



**SHELTER ISLAND  
UNION FREE SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITORS' REPORTS**

**June 30, 2019**

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT  
TABLE OF CONTENTS**

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	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis (MD&amp;A)</b>	3
<b>Basic Financial Statements:</b>	
Statement of Net Position	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	20
Statement of Fiduciary Net Position - Fiduciary Funds	21
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	22
Notes to Financial Statements	23
<b>Required Supplementary Information other than MD&amp;A:</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	49
Schedule of the District's Proportionate Share of the Net Pension Asset/(Liability)	51
Schedule of District Pension Contributions	52
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	53
<b>Other Supplementary Information:</b>	
Schedules of Change from Adopted Budget to Final Budget and the Real Property Tax Limit - General Fund	54
Schedule of Project Expenditures and Financing Resources - Capital Projects Fund	55
Net Investment in Capital Assets	56
<b>Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	57
Schedule of Findings and Responses	59
Summary Schedule of Prior Audit Findings	60



**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, 2019, 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, 2019, 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

## ***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 49-53, 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*

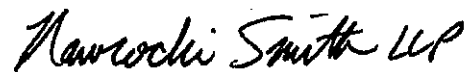
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required 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 8, 2019, 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 8, 2019



**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, 2019 in comparison with the year ended June 30, 2018, with emphasis on the current year. This should be read in conjunction with the financial statements and notes, which immediately follow this section.

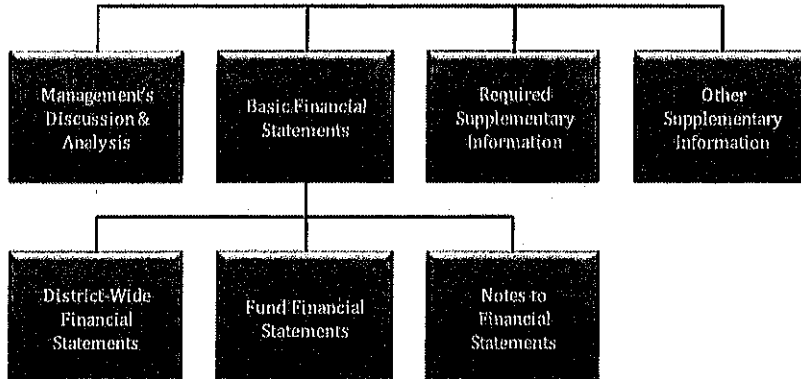
**1. FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2019 are as follows:

- The District's total net position (deficit), as reflected in the district-wide financial statements, increased by \$1,045,181 or 6.26% to \$17,747,470. This was due to an excess of expenses over revenues using the economic resources measurement focus and the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$12,250,998. Of this amount, \$186,174 was offset by program charges for services and operating grants. General revenues of \$ 11,019,643 amount to 98.3% of total revenues, and were not adequate to cover the balance of program expenses.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$41,842 or 1.57% to \$2,699,637. This was due to an excess of revenues over expenditures using the current financial resources measurement focus and the modified accrual basis of accounting.
- On the balance sheet, the general fund's unassigned fund balance at year end was \$1,136,873. This represents a decrease of 2.84% from the prior year.
- The District established the teachers' retirement system (TRS) reserve, which limits the annual contribution to 2% of the prior year's covered TRS salaries. This reserve was funded during the 2018-2019 year in the amount of \$89,928.
- The District's 2019 property tax levy of \$10,343,159 was a 2.09% increase over the 2018 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 financial statements. A graphic display of the relationship of these statements follows:



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

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**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, workers' compensation, 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, the reader 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 (deficit) increased by \$1,045,181 between fiscal year 2019 and 2018. The increase is due to expenses in excess of revenues using the economic resources measurement focus and the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	2019	2018	Increase (Decrease)	Percentage Change
<b>Assets</b>				
Current and Other Assets	\$ 3,792,566	\$ 3,593,533	\$ 199,033	5.54 %
Capital Assets, Net	9,291,427	9,714,067	(422,640)	(4.35)%
Net Pension Asset - Proportionate Share	499,156	212,528	286,628	134.87 %
<b>Total Assets</b>	<b>13,583,149</b>	<b>13,520,128</b>	<b>63,021</b>	<b>0.47 %</b>
<b>Deferred Outflows of Resources</b>	<b>7,329,295</b>	<b>3,163,991</b>	<b>4,165,304</b>	<b>131.65 %</b>
<b>Liabilities</b>				
Current and Other Liabilities	772,355	711,282	61,073	8.59 %
Long-Term Liabilities	4,781,637	5,177,869	(396,232)	(7.65)%
Net Pension Liability - Proportionate Share	247,063	118,410	128,653	108.65 %
<b>Total OPEB obligation</b>	<b>19,785,170</b>	<b>26,297,726</b>	<b>(6,512,556)</b>	<b>(24.76)%</b>
<b>Total Liabilities</b>	<b>25,586,225</b>	<b>32,305,287</b>	<b>(6,719,062)</b>	<b>(20.80)%</b>
<b>Deferred Inflows of Resources</b>	<b>13,073,689</b>	<b>1,081,121</b>	<b>11,992,568</b>	<b>1109.27 %</b>

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

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>Net Position (Deficit)</b>				
Net Investment in Capital Assets	\$ 5,523,062	\$ 5,597,853	\$ (74,791)	(1.34)%
Restricted	774,974	671,974	103,000	15.33 %
Unrestricted (Deficit)	<u>(24,045,506)</u>	<u>(22,972,116)</u>	<u>(1,073,390)</u>	(4.67)%
Total Net Position (Deficit)	<u>\$ (17,747,470)</u>	<u>\$ (16,702,289)</u>	<u>\$ (1,045,181)</u>	(6.26)%

The increase in current and other assets is primarily related to an increase in cash.

The decrease in capital assets net, is due to depreciation expense in excess of capital outlays for construction in progress, and furniture and equipment purchases. The accompanying Notes to Financial Statements, Note 8 "Capital Assets" provides additional information.

Net pension asset - proportionate share represents the District share of the New York State Teachers' Retirement System net pension asset at the measurement date of the respective year. The accompanying Notes to Financial Statements, Note 12 "Pension Plans - New York State", provides additional information.

Deferred outflows of resources represents contributions to the pension plans subsequent to the measurement dates and actuarial adjustments of the pension and OPEB plans that will be amortized in future years.

The increase in current and other liabilities is primarily the result of increases in accounts payable and due to teachers' retirement system, offset partially by a decrease in amounts due to other governments.

The long-term liabilities decrease is primarily due to the repayment of the current maturity of indebtedness and a decrease in termination benefits payable.

Net pension liability - proportionate share represents the District's share of the New York State and Local Employees' Retirement System's collective net pension liabilities at the measurement date of the respective year. The accompanying Notes to Financial Statements, Note 12 "Pension Plans - New York State", provides additional information.

The total other postemployment benefits (OPEB) obligation decreased from the prior year based on the actuarial valuation for the year ended June 30, 2019. The accompanying Notes to Financial Statements, Note 14 "Postemployment Healthcare Benefits", provides additional information

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



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

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 accumulated depreciation and related outstanding debt. This number decreased over the prior year as follows:

	Increase (Decrease)
Capital asset additions	\$ 59,504
Principal debt reduction of construction bonds, net	290,000
Principal debt reduction of energy performance contract	57,849
Depreciation expense	(482,144)
	\$ (74,791)

The restricted net position relates to the District's reserves. This number increased over the prior year by \$103,000 due to the authorized transfers into the reserves plus interest earned.

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 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, 2019 and 2018 is as follows:

	2019	2018	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 56,857	\$ 55,674	\$ 1,183	2.12 %
Operating Grants	129,317	126,978	2,339	1.84 %
General Revenues				
Property Taxes and STAR	10,343,596	10,132,643	210,953	2.08 %
State Sources	599,712	607,954	(8,242)	(1.36)%
Other	76,335	86,500	(10,165)	(11.75)%
Total Revenues	11,205,817	11,009,749	196,068	1.78 %
<b>Expenses</b>				
General Support	2,388,560	2,222,817	165,743	7.46 %
Instruction	9,113,481	8,973,970	139,511	1.55 %
Pupil Transportation	429,933	333,189	96,744	29.04 %
Debt Service - Interest	130,754	139,450	(8,696)	(6.24)%
Food Service Program	188,270	187,862	408	0.22 %
Total Expenses	12,250,998	11,857,288	393,710	3.32 %
Decrease in Net Position	\$ (1,045,181)	\$ (847,539)	\$ (197,642)	(23.32)%

The District's net position (deficit) increased by \$1,045,181 and \$847,539 for the years ended June 30, 2019 and 2018, respectively.

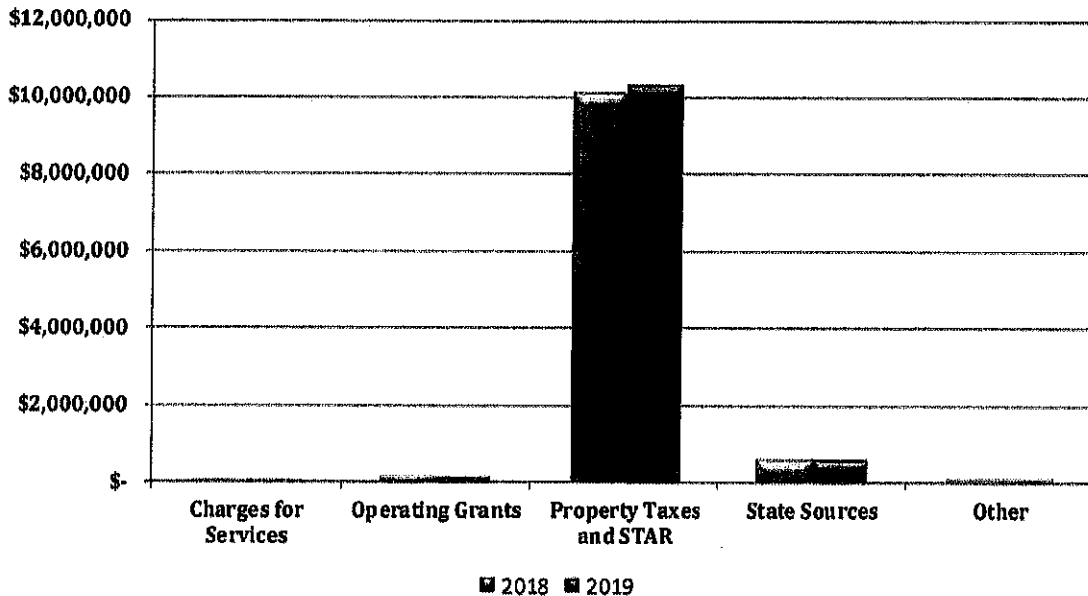
**SHELTER ISLAND UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)**

The District's revenues increased by \$196,068 or 1.78%, as compared to 2018. This increase is attributable to increases in property taxes and STAR of \$210,953, offset by decreases in the other revenue categories. Property taxes and STAR were increased in 2019 to fund increases in appropriations in the 2018-2019 budget.

The District's expenses for the year increased by \$393,710 or 3.32%, as compared to 2018. This increase is primarily within general support and instruction.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 92.3% and 92.0% of the total for the years 2019 and 2018, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 74.4% and 75.7% of the total for the years 2019 and 2018, respectively).

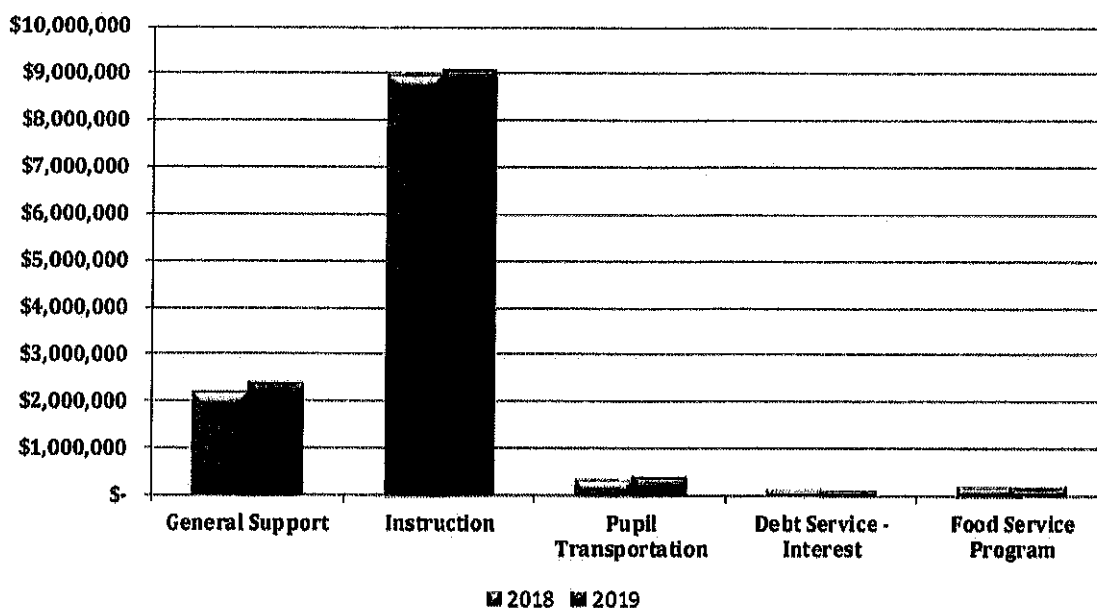
A graphic display of the distribution of revenues for the two years follows:



	Charges for Services	Operating Grants	Property Taxes and STAR	State Sources	Other
<b>2018</b>	0.5%	1.2%	92.0%	5.5%	0.8%
<b>2019</b>	0.5%	1.2%	92.3%	5.4%	0.6%

**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
2018	18.7%	75.7%	2.8%	1.2%	1.6%
2019	19.5%	74.4%	3.5%	1.1%	1.5%

**4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

At June 30, 2019, the District's governmental funds reported a combined fund balance of \$2,857,227, which is an increase of \$135,817 over the prior year. This increase is due to an excess of revenues over expenditures using the current financial resources measurement focus and the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	2019	2018	Increase (Decrease)
<b>General Fund</b>			
Restricted			
Unemployment insurance	\$ 144,981	\$ 144,188	\$ 793
Retirement contribution			
Teachers' retirement system	89,928		89,928
Employees' retirement system	72,392	67,024	5,368
Employee benefit accrued liability	288,879	287,919	960
Capital	178,794	172,843	5,951
Assigned:			
Appropriated fund balance	746,008	770,596	(24,588)
Unappropriated fund balance	41,782	45,080	(3,298)
Unassigned: Fund balance	1,136,873	1,170,145	(33,272)
	<u>2,699,637</u>	<u>2,657,795</u>	<u>41,842</u>

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

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
<b>School Food Service Fund</b>			
Nonspendable: Inventory	\$ 1,812	\$ 1,465	\$ 347
Assigned: Unappropriated fund balance		1,396	(1,396)
	<u>1,812</u>	<u>2,861</u>	<u>(1,049)</u>
<b>Capital Projects Fund</b>			
Assigned: Unappropriated fund balance	<u>155,778</u>	<u>60,754</u>	<u>95,024</u>
<b>Total Fund Balance</b>	<u>\$ 2,857,227</u>	<u>\$ 2,721,410</u>	<u>\$ 135,817</u>

**A. General Fund**

The net change in the general fund – fund balance was an increase of \$41,842 (compared to an increase of \$291,695 in fiscal 2018), as revenues of \$11,026,228 exceeded expenditures and other financing uses of \$10,984,386.

Revenues increased by \$199,945 (1.85%) over fiscal 2018 totals primarily due to increases in real property taxes and STAR. Property taxes and STAR were increased in 2019 to fund increases in appropriations in the 2018-2019 budget.

Expenditures and other financing uses increased by \$449,798 or 4.27% over fiscal 2018 totals primarily due to increases in general support, instruction 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 2018-2019 fiscal year, the reserve earned interest of \$883. As of June 30, 2019, the reserve has \$161,280 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 2018-2019 fiscal year, \$5,000 was transferred into the reserve and the reserve earned \$68 in interest. At June 30, 2019 the reserve has a balance of \$17,514.

Combined, capital reserves have a balance of \$178,794.

**B. School Food Service Fund**

The school food service fund - fund balance decreased \$1,049. The fund is dependent on a transfer from the general fund, which in 2019 was \$99,907.

**C. Capital Projects Fund**

The net change in the capital projects fund – fund balance is an increase of \$95,024, due to interfund transfers in of \$100,000 in excess of expenditures incurred during the year on capital projects of \$4,976.

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

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**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2018-2019 Budget**

The District's general fund adopted budget for the year ended June 30, 2019 was \$11,714,448. This amount was increased by encumbrances carried forward from the prior year in the amount of \$45,080 and budget revisions in the amount of \$35,625 for a total final budget of \$11,795,153.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$10,343,159 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	\$ 1,170,145
Revenues Over Budget	75,776
Expenditures and Encumbrances Under Budget	775,585
Allocation to Reserves	(138,625)
Appropriated to Fund the June 30, 2020 Budget	<u>(746,008)</u>
Closing, Unassigned Fund Balance	<u>\$ 1,136,873</u>

**Opening, Unassigned Fund Balance**

The \$1,170,145 shown in the table is the portion of the District's June 30, 2018 fund balance that was retained as unassigned fund balance.

**Revenues Over Budget**

The 2018-2019 final budget for revenues was \$10,950,452. Actual revenues recognized for the year were \$11,026,228. The excess of actual revenues over estimated revenues was \$75,776, which is primarily due to the District receiving more than anticipated in use of money and property, and miscellaneous revenue. This change contributes directly to the change to the general fund unassigned fund balance from June 30, 2018 to June 30, 2019.

**Expenditures and Encumbrances Under Budget**

The 2018-2019 final budget for expenditures was \$11,801,753. Actual expenditures as of June 30, 2019 were \$10,984,386 and outstanding encumbrances were \$41,782. Combined, the expenditures plus encumbrances for 2018-2019 were \$11,026,168. The final budget was under expended by \$775,585. This under expenditure is primarily within the instruction: programs for students with disabilities 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, 2018 to June 30, 2019.

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

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 \$(138,625) shown in the previous table is made up of the following transfers to the reserves: \$5,000 to the unemployment insurance reserve, \$89,928 to the teachers' retirement contribution reserve, \$35,000 to the employee benefit accrued liability reserve and \$5,000 to the capital reserve. Additionally, interest earnings of \$3,697 were allocated to the reserves.

Appropriated Fund Balance

The District has chosen to use \$746,008 of the available June 30, 2019 unassigned fund balance to partially fund the 2019-2020 approved operating budget. As such, the June 30, 2019 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, 2019 was \$ 1,136,873. This is a decrease of \$33,272 from the unassigned fund balance as of June 30, 2018. This unassigned fund balance portion is in excess of the New York State Real Property Tax Law §1318 permissible 4% statutory maximum.

**6. CAPITAL ASSETS, DEBT ADMINISTRATION AND OTHER LONG-TERM LIABILITIES**

**A. Capital Assets**

At June 30, 2019, 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 expense of \$482,144 in excess of capital asset additions of \$59,504 for the year ended June 30, 2019. A summary of the District's capital assets, net of accumulated depreciation at June 30, 2019 and 2018 is as follows:

	2019	2018	Increase (Decrease)
Land	\$ 25,200	\$ 25,200	\$ -
Construction in progress	34,891	29,915	4,976
Buildings and improvements	8,176,596	8,511,569	(334,973)
Site improvements	430,423	467,402	(36,979)
Furniture and equipment	624,317	679,981	(55,664)
Capital assets, net	<u>\$ 9,291,427</u>	<u>\$ 9,714,067</u>	<u>\$ (422,640)</u>

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

**B. Debt Administration**

At June 30, 2019, the District had total bonded debt outstanding of \$2,930,000. 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 \$838,365 from an energy performance contract. A summary of outstanding debt at June 30, 2019 and 2018 is as follows:

Issue Date	Interest Rate	2019	2018	Increase (Decrease)
<b>Bonds Payable</b>				
7/26/2012	2.0-2.5%	\$ 1,610,000	\$ 1,795,000	\$ (185,000)
12/1/2015	2.0-3.0%	1,320,000	1,425,000	(105,000)
		<u>\$ 2,930,000</u>	<u>\$ 3,220,000</u>	<u>\$ (290,000)</u>
<b>Energy Performance Contract</b>				
3/21/2016	2.85%	<u>\$ 838,365</u>	<u>\$ 896,214</u>	<u>\$ (57,849)</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, 2019 are approximately 1.00% of the District's debt limit.

**C. Other Long-Term Liabilities**

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

	2019	2018	Increase (Decrease)
Compensated absences payable	\$ 614,600	\$ 611,489	\$ 3,111
Workers' compensation liabilities	45,354	41,254	4,100
Termination benefits	353,318	408,912	(55,594)
Net pension liability - proportionate share	247,063	118,410	128,653
Total OPEB obligation	<u>19,785,170</u>	<u>26,297,726</u>	<u>(6,512,556)</u>
	<u>\$ 21,045,505</u>	<u>\$ 27,477,791</u>	<u>\$ (6,432,286)</u>

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

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**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 21, 2019, for the year ending June 30, 2020, is \$11,934,877. This is an increase of \$220,429 or 1.88% over the previous year's adopted budget.

The District budgeted revenues other than property tax at a \$36,523 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, 2020 budget in the amount of \$746,008 is a \$24,588 decrease from the previous year. A property tax increase of \$208,494 or 2.02% 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. 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 2019-2020 is 2.02%. The District's 2019-2020 property tax increase of 2.02% was equal to the tax cap and did not require an override vote.

**D. Property Tax Relief Credit**

New York State law provides a "Property Tax Relief Credit" to eligible taxpayers through the 2019-2020 school year. To be eligible, a taxpayer, based on income tax return filings for the taxable two years prior, must be a New York State resident, who owned and primarily resided in real property receiving the STAR exemption, and had adjusted gross income no greater than \$275,000. A taxpayer is ineligible for the tax credit if the real property is located in a school district that adopted a budget in excess of the tax levy limit. Eligible District taxpayers will receive a tax credit in the form of a check. The amount of the credit (check) is a function of the basic STAR savings and the taxpayer's income. This program provides an incentive for the District to be tax cap compliant.

**8. CONTACTING THE DISTRICT**

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

Brian Doelger, Ed.D.  
Superintendent of Schools  
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, 2019

<b>ASSETS</b>	
Cash	
Unrestricted	\$ 2,711,954
Restricted	774,974
Receivables	
Accounts receivable	570
Due from fiduciary funds	8,000
Due from state and federal	80,856
Due from other governments	40,881
Other assets	173,519
Inventories	1,812
Capital assets:	
Not being depreciated	60,091
Being depreciated, net of accumulated depreciation	9,231,336
Net pension asset - proportionate share	<u>499,156</u>
Total Assets	<u>13,583,149</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	2,828,627
Other postemployment benefits	<u>4,500,668</u>
Total Deferred Outflows of Resources	<u>7,329,295</u>
<b>LIABILITIES</b>	
Payables	
Accounts payable	171,819
Accrued liabilities	17,177
Due to other governments	2,122
Due to teachers' retirement system	537,696
Due to employees' retirement system	40,685
Unearned credits	
Collections in advance	2,856
Long-term liabilities	
Due and payable within one year	
Bonds payable	295,000
Energy performance contract payable	59,510
Workers' compensation liabilities	45,354
Due and payable after one year	
Bonds payable	2,635,000
Energy performance contract payable	778,855
Compensated absences payable	614,600
Termination benefits	353,318
Net pension liability - proportionate share	247,063
Total other postemployment benefits obligation	<u>19,785,170</u>
Total Liabilities	<u>25,586,225</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions	774,462
Other postemployment benefits	<u>12,299,227</u>
Total Deferred Inflows of Resources	<u>13,073,689</u>
<b>NET POSITION (DEFICIT)</b>	
Net investment in capital assets	<u>5,523,062</u>
Restricted	
Unemployment insurance	144,981
Retirement contribution	
Teachers' retirement system	89,928
Employees' retirement system	72,392
Employee benefit accrued liability	288,879
Capital	<u>178,794</u>
	<u>774,974</u>
Unrestricted (deficit)	<u>(24,045,506)</u>
Total Net Position (Deficit)	<u>\$ (17,747,470)</u>

See Notes to Financial Statements

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT**  
**Statement of Activities**  
For The Year Ended June 30, 2019

		Program Revenues		Net (Expense)
Expenses	Charges for Services	Operating Grants		Revenue and Changes in Net Position
<b>FUNCTIONS/PROGRAMS</b>				
General support	\$ 2,388,560	\$	\$ 6,375	\$ (2,382,185)
Instruction	9,113,481	210	90,069	(9,023,202)
Pupil transportation	429,933			(429,933)
Debt service - interest	130,754			(130,754)
Food service program	188,270	56,647	32,873	(98,750)
	<u>\$ 12,250,998</u>	<u>\$ 56,857</u>	<u>\$ 129,317</u>	<u>(12,064,824)</u>
<b>GENERAL REVENUES</b>				
Real property taxes				10,233,793
Other tax items				109,883
Use of money and property				19,625
Miscellaneous				56,630
State sources				599,712
				<u>11,019,643</u>
Change in Net Position				(1,045,181)
Total Net Position (Deficit) - Beginning of Year				<u>(16,702,289)</u>
Total Net Position (Deficit) - End of Year				<u>\$ (17,747,470)</u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2019

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>					
Cash					
Unrestricted	\$ 2,482,300	\$ 9,903	\$ 35,725	\$ 184,026	\$ 2,711,954
Restricted	774,974				774,974
Receivables					
Accounts receivable			570		570
Due from other funds	136,836		3,483		140,319
Due from state and federal	17,891	60,654	2,311		80,856
Due from other governments	40,881				40,881
Inventories			1,812		1,812
Total Assets	<u>\$ 3,452,882</u>	<u>\$ 70,557</u>	<u>\$ 43,901</u>	<u>\$ 184,026</u>	<u>\$ 3,751,366</u>
<b>LIABILITIES</b>					
Payables					
Accounts payable	\$ 163,559	\$ 7,900	\$ 360		\$ 171,819
Accrued liabilities	6,032		40		6,072
Due to other funds	3,483	62,173	38,415	28,248	132,319
Due to other governments	1,790		332		2,122
Due to teachers' retirement system	537,696				537,696
Due to employees' retirement system	40,685				40,685
Unearned credits					
Collections in advance		484	2,372		2,856
Total Liabilities	<u>753,245</u>	<u>70,557</u>	<u>41,519</u>	<u>28,248</u>	<u>893,569</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenues			570		570
<b>FUND BALANCES</b>					
Nonspendable: Inventories			1,812		1,812
Restricted:					
Unemployment insurance	144,981				144,981
Retirement contribution					
Teachers' retirement system	89,928				89,928
Employees' retirement system	72,392				72,392
Employee benefit accrued liability	288,879				288,879
Capital	178,794				178,794
Assigned:					
Appropriated fund balance	746,008				746,008
Unappropriated fund balance	41,782			155,778	197,560
Unassigned: Fund balance	<u>1,136,873</u>				<u>1,136,873</u>
Total Fund Balances	<u>2,699,637</u>	<u>-</u>	<u>1,812</u>	<u>155,778</u>	<u>2,857,227</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,452,882</u>	<u>\$ 70,557</u>	<u>\$ 43,901</u>	<u>\$ 184,026</u>	<u>\$ 3,751,366</u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
June 30, 2019

Total Governmental Funds Balance \$ 2,857,227

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. 173,519

The costs of building and acquiring capital assets (land, construction in progress, 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	\$ 16,104,976	
Less: Accumulated depreciation	<u>(6,813,549)</u>	
		9,291,427

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	499,156	
Deferred outflows of resources	2,828,627	
Net pension liability - employees' retirement system	(247,063)	
Deferred inflows of resources	<u>(774,462)</u>	
		2,306,258

Total other postemployment benefits obligation, as well as deferred outflows and inflows related to providing benefits in retirement are not current financial resources or obligation and are not reported in the funds.

Deferred outflows of resources	4,500,668	
Total other postemployment benefits obligation	(19,785,170)	
Deferred inflows of resources	<u>(12,299,227)</u>	
		(27,583,729)

Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds, but are not deferred on the Statement of Net Position. 570

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	(11,105)	
Bonds payable	(2,930,000)	
Energy performance contract payable	(838,365)	
Compensated absences payable	(614,600)	
Workers' compensation liabilities	(45,354)	
Termination benefits	<u>(353,318)</u>	
		<u>(4,792,742)</u>

Total Net Position (Deficit) \$ (17,747,470)

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Governmental Funds**  
For The Year Ended June 30, 2019

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>					
Real property taxes	\$ 10,233,793	\$	\$	\$	\$ 10,233,793
Other tax items	109,883				109,883
Charges for services	210				210
Use of money and property	19,625				19,625
Miscellaneous	56,630				56,630
State sources	599,712	11,458	1,097		612,267
Federal sources	6,375	78,611	31,776		116,762
Sales			56,077		56,077
<b>Total Revenues</b>	<b>11,026,228</b>	<b>90,069</b>	<b>88,950</b>	<b>-</b>	<b>11,205,247</b>
<b>EXPENDITURES</b>					
General support	1,650,909				1,650,909
Instruction	5,259,253	81,476			5,340,729
Pupil transportation	416,912	13,021			429,933
Employee benefits	2,973,564		53,503		3,027,067
Debt service					
Principal	347,849				347,849
Interest	131,564				131,564
Food service program			136,403		136,403
Capital outlay				4,976	4,976
<b>Total Expenditures</b>	<b>10,780,051</b>	<b>94,497</b>	<b>189,906</b>	<b>4,976</b>	<b>11,069,430</b>
Excess of Revenues Over (Under) Expenditures	246,177	(4,428)	(100,956)	(4,976)	135,817
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Operating transfers in		4,428	99,907	100,000	204,335
Operating transfers (out)	(204,335)				(204,335)
<b>Total Other Financing Sources and (Uses)</b>	<b>(204,335)</b>	<b>4,428</b>	<b>99,907</b>	<b>100,000</b>	<b>-</b>
Net Change in Fund Balances	41,842	-	(1,049)	95,024	135,817
Fund Balances - Beginning of Year	2,657,795		2,861	60,754	2,721,410
End of Year	<u>\$ 2,699,637</u>	<u>\$ -</u>	<u>\$ 1,812</u>	<u>\$ 155,778</u>	<u>\$ 2,857,227</u>

**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, 2019**

Net Change in Fund Balance	\$	135,817
Amounts reported for governmental activities in the Statement of Activities are different because:		
<u>Long-Term Revenue and Expense Differences</u>		
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 increased in the period.		
	\$	763
In the Statement of Activities, certain operating revenues are measured by the amounts earned during the year. In the governmental funds, however, revenue for these items are measured by the amount of financial resources provided (essentially, the amounts actually received.		
		570
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 termination benefits		55,594
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	(3,111)	
Increase in workers' compensation liabilities	<u>(4,100)</u>	
		49,716
<u>Capital Related Differences</u>		
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 expense exceeded capital outlays in the period.		
Capital outlays	59,504	
Depreciation expense	<u>(482,144)</u>	
		(422,640)
<u>Long-Term Debt Transactions Differences</u>		
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	290,000	
Repayment of energy performance contract	57,849	
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2018 to June 30, 2019.		
	<u>810</u>	
		348,659
<u>Pension and Other Postemployment Benefits Differences</u>		
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, are not reported in the governmental funds.		
Teachers' retirement system	104,695	
Employees' retirement system	(9,345)	
Other postemployment benefits	<u>(1,252,083)</u>	
		(1,156,733)
Change in Net Position of Governmental Activities	\$	<u>(1,045,181)</u>

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position -**  
**Fiduciary Funds**  
June 30, 2019

	Agency	Private Purpose Trust
<b>ASSETS</b>		
Cash		
Unrestricted	\$ 72,512	\$
Restricted		23,083
Total Assets	\$ 72,512	23,083
 <b>LIABILITIES</b>		
Extraclassroom activity balances	\$ 54,431	
Due to governmental funds	8,000	
Other liabilities	10,081	
Total Liabilities	\$ 72,512	-
 <b>NET POSITION</b>		
Restricted for scholarships		\$ 23,083

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Position -**  
**Fiduciary Funds**  
For The Year Ended June 30, 2019

	Private Purpose Trust
<b>ADDITIONS</b>	
Contributions	\$ 8,750
Investment earnings - interest	19
Total Additions	8,769
 <b>DEDUCTIONS</b>	
Scholarships and awards	10,700
Change in Net Position	(1,931)
Net Position - Beginning of Year	25,014
Net Position - End of Year	\$ 23,083



**SHELTER ISLAND UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**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). 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.

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

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**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)

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***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, workers' compensation, 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 1<sup>st</sup> and become a lien on December 1<sup>st</sup>. 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)

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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**  
(Continued)

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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:

	Capitalization Threshold	Estimated Useful Life
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 three 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 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. The third item is related to OPEB and represents the change in total other postemployment benefits obligation not included in OPEB expense.

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

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**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, such as prepaid lunch amounts. These amounts are recorded as liabilities in the financial statements. The liabilities are removed and revenues are recognized in subsequent periods when the District has legal claim to the resources.

**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 three items that qualify for reporting in this category. The first item is unavailable revenues reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. This includes receivables of food service sales. In subsequent periods, when the availability criterion is met, unavailable revenues are reclassified as revenues. In the District-wide financial statements, unavailable revenues are treated as revenues. The second item is related to pensions reported in the district-wide Statement of Net Position and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense. The third item is related 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)

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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 30<sup>th</sup>.

**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 dependents. 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. Healthcare 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)

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*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 Teachers' Retirement System and 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. Effective April 1, 2019, a board may adopt a resolution establishing a sub-fund for contributions to the New York State Teachers' Retirement System. During a fiscal year, the Board may authorize payment into the sub-fund of up to 2% of the total covered salaries paid during the preceding fiscal year, with the total amount funded not to exceed 10% of the total covered salaries during the preceding fiscal year. The sub-fund is separately administered, but must comply with all the existing provisions of General Municipal Law §6-r. These reserves are accounted for in the general fund.

*Employee Benefit Accrued Liability Reserve*

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



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

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be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. 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 appropriation and then from the unassigned fund balance.

**2. 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

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

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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.

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.

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

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**3. 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:

Instructional materials funded by donation	\$ 6,600
Retirement benefits funded by employee benefit accrued liability reserve	<u>35,625</u>
	<u>\$ 42,225</u>

Budgets are adopted annually on a basis consistent with GAAP.

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

**B. Encumbrances**

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as part of assigned fund balance, unless classified as restricted, and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

**C. Unassigned Fund Balance**

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

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

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**4. 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, 2019 are \$2,491,597,265, which consisted of \$350,918,796 in repurchase agreements, \$1,905,651,848 in U.S. Treasury Securities, and \$235,026,621 in collateralized bank deposits, with various interest rates and due dates.

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

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](http://www.newyorkclass.org).

**5. PARTICIPATION IN BOCES**

During the year ended June 30, 2019, the District was billed \$226,663 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$40,881. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

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

**6. DUE FROM STATE AND FEDERAL**

Due from state and federal at June 30, 2019 consisted of:

General Fund	
New York State - excess cost aid	\$ 17,891
Special Aid Fund	
Federal and state grants	60,654
School Food Service Fund	
Federal and state food service program reimbursements	2,311
	<u>\$ 80,856</u>

**7. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2019 consisted of:

General Fund	
BOCES aid	<u>\$ 40,881</u>

**8. CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2019 were as follows:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019
Governmental activities				
Capital assets not being depreciated				
Land	\$ 25,200	\$	\$	\$ 25,200
Construction in progress	29,915	4,976		34,891
Total capital assets not being depreciated	<u>55,115</u>	<u>4,976</u>	<u>-</u>	<u>60,091</u>
Capital assets being depreciated				
Buildings and improvements	13,884,886			13,884,886
Site improvements	764,344			764,344
Furniture and equipment	1,629,443	54,528	(288,316)	1,395,655
Total capital assets being depreciated	<u>16,278,673</u>	<u>54,528</u>	<u>(288,316)</u>	<u>16,044,885</u>
Less accumulated depreciation for:				
Buildings and improvements	5,373,317	334,973		5,708,290
Site improvements	296,942	36,979		333,921
Furniture and equipment	949,462	110,192	(288,316)	771,338
Total accumulated depreciation	<u>6,619,721</u>	<u>482,144</u>	<u>(288,316)</u>	<u>6,813,549</u>
Total capital assets, being depreciated, net	<u>9,658,952</u>	<u>(427,616)</u>	<u>-</u>	<u>9,231,336</u>
Capital assets, net	<u>\$ 9,714,067</u>	<u>\$ (422,640)</u>	<u>\$ -</u>	<u>\$ 9,291,427</u>

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

Depreciation expense was charged to governmental functions as follows:

General support	\$ 83,141
Instruction	397,362
Food service program	<u>1,641</u>
Total depreciation expense	<u>\$ 482,144</u>

**9. INTERFUND TRANSACTIONS**

Interfund balances and activities at June 30, 2019, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 136,836	\$ 3,483	\$	\$ 204,335
Special Aid Fund		62,173	4,428	
School Food Service Fund	3,483	38,415	99,907	
Capital Projects Fund		28,248	100,000	
Total Governmental Funds	<u>140,319</u>	<u>132,319</u>	<u>\$ 204,335</u>	<u>\$ 204,335</u>
Fiduciary Funds		<u>8,000</u>		
Total	<u>\$ 140,319</u>	<u>\$ 140,319</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 \$100,000 was to cover district-wide improvement projects.

**10. SHORT-TERM DEBT**

Short-term debt transactions for the year are summarized below:

	Maturity	Stated Interest Rate	Balance June 30, 2018	Issued	Redeemed	Balance June 30, 2019
TAN	6/27/2019	3.00%	<u>\$</u>	<u>\$ 1,700,000</u>	<u>\$ (1,700,000)</u>	<u>\$</u>

Interest on short-term debt for the year was \$33,575. The District received a premium of \$4,673, which was included in miscellaneous revenue in the general fund.

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

**11. LONG-TERM LIABILITIES**

**A. Changes**

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

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 3,220,000	\$	\$ (290,000)	\$ 2,930,000	\$ 295,000
Energy performance contract	896,214		(57,849)	838,365	59,510
Other long-term liabilities:					
Compensated absences	611,489	38,736	(35,625)	614,600	
Workers' compensation	41,254	12,848	(8,748)	45,354	45,354
Termination benefits	408,912		(55,594)	353,318	
	<u>\$ 5,177,869</u>	<u>\$ 51,584</u>	<u>\$ (447,816)</u>	<u>\$ 4,781,637</u>	<u>\$ 399,864</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, 2019
2012 Serial Bonds - Construction	7/26/2012	6/15/2029	2.0-2.5%	\$ 1,610,000
2015 Serial Bonds - Building improvements	12/1/2015	6/1/2030	2.0-3.0%	<u>1,320,000</u>
				<u>\$ 2,930,000</u>

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

Year Ending June 30,	Principal	Interest	Total
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	255,000	43,856	298,856
2025 - 2029	1,380,000	129,219	1,509,219
2030	<u>135,000</u>	<u>4,050</u>	<u>139,050</u>
Total	<u>\$ 2,930,000</u>	<u>\$ 409,250</u>	<u>\$ 3,339,250</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, 2019
Energy performance contract	3/21/2016	3/15/2031	2.85%	<u>\$ 838,365</u>

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

Year Ending June 30,	Principal	Interest	Total
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	66,642	16,340	82,982
2025 - 2029	363,023	51,886	414,909
2030 - 2031	160,215	5,749	165,964
Total	<u>\$ 838,365</u>	<u>\$ 157,418</u>	<u>\$ 995,783</u>

**D. Interest Expense**

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

Interest paid	\$ 97,989
Less interest accrued in the prior year	(11,915)
Plus interest accrued in the current year	<u>11,105</u>
Total interest expense on long-term debt	<u>\$ 97,179</u>

**12. PENSION PLANS - NEW YORK STATE**

**A. General Information**

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

**B. Provisions and Administration**

Teachers' Retirement System

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



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

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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](http://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](http://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 30<sup>th</sup>, 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 31<sup>st</sup>, and employer contributions are either paid by the prior December 15<sup>th</sup> less a 1% discount or by the prior February 1<sup>st</sup>. 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 9.80% of covered payroll for the TRS' fiscal year ended June 30, 2018. The District's average contribution rate was 13.87% of covered payroll for the ERS, fiscal year ended March 31, 2019.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2019, was \$491,766 for TRS and \$127,146 for ERS.

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

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

At June 30, 2019, 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 30, 2018, for TRS and March 31, 2019 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, 2018	March 31, 2019
District's proportionate share of the net pension asset/(liability)	\$ 499,156	\$ (247,063)
District's portion of the Plan's total net pension asset/(liability)	0.0276040%	0.0034870%
Change in proportion since the prior measurement date	(0.0003570)	(0.0001819)

For the year ended June 30, 2019, the District recognized pension expense of \$387,300 for TRS and \$148,913 for ERS. At June 30, 2019, 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	\$ 373,015	\$ 48,652	\$ 67,568	\$ 16,585
Changes of assumptions	1,744,877	62,102		
Net difference between projected and actual earnings on pension plan investments			554,101	63,410
Changes in proportion and differences between the District's contributions and proportionate share of contributions	54,552	12,978	46,845	25,953
District's contributions subsequent to the measurement date	491,766	40,685		
<b>Total</b>	<b>\$ 2,664,210</b>	<b>\$ 164,417</b>	<b>\$ 668,514</b>	<b>\$ 105,948</b>

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

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	TRS	ERS
2020	\$ 500,228	\$ 42,664
2021	339,596	(52,766)
2022	35,731	(4,199)
2023	338,420	32,085
2024	233,409	
Thereafter	56,546	
	<u>\$ 1,503,930</u>	<u>\$ 17,784</u>

**Actuarial Assumptions**

The total pension asset/(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 asset/(liability) to the measurement date. The actuarial valuations used the following actuarial assumptions:

	TRS	ERS
Measurement date	June 30, 2018	March 31, 2019
Actuarial valuation date	June 30, 2017	April 1, 2018
Inflation	2.25%	2.50%
Salary increases	1.90-4.72%	4.20%
Investment rate of return (net of investment expense, including inflation)	7.25%	7.00%
Cost of Living adjustments	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.

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

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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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, 2018		March 31, 2019
Asset type				
Domestic equity	33.0%	5.80%	36.0%	4.55%
International equity	16.0%	7.30%	14.0%	6.35%
Global equity	4.0%	6.70%		
Real estate	11.0%	4.90%	10.0%	5.55%
Private equities	8.0%	8.90%	10.0%	7.50%
Alternative investments			8.0%	3.75-5.68%
Domestic fixed income securities	16.0%	1.30%		
Global fixed income securities	2.0%	0.90%		
High-yield income securities	1.0%	3.50%		
Bonds and mortgages	8.0%	2.80-6.80%	17.0%	1.31%
Short-term	1.0%	0.30%		
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 2.3% 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 7.00% for the ERS. 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 7.00% 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 6.00% for ERS) or 1 percentage point higher (8.25% for TRS and 8.00% 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)	<u>\$ (3,429,282)</u>	<u>\$ 499,156</u>	<u>\$ 3,790,095</u>
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset/(liability)	<u>\$ (1,080,201)</u>	<u>\$ (247,063)</u>	<u>\$ 452,831</u>

**Pension Plan Fiduciary Net Position**

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

	TRS	ERS
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2018	March 31, 2019
Employers' total pension liability	<u>\$ (118,107,254)</u>	<u>\$ (189,803,429)</u>
Plan fiduciary net position	<u>119,915,518</u>	<u>182,718,124</u>
Employers' net pension asset/(liability)	<u>\$ 1,808,264</u>	<u>\$ (7,085,305)</u>
Ratio of plan fiduciary net position to the employers' total pension liability	101.53%	96.27%

**Payables to the Pension Plan**

For the TRS, employer and employee contributions for the fiscal year ended June 30, 2019, are paid to the system in September, October and November 2019 through a state aid intercept. Accrued retirement contributions as of June 30, 2019, represent employer and employee contributions for the fiscal year ended June 30, 2019, 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, 2019 amounted to \$491,766 of employer contributions and \$45,930 of employee contributions.

For the ERS, employer contributions are paid annually based on the system's fiscal year, which ends on March 31<sup>st</sup>. Accrued retirement contributions as of June 30, 2019, represent the projected employer contribution for the period of April 1, 2019 through June 30, 2019 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2019 amounted to \$40,685 of employer contributions. Employee contributions are remitted monthly.

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

**13. PENSION PLANS - OTHER**

**A. Tax Sheltered Annuities**

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain compensated absence payments and supplemental payments based on collectively bargained agreements. The District made no contributions into this plan. Contributions made by the employees for the year ended June 30, 2019 totaled \$188,862.

**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, 2019 totaled \$70,650.

**14. 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, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	54
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>60</u>
	<u>114</u>

**B. Total OPEB Liability**

The District's total OPEB liability of \$19,785,170 was measured as of June 30, 2019 and was determined by an actuarial valuation as of July 1, 2018.

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

*Actuarial Assumptions and Other Inputs* - The total OPEB liability as of the measurement date was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60%
Discount rate	3.50%
Healthcare cost trend rates	6.10% for 2018, decreasing 0.5% per year to an ultimate rate of 4.1% over 57 years
Retirees' share of benefit-related costs	0% to 100% of projected health insurance premiums for retirees

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index..

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, 2018	<u>\$ 26,297,726</u>
Changes for the year	
Service cost	1,338,440
Interest on total OPEB liability	819,311
Changes of benefit terms	849,174
Differences between expected and actual experience	5,134,565
Changes of assumptions or other inputs	(13,997,593)
Benefit payments	<u>(656,453)</u>
Net Change in OPEB Liability	<u>(6,512,556)</u>
Balance at June 30, 2019	<u>\$ 19,785,170</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.00% in 2018 to 3.50% in 2019. In addition, the valuation reflects a change in the inflation rate from 3.00% in 2018 to 2.60% in 2019 and a change in the medical trend rates from 7.50% to 4.50% over seven years in 2018 to 6.10% to 4.10% over 57 years in 2019.

*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 (2.50%) or 1 percentage point higher (4.50%) than the current discount rate:

OPEB	1% Decrease (2.50)%	Discount Rate (3.50)%	1% Increase (4.50)%
Total OPEB liability	<u>\$(23,281,886)</u>	<u>\$(19,785,170)</u>	<u>\$(16,992,793)</u>

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

*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 (5.10 to 3.10%) or 1 percentage point higher (7.10 to 5.10%) than the current healthcare cost trend rate:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	(5.10%)	(6.10%)	(7.10%)
	decreasing to	decreasing to	decreasing to
OPEB	(3.10%)	(4.10%)	(5.10%)
Total OPEB liability	<u>\$(16,594,481)</u>	<u>\$(19,785,170)</u>	<u>\$(24,408,293)</u>

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

For the year June 30, 2019, the District recognized OPEB expense of \$1,908,536. At June 30, 2019, 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	\$ 4,500,668	\$ 29,732
Changes of assumptions		12,269,495
Total	<u>\$ 4,500,668</u>	<u>\$ 12,299,227</u>

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

Year Ending June 30,	Amount
2020	\$ (1,098,389)
2021	(1,098,389)
2022	(1,098,389)
2023	(1,098,389)
2024	(1,098,389)
Thereafter	(2,306,614)
	<u>\$ (7,798,559)</u>



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

**15. RISK MANAGEMENT**

**A. General Information**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by a combination of self-insurance reserves, public entity risk pools, and commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded available reserves and commercial insurance coverage for the past three years.

**B. 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, 2019, as processed by the EEWCC, is \$45,354. Claims activity is summarized as follows:

	2018	2019
Claims at beginning of year	\$ 43,187	\$ 41,254
Incurred claims and claim adjustment expenses	5,668	12,848
Claims payments and expenses	(7,601)	(8,748)
Claims liabilities at end of year	\$ 41,254	\$ 45,354

The EEWCC is holding \$173,519 of cash on account for the District to satisfy these liabilities at June 30, 2019.

The EEWCC has issued financial statements for the year ended June 30, 2019. Copies of these statements can be obtained from the District's Business Office.

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

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**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.

**16. ASSIGNED APPROPRIATED FUND BALANCE**

The amount of \$746,008 has been appropriated to reduce taxes for the year ending June 30, 2020.

**17. COMMITMENTS AND CONTINGENCIES**

**A. Encumbrances**

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2019, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance:

General Fund	
General Support	\$ 36,000
Instruction	5,782
	<u>\$ 41,782</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.

**18. SUBSEQUENT EVENTS**

The District has evaluated subsequent events through the date of the auditors' 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, 2019**

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
<b>REVENUES</b>				
<b>Local Sources</b>				
Real property taxes	\$ 10,233,356	\$ 10,233,356	\$ 10,233,793	\$ 437
Other tax items	109,803	109,803	109,883	80
Charges for services			210	210
Use of money and property			19,625	19,625
Miscellaneous		6,600	56,630	50,030
<b>Total Local Sources</b>	<b>10,343,159</b>	<b>10,349,759</b>	<b>10,420,141</b>	<b>70,382</b>
<b>State Sources</b>	<b>600,693</b>	<b>600,693</b>	<b>599,712</b>	<b>(981)</b>
<b>Federal Sources</b>			<b>6,375</b>	<b>6,375</b>
<b>Total Revenues</b>	<b>10,943,852</b>	<b>10,950,452</b>	<b>11,026,228</b>	<b>\$ 75,776</b>
<b>APPROPRIATED FUND BALANCE</b>				
Prior Years' Surplus	770,596	770,596		
Prior Year's Encumbrances	45,080	45,080		
Appropriated Reserves		35,625		
<b>Total Appropriated Fund Balance</b>	<b>815,676</b>	<b>851,301</b>		
<b>Total Revenues and Appropriated Fund Balance</b>	<b>\$ 11,759,528</b>	<b>\$ 11,801,753</b>		

**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.

See Paragraph on Required Supplementary Information Included in Auditor's Report

**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, 2019

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
<b>EXPENDITURES</b>					
<b>General Support</b>					
Board of education	\$ 107,492	\$ 112,265	\$ 106,181	\$ -	\$ 6,084
Central administration	189,588	196,401	196,011	-	390
Finance	427,841	415,676	361,766	36,000	17,910
Staff	62,261	61,262	50,376	-	10,886
Central services	796,887	838,671	776,642	-	62,029
Special items	160,410	161,819	159,933	-	1,886
<b>Total General Support</b>	<b>1,744,479</b>	<b>1,786,094</b>	<b>1,650,909</b>	<b>36,000</b>	<b>99,185</b>
<b>Instruction</b>					
Administration and improvement	324,684	330,905	324,290	-	6,615
Teaching - regular school	3,175,420	3,158,860	3,000,904	2,156	155,800
Programs for students with disabilities	1,054,126	1,025,321	863,594	331	161,396
Occupational education	26,423	27,151	25,365	-	1,786
Teaching - special schools	11,073	20,933	19,859	-	1,074
Instructional media	275,191	291,813	288,208	-	3,605
Pupil services	741,343	770,127	737,033	3,295	29,799
<b>Total Instruction</b>	<b>5,608,260</b>	<b>5,625,110</b>	<b>5,259,253</b>	<b>5,782</b>	<b>360,075</b>
Pupil Transportation	505,276	479,462	416,912	-	62,550
Employee Benefits	3,231,715	3,221,568	2,973,564	-	248,004
<b>Debt Service</b>					
Principal	347,849	347,849	347,849	-	-
Interest	121,989	131,564	131,564	-	-
<b>Total Debt Service</b>	<b>469,838</b>	<b>479,413</b>	<b>479,413</b>	<b>-</b>	<b>-</b>
<b>Total Expenditures</b>	<b>11,559,568</b>	<b>11,591,647</b>	<b>10,780,051</b>	<b>41,782</b>	<b>769,814</b>
<b>OTHER USES</b>					
Operating Transfers Out	199,960	210,106	204,335	-	5,771
<b>Total Expenditures and Other Uses</b>	<b>\$ 11,759,528</b>	<b>\$ 11,801,753</b>	<b>10,984,386</b>	<b>\$ 41,782</b>	<b>\$ 775,585</b>
Net Change in Fund Balance			41,842		
Fund Balance - Beginning of Year			2,657,795		
Fund Balance - End of Year			<u>\$ 2,699,637</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.

See Paragraph on Required Supplementary Information Included in Auditors' Report

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

*Teachers' Retirement System*

	2019	2018	2017	2016	2015
District's proportion of the net pension asset/(liability)	0.0276040%	0.0279610%	0.0286090%	0.0282520%	0.0269050%
District's proportionate share of the net pension asset/(liability)	\$ 499,156	\$ 212,528	\$ (306,412)	\$ 2,934,447	\$ 2,997,094
District's covered payroll	\$ 4,484,643	\$ 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	11.13 %	4.62 %	6.52 %	63.68 %	71.54 %
Plan fiduciary net position as a percentage of the total pension liability	101.53%	100.66%	99.01%	110.46%	111.48%

*Employees' Retirement System*

	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.0034870%	0.0036689%	0.0339150%	0.0037650%	0.0038356%
District's proportionate share of the net pension liability	\$ (247,063)	\$ (118,410)	\$ (318,676)	\$ (604,297)	\$ (129,575)
District's covered payroll	\$ 1,021,004	\$ 985,531	\$ 983,404	\$ 915,415	\$ 955,099
District's proportionate share of the net pension liability as a percentage of its covered payroll	24.20 %	12.01 %	32.41 %	66.01 %	13.57 %
Plan fiduciary net position as a percentage of the total pension liability	96.27%	98.24%	94.70%	90.68%	97.95%

*An additional year of historical information will be added each year, subsequent to the year of implementation until 10 years of historical data is available.*

**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*

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 491,766	\$ 439,495	\$ 519,292	\$ 578,850	\$ 742,237	\$ 628,160	\$ 453,655	\$ 424,613	\$ 453,158	\$ 248,991
Contributions in relation to the contractually required contribution	491,766	439,495	519,292	578,850	742,237	628,160	453,655	424,613	453,158	248,991
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 4,630,562	\$ 4,484,643	\$ 4,596,387	\$ 4,696,482	\$ 4,607,840	\$ 4,189,349	\$ 3,658,507	~ Information Not Readily Available ~		
Contributions as a percentage of covered payroll	11%	10%	11%	12%	16%	15%	12%			

*Employees' Retirement System*

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 127,146	\$ 127,277	\$ 123,632	\$ 127,108	\$ 147,146	\$ 161,815	\$ 142,102	\$ 150,033	\$ 119,678	\$ 84,950
Contributions in relation to the contractually required contribution	127,146	127,277	123,632	127,108	147,146	161,815	142,102	150,033	119,678	84,950
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 1,038,322	\$ 1,044,616	\$ 985,529	\$ 933,859	\$ 940,335	\$ 1,052,416	\$ 1,045,115	~ Information Not Readily Available ~		
Contributions as a percentage of covered payroll	12%	12%	13%	14%	16%	15%	14%			

See Paragraph on Required Supplementary Information Included in Auditors' Report

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

	<u>2019</u>	<u>2018</u>
Total OPEB liability		
Service cost	\$ 1,338,440	\$ 1,017,251
Interest	819,311	778,082
Changes in benefit terms	849,174	-
Differences between expected and actual experience	5,134,565	(38,108)
Changes of assumptions or other inputs	(13,997,593)	-
Benefit payments	<u>(656,453)</u>	<u>(751,028)</u>
Net change in total OPEB liability	(6,512,556)	1,006,197
Total OPEB liability, beginning	<u>26,297,726</u>	<u>25,291,529</u>
Total OPEB liability, ending	<u>\$ 19,785,170</u>	<u>\$ 26,297,726</u>
Covered employee payroll	\$ 5,067,979	\$ 5,787,125
Total OPEB liability as a percentage of covered employee payroll	390.40%	454.42%

*An additional year of historical information will be added each year, subsequent to the year of implementation until 10 years of historical data is available.*

**Note to Required Supplementary Information**

The discount rate increased from 3.00% to 3.50% as reflected in 2018 and 2019 above.  
The inflation rate decreased from 3.00% in 2018 to 2.60% in 2019. The medical trend rates decreased from 7.50% to 4.50% over 7 years in 2018 to 6.10% to 4.10% over 57 years in 2019.

See Paragraph on Required Supplementary Information Included in Auditors' Report

**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, 2019

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 11,714,448
Additions:		
Prior year's encumbrances		45,080
Original Budget		11,759,528
Budget revisions		42,225
Final Budget		\$ 11,801,753

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2019-2020 voter-approved expenditure budget		\$ 11,934,877
Maximum allowed (4% of 2019-2020 budget)		\$ 477,395

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

Unrestricted fund balance:		
Assigned fund balance	\$ 787,790	
Unassigned fund balance	1,136,873	
		\$ 1,924,663
Less:		
Appropriated fund balance	746,008	
Encumbrances	41,782	
Total adjustments		787,790

General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		\$ 1,136,873
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Actual Percentage		9.53%
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SHELTER ISLAND UNION FREE SCHOOL DISTRICT  
 Schedule of Project Expenditures and Financing Resources - Capital Projects Fund  
 For The Year Ended June 30, 2019

PROJECT TITLE	Budget	Budget	Expenditures			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2019
	June 30, 2018	June 30, 2019	Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total	
2015 Bond issuance	\$ 1,635,160	\$ 1,635,160	\$ 1,635,160	\$	\$ 1,635,160	\$	\$ 1,629,500	\$	\$ 5,660	\$ 1,635,160	\$
District-wide improvements	<u>150,000</u>	<u>250,000</u>	<u>89,246</u>	<u>4,976</u>	<u>94,222</u>	<u>155,778</u>			<u>250,000</u>	<u>250,000</u>	<u>155,778</u>
Totals	<u>\$ 1,785,160</u>	<u>\$ 1,885,160</u>	<u>\$ 1,724,406</u>	<u>\$ 4,976</u>	<u>\$ 1,729,382</u>	<u>\$ 155,778</u>	<u>\$ 1,629,500</u>	<u>\$ -</u>	<u>\$ 255,660</u>	<u>\$ 1,885,160</u>	<u>\$ 155,778</u>

See Paragraph on Other Supplementary Information Included in Auditors' Report

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT**  
**Net Investment in Capital Assets**  
June 30, 2019

Capital assets, net	<u>\$ 9,291,427</u>
Deduct:	
Short-term portion of bonds payable	295,000
Long-term portion of bonds payable	2,635,000
Short-term portion of energy performance contract payable	59,510
Long-term portion of energy performance contract payable	<u>778,855</u>
	<u>3,768,365</u>
Net Investment in Capital Assets	<u><u>\$ 5,523,062</u></u>



**NawrockiSmith**

CERTIFIED PUBLIC ACCOUNTANTS

**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, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 8, 2019.

***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 19-01 and 19-02.

## ***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 8, 2019

*Nawrocki Smith LLP*