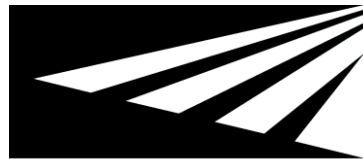




**SHELTER ISLAND
UNION FREE SCHOOL DISTRICT**

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITOR'S REPORTS

June 30, 2018



NawrockiSmith

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Shelter Island Union Free School District
Town of Shelter Island, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Shelter Island Union Free School District (the "District") as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 fiduciary funds of the Shelter Island Union Free School District, as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

NawrockiSmith

Changes in Accounting Principles and Prior Period Adjustment

As described in Note 3 to the financial statements, in 2018 the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The effect of GASB Statement No. 75 required a prior period adjustment as discussed in Note 18 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, on pages 3-14 and 50-54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018, on our consideration of the 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 District's internal control over financial reporting and compliance.

Melville, New York
October 12, 2018



SHELTER ISLAND UNION FREE SCHOOL DISTRICT
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**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Shelter Island Union Free School District's (District) discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018 in comparison with the year ended June 30, 2017, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

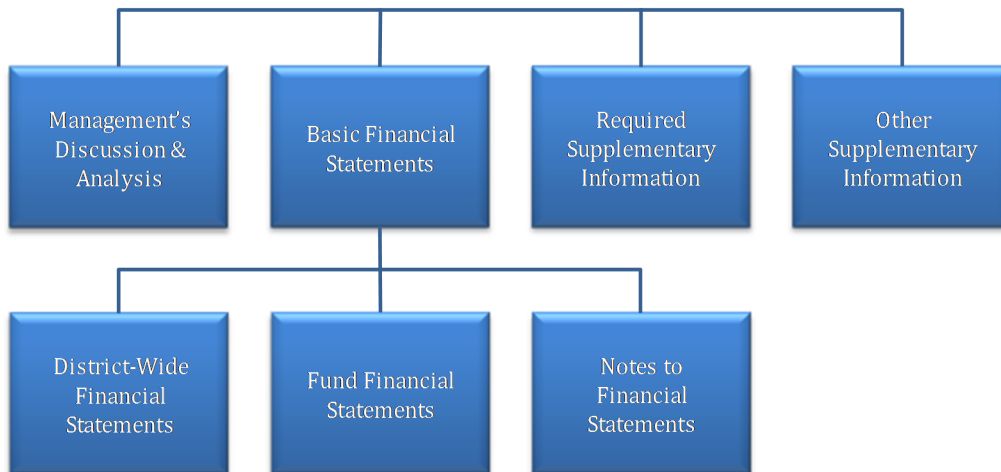
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2018 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, decreased by \$847,539 or 5.35% to \$16,702,289. This was due to an excess of expenses over revenues on the economic resources measurement focus and the accrual basis of accounting.
- The District's total net position at June 30, 2017 was restated and decreased by \$19,683,604 as a result of the required implementation of a new GASB accounting standard during the 2018 fiscal year. This new GASB accounting standard has no impact on the governmental funds financial statements.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$291,695 or 12.33% to \$2,657,795. This was due to an excess of revenues over expenditures based on the current financial resources measurement focus and the modified accrual basis of accounting.
- The District's 2018 property tax levy of \$10,131,788 was a 1.31% increase over the 2017 tax levy, which was equal to the District's property tax cap and did not require an override vote.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

A. District-Wide Financial Statements

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

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

The Statement of Net Position

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

The Statement of Activities

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

B. Fund Financial Statements

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

Governmental Funds

These statements utilize the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period in which the District incurs the liability, except for certain expenditures such as debt service on general long-term indebtedness, claims and judgments, compensated absences, pension costs, termination benefits, and other postemployment benefits, which are recognized as expenditures to the extent the related liabilities mature each period.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides.

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

Because the focus of governmental funds is narrower than that of district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, you may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds: general fund, special aid fund, school food service fund and capital projects fund, each of which is considered to be a major fund and is presented separately in the fund financial statements.

Fiduciary Funds

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

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position decreased by \$847,539 between fiscal year 2018 and 2017. The June 30, 2017 net position has been restated and decreased, and the recognized OPEB obligation has been restated and increased, both by \$19,683,604, resulting from the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. A summary of the District's Statements of Net Position follows:

	2018	As Restated 2017	Increase (Decrease)	Percentage Change
Assets				
Current and Other Assets	\$ 3,593,533	\$ 3,378,420	\$ 215,113	6.37 %
Capital Assets, Net	9,714,067	9,969,984	(255,917)	(2.57)%
Net Pension Asset - Proportionate Share	212,528		212,528	N/A
Total Assets	13,520,128	13,348,404	171,724	1.29 %
Deferred Outflows of Resources	3,163,991	3,174,197	(10,206)	(0.32)%
Liabilities				
Current and Other Liabilities	711,282	806,541	(95,259)	(11.81)%
Long-Term Liabilities	5,177,869	5,399,661	(221,792)	(4.11)%
Net Pension Liability - Proportionate Share	118,410	625,088	(506,678)	(81.06)%
Total OPEB obligation	26,297,726	25,291,529	1,006,197	3.98 %
Total Liabilities	32,305,287	32,122,819	182,468	0.57 %
Deferred Inflows of Resources	1,081,121	254,532	826,589	324.75 %

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

	<u>2018</u>	<u>As Restated 2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Net Position				
Net Investment in Capital Assets	5,597,853	5,548,240	49,613	0.89 %
Restricted	671,974	664,579	7,395	1.11 %
Unrestricted (Deficit)	<u>(22,972,116)</u>	<u>(22,067,569)</u>	<u>(904,547)</u>	(4.10)%
Total Net Deficit	<u>\$ (16,702,289)</u>	<u>\$ (15,854,750)</u>	<u>\$ (847,539)</u>	(5.35)%

The increase in current and other assets is primarily evidenced by an increase in cash.

The capital assets, net decrease is due to depreciation in excess of capital outlays for construction in progress, and furniture and equipment purchases. The accompanying Notes to Financial Statements, Note 9 "Capital Assets" provides additional information.

Net pension asset – proportionate share represents the District's share of the New York State Teachers' Retirement System's collective net pension asset at the measurement date of the respective year. In the current year, the District's proportionate share shifted from a liability to an asset. The accompanying Notes to Financial Statements, Note 13 "Pension Plans – New York State", provides additional information.

Deferred outflows of resources represents contributions to the retirement plans subsequent to the measurement dates and actuarial adjustments at the plan level that will be amortized in future years.

The current and other liabilities decrease is primarily due to decreases in the amounts due to the retirement systems as a result of decreases in the contribution rates and a decrease in accounts payable.

The long-term liabilities decrease is due to the repayment of the current maturity of indebtedness and a decrease in the workers' compensation liability, offset by increases in compensated absences payable and termination benefits payable.

Net pension liability – proportionate share represents the District's share of the New York State Teachers' Retirement System and the New York State and Local Employees' Retirement System's collective net pension liabilities at the measurement date of the respective year. The decrease is due to the shift of the net pension liability to an asset for the TRS and a decrease in the pension liability for the ERS. The accompanying Notes to Financial Statements, Note 13 "Pension Plans – New York State", provides additional information.

The total other postemployment benefits (OPEB) obligation increase was the result of the current year unfunded OPEB costs using the economic resources measurement focus and the accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 15 "Postemployment Healthcare Benefits", provides additional information

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

The net investment in capital assets is the investment in capital assets at cost such as land; construction in progress; buildings and improvements; site improvements; and, furniture and equipment, net of depreciation and related outstanding debt. This number increased over the prior year as follows:

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

	Increase (Decrease)
Capital asset additions	\$ 216,011
Additions financed by debt	(35,705)
Principal debt reduction of construction bonds, net	285,000
Principal debt reduction of energy performance contract	56,235
Depreciation expense	(471,928)
	\$ 49,613

The restricted net position relates to the District's reserves. This number increased over the prior year due to interest allocated to reserves of \$2,395 and funding of capital reserve for the FIT center in the amount of \$5,000.

The unrestricted deficit amount relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of these statements for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 55,674	\$ 60,194	\$ (4,520)	(7.51)%
Operating Grants	126,978	138,086	(11,108)	(8.04)%
Capital Grants		57,753	(57,753)	(100.00)%
General Revenues				
Property Taxes and STAR	10,132,643	10,000,816	131,827	1.32 %
State Sources	607,954	622,717	(14,763)	(2.37)%
Other	86,500	95,442	(8,942)	(9.37)%
Total Revenues	11,009,749	10,975,008	34,741	0.32 %
Expenses				
General Support	2,222,817	2,314,440	(91,623)	(3.96)%
Instruction	8,973,970	8,723,223	250,747	2.87 %
Pupil Transportation	333,189	293,396	39,793	13.56 %
Debt Service - Interest	139,450	125,816	13,634	10.84 %
Food Service Program	187,862	179,454	8,408	4.69 %
Total Expenses	11,857,288	11,636,329	220,959	1.90 %
Decrease in Net Position	\$ (847,539)	\$ (661,321)	\$ (186,218)	(28.16)%

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

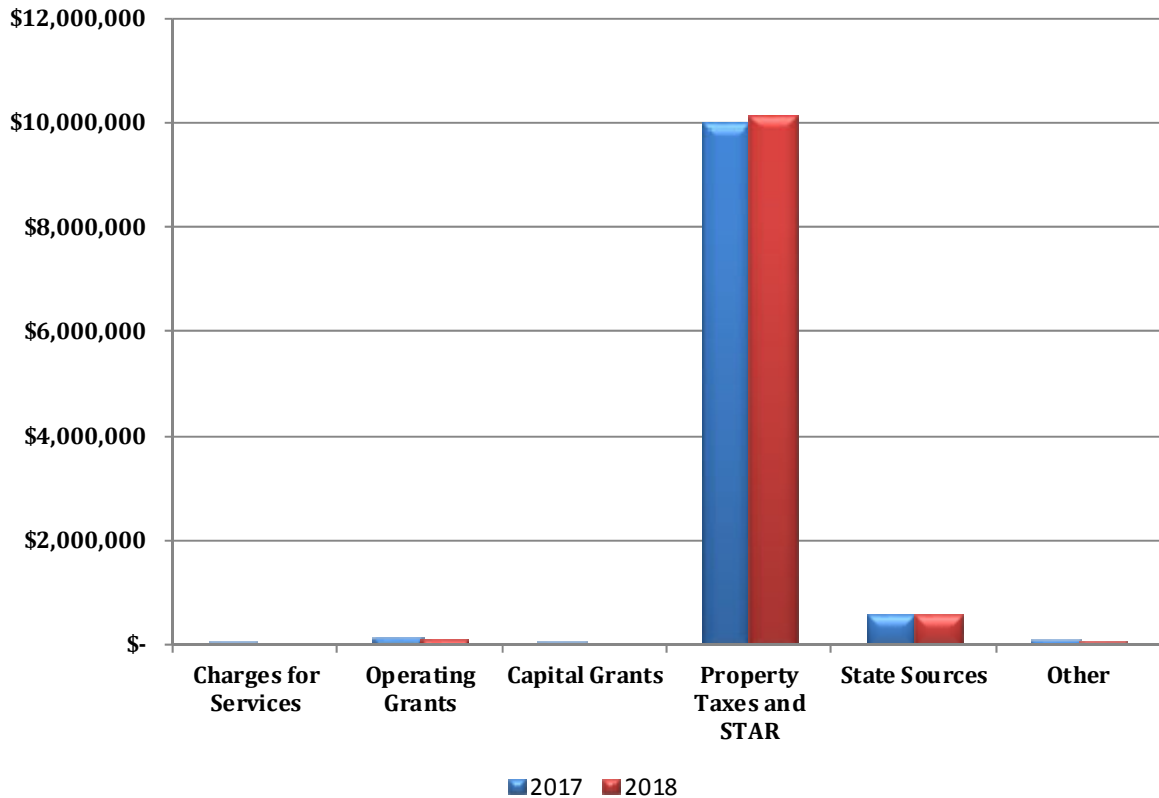
The District's net position decreased by \$847,539 and \$661,321 for the years ended June 30, 2018 and 2017, respectively.

The District's revenues increased by \$34,741 or 0.32%, as compared to 2017. This increase is attributable to increases in property taxes and STAR, offset by decreases in the other revenue categories. Property taxes and STAR were increased in 2018 to fund increases in appropriations in the 2017-2018 budget. Capital grants in the prior year related to Smart Schools Bond Act grant. The District did not receive a similar grant in the current year.

The District's expenses for the year increased by \$220,959 or 1.90%, as compared to 2017. This increase is primarily within instruction.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 92.0% and 91.1% of the total for the years 2018 and 2017, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 75.7% and 75.0% of the total for the years 2018 and 2017, respectively).

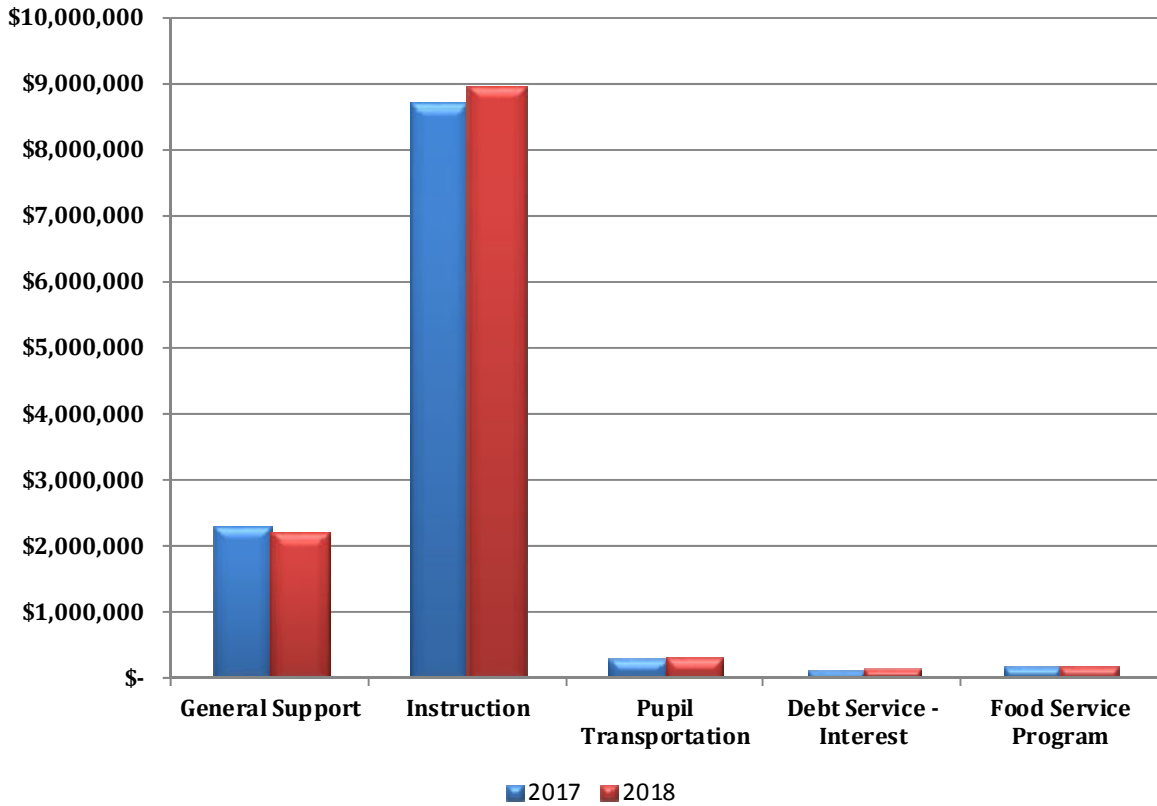
A graphic display of the distribution of revenues for the two years follows:



	Charges for Services	Operating Grants	Capital Grants	Property Taxes and STAR	State Sources	Other
2017	0.5%	1.3%	0.5%	91.1%	5.7%	0.9%
2018	0.5%	1.2%	0.0%	92.0%	5.5%	0.8%

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

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
2017	19.9%	75.0%	2.5%	1.1%	1.5%
2018	18.7%	75.7%	2.8%	1.2%	1.6%

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2018, the District's governmental funds reported a combined fund balance of \$2,721,410, which is an increase of \$318,518 over the prior year. A summary of the change in fund balance by fund is as follows:

	2018	2017	Increase (Decrease)
General Fund			
Restricted			
Unemployment insurance	\$ 144,188	\$ 143,674	\$ 514
Retirement contribution	67,024	66,785	239
Employee benefit accrued liability	287,919	286,893	1,026
Capital	172,843	167,227	5,616
Assigned:			
Appropriated fund balance	770,596	605,440	165,156
Unappropriated fund balance	45,080	33,670	11,410
Unassigned: Fund balance	1,170,145	1,062,411	107,734
	<u>2,657,795</u>	<u>2,366,100</u>	<u>291,695</u>

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

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
School Food Service Fund			
Nonspendable: Inventory	\$ 1,465	\$ 1,087	\$ 378
Assigned: Unappropriated fund balance	<u>1,396</u>		<u>1,396</u>
	<u>2,861</u>	<u>1,087</u>	<u>1,774</u>
Capital Projects Fund			
Restricted:			
Unspent debt proceeds		35,705	(35,705)
Assigned: Unappropriated fund balance	<u>60,754</u>		<u>60,754</u>
	<u>60,754</u>	<u>35,705</u>	<u>25,049</u>
Total Fund Balance	<u>\$ 2,721,410</u>	<u>\$ 2,402,892</u>	<u>\$ 318,518</u>

A. General Fund

The net change in the general fund – fund balance was an increase of \$291,695 (compared to an increase of \$232,727 in fiscal 2017), as revenues and other financing sources of \$10,826,283 exceeded expenditures and other financing uses of \$10,534,588.

Revenues and other financing sources increased by \$97,097 (0.90%) over fiscal 2017 totals primarily due to increases in real property taxes and STAR. Property taxes and STAR were increased in 2018 to fund increases in appropriations in the 2017-2018 budget.

Expenditures and other financing uses increased by \$38,129 or 0.36% over fiscal 2017 totals. This increase was primarily due to an increase in instruction, pupil transportation and operating transfers out, which were offset by decreases in general support and employee benefits.

In May 2006, the voters of the District authorized the creation of a capital reserve for \$2,000,000 to be funded for a period of five years. The funding term ended June 30, 2012. The total amount paid into the reserve was \$1,767,000. During the 2017-2018 fiscal year, the reserve earned interest of \$572. As of June 30, 2018, the reserve has \$160,397 available for future capital projects.

In May 2011, the voters of the District authorized the creation of a capital reserve for \$10,000,000 to be funded over a period of 20 years. The reserve is to be used for renovations to the portion of the school known as the F.I.T. Center. Funding of the reserve is from surplus monies remaining in the general fund each year as received by the District from the Town of Shelter Island (revenues net of expenditures to operate the Center). During 2017-2018 fiscal year, \$5,000 was transferred into the reserve and the reserve earned \$44 in interest. At June 30, 2018 the reserve has a balance of \$12,446.

B. School Food Service Fund

The school food service fund - fund balance increased \$1,774. The fund is dependent on a transfer from the general fund, which in 2018 was \$99,064.

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is an increase of \$25,049, due to interfund transfers in of \$152,777 in excess of expenditures incurred during the year on capital projects of \$127,728.

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

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2017-2018 Budget

The District's general fund adopted budget for the year ended June 30, 2018 was \$11,327,228. This amount was increased by encumbrances carried forward from the prior year in the amount of \$33,670 and budget revisions in the amount of \$7,153 for a total final budget of \$11,368,051.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$10,131,788 in estimated property taxes and STAR.

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

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

Opening, Unassigned Fund Balance	\$ 1,062,411
Fund Balance Appropriated for Budget Revision	(423)
Revenues Over Budget	97,765
Expenditures and Encumbrances Under Budget	788,383
Allocation to Reserves	(7,395)
Appropriated for the June 30, 2019 Budget	<u>(770,596)</u>
Closing, Unassigned Fund Balance	<u><u>\$ 1,170,145</u></u>

Opening, Unassigned Fund Balance

The \$1,062,411 shown in the table is the portion of the District's June 30, 2017 fund balance that was retained as unassigned fund balance.

Fund Balance Appropriated for Budget Revision

The District appropriated an additional \$423 of unassigned fund balance during 2017-2018 to fund the budget for the year ended June 30, 2018 for unanticipated capital expenditures.

Revenues Over Budget

The 2017-2018 final budget for revenues was \$10,728,518. Actual revenues received for the year were \$10,826,283. The excess of actual revenues over estimated revenues was \$97,765, which is primarily due to the District receiving more than anticipated in miscellaneous revenue and state aid. This change contributes directly to the change to the general fund unassigned fund balance from June 30, 2017 to June 30, 2018.

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

Expenditures and Encumbrances Under Budget

The 2017-2018 final budget for expenditures was \$11,368,051. Actual expenditures as of June 30, 2018 were \$10,534,588 and outstanding encumbrances were \$45,080. Combined, the expenditures plus encumbrances for 2017-2018 were \$10,579,668. The final budget was under expended by \$788,383. This under expenditure is primarily within the general support, instruction, pupil transportation and employee benefit codes of the budget. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2017 to June 30, 2018.

Allocation to Reserves

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

The \$(7,395) shown in the previous table represents interest earned on restricted reserves and a transfer of \$5,000 to the capital reserve for the FIT center. The reserves earned interest as follows:

Reserve for:	
Unemployment insurance	\$ 514
Retirement contribution	239
Employee benefit accrued liability	1,026
Capital	<u>616</u>
	<u>\$ 2,395</u>

Appropriated Fund Balance

The District has chosen to use \$770,596 of the available June 30, 2018 unassigned fund balance to partially fund the 2018-2019 approved operating budget. As such, the June 30, 2018 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2018 was \$1,170,145. This is an increase of \$107,734 over the unassigned fund balance as of June 30, 2017. This unassigned fund balance portion is in excess of the New York State Real Property Tax Law §1318 permissible 4.0% statutory maximum.

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

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2018, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to depreciation of \$471,928 in excess of capital asset additions of \$216,011 recorded for the year ended June 30, 2018. A summary of the District's capital assets, net of depreciation at June 30, 2018 and 2017 is as follows:

	2018	2017	Increase (Decrease)
Land	\$ 25,200	\$ 25,200	\$ -
Construction in progress	29,915	3,002,736	(2,972,821)
Buildings and improvements	8,511,569	5,711,206	2,800,363
Site improvements	467,402	492,063	(24,661)
Furniture and equipment	679,981	738,779	(58,798)
Capital assets, net	<u>\$ 9,714,067</u>	<u>\$ 9,969,984</u>	<u>\$ (255,917)</u>

B. Debt Administration

At June 30, 2018, the District had total bonded debt outstanding of \$3,220,000. The bonds were issued to finance various building improvements and the installation of a new generator and related lighting system improvements. The District also had outstanding debt of \$896,214 from an energy performance contract. A summary of outstanding debt at June 30, 2018 and 2017 is as follows:

Issue Date	Interest Rate	2018	2017	Increase (Decrease)
Bonds Payable				
7/26/2012	2.0-2.5%	\$ 1,795,000	\$ 1,975,000	\$ (180,000)
12/1/2015	2.0-3.0%	<u>1,425,000</u>	<u>1,530,000</u>	<u>(105,000)</u>
		<u>\$ 3,220,000</u>	<u>\$ 3,505,000</u>	<u>\$ (285,000)</u>
Energy Performance Contract				
3/21/2016	2.85%	<u>\$ 896,214</u>	<u>\$ 952,449</u>	<u>\$ (56,235)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's outstanding serial bonds at June 30, 2018 are approximately 1.0% of the District's debt limit.

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

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

	2018	As Restated 2017	Increase (Decrease)
Compensated absences payable	\$ 611,489	\$ 558,708	\$ 52,781
Workers' compensation liabilities	41,254	43,187	(1,933)
Termination benefits	408,912	340,317	68,595
Net pension liability - proportionate share	118,410	625,088	(506,678)
Total OPEB obligation	<u>26,297,726</u>	<u>25,291,529</u>	<u>1,006,197</u>
	<u>\$ 27,477,791</u>	<u>\$ 26,858,829</u>	<u>\$ 618,962</u>

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 16, 2018, for the year ending June 30, 2019, is \$11,714,448. This is an increase of \$387,220 or 3.42% over the previous years adopted budget.

The District budgeted revenues other than property tax at a \$10,693 increase over the prior year's estimate. This increase is principally due to an increase in state aid. The assigned, appropriated fund balance applied to the June 30, 2019 budget in the amount of \$770,596 is an \$165,156 increase over the previous year. A property tax increase of \$211,371 or 2.09% was needed to meet the revenue shortfall and cover the increase in appropriations.

B. Future Budgets

Significant increases in costs of health insurance, the property tax cap, and uncertainty in state aid and federal funds will greatly impact the District's future budgets.

C. Tax Cap

New York State law limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation to June 15, 2020. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. Based on the law, the District's tax levy cap for 2018-2019 is 2.09%. The District's 2018-2019 property tax increase of 2.09% was equal to the tax cap and did not require an override vote.

8. CONTACTING THE DISTRICT

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

Dr. Christine Finn
Superintendent of Schools / Principal
Shelter Island Union Free School District
33 North Ferry Road
Box 2015
Shelter Island, New York 11964

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Net Position
June 30, 2018

ASSETS

Cash		
Unrestricted	\$	2,594,916
Restricted		671,974
Receivables		
Accounts receivable		656
Taxes receivable		27,950
Due from fiduciary funds		7,978
Due from state and federal		71,692
Due from other governments		44,146
Other assets		172,756
Inventories		1,465
Capital assets:		
Not being depreciated		55,115
Being depreciated, net of accumulated depreciation		9,658,952
Net pension asset - proportionate share		<u>212,528</u>
Total Assets		<u>13,520,128</u>

DEFERRED OUTFLOWS OF RESOURCES

Pensions		<u>3,163,991</u>
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LIABILITIES

Payables		
Accounts payable		56,282
Accrued liabilities		16,261
Due to other governments		103,448
Due to teachers' retirement system		491,720
Due to employees' retirement system		41,549
Unearned credits		
Collections in advance		2,022
Long-term liabilities		
Due and payable within one year		
Bonds payable		290,000
Energy performance contract payable		57,849
Workers' compensation liabilities		41,254
Due and payable after one year		
Bonds payable		2,930,000
Energy performance contract payable		838,365
Compensated absences payable		611,489
Termination benefits		408,912
Net pension liability - proportionate share		118,410
Total other postemployment benefits obligation		<u>26,297,726</u>
Total Liabilities		<u>32,305,287</u>

DEFERRED INFLOWS OF RESOURCES

Pensions		1,047,201
Other postemployment benefits obligation		<u>33,920</u>
Total Deferred Inflows of Resources		<u>1,081,121</u>

NET DEFICIT

Net investment in capital assets		<u>5,597,853</u>
Restricted		
Unemployment insurance		144,188
Retirement contribution		67,024
Employee benefit accrued liability		287,919
Capital		<u>172,843</u>
		671,974
Unrestricted (deficit)		<u>(22,972,116)</u>
Total Net Deficit		<u>\$ (16,702,289)</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	Capital Grants	
FUNCTIONS/PROGRAMS					
General support	\$ 2,222,817	\$	\$	\$	\$ (2,222,817)
Instruction	8,973,970	450	94,411	-	(8,879,109)
Pupil transportation	333,189				(333,189)
Debt service - interest	139,450				(139,450)
Food service program	187,862	55,224	32,567		(100,071)
Total Functions and Programs	\$ 11,857,288	\$ 55,674	\$ 126,978	\$ -	(11,674,636)
GENERAL REVENUES					
Real property taxes					10,016,305
Other tax items					116,424
Use of money and property					13,462
Sale of property and compensation for loss					1,264
Miscellaneous					71,688
State sources					607,954
Total General Revenues					10,827,097
Change in Net Position					(847,539)
Total Net Deficit - Beginning of Year, as Restated					(15,854,750)
Total Net Deficit - End of Year					\$ (16,702,289)

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2018

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 2,485,413	\$ 9,384	\$ 7,430	\$ 92,689	\$ 2,594,916
Restricted	671,974				671,974
Receivables					
Accounts receivable	579		77		656
Taxes receivable	27,950				27,950
Due from other funds	105,740				105,740
Due from state and federal	17,521	52,431	1,740		71,692
Due from other governments	44,146				44,146
Inventories			1,465		1,465
Total Assets	<u>\$ 3,353,323</u>	<u>\$ 61,815</u>	<u>\$ 10,712</u>	<u>\$ 92,689</u>	<u>\$ 3,518,539</u>
LIABILITIES					
Payables					
Accounts payable	\$ 54,768	\$ 1,500	\$ 14		\$ 56,282
Accrued liabilities	4,346				4,346
Due to other funds		60,315	5,512	31,935	97,762
Due to other governments	103,145		303		103,448
Due to teachers' retirement system	491,720				491,720
Due to employees' retirement system	41,549				41,549
Unearned credits					
Collections in advance			2,022		2,022
Total Liabilities	<u>695,528</u>	<u>61,815</u>	<u>7,851</u>	<u>31,935</u>	<u>797,129</u>
FUND BALANCES					
Nonspendable: Inventories			1,465		1,465
Restricted:					
Unemployment insurance	144,188				144,188
Retirement contribution	67,024				67,024
Employee benefit accrued liability	287,919				287,919
Capital	172,843				172,843
Assigned:					
Appropriated fund balance	770,596				770,596
Unappropriated fund balance	45,080		1,396	60,754	107,230
Unassigned: Fund balance	<u>1,170,145</u>				<u>1,170,145</u>
Total Fund Balances	<u>2,657,795</u>	<u>-</u>	<u>2,861</u>	<u>60,754</u>	<u>2,721,410</u>
Total Liabilities and Fund Balances	<u>\$ 3,353,323</u>	<u>\$ 61,815</u>	<u>\$ 10,712</u>	<u>\$ 92,689</u>	<u>\$ 3,518,539</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2018

Total Governmental Funds Balance		\$ 2,721,410
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Cash held by third-party administrator is treated as a long-term asset and included in net position.		
		172,756
The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.		
Original cost of capital assets	\$ 16,333,788	
Accumulated depreciation	<u>(6,619,721)</u>	9,714,067
Proportionate share of long-term asset and liability, as well as deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.		
Net pension asset - teachers' retirement system	212,528	
Deferred outflows of resources	3,163,991	
Net pension liability - employees' retirement system	(118,410)	
Deferred inflows of resources	<u>(1,047,201)</u>	2,210,908
Total other postemployment benefits obligation and deferred outflows and inflows related to providing benefits in retirement are not current financial resources or obligations and are not reported in the funds.		
Total other postemployment benefits obligation	(26,297,726)	
Deferred inflows of resources	<u>(33,920)</u>	(26,331,646)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Accrued interest on bonds payable	(11,915)	
Bonds payable	(3,220,000)	
Energy performance contract payable	(896,214)	
Compensated absences payable	(611,489)	
Workers' compensation liabilities	(41,254)	
Termination benefits	<u>(408,912)</u>	(5,189,784)
Total Net Deficit		<u>\$ (16,702,289)</u>

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

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$ 10,016,305	\$	\$	\$	\$ 10,016,305
Other tax items	116,424				116,424
Charges for services	450				450
Use of money and property	13,462				13,462
Sale of property and compensation for loss			1,264		1,264
Miscellaneous	71,688				71,688
State sources	607,954	12,781	1,114		621,849
Federal sources		81,630	31,453		113,083
Sales			55,224		55,224
Total Revenues	10,826,283	94,411	89,055	-	11,009,749
EXPENDITURES					
General support	1,508,215				1,508,215
Instruction	5,134,753	85,180			5,219,933
Pupil transportation	320,763	12,426			333,189
Employee benefits	2,842,261		50,940		2,893,201
Debt service					
Principal	341,235				341,235
Interest	132,325				132,325
Food service program			135,405		135,405
Capital outlay				127,728	127,728
Total Expenditures	10,279,552	97,606	186,345	127,728	10,691,231
Excess of Revenues Over (Under) Expenditures	546,731	(3,195)	(97,290)	(127,728)	318,518
OTHER FINANCING SOURCES AND (USES)					
Operating transfers in		3,195	99,064	152,777	255,036
Operating transfers (out)	(255,036)				(255,036)
Total Other Financing Sources and (Uses)	(255,036)	3,195	99,064	152,777	-
Net Change in Fund Balances	291,695	-	1,774	25,049	318,518
Fund Balances - Beginning of Year	2,366,100		1,087	35,705	2,402,892
End of Year	\$ 2,657,795	\$ -	\$ 2,861	\$ 60,754	\$ 2,721,410

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2018

Net Change in Fund Balance \$ 318,518

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

Long-Term Revenue and Expense Differences

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) are being held by a third-party administrator. This is the amount by which other assets - cash held by third-party administrator decreased in the period. \$ (1,021)

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

Decrease in workers' compensation liabilities 1,933

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

Increase in compensated absences payable (52,781)
Increase in termination benefits (68,595) (120,464)

Capital Related Differences

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

Capital outlays 216,011
Depreciation expense (471,928) (255,917)

Long-Term Debt Transactions Differences

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

Repayment of bond principal 285,000
Repayment of energy performance contract 56,235

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest increased from June 30, 2017 to June 30, 2018. (7,125)

334,110

Pension and Other Postemployment Benefits Differences

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

Teachers' retirement system (91,617)
Employees' retirement system 7,948
Other postemployment benefits (1,040,117) (1,123,786)

Change in Net Position of Governmental Activities \$ (847,539)

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2018

	Agency	Private Purpose Trust
ASSETS		
Cash		
Unrestricted	\$ 57,899	\$
Restricted		25,014
Total Assets	\$ 57,899	25,014
 LIABILITIES		
Extraclassroom activity balances	\$ 40,008	
Due to governmental funds	7,978	
Other liabilities	9,913	
Total Liabilities	\$ 57,899	-
 NET POSITION		
Restricted for scholarships		\$ 25,014

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

	<u>Private Purpose Trust</u>
ADDITIONS	
Contributions	\$ 8,200
Investment earnings - interest	<u>10</u>
Total Additions	8,210
 DEDUCTIONS	
Scholarships and awards	<u>11,825</u>
Change in Net Position	(3,615)
Net Position - Beginning of Year	<u>28,629</u>
Net Position - End of Year	<u><u>\$ 25,014</u></u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

Extraclassroom Activity Funds

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

B. Joint Venture

The District is a component district in the Board of Cooperative Educational Services of Eastern Suffolk (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section §1950 of the Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section §119-n(a) of the General Municipal Law. A BOCES budget is comprised of separate budgets for administrative, program, and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment as defined in Education Law, Section §1950(4)(b)(7).

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate.

C. Basis of Presentation

District-Wide Financial Statements

The Statement of Net Position and the Statement of Activities present information about the overall governmental financial activities of the District, except for fiduciary activities. Eliminations have been made to minimize the double counting of interfund transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while capital grants reflect capital-specific grants, if applicable.

The Statement of Net Position presents the financial position of the District at fiscal year end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Employee benefits are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including real property taxes and state aid, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund type, governmental and fiduciary, are presented. The District's financial statements present the following fund types:

Governmental Funds - are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The emphasis of governmental fund financial statements is on major funds as defined by GASB, each displayed in a separate column. The following are the District's major governmental funds:

General Fund - is the general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund.

Special Aid Fund - is used to account for the proceeds of specific revenue sources such as federal and state grants that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed by either governments that provide the funds or outside parties.

School Food Service Fund - is used to account for the activities of the food service program.

Capital Projects Fund - is used to account for the financial resources used for acquisition, construction, renovation or major repair of capital facilities and other capital assets, such as equipment.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fiduciary Funds – are used to account for activities in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the district-wide financial statements, because their resources do not belong to the District, and are not available to be used to finance District operations. The following are the District’s fiduciary funds:

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

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

D. Measurement Focus and Basis of Accounting

Accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The district-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include real property taxes, state aid, grants and donations. On an accrual basis, revenue from real property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from state aid is recognized in the fiscal year it is apportioned by the state. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, termination benefits, pension costs and other postemployment benefits, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

E. Real Property Taxes

Calendar

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Enforcement

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

F. Restricted Resources

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

G. Interfund Transactions

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include transfers to provide financing or other services. This includes the transfer of unrestricted general fund revenues to finance various programs that the District must account for in other funds in accordance with budgetary authorizations.

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

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

A detailed disclosure by individual fund for interfund receivables, payables, transfers in and transfers out activity is provided subsequently in these Notes to Financial Statements.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingencies at the date of the financial statements and the reported revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including compensated absences, termination benefits, pension costs, other postemployment benefits, workers' compensation liabilities, potential contingent liabilities and useful lives of long-lived assets.

I. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and investments with a maturity date of three months or less from date of acquisition.

Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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J. Receivables

Receivables are shown net of an allowance for uncollectibles, if any. However, no allowance for uncollectibles has been provided since it is believed that such allowance would not be material.

K. Inventories

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

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

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

L. Other Assets

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

M. Capital Assets

Capital assets are reflected in the district-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at acquisition value at the date of donation.

All capital assets, except land and construction in progress, are depreciated on a straight line basis over their estimated useful lives. Capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts, and estimated useful lives of capital assets as reported in the district-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 10,000	50 years
Site improvements	10,000	50 years
Furniture and equipment	500	5-20 years

N. Deferred Outflows of Resources

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has two items that qualify for reporting in this category. The first item is related to pensions and consists of the District's proportionate share of changes in the collective net pension asset

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

or liability not included in collective pension expense. The second item is the District's contributions to the pension systems (TRS and ERS) subsequent to the measurement date.

O. Collections in Advance

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

P. Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first item is related to pensions reported in the district-wide Statement of Net Position and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense. The second item relates to OPEB and represents the change in total other postemployment benefits obligation not included in OPEB expense.

Q. Termination Benefits

Termination benefits consists of retirement incentives as specified in collective bargaining agreements. Upon retirement, resignation or death, employees may contractually receive a payment based on this retirement incentive. The liability is calculated in accordance with GASB Statement No. 47 *Accounting for Termination Benefits*. In the fund financial statements only, the amount of matured liabilities is accrued within the general fund based upon expendable and available resources.

R. Employee Benefits – Compensated Absences

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

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

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

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

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

S. Other Benefits

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

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

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

In addition to providing these benefits, the District provides postemployment health insurance coverage and survivor benefits for most retired employees and their survivors. Collective bargaining agreements and individual employment contracts determine if District employees are eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure, in the governmental funds as the liabilities for premiums mature (come due for payment). In the district-wide statements, the cost of postemployment health insurance coverage is recognized on the economic resources measurement focus and the accrual basis of accounting in accordance with GASB Statement No. 75.

T. Short-Term Debt

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

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

U. Equity Classifications

District-Wide Statements

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

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Fund Statements

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

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of inventories, which is recorded in the school food service fund.

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

Unemployment Insurance Reserve

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

Retirement Contribution Reserve

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

Employee Benefit Accrued Liability Reserve

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

other reserves and funds that may be legally appropriated. This reserve is accounted for in the general fund.

Capital Reserve

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

Restricted for Scholarships

Amounts restricted for scholarships are used to account for monies donated for scholarship purposes, including earnings and net awards. These restricted funds are accounted for in the private purpose trust fund.

Assigned – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the District’s Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance includes an amount appropriated to partially fund the subsequent year’s budget as well as encumbrances not classified as restricted at the end of the fiscal year.

Unassigned – Represents the residual classification for the District’s general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification is used to report a deficit fund balance resulting from the overspending of available resources. NYS Real Property Tax Law §1318 restricts the unassigned fund balance of the general fund to an amount not greater than 4% of the subsequent year’s budget.

Fund Balance Classification

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

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

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. CHANGES IN ACCOUNTING PRINCIPLES

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

3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE DISTRICT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic resource measurement focus of the District-wide statements, compared with the current financial resource measurement focus of the governmental funds.

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

Total fund balances of the District's governmental funds differ from net position of governmental activities reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the governmental funds Balance Sheet, as applied to the reporting of capital assets and long-term assets and liabilities.

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

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

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Pension and Other Postemployment Benefits Differences

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

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

4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the general fund, the only fund with a legally adopted budget.

The voters of the District approved the proposed appropriation budget for the general fund.

Appropriations are established by the adoption of the budget, are recorded at the program line item level, and constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. The following supplemental appropriations occurred during the year:

Contingent expenditures funded by:

Donations - field trips and various programs	\$ <u>7,153</u>
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Budgets are adopted annually on a basis consistent with GAAP.

Budgets are established and used for individual capital projects based on authorized funding. The maximum project amount authorized is based upon the estimated cost of the project. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

B. Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

year-end are presented as part of assigned fund balance, unless classified as restricted, and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

C. Unassigned Fund Balance

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

5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

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

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

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

Investment pool:

The District participates in the Cooperative Liquid Assets Securities System – New York (NYCLASS) a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article 3-A and 5-G, whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents. All NYCLASS investment and collateral policies are in accordance with general municipal law sections 10 and 11.

Total investments of the cooperative at June 30, 2018 are \$1,219,485,996, which consisted of \$213,214,286 in repurchase agreements, \$775,228,258 in U.S. Treasury Securities, and \$231,043,452 in collateralized bank deposits, with various interest rates and due dates.

The amount of \$3,215 is included as cash in the general fund.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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The above amount represents the fair value of the investment pool shares. The lead participant of NYCLASS is the Village of Potsdam. Additional information concerning NYCLASS, including the annual report, can be found on its website at www.newyorkclass.org.

6. PARTICIPATION IN BOCES

During the year ended June 30, 2018, the District was billed \$201,334 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$44,146. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

7. DUE FROM STATE AND FEDERAL

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

General Fund	
New York State - excess cost aid	\$ 17,521
Special Aid Fund	
Federal and state grants	52,431
School Food Service Fund	
Federal and state food service program reimbursements	<u>1,740</u>
	<u>\$ 71,692</u>

8. DUE FROM OTHER GOVERNMENTS

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

General Fund	
BOCES aid	<u>\$ 44,146</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

9. CAPITAL ASSETS

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

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Governmental activities				
Capital assets not being depreciated				
Land	\$ 25,200	\$	\$	\$ 25,200
Construction in progress	3,002,736	68,398	(3,041,219)	29,915
Total capital assets not being depreciated	<u>3,027,936</u>	<u>68,398</u>	<u>(3,041,219)</u>	<u>55,115</u>
Capital assets being depreciated				
Buildings and improvements	10,751,923	3,132,963		13,884,886
Site improvements	752,026	12,318		764,344
Furniture and equipment	1,585,892	43,551		1,629,443
Total capital assets being depreciated	<u>13,089,841</u>	<u>3,188,832</u>		<u>16,278,673</u>
Less accumulated depreciation for:				
Buildings and improvements	5,040,717	332,600		5,373,317
Site improvements	259,963	36,979		296,942
Furniture and equipment	847,113	102,349		949,462
Total accumulated depreciation	<u>6,147,793</u>	<u>471,928</u>	<u>-</u>	<u>6,619,721</u>
Total capital assets, being depreciated, net	<u>6,942,048</u>	<u>2,716,904</u>	<u>-</u>	<u>9,658,952</u>
Capital assets, net	<u>\$ 9,969,984</u>	<u>\$ 2,785,302</u>	<u>\$ (3,041,219)</u>	<u>\$ 9,714,067</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 80,272
Instruction	390,140
Food service program	<u>1,516</u>
Total depreciation expense	<u>\$ 471,928</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

10. INTERFUND TRANSACTIONS

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 105,740	\$	\$	\$ 255,036
Special Aid Fund		60,315	3,195	
School Food Service Fund		5,512	99,064	
Capital Projects Fund		31,935	152,777	
Total Governmental Funds	<u>105,740</u>	<u>97,762</u>	<u>\$ 255,036</u>	<u>\$ 255,036</u>
Fiduciary Funds		<u>7,978</u>		
 Total	 <u>\$ 105,740</u>	 <u>\$ 105,740</u>		

The District typically transfers from the general fund to the special aid fund in accordance with the general fund budget. The transfer is to provide the District's 20% share of the summer program for students with disabilities. The District transferred from the general fund to the school lunch fund to subsidize the lunch program. The transfer from the general fund to the capital projects fund in the amount of \$152,777 was to cover unanticipated additional cost in the 2015 bond issuance project (\$2,777) and \$150,000 to fund district-wide improvements as approved by the voters as part of the 2017-18 budget.

11. SHORT-TERM DEBT

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

	Maturity	Stated Interest Rate	Balance June 30, 2017	Issued	Redeemed	Balance June 30, 2018
TAN	6/27/2018	1.16%	<u>\$</u>	<u>\$ 1,900,000</u>	<u>\$ (1,900,000)</u>	<u>\$</u>

Interest on short-term debt for the year was \$27,022. The District received a premium of \$8,837, which was included in miscellaneous revenue in the general fund.

12. LONG-TERM LIABILITIES

A. Changes

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 3,505,000	\$	\$ (285,000)	\$ 3,220,000	\$ 290,000
Energy performance contract	952,449		(56,235)	896,214	57,849
Other long-term liabilities:					
Compensated absences	558,708	52,781		611,489	
Workers' compensation	43,187	5,668	(7,601)	41,254	41,254
Termination benefits	340,317	68,595		408,912	
	<u>\$ 5,399,661</u>	<u>\$ 127,044</u>	<u>\$ (348,836)</u>	<u>\$ 5,177,869</u>	<u>\$ 389,103</u>

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

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2018
2012 Serial Bonds				
- Construction	7/26/2012	6/15/2029	2.0-2.5%	\$ 1,795,000
2015 Serial Bonds				
- Building improvements	12/1/2015	6/1/2030	2.0-3.0%	<u>1,425,000</u>
				<u>\$ 3,220,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2019	\$ 290,000	\$ 72,856	\$ 362,856
2020	295,000	67,056	362,056
2021	305,000	61,157	366,157
2022	310,000	55,056	365,056
2023	250,000	48,856	298,856
2024 - 2028	1,350,000	161,250	1,511,250
2029 - 2031	420,000	15,875	435,875
Total	<u>\$ 3,220,000</u>	<u>\$ 482,106</u>	<u>\$ 3,702,106</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Energy Performance Contract

Energy performance contract is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2018
Energy performance contract	3/21/2016	3/15/2031	2.85%	<u>\$ 896,214</u>

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

Year Ending June 30,	Principal	Interest	Total
2019	\$ 57,849	\$ 25,133	\$ 82,982
2020	59,510	23,472	82,982
2021	61,218	21,764	82,982
2022	62,975	20,007	82,982
2023	64,782	18,200	82,982
2024 - 2028	352,894	62,015	414,909
2029 - 2031	<u>236,986</u>	<u>11,959</u>	<u>248,945</u>
Total	<u>\$ 896,214</u>	<u>\$ 182,550</u>	<u>\$ 1,078,764</u>

D. Interest Expense

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

Interest paid	\$ 105,303
Less interest accrued in the prior year	(4,790)
Plus interest accrued in the current year	<u>11,915</u>
Total interest expense on long-term debt	<u>\$ 112,428</u>

13. PENSION PLANS – NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

The TRS is administered by the New York State Teachers' Retirement Board. The TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

BOCES who elected to participate in the TRS. Once a public employer elects to participate in the TRS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the TRS may be found on the TRS website at www.nystrs.org or obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

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

C. Funding Policies

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to ERS or 3.5% of their salary to TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the TRS' fiscal year ended June 30th, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31st, and employer contributions are either paid by the prior December 15th less a 1% discount or by the prior February 1st. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year. The District's contribution rate was 11.72% of covered payroll for the TRS' fiscal year ended June 30, 2017. The District's average contribution rate was 14.08% of covered payroll for the ERS, fiscal year ended March 31, 2018.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2018, was \$439,495 for TRS and \$127,277 for ERS.

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

At June 30, 2018, the District reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for each of the systems. The net pension asset/(liability) was measured as of June

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2017	March 31, 2018
District's proportionate share of the net pension asset/(liability)	\$ 212,528	\$ (118,410)
District's portion of the Plan's total net pension asset/(liability)	0.0279610%	0.0036689%
Change in proportion since the prior measurement date	(0.0006480)	0.0002774

For the year ended June 30, 2018, the District recognized pension expense of \$531,112 for TRS and \$119,329 for ERS. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>
Differences between expected and actual experience	\$ 174,858	\$ 42,233	\$ 82,862	\$ 34,900
Changes of assumptions	2,162,511	78,516		
Net difference between projected and actual earnings on pension plan investments		171,981	500,564	339,474
Changes in proportion and differences between the District's contributions and proportionate share of contributions	39,491	12,204	56,453	32,948
District's contributions subsequent to the measurement date	<u>440,648</u>	<u>41,549</u>		
Total	<u>\$ 2,817,508</u>	<u>\$ 346,483</u>	<u>\$ 639,879</u>	<u>\$ 407,322</u>

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ending June 30,	TRS	ERS
2019	\$ 47,161	\$ 13,473
2020	570,114	11,519
2021	407,408	(89,121)
2022	99,620	(38,259)
2023	406,217	-
Thereafter	206,461	-
	<u>\$ 1,736,981</u>	<u>\$ (102,388)</u>

Actuarial Assumptions

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

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

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

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

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

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	TRS		ERS	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Measurement date		June 30, 2017		March 31, 2018
Asset type				
Domestic equity	35.0%	5.90%	36.0%	4.55%
International equity	18.0%	7.40%	14.0%	6.35%
Real estate	11.0%	4.30%	10.0%	5.55%
Private equities	8.0%	9.00%	10.0%	7.50%
Alternative investments			8.0%	3.75-5.68%
Domestic fixed income securities	16.0%	1.60%		
Global fixed income securities	2.0%	1.30%		
High-yield incomr securities	1.0%	3.90%		
Bonds and mortgages	8.0%	2.80%	17.0%	1.31%
Short-term	1.0%	0.60%		
Cash			1.0%	-0.25%
Inflation indexed bonds			4.0%	1.25%
	100.0%		100.0%	

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

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for the TRS and 7.0% for the ERS (the discount rate used by the TRS at the prior year's measurement date of June 30, 2015 was 7.50%). The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension asset/(liability) calculated using the discount rate of 7.25% for the TRS and 7.0% for the ERS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.25% for TRS and 6.0% for ERS) or 1 percentage point higher (8.25% for TRS and 8.0% for ERS) than the current rate:

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

TRS	1% Decrease (6.25)%	Current Assumption (7.25)%	1% Increase (8.25)%
District's proportionate share of the net pension asset/(liability)	\$ (3,661,223)	\$ 212,528	\$ 3,456,602
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset/(liability)	\$ (895,923)	\$ (118,410)	\$ 539,335

Pension Plan Fiduciary Net Position

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

	TRS	ERS
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2017	March 31, 2018
Employers' total pension liability	\$ (114,708,261)	\$ (183,400,590)
Plan fiduciary net position	115,468,360	180,173,145
Employers' net pension asset/(liability)	\$ 760,099	\$ (3,227,445)
Ratio of plan fiduciary net position to the employers' total pension liability	100.66%	98.24%

Payables to the Pension Plan

For the TRS, employer and employee contributions for the fiscal year ended June 30, 2018, are paid to the system in September, October and November 2018 through a state aid intercept. Accrued retirement contributions as of June 30, 2018, represent employer and employee contributions for the fiscal year ended June 30, 2018, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS. Accrued retirement contributions as of June 30, 2018 amounted to \$440,648 of employer contributions and \$51,072 of employee contributions.

For the ERS, employer contributions are paid annually based on the system's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2018, represent the projected employer contribution for the period of April 1, 2018 through June 30, 2018 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2018 amounted to \$41,549 of employer contributions. Employee contributions are remitted monthly.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

14. PENSION PLANS - OTHER

A. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain compensated absence payments and supplemental payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2018, totaled \$11,000 and \$179,418, respectively.

B. Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2018 totaled \$42,230.

15. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. General Information about the OPEB Plan

Plan Description – The District provides other postemployment benefits to retired employees and their eligible dependents. The benefits provided to employees upon retirement are based on the provisions in various contracts that the District has in place with different classifications of employees. The plan is a single-employer defined benefit OPEB plan administered through the New York State Health Insurance Program – Empire Plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided – The District provides medical and Medicare Part B coverage for retirees and their dependents. The benefit terms are dependent on which contract each employee falls under. The specifics of each contract are on file at the District offices and are available upon request.

Employees Covered by Benefit Terms – At July 1, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	40
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	46
	86

B. Total OPEB Liability

The District’s total OPEB liability of \$26,297,726 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Inflation	2.60%
Discount rate	3.00%
Healthcare cost trend rates	7.50% for 2016, decreasing 0.5% per year to an ultimate rate of 4.5% in 2022
Retirees' share of benefit-related costs	0% to 100% of projected health insurance premiums for retirees

The discount rate was based on the S&P Municipal Bond 20 year high grade rate index as of June 30, 2018.

Mortality rates were based on RP-2014 adjusted to 2006 total dataset mortality table, as appropriate, with adjustments for mortality improvements based on scale MP-2016, as appropriate, with adjustments for mortality improvements projected to date of decrement using Scale MP-2016 (generational mortality).

The plan does not have credible data on which to perform an experience study. As a result, a full actuarial study is not applicable.

C. Changes in the Total OPEB Liability

Balance at June 30, 2017	<u>\$ 25,291,529</u>
Changes for the year	
Service cost	1,017,251
Interest	778,082
Changes of benefit terms	
Differences between expected and actual experience	(38,108)
Changes in assumptions or other inputs	
Benefit payments	<u>(751,028)</u>
Net Change in OPEB Liability	<u>1,006,197</u>
Balance at June 30, 2018	<u><u>\$ 26,297,726</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.00%) or 1 percentage point higher (4.00%) than the current discount rate:

OPEB	1% Decrease (2.00)%	Discount Rate (3.00)%	1% Increase (4.00)%
Total OPEB liability	<u><u>\$(31,126,350)</u></u>	<u><u>\$(26,297,726)</u></u>	<u><u>\$(22,472,543)</u></u>

Sensitivity of the Total OPEB Liability Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current healthcare cost trend rate:

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

OPEB	1% Decrease (6.50 to 3.50%)	Healthcare Cost Trend Rates (7.50 to 4.50%)	1% Increase (8.50 to 5.50%)
Total OPEB liability	<u>\$(21,750,058)</u>	<u>\$(26,297,726)</u>	<u>\$(32,408,131)</u>

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

For the year June 30, 2018, the District recognized OPEB expense of \$1,791,145. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred	
	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience		\$
Changes of assumptions		33,920
District's contributions subsequent to the measurement date		
Total	<u>\$ -</u>	<u>\$ 33,920</u>

Amounts reported deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ (4,188)
2020	(4,188)
2021	(4,188)
2022	(4,188)
2023	(4,188)
Thereafter	(12,980)
	<u>\$ (33,920)</u>

16. RISK MANAGEMENT

A. General Information

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by a combination of self-insurance reserves, public entity risk pools, and commercial insurance purchased from

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

independent third parties. Settled claims from these risks have not exceeded available reserves and commercial insurance coverage for the past three years.

B. Public Entity Risk Pool – Risk Retained

The District participates in a risk pool, the East End Workers’ Compensation Consortium (EEWCC), to insure workers’ compensation claims. This public entity risk pool was created under Article 5 of Workers’ Compensation Law, to evaluate, process, administer, and pay workers’ compensation claims. The District retains the risk of loss.

The District pays an annual assessment to the pool for its workers’ compensation claims coverage and related expenses. The EEWCC has obtained an excess compensation insurance policy to buffer the effect that a single large claim may have on the District’s loss experience. The EEWCC established a non-discounted liability for both reported and unreported insured events, which includes estimates of both future payments or losses and related claim adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported.

The District’s liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2018, as processed by the EEWCC, is \$41,254. Claims activity is summarized as follows:

	2017	2018
Claims at beginning of year	\$ 36,905	\$ 43,187
Incurred claims and claim adjustment expenses	19,426	5,668
Claims payments and expenses	(13,144)	(7,601)
Claims liabilities at end of year	\$ 43,187	\$ 41,254

The EEWCC is holding \$172,756 of cash on account for the District to satisfy these liabilities at June 30, 2018.

The EEWCC has issued financial statements for the year ended June 30, 2018. Copies of these statements can be obtained from the District’s Business Office.

C. Public Entity Risk Pool – Risk Sharing

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

17. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$770,596 has been appropriated to reduce taxes for the year ending June 30, 2019.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

18. RESTATEMENT OF NET POSITION

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

Net position beginning of year, as previously stated	<u>\$ 3,828,854</u>
GASB Statement No. 75 implementation	
Beginning total other postemployment benefits obligation	(25,291,529)
Less: Net other postemployment benefits obligation under GASB Statement No. 45	<u>5,607,925</u>
	<u>(19,683,604)</u>
Net position beginning of year, as restated	<u><u>\$(15,854,750)</u></u>

19. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

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

Assigned: Unappropriated Fund Balance:	
General Fund	
General Support	\$ 37,262
Instruction	<u>7,818</u>
	<u><u>\$ 45,080</u></u>

B. Grants

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

C. Litigation

The District is involved in lawsuits arising from the normal conduct of its affairs. The District believes that the outcome of any matters will not have a material effect on these financial statements.

20. SUBSEQUENT EVENTS

The District has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued. No significant events were identified that would require adjustment of or disclosure in the financial statements.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 10,131,788	\$ 10,015,450	\$ 10,016,305	\$ 855
Other tax items		116,338	116,424	86
Charges for services			450	450
Use of money and property	6,000	6,000	13,462	7,462
Miscellaneous		6,730	71,688	64,958
Total Local Sources	10,137,788	10,144,518	10,218,329	73,811
State Sources	584,000	584,000	607,954	23,954
Total Revenues	10,721,788	10,728,518	10,826,283	\$ 97,765
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	605,440	605,863		
Prior Year's Encumbrances	33,670	33,670		
Total Appropriated Fund Balance	639,110	639,533		
Total Revenues and Appropriated Fund Balance	\$ 11,360,898	\$ 11,368,051		

Note to Required Supplementary Information

Budget Basis of Accounting

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 100,546	\$ 100,546	\$ 96,126		\$ 4,420
Central administration	187,373	187,073	190,586		(3,513)
Finance	412,362	414,027	343,528	37,010	33,489
Staff	61,041	61,040	43,529		17,511
Central services	947,908	795,209	680,363	252	114,594
Special items	154,834	157,264	154,083		3,181
Total General Support	<u>1,864,064</u>	<u>1,715,159</u>	<u>1,508,215</u>	<u>37,262</u>	<u>169,682</u>
Instruction					
Administration and improvement	312,689	318,319	306,705	1,018	10,596
Teaching - regular school	3,132,924	3,145,191	2,975,072		170,119
Programs for students with disabilities	1,054,512	1,011,512	897,931		113,581
Occupational education	41,539	19,872	13,269		6,603
Teaching - special schools	18,059	18,059	16,722		1,337
Instructional media	269,110	269,533	257,780		11,753
Pupil services	683,429	698,822	667,274	6,800	24,748
Total Instruction	<u>5,512,262</u>	<u>5,481,308</u>	<u>5,134,753</u>	<u>7,818</u>	<u>338,737</u>
Pupil Transportation	<u>432,515</u>	<u>422,912</u>	<u>320,763</u>		<u>102,149</u>
Employee Benefits	<u>2,983,370</u>	<u>3,027,112</u>	<u>2,842,261</u>		<u>184,851</u>
Debt Service					
Principal	341,235	341,235	341,235		-
Interest	129,452	132,325	132,325		-
Total Debt Service	<u>470,687</u>	<u>473,560</u>	<u>473,560</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>11,262,898</u>	<u>11,120,051</u>	<u>10,279,552</u>	<u>45,080</u>	<u>795,419</u>
OTHER USES					
Operating Transfers Out	<u>98,000</u>	<u>248,000</u>	<u>255,036</u>		<u>(7,036)</u>
Total Expenditures and Other Uses	<u>\$ 11,360,898</u>	<u>\$ 11,368,051</u>	<u>10,534,588</u>	<u>\$ 45,080</u>	<u>\$ 788,383</u>
Net Change in Fund Balance			291,695		
Fund Balance - Beginning of Year			<u>2,366,100</u>		
Fund Balance - End of Year			<u>\$ 2,657,795</u>		

Note to Required Supplementary Information

Budget Basis of Accounting

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability
Last Four Fiscal Years *

Teachers' Retirement System

	2018	2017	2016	2015
District's proportion of the net pension asset/(liability)	0.0279610%	0.0286090%	0.0282520%	0.0269050%
District's proportionate share of the net pension asset/(liability)	\$ 212,528	\$ (306,412)	\$ 2,934,447	\$ 2,997,094
District's covered payroll	\$ 4,596,387	\$ 4,696,482	\$ 4,607,840	\$ 4,189,349
District's proportionate share of the net pension asset/(liability) as a percentage of its covered payroll	4.62 %	6.52 %	63.68 %	71.54 %
Plan fiduciary net position as a percentage of the total pension liability	100.66%	99.01%	110.46%	111.48%

Employees' Retirement System

	2018	2017	2016	2015
District's proportion of the net pension liability	0.0036689%	0.0033915%	0.0037650%	0.0038356%
District's proportionate share of the net pension liability	\$ (118,410)	\$ (318,676)	\$ (604,297)	\$ (129,575)
District's covered payroll	\$ 985,531	\$ 983,404	\$ 915,415	\$ 955,099
District's proportionate share of the net pension liability as a percentage of its covered payroll	12.01 %	32.41 %	66.01 %	13.57 %
Plan fiduciary net position as a percentage of the total pension liability	98.24%	94.70%	90.68%	97.95%

Note to Required Supplementary Information

Teachers' Retirement system

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

Employees' Retirement system

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

*The amounts presented for each fiscal year were determined as of the measurement date of the respective plans.

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

Teachers' Retirement System

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 439,495	\$ 519,292	\$ 578,850	\$ 742,237	\$ 628,160	\$ 453,655	\$ 424,613	\$ 453,158	\$ 248,991	\$ 288,689
Contributions in relation to the contractually required contribution	439,495	519,292	578,850	742,237	628,160	453,655	424,613	453,158	248,991	288,689
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,484,643	\$ 4,596,387	\$ 4,696,482	\$ 4,607,840	\$ 4,189,349	\$ 3,658,507	<i>~ Information Not Readily Available ~</i>			
Contributions as a percentage of covered payroll	10%	11%	12%	16%	15%					

Employees' Retirement System

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 127,277	\$ 123,632	\$ 127,108	\$ 147,146	\$ 161,815	\$ 142,102	\$ 150,033	\$ 119,678	\$ 84,950	\$ 54,883
Contributions in relation to the contractually required contribution	127,277	123,632	127,108	147,146	161,815	142,102	150,033	119,678	84,950	54,883
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,044,616	\$ 985,529	\$ 933,859	\$ 940,335	\$ 1,052,416	\$ 1,045,115	<i>~ Information Not Readily Available ~</i>			
Contributions as a percentage of covered payroll	12%	13%	14%	16%	15%					

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

Total OPEB liability	
Service cost	\$ 1,017,251
Interest	778,082
Changes in benefit terms	-
Differences between expected and actual experience	(38,108)
Changes of assumptions or other inputs	-
Benefit payments	<u>(751,028)</u>
Net change in total OPEB liability	1,006,197
Total OPEB liability, beginning	<u>25,291,529</u>
Total OPEB liability, ending	<u>\$ 26,297,726</u>
Covered employee payroll	\$ 5,787,125
Total OPEB liability as a percentage of covered employee payroll	454.42%

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
and the Real Property Tax Limit - General Fund
For The Year Ended June 30, 2018

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 11,327,228
Additions:		
Prior year's encumbrances		<u>33,670</u>
Original Budget		11,360,898
Budget revisions		<u>7,153</u>
Final Budget		<u><u>\$ 11,368,051</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2018-19 voter-approved expenditure budget		<u>\$ 11,714,448</u>
Maximum allowed (4% of 2018-19 budget)		<u><u>\$ 468,578</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 815,676	
Unassigned fund balance	<u>1,170,145</u>	
		\$ 1,985,821
Less:		
Appropriated fund balance	770,596	
Encumbrances	<u>45,080</u>	
Total adjustments		<u>815,676</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		<u><u>\$ 1,170,145</u></u>
Actual Percentage		9.99%

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures and Financing Resources - Capital Projects Fund
For The Year Ended June 30, 2018

PROJECT TITLE	Budget June 30, 2017	Budget June 30, 2018	Expenditures			Unexpended Balance	Methods of Financing			Fund Balance June 30, 2018	
			Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources		Total
2015 Bond issuance	\$ 1,632,382	\$ 1,635,160	\$ 1,596,678	\$ 38,482	\$ 1,635,160	\$ -	\$ 1,629,500		\$ 5,660	\$ 1,635,160	\$ -
District-wide improvements		150,000		89,246	89,246	60,754			150,000	150,000	60,754
Totals	<u>\$ 1,632,382</u>	<u>\$ 1,785,160</u>	<u>\$ 1,596,678</u>	<u>\$ 127,728</u>	<u>\$ 1,724,406</u>	<u>\$ 60,754</u>	<u>\$ 1,629,500</u>	<u>\$ -</u>	<u>\$ 155,660</u>	<u>\$ 1,785,160</u>	<u>\$ 60,754</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2018

Capital assets, net	<u>\$ 9,714,067</u>
Deduct:	
Short-term portion of bonds payable	290,000
Long-term portion of bonds payable	2,930,000
Short-term portion of energy performance contract payable	57,849
Long-term portion of energy performance contract payable	<u>838,365</u>
	<u>4,116,214</u>
Net Investment in Capital Assets	<u><u>\$ 5,597,853</u></u>



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

To the Board of Education of the
Shelter Island Union Free School District
Town of Shelter Island, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and fiduciary funds of the Shelter Island Union Free School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

NawrockiSmith

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items 18-01 and 18-02.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Melville, New York
October 12, 2018



SHELTER ISLAND UNION FREE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

Findings - Financial Statement Audit

18-01 The District's unassigned fund balance in the General Fund exceeded the limitation as promulgated by New York State statute.

Condition: The District did not comply with the limitations on unassigned fund balance.

Criteria: New York State law limits the unassigned fund balance of the General Fund to 4% of the following year's expenditure budget.

Effect: The District did not comply with the New York State accounting requirements as of June 30, 2018.

Cause: The District was not able to make a proper disposition of excess fund balance.

Recommendation: The District should implement procedures to monitor fund balance throughout the year to comply with New York State requirements.

Response: The District is in agreement with this finding and will ensure policies and procedures are in effect to comply with such accounting requirements in the future.

18-02 The submission of the Annual Financial Report on Form ST-3 to the New York State Education Department did not occur until subsequent to the filing deadline.

Condition: The District did not fulfill its annual reporting requirement to the New York State Education Department in accordance with the requisite due date.

Criteria: The New York State Education Department required that the District submit its Annual Financial Report on Form ST-3 by September 4, 2018.

Effect: The District did not fulfill its New York State Education Department report requirement as of the required submission date.

Cause: Information necessary to complete the submission was not readily available, therefore, the Annual Financial Report on Form ST-3 was not prepared on a timely basis.

Recommendation: The District should implement procedures to ensure sufficient time to comply with New York State Education Department reporting requirements.

Response: The District is in agreement with this finding and will ensure procedures are in effect to comply with such requirements in the future.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

Findings - Financial Statement Audit

17-01 Recommendation - The District should implement procedures to monitor fund balance throughout the year to comply with New York State requirements.

Status - We noted this recommendation was not implemented.

17-02 Recommendation - The District should implement procedures to ensure sufficient time to comply with New York State Education Department reporting requirements.

Status - We noted this recommendation was not implemented.