \$ (1,055,691) | \$ (468,171) | \$ 28,259 |
| | (7.0%) | (8.0%) | (9.0%) |

| | | | |
|---|--------------|--------------|--------------|
| <u>TRS</u> | | | |
| Employers Proportionate Share of the New Pension Asset (Liability) | \$ (115,599) | \$ 1,694,679 | \$ 3,238,466 |

PENSION PLAN FIDUCIARY NET POSITION

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

| | <u>ERS</u> 3/31/2016 | <u>TRS</u> 6/30/2015 | <u>TOTAL</u> |
|---|----------------------------|--------------------------|---------------------------|
| Valuation Date | | | |
| Employer's Total Pension (Liability) | \$ (172,303,544,000) | \$ (99,332,103,743) | \$ (271,635,647,743) |
| Plan Net Position | <u>156,253,265,000</u> | <u>109,718,916,659</u> | <u>265,972,181,659</u> |
| Employer's Net Pension Asset (Liability) | <u>\$ (16,050,279,000)</u> | <u>\$ 10,386,812,916</u> | <u>\$ (5,663,466,084)</u> |
| Ratio of Plan Net Position to the Employer's Total Pension Asset (Liability) | 90.7% | 110.46% | 97.92% |

Hermon-DeKalb Central School District
Notes to Financial Statements
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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, 2015 represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2016 amounted to \$ 39,847.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2016 are paid to the System in September, October and November 2016 through a state aid intercept. Accrued retirement contributions as of June 30, 2016 represent employee and employer contributions for the fiscal year ended June 30, 2016 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, 2016 amounted to \$ 363,852.

N) Unearned and Deferred Revenues

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

O) Vested Employee Benefits

Compensated absences consist of unpaid accumulated annual sick leave, vacation, and sabbatical time:

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive 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 negotiated reimbursement rates in effect at year-end.

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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.

P) Other Benefits

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

In addition to providing pension benefits, the District provides post-employment health insurance coverage and to retired employees and their survivors 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. In some cases, 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.

Q) Short-Term Debt

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

The District may issue 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 BANs issued for capital purposes to 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

Hermon-DeKalb Central School District
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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.

R) 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.

S) Equity Classifications

District-wide Statements:

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

Net investment in capital assets - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the 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 the balance of net position that does not meet the definition of the above two classifications and is deemed to be available for general use by the District.

Funds statements:

In the fund basis statements there are five classifications of fund balance.

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Non-spendable – includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Non-spendable fund balance includes the inventory recorded in the School Lunch Fund of \$ 8,052 and a \$4,903 deposit to School and Municipal Energy Cooperative of WNY in the General Fund.

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 District has established the following restricted fund balances.

Reserve for Debt Service: According to General Municipal Law (GML) §6-1, the Mandatory Reserve for Debt 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 the sale. The funding of the reserve is from the proceeds of the sale of District property or unused capital improvement funds. The reserve is accounted for in the Debt Service Fund.

Employee Benefit Accrued Liability: According to GML §6-p, this reserve 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. The reserve is accounted for in the General Fund.

Reserve for Retirement Contributions: According to GML §6-r, this reserve 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. The reserve is accounted for in the General Fund.

Reserve for Unemployment Insurance: According to GML § 6-m, this reserve 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. The reserve is accounted for in the General Fund.

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Reserve for Repairs: According to GML §6-d, this reserve 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.

Reserve for Capital: According to Education Law §3651, this reserve 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 ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the General Fund under Restricted Fund Balance.

Reserve for Insurance: According to GML §6-n, this reserve 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.

Reserves that are available to the District but are not currently being utilized are as follows:

Reserve for Tax Certiorari: According to Education Law §3651.1-a, this reserve must be used to establish a fund for tax certiorari and to expend from the fund without voter approval. The monies held in the reserve shall not exceed the amount that might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings. Any resources deposited to the reserve which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the General Fund on or before the first day of the fourth fiscal year after deposit of these monies. The reserve is accounted for in the General Fund.

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Liability Claims and Property Loss: According to Education Law §1709(8)(c), this reserve must be used to pay for liability claims and property loss incurred. Separate funds for liability claims and property loss are required and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than \$125,000.

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

Encumbrances: Encumbrance accounting, under which purchase orders, contracts, and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the General Fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

Restricted Fund Balance includes the following as of June 30, 2016:

| | |
|------------------------------------|---------------------|
| General Fund | |
| Employee Benefit Accrued Liability | \$ 172,554 |
| Retirement Contributions | 587,257 |
| Insurance Reserve | 30,000 |
| Unemployment Insurance | 83,885 |
| Capital Reserve | 250,000 |
| Repair Reserve | 75,000 |
| Debt Service Fund | <u>76,013</u> |
| Total Restricted Funds | <u>\$ 1,274,709</u> |

Committed – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the school district's highest level of decision making authority i.e., the Board of Education. The School District had \$-0- in committed fund balance as of June 30, 2016.

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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 amounted to \$3,728. The School District also has \$834,001 in the General Fund assigned fund balance for a total assigned fund balance of \$834,001 as of June 30, 2016.

Unassigned – Includes all other amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the School District. The School District had unassigned fund balances of \$399,516 in the General Fund and \$16,678 in the School Lunch Fund for a total unassigned fund balance of \$416,194 as of June 30, 2016.

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. Nonspendable and restricted fund balance of the General Fund are excluded for the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation. As of June 30, 2016 the District's unexpended surplus funds were 4.07% of the 2016 / 2017 budget for the General Fund.

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.

T) New Accounting Standards

The School District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2016, the District implemented the following new standards issued by GASB.

GASB has issued Statement 72, Fair Value Measurement and Application, effective for the year ending June 30, 2016.

GASB has issued Statement 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, effective for the year ending June 30, 2016.

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U) 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. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

GASB has also issued Statement No. 73 and No. 77 through No. 82, all of which are effective in future years for the District.

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.

A) Total fund balances of governmental funds vs. net position of governmental activities:

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

B) Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities and Changes in Net Position:

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

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

i. 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 and Changes in Net Position reports revenues when earned. Differences in long-term expenses arise because government funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities and Changes in Net Position.

ii. Capital related differences:

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

iii. 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 and Changes in Net Position as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

Note 3 – Changes in Accounting Principles:

GASB has issued Statement, Fair Value Measurement and Application, effective for the year ending June 30, 2016. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements of government's financial position. Currently, the District has not implemented this statement. The District will continue to evaluate this statement's applicability and will implement it as applicable and when material.

GASB has issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, superseding Statement No. 55 of the same title and amending Statement No. 62, effective for the year ending June 30,

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

2016. The objective of this statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statements information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. The District is in compliance with this statement as of the current reporting period ending June 30, 2016.

Note 4 - Stewardship, Compliance and Accountability:

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds (General, School Lunch, and Capital Funds) for which legal (appropriated) budgets are adopted:

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

Appropriations are adopted at the program line 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.

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.

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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.

The portion of the District's fund balance subject to New York State Real Property Tax Law §1318 limit the amount allowable, which is 4% of the District's budget for the upcoming school year.

Note 5 - 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 statutes govern the District's investment policies, as discussed in these Notes.

Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are:

| | |
|---|--------------------|
| Uncollateralized | \$ - |
| Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the District's name | <u>\$2,052,866</u> |

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 \$1,274,287 within the governmental funds, and \$37,045 (Extraclassroom Activity Fund) and \$120,186 (Private Purpose Trusts) within the fiduciary funds.

Note 6 – Investments:

The District typically has few investments (primarily donated scholarship funds), and chooses to disclose its investments by specifically identifying each. The District's investment

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

policy for these investments is also governed by New York State statutes. Investments are stated at fair value, and are categorized as either:

- (A) Insured or registered, or investments held by the District or by the District's agent in the District's name, or
- (B) Uninsured and unregistered, with the investments held by the financial institution trust department in the District's name, or
- (C) Uninsured and unregistered, with investments held by the financial institution or its trust department, but not in the District's name.

Investments – None

Fund, Carrying amount (fair value), Unrealized gain/loss, Type, Category – N/A

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. At year-end, the District held \$ -0- in investments.

Investment Pool

The District participates in a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article 5-G, §119-O, whereby it holds a portion of the investments in a cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents. Total investments of the cooperative as of year-end are \$181,672,567, which consisted of \$29,509,522 in repurchase agreements, \$48,013,304 in U.S. Treasury Securities, \$73,500,000 in U.S. Government Guaranteed Securities, and \$30,649,741 in collateralized bank deposits with various interest rates and due dates.

The following amounts are included as unrestricted and restricted cash:

| <u>Fund</u> | <u>Bank Balance</u> | <u>Carrying Amount</u> | <u>Description of Investment</u> |
|----------------------------|---------------------|------------------------|----------------------------------|
| General-Savings | \$1,922,851 | \$1,922,851 | NYCLASS |
| General - Tax Certiorari | \$ 187,383 | \$ 187,383 | NYCLASS |
| General - Repair Reserve | \$ - | \$ - | NYCLASS |
| Trust & Agency- | | | |
| Non-Expendable Scholarship | \$ 116,733 | \$ 116,733 | NYCLASS |
| Debt Service – Savings | \$ 75,899 | \$ 75,899 | NYCLASS |

Note 7 – Receivables:

Receivables at year-end for major funds, including the applicable allowances for uncollectible accounts, are as follows:

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

| <u>Description</u> | <u>Governmental Activities</u> | | | | | <u>Total</u> |
|--------------------------------------|--------------------------------|--------------------|---------------------|---------------------|-------------------------|---------------------|
| | <u>General</u> | <u>Special Aid</u> | <u>School Lunch</u> | <u>Debt Service</u> | <u>Capital Projects</u> | |
| Accounts receivable | \$ 23,890 | \$ - | \$ - | \$ - | \$ - | \$ 23,890 |
| Due from Other Funds | 522,092 | 237 | - | 114 | - | 522,443 |
| Due from Other Governments | 260,093 | - | - | - | - | 260,093 |
| Due from State and Federal | 121,230 | 436,393 | 12,409 | - | - | 570,032 |
| Allowance for uncollectible accounts | - | - | - | - | - | - |
| Total | \$ 927,305 | \$ 436,630 | \$ 12,409 | \$ 114 | \$ - | \$ 1,376,458 |

District management has deemed the amounts to be fully collectible.

Note 8 – Capital Assets:

Capital asset balances and activity were as follows:

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements/ Reclassifications</u> | <u>Ending Balance</u> |
|--|--------------------------|------------------|---|-----------------------|
| Capital assets that are not depreciated: | | | | |
| Land | \$ 110,143 | \$ - | \$ - | \$ 110,143 |
| Construction in progress | - | - | - | - |
| Total nondepreciable | 110,143 | - | - | 110,143 |
| Capital assets that are depreciated: | | | | |
| Buildings and site improvements | 12,894,780 | - | - | 12,894,780 |
| Furniture and equipment | 2,562,848 | 47,589 | (32,850) | 2,577,587 |
| Vehicles | 1,157,670 | 117,158 | (224,341) | 1,050,487 |
| Total depreciated assets | 16,615,298 | 164,747 | (257,191) | 16,522,854 |
| Less accumulated depreciation: | | | | |
| Buildings and site improvements | 5,863,398 | 425,221 | - | 6,288,619 |
| Furniture and equipment | 2,221,982 | 42,497 | (32,850) | 2,231,629 |
| Vehicles | 735,393 | 79,814 | (224,341) | 590,866 |
| Total accumulated depreciation | 8,820,773 | 547,532 | (257,191) | 9,111,114 |
| Total depreciated assets, net | 7,794,525 | (382,785) | - | 7,411,740 |
| Total assets, net | \$ 7,904,668 | \$ (382,785) | \$ - | \$ 7,521,883 |

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

Depreciation expense was charged to governmental functions as follows.

| | |
|----------------------------|--------------------------|
| General Support | \$ 27,377 |
| Instruction | 443,501 |
| Pupil Transportation | <u>76,654</u> |
| Total Depreciation Expense | <u><u>\$ 547,532</u></u> |

Note 9 - Short-term debt:

BANs Payable had no activity during the fiscal year ending June 30, 2016 leaving an unchanged balance of \$-0-.

Note 10 - Long-term debt obligation:

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

| Government Activities: | Beginning <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | Ending <u>Balance</u> | Amounts Due Within <u>One Year</u> |
|-------------------------------|-----------------------------|--------------------------|--------------------------|---------------------------|--|
| Bonds and notes payable: | | | | | |
| General obligation debt: | | | | | |
| Serial Bonds | \$4,372,000 | \$ 120,000 | \$ 502,000 | \$3,990,000 | \$530,000 |
| Total bonds and notes payable | 4,372,000 | 120,000 | 502,000 | 3,990,000 | 530,000 |
| Other liabilities: | | | | | |
| Compensated absences | 278,911 | 24,952 | - | 303,863 | - |
| Total other liabilities | <u>278,911</u> | <u>24,952</u> | <u>-</u> | <u>303,863</u> | <u>-</u> |
| Total long-term liabilities | <u><u>\$4,650,911</u></u> | <u><u>\$ 144,952</u></u> | <u><u>\$ 502,000</u></u> | <u><u>\$4,293,863</u></u> | <u><u>\$530,000</u></u> |

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences. Existing serial and statutory bond obligations are as follows.

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

| <u>Description</u> | <u>Issue Date</u> | <u>FYE Final Maturity</u> | <u>Interest Rate</u> | <u>Balance</u> |
|---------------------|-------------------|---------------------------|----------------------|---------------------|
| Bus Bonds 2012 | 9/1/2011 | 2017 | Variable | 25,000 |
| Capital Bonds, 2010 | 7/8/2011 | 2024 | Variable | 3,640,000 |
| Bus Bonds 2013 | 11/29/2012 | 2018 | 2.50% | 30,000 |
| Bus Bonds 2014 | 9/4/2013 | 2019 | Variable | 75,000 |
| Bus Bonds 2015 | 9/4/2014 | 2020 | Variable | 100,000 |
| Bus Bonds 2016 | 9/3/2015 | 2021 | Variable | 120,000 |
| Total | | | | <u>\$ 3,990,000</u> |

The following is a summary of debt service requirements:

| <u>Fiscal year ending June 30,</u> | <u>Serial Bonds</u> | | <u>Total</u> |
|------------------------------------|---------------------|-------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | |
| 2017 | 530,000 | 154,975 | 684,975 |
| 2018 | 530,000 | 134,759 | 664,759 |
| 2019 | 530,000 | 115,266 | 645,266 |
| 2020 | 525,000 | 95,647 | 620,647 |
| 2021 | 520,000 | 75,756 | 595,756 |
| 2022-2026 | 1,355,000 | 102,963 | 1,457,963 |
| Totals | <u>\$ 3,990,000</u> | <u>\$ 679,366</u> | <u>\$ 4,669,366</u> |

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

| | |
|---|-------------------|
| Interest paid | \$ 171,243 |
| Less interest accrued in the prior year | (10,549) |
| Plus interest accrued in the current year | <u>9,864</u> |
| Total expense | <u>\$ 170,558</u> |

District had no capital lease obligations at June 30, 2016.

Note 11 - Pension plans:

General information:

The District participates in the New York State Employees' Retirement System (NYSERS) and the New York State Teachers' Retirement System (NYSTRS). These are cost-sharing multiple employer public employee retirement systems. The Systems offer a wide range

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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:

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 for the System. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

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. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, 110 State Street, Albany, New York 12244.

Funding policies:

The Systems are noncontributory for the employee 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.

The District is required to contribute at an actuarially determined rate. The District contributions made to the Systems were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

| | <u>NYSTRS</u> | <u>NYSERS</u> |
|-------------|---------------|---------------|
| 2015 - 2016 | \$ 334,851 | \$ 123,010 |
| 2014 - 2015 | 419,750 | 156,743 |
| 2013 - 2014 | 373,253 | 177,193 |

Since 1989, the NYSERS billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. The legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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. As a result, the total unpaid liability of the end of the year was \$ -0-.

Note 12 - Interfund transactions - governmental funds:

| <u>Fund:</u> | <u>Interfund</u> | | <u>Interfund</u> | |
|-----------------------------|-------------------|------------------|------------------|---------------------|
| | <u>Receivable</u> | <u>Payable</u> | <u>Revenues</u> | <u>Expenditures</u> |
| General | \$ 522,092 | \$ - | \$ 9,601 | \$ 79,893 |
| Special Aid | 237 | 459,834 | 4,993 | 9,601 |
| School Lunch | - | 58,718 | 60,000 | - |
| Debt Service | 114 | - | 114 | - |
| Capital Projects | - | 114 | 14,900 | 114 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total government activities | 522,443 | 518,666 | 89,608 | 89,608 |
| Fiduciary | - | 3,777 | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | <u>\$ 522,443</u> | <u>\$522,443</u> | <u>\$ 89,608</u> | <u>\$ 89,608</u> |

The District typically transfers from the General Fund to Special Aid Fund to cover District costs of funded programs not covered completely by the grants which require some District participation.

Note 13 - Post-employment (health insurance) benefits:

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.

The District implemented *GASB Statement #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 contribution and actual contributions made. Currently, retired employees are paid their unused accrued sick time through a non-elective 403(b) contribution.

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the funds financial statements as payments are made. For the year ended June 30, 2016 the District recognized \$534,127 for its share of insurance premiums for currently enrolled retirees. Also, The District has obtained an interim actuarial valuation report as of June 30, 2016 which indicates that the net OPEB obligation for other postemployment benefits is \$8,920,014 which is reflected in the Statement of Net Position.

Annual OPEB Cost and Net OPEB Obligations: The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of *GASB 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 HP:

| | |
|---|---------------------|
| Annual Required Contribution (ARC) | \$ 2,068,799 |
| Interest on Net OPEB Obligation | \$ 301,421 |
| Adjustment to ARC | <u>\$ (475,223)</u> |
| Annual OPEB Cost | \$ 1,894,997 |
| Contributions made | <u>\$ (510,518)</u> |
| Increase in Net OPEB Obligation | \$ 1,384,479 |
| Net OPEB Obligation – Beginning of Year | <u>\$ 7,535,535</u> |
| Net OPEB Obligation – End of Year | <u>\$ 8,920,014</u> |

The District's annual OPEB obligations for 2015 and the two preceding years were as follows.

| <u>Fiscal Year End</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------|-------------------------|---|--------------------------------|
| 6/30/2014 | 1,997,938 | 26.8% | 6,005,477 |
| 6/30/2015 | 2,092,663 | 26.9% | 7,535,535 |
| 6/30/2016 | 1,894,997 | 26.9% | 8,920,014 |

Funded Status and Funding Progress: As of June 30, 2016, the most recent interim actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$20,166,018 and the actuarial value of assets was \$ -0- resulting in an unfunded actuarial accrued liability (UAAL) of \$20,166,018. The covered payroll (annual payroll of active employees covered by the plans) was \$3,548,071 and the ratio of the UAAL to the covered payroll was 638%. 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.

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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.

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

In the June 30, 2016 interim actuarial valuation, the Projected Unit Credit method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 6.2% initially, reduced by decrements to an ultimate rate of 4.29% after 67 years. Both rates included a 2.9% inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2016, was 24 years.

Note 14 - 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.

Consortiums and Self Insured Plans: 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 (17) districts and the BOCES with the Hermon-DeKalb Central School District bearing a 2.45% share of the Plan's assets and claims liabilities.

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

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.

A similar arrangement exists with the St. Lawrence-Lewis County BOCES for workers compensation. The District's share of the Plan's assets and claims liabilities was 0.69% for the year ended June 30, 2016, while premiums totaled \$20,150 and payments of claims amounted to \$8,988.

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

Note 15 - Commitments and contingencies:

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.

The District does not accrue a liability for accumulating, non-vesting sick leave, since payment is based on an uncontrollable future event (sickness). In accordance with the provisions of *GASB #16*, the value for accumulating, non-vesting sick leave is considered a contingent liability. The District reports \$8,890 for accumulating, non-vesting sick leave.

Judgment

There were no judgments or notable claims against the Hermon-DeKalb Central School District at June 30, 2016.

Hermion-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

Note 16 - Lease obligations (operating leases):

The District leases certain business equipment under the terms of various non-cancelable leases. Rental expense for the year was \$5,311.

Minimum annual lease payments for each of the remaining years of the leases are as follows:

| | |
|----------------|-------------|
| 2017 - \$4,016 | 2019 - \$ - |
| 2018 - \$1,243 | 2020 - \$ - |

Note 17 - Donor-restricted endowments:

The District administers endowment funds, which are restricted by the donor for the purposes of providing student scholarships. Donor-restricted endowments are reported at fair value. The amount of net appreciation on investments of donor-restricted endowments that is available for authorization for expenditure by the District is \$27. The District authorized expenditures from donor-restricted endowments in compliance with the wishes expressed by the donor, which varies among the unique endowments administered by the District.

Note 18 - Subsequent Events:

Management has reviewed and evaluated all events and transactions from July 1, 2016 through October 21, 2016 the date the financial statements were available to be issued for possible disclosure and recognition in the financial statements.

The following subsequent event was noted for disclosure: Advanced refunding of a serial bond associated with the last capital project, closed on 9/21/2016. On that date, a total of \$3,034,015 was wired to the escrow agent for payment of said bond.

Note 19 Prior Period Adjustments:

Adjustments totaling \$1,500.00 have been made to the June 30, 2016 General Fund and School Lunch Fund balances. The details of these adjustments are outlined below.

In addition to those fund balance adjustments, a recent valuation of building, equipment and site improvements resulted in a decrease in the capital asset values of \$1,277,386. This adjustment has been recorded to decrease the June 31, 2016 net position of the governmental activities.

Hermon-DeKalb Central School District
Notes to Financial Statements
For the Year Ended June 30, 2016

| | | |
|---------------------------|-----------------------|---------------------|
| Balance at June 30, 2015 | <u>Fund Balances</u> | <u>Net Position</u> |
| As previously reported | \$ 2,061,704 | \$ 366,411 |
| Various Adjustments | | |
| 2014-2015 Excess Cost Aid | (1,500) | (1,500) |
| Capital Asset Valuation | <u>-</u> | <u>(1,277,386)</u> |
| TOTAL | <u>\$ (2,060,204)</u> | <u>\$ (912,475)</u> |

HERMON-DEKALB CENTRAL SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2016

| | Original Budget | Final Budget | Actual (Budgetary Basis) | | Final Budget Variance With Budgetary Actual |
|--|---------------------|---------------------|--------------------------------|----------|---|
| REVENUES | | | | | |
| Local Sources | | | | | |
| Real property taxes | \$ 2,454,096 | \$ 1,980,640 | 1,980,231 | | \$ (409) |
| Other tax items | 10,200 | 483,656 | 483,198 | | (458) |
| Charges for services | - | 2,700 | 8,391 | | 5,691 |
| Use of money and property | 1,000 | 1,000 | 10,406 | | 9,406 |
| Sale of property and compensation for loss | - | - | 5,032 | | 5,032 |
| Miscellaneous | 13,800 | 11,100 | 162,262 | | 151,162 |
| Gain on sale of fixed asset | - | - | 7,716 | | 7,716 |
| State Sources | 6,219,804 | 6,219,804 | 6,338,344 | | 118,540 |
| Federal Sources | 10,000 | 10,000 | 5,543 | | (4,457) |
| Total Revenues | 8,708,900 | 8,708,900 | 9,001,123 | | 292,223 |
| OTHER SOURCES | | | | | |
| Transfers from other funds | - | - | 9,601 | | 9,601 |
| Total Revenues and Other Sources | \$ 8,708,900 | \$ 8,708,900 | \$ 9,010,724 | | \$ 301,824 |
| Appropriated Fund Balance | 508,152 | 525,315 | - | | - |
| TOTAL REVENUES | \$ 9,217,052 | \$ 9,234,215 | \$ 9,010,724 | | \$ 301,824 |
| EXPENDITURES | | | | | |
| General Support | | | | | |
| Board of education | \$ 9,481 | \$ 9,481 | 5,675 | \$ 198 | \$ 3,608 |
| Central administration | 131,921 | 130,218 | 124,425 | - | 5,793 |
| Finance | 261,398 | 263,390 | 261,890 | - | 1,500 |
| Staff | 58,494 | 58,494 | 38,925 | - | 19,569 |
| Central services | 565,713 | 677,116 | 487,374 | - | 189,742 |
| Special items | 221,273 | 224,451 | 223,665 | - | 786 |
| Total General Support | 1,248,280 | 1,363,150 | 1,141,954 | 198 | 220,998 |
| Instruction | | | | | |
| Instruction, administration and improvement | 191,435 | 197,512 | 191,424 | - | 6,088 |
| Teaching - regular school | 1,944,491 | 1,825,566 | 1,727,568 | - | 97,998 |
| Programs for children with handicapping conditions | 1,353,482 | 1,330,066 | 1,311,572 | - | 18,494 |
| Occupational education | 284,848 | 284,848 | 284,848 | - | - |
| Teaching - special school | 120,724 | 120,724 | 62,497 | - | 58,227 |
| Instructional media | 415,062 | 424,080 | 404,240 | 2,435 | 17,405 |
| Pupil services | 373,444 | 375,904 | 348,143 | - | 27,761 |
| Total Instruction | 4,683,486 | 4,558,700 | 4,330,292 | 2,435 | 225,973 |
| OTHER EXPENDITURES | | | | | |
| Pupil Transportation | 399,862 | 426,941 | 403,182 | 1,081 | 22,678 |
| Community Services | - | - | - | - | - |
| Employee Benefits | 2,147,180 | 2,147,180 | 1,942,485 | - | 204,695 |
| Debt Service | 663,244 | 663,244 | 662,559 | - | 685 |
| Total Other Expenditures | 3,210,286 | 3,237,365 | 3,008,226 | 1,081 | 228,058 |
| Total Expenditures | 9,142,052 | 9,159,215 | 8,480,472 | 3,714 | 675,029 |
| OTHER FINANCING USES | | | | | |
| Transfers to other funds | 75,000 | 75,000 | 79,893 | 14 | (4,907) |
| Total Expenditures and Other Uses | \$ 9,217,052 | \$ 9,234,215 | \$ 8,560,365 | \$ 3,728 | \$ 670,122 |

**HERMON-DEKALB CENTRAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS PLAN
FOR THE YEAR ENDED JUNE 30, 2016**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Projected Unit Credit (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| June 30, 2010 | \$ - | \$ 15,511,237 | \$ 15,511,237 | \$ - | \$ 3,498,144 | 443.41% |
| June 30, 2011 | - | 16,283,330 | 16,283,330 | - | 3,657,615 | 445.19% |
| June 30, 2012 | - | 17,109,146 | 17,109,146 | - | 3,526,296 | 485.19% |
| June 30, 2013 | - | 19,096,988 | 19,096,988 | - | 3,212,976 | 594.37% |
| June 30, 2014 | - | 20,166,584 | 20,166,584 | - | 3,262,205 | 618.19% |
| June 30, 2015 | - | 21,264,683 | 21,264,683 | - | 3,333,148 | 637.98% |
| June 30, 2016 | - | 20,166,018 | 20,166,018 | - | 3,548,071 | 568.37% |

See paragraph on supplementary schedules included in auditor's report.

**HERMON-DEKALB CENTRAL SCHOOL DISTRICT
SCHEDULE OF CHANGE FROM ADOPTED BUDGET
TO FINAL BUDGET AND THE REAL PROPERTY TAX LIMIT
FOR THE YEAR ENDED JUNE 30, 2016**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

| | |
|--------------------------------|----------------------------|
| Adopted Budget | \$ 8,691,737 |
| Add: Prior year's encumbrances | <u>17,163</u> |
| Original budget | 8,708,900 |
| Budget revision: | <u>0</u> |
| Final budget | <u><u>\$ 8,708,900</u></u> |

Section 1318 of Real Property Tax Law Limit Calculation

| | |
|---|--------------------------|
| 2016-17 Voter Approved Expenditure Budget | \$ 9,829,421 |
| Maximum Allowed 4% of 2015 - 2016 Budget | <u><u>\$ 393,177</u></u> |

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

| | |
|----------------------------|----------------|
| Unrestricted Fund Balance: | |
| Assigned Fund Balance | 834,001 |
| Unassigned Fund Balance | <u>393,516</u> |

| | |
|---------------------------------|----------------------------|
| Total Unrestricted Fund Balance | <u><u>\$ 1,227,517</u></u> |
|---------------------------------|----------------------------|

Less:

| | |
|---|--------------------------|
| Appropriated Fund Balance | 830,273 |
| Encumbrances Included in Committed and Assigned Fund Balances | <u>3,728</u> |
| Total Adjustments | <u><u>\$ 834,001</u></u> |

| | |
|---|--------------------------|
| General Fund Fund Balance Subject to §1318 of Real Property Tax Law | <u><u>\$ 393,516</u></u> |
|---|--------------------------|

| | |
|-------------------|---|
| Actual Percentage | <div style="border: 1px solid black; padding: 2px; display: inline-block;">4.00%</div> |
|-------------------|---|

Hermon-DeKalb Central School District
Schedule of District's Proportionate Share of
Net Pension Liability
for the Year Ended June 30, 2016

NYSTRS PENSION PLAN

| | 2016 |
|---|-------------|
| District's proportion of the | |
| net pension liability (asset) | 0.016316% |
| District's proportionate share of the | |
| net pension liability (asset) | (1,694,679) |
| District's covered-employee payroll | |
| District's proportionate share of the | |
| net pension liability (asset) as a percentage | |
| of it's covered-employee payroll | -79.64% |
| Plan fiduciary net position as a percentage | |
| of the total pension liability | 110.46% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NYSERS PENSION PLAN

| | 2016 |
|---|------------|
| District's proportion of the | |
| net pension liability (asset) | 0.0029169% |
| District's proportionate share of the | |
| net pension liability (asset) | 468,171 |
| District's covered-employee payroll | |
| District's proportionate share of the | |
| net pension liability (asset) as a percentage | |
| of it's covered-employee payroll | 52.69% |
| Plan fiduciary net position as a percentage | |
| of the total pension liability | 90.70% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Hermon-DeKalb Central School District
Schedule of District Contributions
for the Year Ended June 30, 2016

NYSTRS PENSION PLAN

| | |
|---|-----------|
| | 2016 |
| Contractually required contribution | 593,695 |
| Contributions in relation to the contractually required contribution | 593,695 |
| Contribution deficiency (excess) | - |
| District's covered-employee payroll | 2,940,386 |
| Contribution as a percentage of covered-employee payroll | 20.19% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NYSERS PENSION PLAN

| | |
|---|---------|
| Contractually required contribution | 110,999 |
| Contributions in relation to the contractually required contribution | 110,999 |
| Contribution deficiency (excess) | - |
| District's covered-employee payroll | 641,788 |
| Contribution as a percentage of covered-employee payroll | 17.30% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

HERMON-DEKALB CENTRAL SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2016

| PROJECT TITLE | <u>Expenditures</u> | | | | | <u>Methods of Financing</u> | | | | | Fund Balance |
|---------------|-----------------------------------|----------------------------------|------------------------|-------------------------|--------------|-------------------------------|------------------------------------|----------------------|--------------------------|--------------|----------------------|
| | <u>Original Appropriation</u> | <u>Revised Appropriation</u> | <u>Prior Years</u> | <u>Current Year</u> | <u>Total</u> | <u>Unexpended Balance</u> | <u>Proceeds of Obligations</u> | <u>State Aid</u> | <u>Local Sources</u> | <u>Total</u> | <u>June 30, 2013</u> |
| Bus - 6/30/16 | 120,000 | 120,000 | - | 120,000 | 120,000 | - | 120,000 | - | - | 120,000 | - |
| Totals | \$ 120,000 | \$ 120,000 | \$ - | \$ 120,000 | \$ 120,000 | \$ - | \$ 120,000 | \$ - | \$ - | \$ 120,000 | \$ - |

**HERMON-DEKALB CENTRAL SCHOOL DISTRICT
NET INVESTMENT IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2016**

| | |
|---|---------------------|
| Capital assets, net | \$ 7,521,883 |
| Deduct: | |
| Short-term portion of bonds payable | 530,000 |
| Long-term portion of bonds payable | <u>3,460,000</u> |
| Total Deductions | <u>(3,990,000)</u> |
| Investment in capital assets, net of related debt | <u>\$ 3,531,883</u> |



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

To the Board of Education
Hermon-DeKalb Central School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hermon-DeKalb Central School District as of and for the year ended June 30, 2015, 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 October 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 on the effectiveness of the Hermon-DeKalb Central School District's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

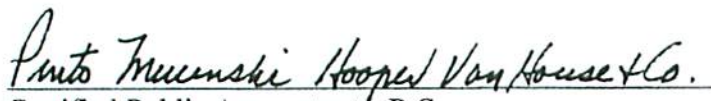
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hermon-DeKalb Central School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Very truly yours,


Piotr Mucinski Hooper Van House & Co.
Certified Public Accountants, P.C.

Ogdensburg, New York
October 10, 2015



Pinto·Mucenski·Hooper
Van House & Co.
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To the Board of Education
Hermon-DeKalb Central School District
DeKalb Junction, New York

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hermon-DeKalb Central School District for the year ended June 30, 2016. 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 engagement letter to you dated July 21, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities under US Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 21, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with US generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of the Hermon-DeKalb Central School District. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the Hermon-DeKalb Central School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of 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 the Hermon-DeKalb Central School District are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the District changed accounting policies related to reporting deferred inflows and outflows of resources and net position instead of net assets. Accordingly, the cumulative effect of the accounting changes as of the

beginning of the year is reported in the Statement of Net Position formerly known as the Statement of Net Assets. We noted no transactions entered into by the governmental unit 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 accounting estimates affecting the Hermon-DeKalb Central School District's financial statements follow.

Valuation of Accounts, State and Federal Aid, and Other Government Receivables

Management's estimate of the valuation of receivables is based on a review of historical collection rates, contractual agreements, and an analysis of the collectability of individual receivables owed to the District. We evaluated the key factors and assumptions used to develop the valuation of receivables in determining that they are reasonable in relation to the financial statements taken as a whole.

Useful Lives Used in Providing Depreciation Expense

Management's estimate of the useful lives of assets used in providing depreciation expense is based on the requirements of generally accepted accounting principles. We evaluated the key factors and assumptions used by management in determining that depreciation expense was reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive of the District's disclosures follow.

Post Employment (Health Insurance) Benefits Other than Pensions – GASB #45

The disclosure of post employment benefits other than pensions found in Note 13 to the financial statements of the District describes the required implementation and recording of the liability.

Accumulating, Non-vesting Sick Leave Contingent Liability – GASB #16 & Government Grant Disallowances as a Result of an Audit

The disclosure of commitments and contingencies found in Note 15 to the financial statements of the District describes the valuation and recording of such liabilities.

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 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 financial statements taken as a whole.

Disagreements with Management

For the 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 auditors' 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 October 21, 2016.

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 the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accounting 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 the governmental unit'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

With respect to the supplementary information accompanying the financial statements, 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.

We applied certain limited procedures to Supplemental Schedules, Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget Basis, the Other Postemployment Benefits

Plan information, Schedule of District's Contributions, and Schedule of District's Proportionate Share of the Net Pension Liability, 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 supplementary schedules, Schedule of Change from Adopted Budget to Final Budget and the Real Property Tax Limit, the Schedule of Capital Projects Fund, and the Investment in Capital Assets, which accompanying 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 State 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 themselves.

Restriction on Use

This information is intended solely for the use of audit committee, management, and the Board of Education of the 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,

 Piotr Mucinski Hooper Van Housen & Co.

Certified Public Accountants, P.C.

Ogdensburg, New York

October 21, 2016



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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hermon-DeKalb Central School District

Report on the Financial Statements

We have audited the accompanying financial statements of Assets and Liabilities and Fund Balance (Cash Basis) of the Extraclassroom Activity Fund of the Hermon-DeKalb Central School District for the year ended June 30, 2016, and the related statement of cash receipts and disbursements (Cash Basis) for the year then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibilities

Management is responsible for the preparation and fair presentation of these financial statements 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 statements 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the Fund's financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Fund's financial statements.

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

Basis for Qualified Opinion

Due to the nature of the Fund's records being maintained on the cash basis meaning that revenues (cash receipts) are recorded when received and expenditures (cash disbursements) are recorded when paid, the number of individuals (both faculty and students) involved, the amounts of money changing hands throughout the academic school year, and the numerous opportunities available to perpetrate fraud, we were unable to obtain sufficient appropriate audit evidence about the actual cash receipts collected and recorded during the academic school year ending June 30, 2016.


Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and balance due school district students of the Extraclassroom Activity Fund of the Hermon DeKalb Central School District as of June 30, 2016, and its revenues collected and expenses paid for the year then ended in accordance with the cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are 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.

Very truly yours,


Piotr Mucinski Hooper Van Housen & Co.
Certified Public Accountants, P.C.

Ogdensburg, New York
October 21, 2016

Hermon-DeKalb Central School District
 Extraclassroom Activity Fund
 Statement of Assets and Fund Balance (Cash Basis)
 June 30, 2016

ASSETS

| | |
|--------------------------------|---------------|
| Cash in Bank - Demand Deposits | \$ 37,045 |
| Total Assets | <u>37,045</u> |

LIABILITIES

| | |
|-------------------|----------|
| Total Liabilities | <u>-</u> |
|-------------------|----------|

| | |
|------------------------------------|------------------|
| <u>FUND BALANCE - Trust Funds</u> | <u>\$ 37,045</u> |
| Total Liabilities and Fund Balance | <u>\$ 37,045</u> |

Hermon-DeKalb Central School District
 Extraclassroom Activity Fund
 Statement of Revenues Collected and Expenses Paid
 For the Year Ended June 30, 2016

| | Cash Balance <u>July 1, 2015</u> | <u>Receipts</u> | <u>Payments</u> | Cash Balance <u>June 30, 2016</u> |
|------------------------|-------------------------------------|------------------|------------------|--------------------------------------|
| Class of: | | | | |
| 2015 | 396 | - | 387 | 9 |
| 2016 | 10,933 | 16,426 | 25,999 | 1,360 |
| 2017 | 7,049 | 4,638 | 1,762 | 9,925 |
| 2018 | 4,111 | 12,553 | 8,076 | 8,588 |
| 2019 | - | 2,277 | 1,338 | 939 |
| Art Club | 287 | - | - | 287 |
| Athletic Account | 1,454 | 1,262 | 410 | 2,306 |
| Cheerleading | 1,296 | 114 | 1,370 | 40 |
| Drama Club | 3,021 | 1,156 | 931 | 3,246 |
| Fine Arts Club | 1,522 | 183 | 428 | 1,278 |
| Interest Account | 51 | 14 | - | 65 |
| National Honor Society | 897 | 496 | 1,025 | 369 |
| Newspaper | - | 1,242 | 1,027 | 216 |
| NYS Sales Tax | 167 | 199 | 138 | 228 |
| Outing Club | 2,476 | 6,753 | 5,561 | 3,667 |
| Student Council | 2,092 | 3,871 | 3,279 | 2,684 |
| Yearbook | 3,722 | 4,352 | 6,235 | 1,839 |
| | <u>\$ 39,474</u> | <u>\$ 55,538</u> | <u>\$ 57,966</u> | <u>\$ 37,045</u> |

Hermon-DeKalb Central School District
Extraclassroom Activity Fund
Note to Financial Statements
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Extraclassroom Activity Funds of the Hermon-DeKalb Central School District represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity funds are independent of the School District with respect to its financial transactions, and the designation of student management. Consequently, the balance sheet amounts are included in the combined financial statements of the School District for reporting purposes only.

The books and records of the Hermon-DeKalb Central School District's Extraclassroom Activity Fund are maintained on the cash basis of accounting. Under this basis of accounting, revenues are recognized when cash is received and expenditures are recognized when cash is disbursed.

The District has evaluated subsequent events through October 21, 2016, which is the date the financial statements were available to be issued.