

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2018**

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Port Jefferson Union Free School District

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 Port Jefferson Union Free School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Emphasis of Matter - Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, Port Jefferson Union Free School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in District's total OPEB liability, schedule of District's proportionate share of the net pension liability, and the schedule of District's contributions on pages 3 through 14 and 51 through 55, 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 Port Jefferson Union Free School District's basic financial statements. The other supplementary financial information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary financial 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 other supplementary financial information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2018, on our consideration of the Port Jefferson Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port Jefferson Union Free School District's internal control over financial reporting and compliance.

R.S. Abrams & Co., LLP

R.S. Abrams & Co., LLP
Islandia, NY
October 11, 2018

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

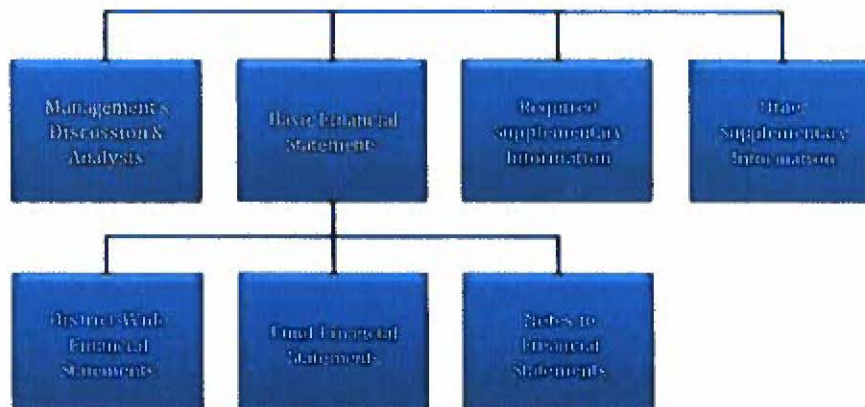
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2018 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, decreased by \$709,652. This was due to an excess of expenses over revenues based on the accrual basis of accounting.
- The District's total net position at June 30, 2017 was restated and decreased by \$57,572,052 as a result of the required implementation of a new GASB accounting standard during the 2018 fiscal year and the restatement of the opening balances of capital assets. This restatement has no impact on the governmental funds financial statements.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$44,222,437. Of this amount, \$1,732,631 was offset by program charges for services and operating and capital grants. General revenues of \$41,780,154 amount to 96% of total revenues and covered the balance of program expenses.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$2,084,618. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- The budget for the 2018-2019 school year in the amount of \$43,889,812 was approved by the voters on May 15, 2018. The budget presented to the taxpayers showed a 2.36% spending increase over the prior year budget.
- In 2015 the voters of the District passed a proposition to establish a capital reserve to fund future capital improvements in the amount of \$10,000,000 for a term not to exceed ten years. The maximum annual funding into the capital reserve is \$1,500,000. During the current fiscal year, the capital reserve was funded to the annual maximum. The balance in the reserve, including interest earned, is \$5,570,119 as of June 30, 2018.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

A. District-Wide Financial Statements

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

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

The Statement of Net Position:

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

The Statement of Activities:

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

B. Fund Financial Statements

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

Governmental Funds

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

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

Because the focus of governmental funds is narrower than that of district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, you may better

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

Fiduciary Funds

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

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position decreased by \$709,652 between fiscal year 2018 and 2017. Additionally, the June 30, 2017 balances have been restated to reflect total OPEB liabilities in accordance with the new GASB Statement and the restatement of capital assets. The decrease is due to expenses in excess of revenues based on the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	2018	As Restated 2017	Increase (Decrease)	Percentage Change
Assets				
Current and Other Assets	\$ 26,773,892	\$ 26,781,774	\$ (7,882)	(0.03)%
Capital Assets, Net	16,203,526	14,783,463	1,420,063	9.61 %
Net Pension Asset - Proportionate Share - TRS	744,407		744,407	N/A
Total Assets	43,721,825	41,565,237	2,156,588	5.19 %
Deferred Outflows of Resources	10,988,847	10,974,240	14,607	0.13 %
Liabilities				
Current and Other Liabilities	3,070,795	3,108,461	(37,666)	(1.21)%
Long-Term Liabilities	8,959,386	9,435,297	(475,911)	(5.04)%
Net Pension Liability - Proportionate Share - ERS	363,974	2,029,998	(1,666,024)	(82.07)%
Total OPEB Obligation	86,613,100	87,928,316	(1,315,216)	(1.50)%
Total Liabilities	99,007,255	102,502,072	(3,494,817)	(3.41)%
Deferred Inflows of Resources	7,270,323	894,659	6,375,664	712.64 %
Net Position (Deficit)				
Net Investment in Capital Assets	11,801,083	11,258,685	542,398	4.82 %
Restricted	19,157,538	17,607,823	1,549,715	8.80 %
Unrestricted (Deficit)	(82,525,527)	(79,723,762)	(2,801,765)	(3.51)%
Total Net Position (Deficit)	\$ (51,566,906)	\$ (50,857,254)	\$ (709,652)	(1.40)%

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Capital assets, net increased during the year by \$1,420,063. Equipment purchases and capital project expenditures totaling \$2,902,786 were offset by depreciation expense of \$1,482,723. Additionally, the 2017 balance was restated and increased by \$1,155,517 based on the amounts reported on the capital asset inventory records.

Net pension asset – proportionate share – teachers' retirement system has a balance of \$744,407, as the New York State Teachers' Retirement System experienced a gain resulting in an ending balance that was an asset. The prior year balance was a liability of \$1,036,138.

Deferred outflows of resources represents contributions to the retirement plans subsequent to the measurement dates and actuarial adjustments at the plan level that will be amortized in future years. Also included are deferred charges, net from a prior year advanced refunding.

Long-term liabilities decreased by \$475,911. Principal payments and deferred premiums on obligations totaling \$803,472 were offset by net increases in long term employee benefits of \$327,561.

Net pension liability – proportionate share decreased by \$1,666,024 in the current year. This liability represents the District's share of the New York State and Local Employees' Retirement System's collective net pension liability at the measurement date. The prior year balance included a liability for the District's share of the New York State Teachers' Retirement System's net pension liability of \$1,036,138.

Total other postemployment benefits (OPEB) obligation decreased by \$1,315,216, as compared to the prior year. This decrease is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 15 "Postemployment Healthcare Benefits", provides additional information.

Deferred inflows of resources represents actuarial adjustments of the pension and OPEB plans that will be amortized in future years and revenues that have been deferred to a future period.

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

	<u>Increase (Decrease)</u>
Capital asset additions	\$ 2,902,786
Less: Additions funded by debt	(1,633,066)
Principal debt reduction	755,401
Depreciation expense	<u>(1,482,723)</u>
	<u>\$ 542,398</u>

The restricted amount of \$19,157,538 relates to the District's reserves. This number increased over the prior year by \$1,549,715, as a result of Board approved additions to the restricted amounts and interest earned.

The unrestricted deficit amount of \$(82,525,527) relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation. This deficit increased over the prior year by \$2,801,765.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

B. Changes in Net Position

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

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Program Revenues				
Charges for Services	\$ 901,570	\$ 685,692	\$ 215,878	31.48 %
Operating Grants	584,001	627,936	(43,935)	(7.00)%
Capital Grants	247,060	206,250	40,810	19.79 %
General Revenues				
Property Taxes and STAR	35,626,790	34,807,797	818,993	2.35 %
State Sources	3,688,398	3,475,433	212,965	6.13 %
Other	2,464,966	2,715,371	(250,405)	(9.22)%
Total Revenues	<u>43,512,785</u>	<u>42,518,479</u>	<u>994,306</u>	2.34 %
Expenses				
General Support	7,300,933	7,151,164	149,769	2.09 %
Instruction	34,526,428	33,952,881	573,547	1.69 %
Pupil Transportation	2,053,800	2,116,104	(62,304)	(2.94)%
Debt Service - Interest	144,180	135,424	8,756	6.47 %
Food Service Program	197,096	218,722	(21,626)	(9.89)%
Total Expenses	<u>44,222,437</u>	<u>43,574,295</u>	<u>648,142</u>	1.49 %
Decrease in Net Position	<u>\$ (709,652)</u>	<u>\$ (1,055,816)</u>	<u>\$ 346,164</u>	32.79 %

Information for 2017 was not restated because information was not readily available. The cumulative effect of analyzing the change in accounting principle is shown as an adjustment to the beginning net position in 2018. See Note 15 for more information.

The District's net position decreased \$709,652 and \$1,055,816 for the years ended June 30, 2018 and June 30, 2017, respectively.

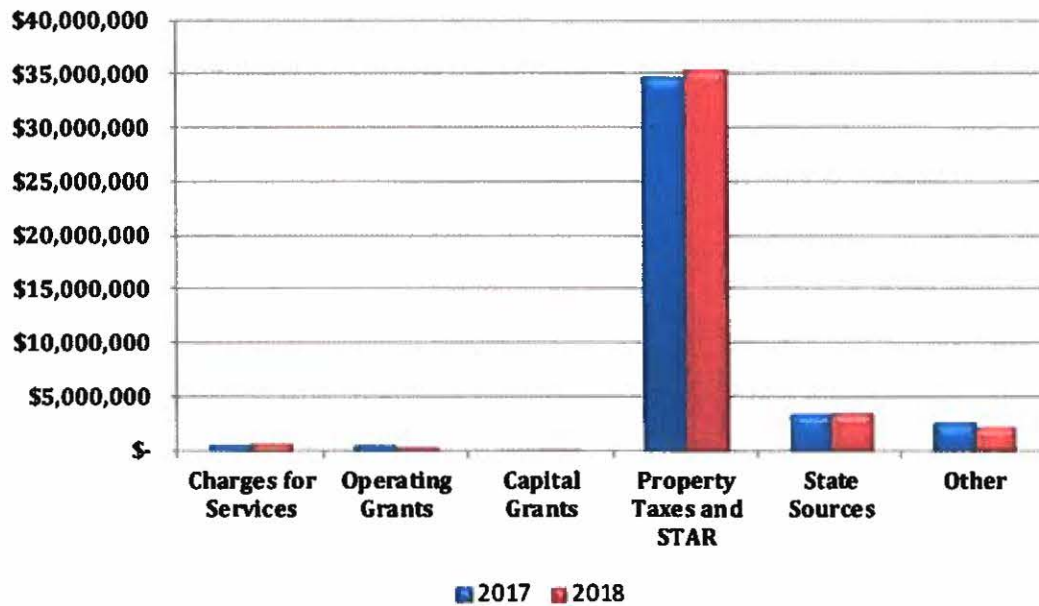
The District's revenues increased by \$994,306 or 2.34%. Property taxes and STAR revenue increased \$818,993, which was within the 2% tax cap legislation. The District also received an additional \$234,422 in tuition and health service charges.

The District's expenses for the year increased by \$648,142 or 1.49%. The majority of the increase was in instruction expense, which increased over the prior year by 1.69%.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (81.9% of the total for the years ended June 30, 2018 and 2017). Instruction expenses is the largest category of expenses incurred (i.e., 78.2% and 77.9% of the total for the years ended June 30, 2018 and 2017, respectively).

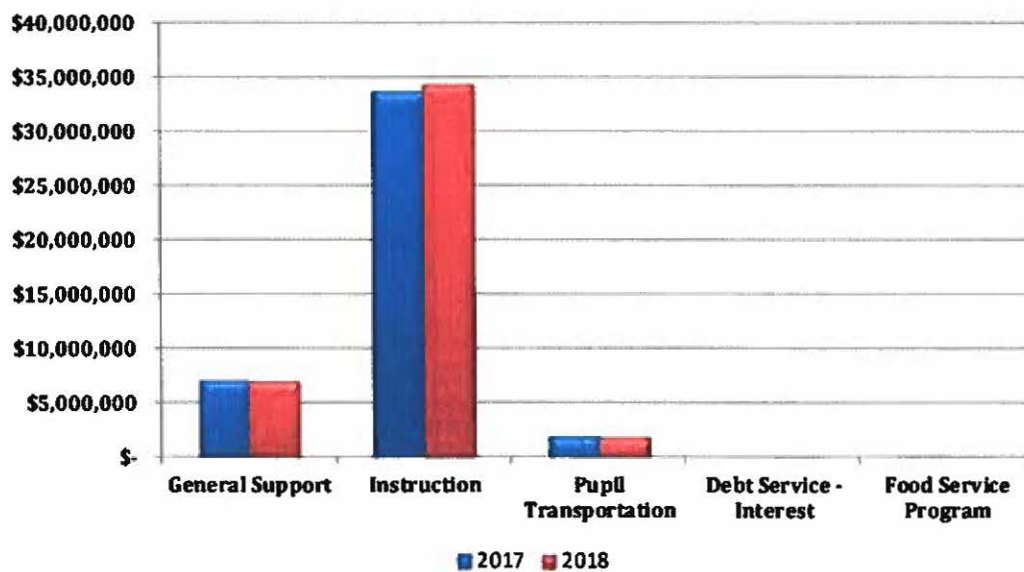
**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



	Charges for Services	Operating Grants	Capital Grants	Property Taxes and STAR	State Sources	Other
2017	1.6%	1.5%	0.5%	81.9%	8.2%	6.3%
2018	2.1%	1.3%	0.6%	81.9%	8.5%	5.6%

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
2017	16.4%	77.9%	4.9%	0.3%	0.5%
2018	16.5%	78.2%	4.6%	0.3%	0.4%

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2018, the District's governmental funds reported a combined fund balance of \$23,092,238, which is an increase of \$153,990 over the prior year. This increase is due to an excess of revenues over expenditures based on 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:

	2018	2017	Increase (Decrease)
General Fund			
Restricted:			
Workers' compensation	\$ 3,285,450	\$ 3,092,345	\$ 193,105
Unemployment insurance	1,956,220	1,848,387	107,833
Retirement contribution	3,584,114	3,444,679	139,435
Employee benefit accrued liability	3,641,561	3,208,962	432,599
Capital	5,570,119	4,507,364	1,062,755
Assigned:			
Unappropriated fund balance	867,321	749,440	117,881
Unassigned: Fund balance	1,745,887	1,714,877	31,010
	<u>20,650,672</u>	<u>18,566,054</u>	<u>2,084,618</u>
School Food Service Fund			
Nonspendable: Inventory	1,331	1,108	223
Assigned: Unappropriated fund balance	114,873	87,065	27,808
	<u>116,204</u>	<u>88,173</u>	<u>28,031</u>
Debt Service Fund			
Restricted: Debt service	696,086	1,506,086	(810,000)
Capital Projects Fund			
Restricted:			
Capital	423,988		423,988
Unspent bond proceeds	402,942		402,942
Assigned: Unappropriated fund balance	802,346	2,777,935	(1,975,589)
	<u>1,629,276</u>	<u>2,777,935</u>	<u>(1,148,659)</u>
Total Fund Balance	<u><u>\$ 23,092,238</u></u>	<u><u>\$ 22,938,248</u></u>	<u><u>\$ 153,990</u></u>

A. General Fund

The general fund operated at a \$2,084,618 profit during the year, as compared to a profit of \$2,235,721 from the prior year. Actual operating revenues increased by \$1,002,743. In addition, other financing sources increased by \$810,000, as that amount was transferred from the debt service fund to offset the cost of principal and interest payments on the District's outstanding serial bonds. Actual operating expenditures increased \$877,637, or 2.25% in the current year and other finance uses increased by \$1,086,209, as the District increased the amount transferred to the capital projects fund by \$1,091,000.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

B. School Food Service Fund

The net change in the school food service fund – fund balance is an increase of \$28,031, which was the operating profit for the year. In the prior year, the school food service fund had an operating profit of \$22,486.

C. Debt Service Fund

The District transferred \$810,000 from the debt service fund to the general fund to offset principal and interest payments on the District's serial bonds.

D. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$1,148,659. Revenues sources totaling \$1,638,060, including a capital grant from New York State and an interfund transfer from the general fund were offset by current period construction costs of \$2,786,719.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2017-2018 Budget

The District's general fund adopted budget for the year ended June 30, 2018 was \$42,879,851. This amount was increased by encumbrances carried forward from the prior year in the amount of \$749,440 and a budget revision of \$456,000 for a total final budget of \$44,085,291.

The budget was funded through a combination of estimated revenues. The majority of this funding source was \$35,626,700 in estimated property taxes and STAR.

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

The general fund's unassigned fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves and 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	\$ 1,714,877
Revenues Over Budget	436,776
Expenditures and Encumbrances Under Budget	1,985,961
Interest Allocated to Reserves	(67,727)
Reserves Utilized	75,000
Allocation to Reserves	<u>(2,399,000)</u>
Closing Unassigned Fund Balance	<u>\$ 1,745,887</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Opening, Unassigned Fund Balance

The \$1,714,877 shown in the table is the portion of the District's June 30, 2017 fund balance that was retained as unassigned. This was 4% of the District's 2017-2018 approved operating budget of \$42,879,851, and is at the maximum unassigned fund balance permitted by law.

Revenues Under Budget

The District's actual revenues of \$43,316,627 were \$436,776 more than estimated at the time the budget was prepared. The District collected \$278,361 more in charges for services and an additional \$122,104 in use of money and property.

Expenditures and Encumbrances Under Budget

The District's expenditures and encumbrances totaling \$42,099,330 were \$1,985,961 less than budgeted. Some of the factors contributing to this positive variance were:

General Support – Savings were realized due to lower than anticipated plant supply costs, lower support staff salaries due to retirements and reduced legal costs relating to pending litigation.

Instruction – There were less staff development opportunities offered and a reduction in BOCES support services. Special education outside student placements and student occupational education programs declined from amounts originally anticipated.

Reserves Utilized

The District used the following reserve during the year:

Employee benefit accrued liability reserve	<u>\$ 75,000</u>
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Allocation to Reserves

Pursuant to resolutions by the Board of Education, the District transferred \$2,399,000 to the following reserves to set aside funds to cover future District expenditures:

Capital	\$ 1,500,000
Workers' compensation	180,000
Retirement contribution	200,000
Employee benefit accrued liability	419,000
Unemployment insurance	<u>100,000</u>
	<u>\$ 2,399,000</u>

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2018 was \$1,745,887. This amount equals 3.98% of the 2018-2019 voter approved budget and is within the 4% statutory limit.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

A. Capital Assets

At June 30, 2018, the District had invested in a broad range of capital assets, as indicated in the table below. The net increase in capital assets is due to capital additions of \$2,902,786 exceeding depreciation of \$1,482,723 for the year ended June 30, 2018. A summary of the District's capital assets, net of depreciation at June 30, 2018 and 2017 is as follows:

	2018	As Restated 2017	Increase (Decrease)
Land	\$ 171,241	\$ 171,241	\$ -
Construction work in progress	6,456,272	3,669,553	2,786,719
Buildings and improvements	8,822,128	10,114,567	(1,292,439)
Outdoor improvements	124,996	175,217	(50,221)
Furniture and equipment	573,798	582,690	(8,892)
Licensed vehicles	55,091	70,195	(15,104)
Capital assets, net	<u>\$ 16,203,526</u>	<u>\$ 14,783,463</u>	<u>\$ 1,420,063</u>

B. Debt Administration

At June 30, 2018, the District had total bonds payable of \$2,385,000. The bonds were issued for school building improvements. The decrease in outstanding debt represents principal payments made during the year in the amount of \$640,000. A summary of the outstanding debt at June 30, 2018 and 2017 is as follows:

	Issue Date	Interest Rate	2018	2017	Increase (Decrease)
Bonds Payable					
	2008	3% - 4%	\$ 145,000	\$ 295,000	\$ (150,000)
	2016	2% - 5%	<u>2,240,000</u>	<u>2,730,000</u>	<u>(490,000)</u>
			<u>\$ 2,385,000</u>	<u>\$ 3,025,000</u>	<u>\$ (640,000)</u>

The District entered into an energy performance contract to do district-wide energy efficient capital projects. The decrease in the liability represents principal payments made during the year. A summary of the outstanding debt at June 30, 2018 and 2017 is as follows:

Energy Performance Contract Payable					
	12/15/2016	2.599%	<u>\$ 2,420,385</u>	<u>\$ 2,535,786</u>	<u>\$ (115,401)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's outstanding serial bonds at June 30, 2018 are approximately 0.85% of the District's debt limit.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

C. Other Long-Term Liabilities

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

	2018	As Restated 2017	Increase
Compensated absences payable	\$ 3,642,239	\$ 3,225,951	\$ 416,288
Workers' compensation liabilities	413,492	502,219	(88,727)
Net pension liability - proportionate share	363,974	2,029,998	(1,666,024)
Total OPEB obligation	86,613,100	87,928,316	(1,315,216)
	<u>\$ 91,032,805</u>	<u>\$ 93,686,484</u>	<u>\$ (2,653,679)</u>

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 15, 2018, for the year ending June 30, 2019, is \$43,889,812, which is an increase of \$1,009,961 or 2.36% over the prior year's budget.

B. Future Budgets

The tax certiorari proceeding initiated by the Long Island Power Authority to challenge its property tax assessment has not been settled. The result of such a challenge can have a considerable effect on the District's residential property taxes and future school district budgets. Significant increases in costs of health insurance, the property tax cap, and uncertainty in state aid and federal funds can also impact the District's future budgets.

C. Tax Cap

New York State law limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation to June 15, 2020. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. The District's 2018-2019 property tax increase of 2.27% 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 2019-20 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.

This program provides an incentive for the District to be tax cap compliant.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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:

Mr. Sean Leister
Assistant Superintendent for Business
Port Jefferson Union Free School District
550 Scraggy Hill Road
Port Jefferson, NY 11777

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Net Position
June 30, 2018

ASSETS

Cash	
Unrestricted	\$ 6,005,811
Restricted	19,560,480
Receivables	
Accounts receivable	18,569
Due from fiduciary funds	14,919
Due from state and federal	445,633
Due from other governments	225,378
Inventory	1,331
Prepays	501,771
Capital assets:	
Not being depreciated	6,627,513
Being depreciated, net of accumulated depreciation	9,576,013
Net pension asset - proportionate share - teachers' retirement system	744,407
Total Assets	<u>43,721,825</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges from advance refunding, net	51,498
Pensions	<u>10,937,349</u>
Total Deferred Outflows of Resources	<u>10,988,847</u>

LIABILITIES

Payables	
Accounts payable	404,253
Accrued liabilities	767,027
Accrued interest on bonds payable	9,413
Due to other governments	70,453
Due to teachers' retirement system	1,629,025
Due to employees' retirement system	117,672
Compensated absences payable	55,428
Unearned credits	
Collections in advance	17,524
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	673,592
Energy performance contract payable	151,801
Compensated absences payable	100,000
Due and payable after one year	
Bonds payable, net	1,809,678
Energy performance contract payable	2,268,584
Compensated absences payable	3,542,239
Workers' compensation liabilities	413,492
Net pension liability - proportionate share - employees' retirement system	363,974
Total other postemployment benefits obligation	<u>86,613,100</u>
Total Liabilities	<u>99,007,255</u>

DEFERRED INFLOWS OF RESOURCES

Deferred revenues	118,501
Pensions	3,331,706
Other postemployment benefits obligation	<u>3,820,116</u>
Total Deferred Inflows of Resources	<u>7,270,323</u>

NET POSITION (DEFICIT)

Net investment in capital assets	<u>11,801,083</u>
Restricted	
Workers' compensation	3,285,450
Unemployment insurance	1,956,220
Retirement contribution	3,584,114
Employee benefit accrued liability	3,641,561
Capital	5,994,107
Debt service	<u>696,086</u>
	<u>19,157,538</u>
Unrestricted (deficit)	<u>(82,525,527)</u>
Total Net Position (Deficit)	<u>\$ (51,566,906)</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2018

		Program Revenues		
	Expenses	Charges for Services	Operating Grants	Capital Grants
				Net (Expense) Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS				
General support	\$ 7,300,933	\$	\$	\$ (7,300,933)
Instruction	34,526,428	743,361	526,867	247,060
Pupil transportation	2,053,800			(2,053,800)
Debt service - interest	144,180			(144,180)
Food service program	197,096	158,209	57,134	18,247
Total Functions and Programs	<u>\$ 44,222,437</u>	<u>\$ 901,570</u>	<u>\$ 584,001</u>	<u>\$ 247,060</u>
				(42,489,806)
GENERAL REVENUES				
Real property taxes				34,406,377
Other tax items				2,822,164
Use of money and property				601,911
Forfeitures				393
Miscellaneous				260,911
State sources				<u>3,688,398</u>
Total General Revenues				<u>41,780,154</u>
Change in Net Position				(709,652)
Total Net Position (Deficit) - Beginning of Year, as Restated				<u>(50,857,254)</u>
Total Net Position (Deficit) - End of Year				<u>\$ (51,566,906)</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2018

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 4,414,966	\$ 510,658	\$ 122,125	\$	\$ 958,062	\$ 6,005,811
Restricted	18,733,550				826,930	19,560,480
Receivables						
Accounts receivable	18,000		569			18,569
Due from other funds	1,387,537		6,502	1,506,086	106,864	3,006,989
Due from state and federal	87,929	354,617	3,087			445,633
Due from other governments	225,378					225,378
Inventory			1,331			1,331
Total Assets	<u>\$ 24,867,360</u>	<u>\$ 865,275</u>	<u>\$ 133,614</u>	<u>\$ 1,506,086</u>	<u>\$ 1,891,856</u>	<u>\$ 29,264,191</u>
LIABILITIES						
Payables						
Accounts payable	\$ 141,673	\$	\$	\$	\$ 262,580	\$ 404,253
Accrued liabilities	767,027					767,027
Due to other funds	1,311,849	865,275	4,946	810,000		2,992,070
Due to other governments	70,338		115			70,453
Due to teachers' retirement system	1,629,025					1,629,025
Due to employees' retirement system	117,672					117,672
Compensated absences payable	55,428					55,428
Unearned credits						
Collections in advance	5,175		12,349			17,524
Total Liabilities	<u>4,098,187</u>	<u>865,275</u>	<u>17,410</u>	<u>810,000</u>	<u>262,580</u>	<u>6,053,452</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	118,501					118,501
FUND BALANCES						
Nonspendable: Inventory			1,331			1,331
Restricted:						
Workers' compensation	3,285,450					3,285,450
Unemployment insurance	1,956,220					1,956,220
Retirement contribution	3,584,114					3,584,114
Employee benefit accrued liability	3,641,561					3,641,561
Capital	5,570,119				423,988	5,994,107
Debt service				696,086		696,086
Unspent bond proceeds					402,942	402,942
Assigned:						
Unappropriated fund balance	867,321		114,873		802,346	1,784,540
Unassigned: Fund balance	1,745,887					1,745,887
Total Fund Balances	<u>20,650,672</u>	<u>-</u>	<u>116,204</u>	<u>696,086</u>	<u>1,629,276</u>	<u>23,092,238</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 24,867,360</u>	<u>\$ 865,275</u>	<u>\$ 133,614</u>	<u>\$ 1,506,086</u>	<u>\$ 1,891,856</u>	<u>\$ 29,264,191</u>

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

Total Governmental Fund Balances \$ 23,092,238

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

Expenditures that are recorded in the governmental fund that effect future periods are recorded as prepaid expenditures in the Statement of Net Position. 501,771

The costs of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.

Original cost of capital assets	\$ 41,829,224	
Accumulated depreciation	<u>(25,625,698)</u>	
		16,203,526

Proportionate share of long-term asset, liability and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.

Net pension asset - teachers' retirement system	744,407	
Deferred outflows of resources	10,937,349	
Net pension liability - employees' retirement system	(363,974)	
Deferred inflows of resources	<u>(3,331,706)</u>	
		7,986,076

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

Total other postemployment benefits obligation	(86,613,100)	
Deferred inflows of resources	<u>(3,820,116)</u>	
		(90,433,216)

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

Deferred charges on advance refunding	142,254	
Less: accumulated amortization	<u>(90,756)</u>	
		51,498

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Accrued interest on bonds payable	(9,413)	
Bonds payable, net	(2,483,270)	
Energy performance contract payable	(2,420,385)	
Compensated absences payable	(3,642,239)	
Workers' compensation liabilities	<u>(413,492)</u>	
		(8,968,799)

Total Net Position (Deficit)		<u>\$ (51,566,906)</u>
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PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2018

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 34,406,377	\$	\$	\$	\$	\$ 34,406,377
Other tax items	2,822,164					2,822,164
Charges for services	743,361					743,361
Use of money and property	587,104		2,430			589,534
Forfeitures	393					393
Miscellaneous	258,830		2,081			260,911
State sources	3,688,398	213,548	2,507		247,060	4,151,513
Federal sources		313,319	54,627			367,946
Sales			158,209			158,209
Total Revenues	42,506,627	526,867	219,854	-	247,060	43,500,408
EXPENDITURES						
General support	5,525,451					5,525,451
Instruction	20,657,661	561,286				21,218,947
Pupil transportation	1,972,163					1,972,163
Employee benefits	10,693,676					10,693,676
Debt service						
Principal	755,401					755,401
Interest	202,238					202,238
Food service program			191,823			191,823
Capital outlay					2,786,719	2,786,719
Total Expenditures	39,806,590	561,286	191,823	-	2,786,719	43,346,418
Excess (Deficiency) of Revenues Over Expenditures	2,700,037	(34,419)	28,031	-	(2,539,659)	153,990
OTHER FINANCING SOURCES AND (USES)						
Operating transfers in	810,000	34,419			1,391,000	2,235,419
Operating transfers (out)	(1,425,419)			(810,000)		(2,235,419)
Total Other Financing Sources and (Uses)	(615,419)	34,419	-	(810,000)	1,391,000	-
Net Change in Fund Balances	2,084,618	-	28,031	(810,000)	(1,148,659)	153,990
Fund Balances -						
Beginning of Year	18,566,054		88,173	1,506,086	2,777,935	22,938,248
End of Year	\$ 20,650,672	\$ -	\$ 116,204	\$ 696,086	\$ 1,629,276	\$ 23,092,238

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

Net Change in Fund Balances		\$ 153,990
Amounts reported for governmental activities in the Statement of Activities are different because:		
<u>Long-Term Revenue and Expense Differences</u>		
Expenditures for insurance are recorded in the governmental fund when paid; however, the expense is recorded in the Statement of Activities in the period that it relates to. Prepaid insurance increased from June 30, 2017 to June 30, 2018.	\$ 40,615	
Bond premiums are recorded as revenue in the governmental funds when received; however, the revenue is recorded in the Statement of Activities over the life of the bonds.	12,377	
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	(416,288)	
Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in a reduction of the long-term liability and an increase in the net position.		
Decrease in workers' compensation claims liability	<u>88,727</u>	(274,569)
<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 expenses in the Statement of Activities. This is the amount by which capital outlays exceeded depreciation in the period.		
Capital outlays	2,902,786	
Depreciation expense	<u>(1,482,723)</u>	1,420,063
<u>Long-Term Debt Transactions Differences</u>		
The amortization of the deferred premium, net of the amortization of the deferred charges on the advance refunding of bonds, decreases interest expense in the Statement of Activities.	22,879	
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	640,000	
Repayment of energy performance contract principal	115,401	
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest increased from June 30, 2017 to June 30, 2018.	<u>35,179</u>	813,459
<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	(329,310)	
Employees' retirement system	11,615	
Other postemployment benefits	<u>(2,504,900)</u>	(2,822,595)
Change in Net Deficit of Governmental Activities		<u>\$ (709,652)</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2018

	<u>Agency</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash		
Unrestricted	\$ 107,966	\$
Restricted		<u>14,582</u>
Total Assets	<u>\$ 107,966</u>	<u>\$ 14,582</u>
 LIABILITIES		
Extraclassroom activity balances	\$ 80,398	\$
Due to governmental funds	14,919	
Other liabilities	<u>12,649</u>	
Total Liabilities	<u>\$ 107,966</u>	<u>-</u>
 NET POSITION		
Restricted for scholarships		<u>\$ 14,582</u>

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

	<u>Private Purpose Trust</u>
ADDITIONS	
Contributions	<u>\$ 6,100</u>
DEDUCTIONS	
Scholarships and awards	<u>4,500</u>
Total Deductions	<u>4,500</u>
Change in Net Position	1,600
Net Position - Beginning of Year	<u>12,982</u>
Net Position - End of Year	<u><u>\$ 14,582</u></u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Port Jefferson 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 six 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 Fund. 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.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Basis of Presentation

District-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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

Capital Projects Fund - is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

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:

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

E. Real Property Taxes

Calendar

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

Enforcement

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 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 and debt agreements.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 and Prepaid Items

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. Under the consumption method, a current asset for the inventory is recorded at the time of receipt and/or purchase and an expense/expenditure is reported in the year the goods or services are consumed.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as assets on the Statement of Net Position and Balance Sheet using the consumption method.

Purchases of inventorable 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 inventory does not constitute available spendable resources.

L. Capital Assets

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

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

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 15,000	30 years
Furniture and equipment	2,000	5-20 years
Land improvements	15,000	30 years
Vehicles	2,000	8 years

M. Deferred Outflows of Resources

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has three items that qualify for reporting in this category. First is the unamortized amount of deferred charges from the refunding of bonds that is being amortized as a component of interest expense on a weighted average basis through June 30, 2023. The second item is related to pensions and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense. The third item is the District's contributions to the pension systems (TRS and ERS) subsequent to the measurement date.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

N. Collections in Advance

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

O. Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. First is unavailable revenues reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. 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 reported in the district-wide Statement of Net Position. This represents the effect of the net changes of assumptions or other inputs.

P. Employee Benefits – Compensated Absences

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may 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 termination 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.

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

Q. Other Benefits

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

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

R. Short-Term Debt

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

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

S. Equity Classifications

District-Wide Statements

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

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

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:

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 are recorded in the school food service fund.

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

Workers' Compensation Reserve

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

Unemployment Insurance Reserve

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

Retirement Contribution Reserve

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

Employee Benefit Accrued Liability Reserve

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The reserve is accounted for in the general fund and the capital fund.

Restricted for Debt Service

Unexpended balances of proceeds of borrowings for capital projects; interest and earnings from investing proceeds of obligations, and premium and accrued interest are recorded in the debt service fund and held until appropriated for debt payments. These restricted amounts are accounted for in the debt service fund.

Restricted – Unspent Debt Proceeds

Unspent long-term debt proceeds are recorded as restricted fund balance because they are subject to external constraints contained in the debt agreement. These restricted funds are accounted for in the capital projects fund.

Restricted for Scholarships

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

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

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

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.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

2. CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of the Statement requires the District to report other postemployment benefits liabilities, expenses, deferred outflows of resources and deferred inflows of resources on the full accrual basis. The accompanying Notes to Financial Statements, Note 15 "Postemployment Healthcare Benefits", provides additional information.

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

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

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

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

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.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

Pension 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 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 the future cost of benefits in retirement over the term of employment.

4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

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

Appropriations are established by the adoption of the budget, are recorded at the program line item level, and constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. The District revised the budget for a \$456,000 transfer from the capital reserve to the capital projects fund based on voter approval.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

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

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

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

6. PARTICIPATION IN BOCES

During the year ended June 30, 2018, the District was billed \$1,509,712 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$305,417. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

7. DUE FROM STATE AND FEDERAL

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

General Fund	
New York State - excess cost aid	\$ 87,929
Special Aid Fund	
Federal and state grants	354,617
School Food Service Fund	
Federal & state food service program reimbursements	<u>3,087</u>
	<u>\$ 445,633</u>

8. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2018 in the amount of \$225,378 consists of amounts due from other school districts for tuition and health services in the amount of \$87,940 and \$137,438 due from BOCES.

9. INTERFUND TRANSACTIONS

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 1,387,537	\$ 1,311,849	\$ 810,000	\$ 1,425,419
Special Aid Fund		865,275	34,419	
School Food Service Fund	6,502	4,946		
Debt Service Fund	1,506,086	810,000		810,000
Capital Projects Fund	<u>106,864</u>		<u>1,391,000</u>	
Total Governmental Funds	<u>3,006,989</u>	<u>2,992,070</u>	<u>\$ 2,235,419</u>	<u>\$ 2,235,419</u>
Fiduciary Funds		<u>14,919</u>		
Total	<u>\$ 3,006,989</u>	<u>\$ 3,006,989</u>		

The District typically transfers from the general fund to the special aid fund and the capital projects fund in accordance with the general fund budget. The debt service fund transferred \$810,000 to the general fund to offset principal and interest expenditures on the District's serial bonds.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

10. CAPITAL ASSETS / PRIOR PERIOD ADJUSTMENT

The District restated the June 30, 2017 capital asset balances to agree to the capital asset inventory prepared by a third-party vendor, increasing the net capital assets by \$1,155,517. Capital asset and accumulated depreciation balances were adjusted as follows:

	As Reported June 30, 2017	As Restated June 30, 2017	Increase (Decrease)
Governmental activities			
Capital assets not being depreciated			
Land	\$ 171,241	\$ 171,241	\$
Construction work in progress	3,669,553	3,669,553	
Total capital assets not being depreciated	<u>3,840,794</u>	<u>3,840,794</u>	<u>-</u>
Capital assets being depreciated			
Buildings and improvements	32,694,422	32,222,413	(472,009)
Outdoor improvements		1,301,629	1,301,629
Furniture and equipment	2,559,752	1,386,874	(1,172,878)
Licensed vehicles		195,283	195,283
Total capital assets being depreciated	<u>35,254,174</u>	<u>35,106,199</u>	<u>(147,975)</u>
Less accumulated depreciation for:			
Buildings and improvements	24,252,164	22,107,846	(2,144,318)
Outdoor improvements		1,126,412	1,126,412
Furniture and equipment	1,214,858	804,184	(410,674)
Licensed vehicles		125,088	125,088
Total accumulated depreciation	<u>25,467,022</u>	<u>24,163,530</u>	<u>(1,303,492)</u>
Total capital assets, being depreciated, net	<u>9,787,152</u>	<u>10,942,669</u>	<u>1,155,517</u>
Capital assets, net	<u>\$ 13,627,946</u>	<u>\$ 14,783,463</u>	<u>\$ 1,155,517</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	As Restated Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Governmental activities				
Capital assets not being depreciated				
Land	\$ 171,241	\$	\$	\$ 171,241
Construction work in progress	3,669,553	2,786,719		6,456,272
Total capital assets not being depreciated	3,840,794	2,786,719	-	6,627,513
Capital assets being depreciated				
Buildings and improvements	32,222,413			32,222,413
Outdoor improvements	1,301,629			1,301,629
Furniture and equipment	1,386,874	116,067	(20,555)	1,482,386
Licensed vehicles	195,283			195,283
Total capital assets being depreciated	35,106,199	116,067	(20,555)	35,201,711
Less accumulated depreciation for:				
Buildings and improvements	22,107,846	1,292,439		23,400,285
Outdoor improvements	1,126,412	50,221		1,176,633
Furniture and equipment	804,184	124,959	(20,555)	908,588
Licensed vehicles	125,088	15,104		140,192
Total accumulated depreciation	24,163,530	1,482,723	(20,555)	25,625,698
Total capital assets, being depreciated, net	10,942,669	(1,366,656)	-	9,576,013
Capital assets, net	<u>\$ 14,783,463</u>	<u>\$ 1,420,063</u>	<u>\$ -</u>	<u>\$ 16,203,526</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 35,740
Instruction	1,441,710
Food service program	5,273
Total depreciation expense	<u>\$ 1,482,723</u>

11. SHORT-TERM DEBT

There was no short-term debt issued during the year.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

12. LONG-TERM LIABILITIES

A. Changes

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

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 3,025,000	\$	\$ (640,000)	\$ 2,385,000	\$ 635,000
Add: Premium on refunding	146,341		(48,071)	98,270	38,592
	3,171,341		(688,071)	2,483,270	673,592
Energy performance contract	2,535,786		(115,401)	2,420,385	151,801
Other long-term liabilities					
Compensated absences	3,225,951	471,716	(55,428)	3,642,239	100,000
Workers' compensation	502,219	330,778	(419,505)	413,492	
	<u>\$ 9,435,297</u>	<u>\$ 802,494</u>	<u>\$ (1,278,405)</u>	<u>\$ 8,959,386</u>	<u>\$ 925,393</u>

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

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2018
Construction serial bond	2008	6/1/2019	3% - 4%	\$ 145,000
Advance refunding	2016	6/1/2023	2% - 5%	2,240,000
				<u>\$ 2,385,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2019	\$ 635,000	\$ 78,600	\$ 713,600
2020	540,000	51,200	591,200
2021	540,000	24,200	564,200
2022	340,000	13,400	353,400
2023	330,000	6,600	336,600
Total	<u>\$ 2,385,000</u>	<u>\$ 174,000</u>	<u>\$ 2,559,000</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Energy Performance Contract

The energy performance contract payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2018
Energy performance contract	12/15/2016	12/15/2031	2.599%	<u>\$ 2,420,385</u>

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

Year Ending June 30,	Principal	Interest	Total
2019	\$ 151,801	\$ 61,926	\$ 213,727
2020	155,772	57,955	213,727
2021	159,847	53,880	213,727
2022	164,028	49,699	213,727
2023	168,319	45,408	213,727
2024-2028	909,989	158,644	1,068,633
2029-2032	<u>710,629</u>	<u>37,415</u>	<u>748,044</u>
Total	<u>\$ 2,420,385</u>	<u>\$ 464,927</u>	<u>\$ 2,885,312</u>

D. Advance Refunding

In prior years, the District defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The defeased bonds have been satisfied as of June 30, 2018.

In the district-wide statements, the District is amortizing deferred charges on the advance refunding and a refunding bond premium as a component of interest expense on a weighted average basis as follows:

Year Ending June 30,	Amortization of Deferred Charges	Amortization of Premium	Interest Expense (Decrease)
2019	\$ 20,224	\$ (38,592)	\$ (18,368)
2020	15,003	(28,630)	(13,627)
2021	9,529	(18,184)	(8,655)
2022	5,069	(9,672)	(4,603)
2023	<u>1,673</u>	<u>(3,192)</u>	<u>(1,519)</u>
Total	<u>\$ 51,498</u>	<u>\$ (98,270)</u>	<u>\$ (46,772)</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Interest Expense

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

Interest paid	\$ 202,238
Less interest accrued in the prior year	(44,592)
Plus interest accrued in the current year	9,413
Less amortization of deferred amounts from bond refunding	<u>(22,879)</u>
Total interest expense on long-term debt	<u>\$ 144,180</u>

13. PENSION PLANS – NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

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

Employees' Retirement System

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Funding Policies

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to ERS or 3.5% of their salary to TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the TRS' fiscal year ended June 30th, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31st, and employer contributions are either paid by the prior December 15th less a 1% discount or by the prior February 1st. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year. The District's contribution rate was 11.72% of covered payroll for the TRS' fiscal year ended June 30, 2017. The District's average contribution rate was 14.55% of covered payroll for the ERS' fiscal year ended March 31, 2018.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2018 was \$1,544,773 for TRS and \$470,687 for ERS.

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

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

	TRS	ERS
Measurement date	June 30, 2017	March 31, 2018
District's proportionate share of the net pension asset/(liability)	\$ 744,407	\$ (363,974)
District's portion of the Plan's total net pension asset/(liability)	0.0979360%	0.0112775%
Change in proportion since the prior measurement date	0.0011950	0.0007003

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$1,893,855 for TRS and \$465,425 for ERS. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	TRS	ERS	TRS	ERS
Differences between expected and actual experience	\$ 612,464	\$ 129,818	\$ 290,236	\$ 107,277
Changes of assumptions	7,574,490	241,345		
Net difference between projected and actual earnings on pension plan investments		528,644	1,753,294	1,043,490
Changes in proportion and differences between the District's contributions and proportionate share of contributions	104,629	83,514	132,066	5,343
District's contributions subsequent to the measurement date	1,544,773	117,672		
Total	<u>\$ 9,836,356</u>	<u>\$ 1,100,993</u>	<u>\$ 2,175,596</u>	<u>\$ 1,156,110</u>

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

Year Ending June 30,	TRS	ERS
2019	\$ 174,940	\$ 103,315
2020	2,006,653	81,196
2021	1,436,754	(247,582)
2022	358,685	(109,718)
2023	1,432,582	
Thereafter	706,373	
	<u>\$ 6,115,987</u>	<u>\$ (172,789)</u>

Actuarial Assumptions

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

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

For TRS, annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2014, applied on a generational basis. Active member mortality rates are based on plan member experience. For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2014.

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

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

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

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

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for TRS and 7.0% for ERS (the discount rate used by the TRS at the prior year's measurement date of June 30, 2016, was 7.5%). 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 TRS and 7.0% for ERS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.25% for TRS and 6.0% for ERS) or 1 percentage point higher (8.25% for TRS and 8.0% for ERS) than the current rate:

	1% Decrease (6.25)%	Current Assumption (7.25)%	1% Increase (8.25)%
TRS			
District's proportionate share of the net pension asset (liability)	<u>\$ (12,823,934)</u>	<u>\$ 744,407</u>	<u>\$ 12,107,220</u>
	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
ERS			
District's proportionate share of the net pension asset (liability)	<u>\$ (2,753,928)</u>	<u>\$ (363,974)</u>	<u>\$ 1,657,831</u>

Pension Plan Fiduciary Net Position

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

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2018, are paid to the system in September, October and November 2018 through a state aid intercept, with a balance to be paid by the District, if necessary. Accrued retirement contributions as of June 30, 2018, represent employer and employee contributions for the fiscal year ended June 30, 2018, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS. Accrued retirement contributions as of June 30, 2018 amounted to \$1,544,773 of employer contributions and \$84,252 of employee contributions.

For ERS, employer contributions are paid annually based on the system's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2018, represent the projected employer contribution for the period of April 1, 2018 through June 30, 2018 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2018 amounted to \$117,672 of employer contributions. Employee contributions are remitted monthly.

14. PENSION PLANS - OTHER

A. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain compensated absence payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2018, totaled \$61,359 and \$1,126,765, respectively.

B. Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2018 totaled \$197,118.

15. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. General Information about the OPEB Plan

Plan Description – The District's defined benefit OPEB plan, provides OPEB for all permanent full-time employees of the District. The plan is a single-employer defined benefit OPEB plan administered by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided – The District provides healthcare and life insurance benefits 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 June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	208
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>243</u>
	<u>451</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Total OPEB Liability

The District's total OPEB liability of \$86,613,100 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017. Update procedures were used to roll forward the total OPEB liability to the measurement date.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.20%
Salary increases	3.20% average, including inflation
Discount rate	3.87%
Healthcare cost trend rates	5.50% for 2018, decreasing to an ultimate rate of 3.84% by 2078
Retirees' share of benefit-related costs	16-18% of projected health insurance premiums for retirees

The discount rate was based on the Bond Buyers General Obligation 20 Year Municipal Bond Index.

Mortality rates were based on the April 1, 2010 – March 31, 2015 NYSLRS experience, with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

C. Changes in the Total OPEB Liability

Balance at June 30, 2017	<u>\$ 87,928,316</u>
Changes for the year	
Service cost	2,573,451
Interest	3,101,407
Changes of benefit terms	
Differences between expected and actual experience	
Changes in assumptions or other inputs	(4,396,416)
Benefit payments	<u>(2,593,658)</u>
	<u>(1,315,216)</u>
Balance at June 30, 2018	<u>\$ 86,613,100</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 5.00% in 2017 to 3.87% in 2018.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 (2.87%) or 1 percentage point higher (4.87%) than the current discount rate:

OPEB	1% Decrease (2.87)%	Discount Rate (3.87)%	1% Increase (4.87)%
Total OPEB liability	<u>\$ (106,021,728)</u>	<u>\$(86,613,100)</u>	<u>\$(74,719,248)</u>

Sensitivity of the Total OPEB Liability to 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 (4.50%) or 1 percentage point higher (6.50%) than the current healthcare cost trend rate:

OPEB	1% Decrease (4.50)%	Healthcare Cost Trend Rates (5.50)%	1% Increase (6.50)%
Total OPEB liability	<u>\$(73,664,108)</u>	<u>\$(86,613,100)</u>	<u>\$ (107,692,366)</u>

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$5,098,558. At June 30, 2018, the District reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$	\$
Changes of assumptions		3,820,116
District's contributions subsequent to the measurement date		
Total	<u>\$ -</u>	<u>\$ 3,820,116</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ (576,300)
2020	(576,300)
2021	(576,300)
2022	(576,300)
2023	(576,300)
Thereafter	<u>(938,616)</u>
	<u><u>\$ (3,820,116)</u></u>

16. RISK MANAGEMENT

A. General Information

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by a combination of self-insurance reserves 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. Risk Retention

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unreported claims which were incurred on or before year end but not reported (IBNR). Claims activity is summarized below:

	<u>2017</u>	<u>2018</u>
Unpaid claims at beginning of year	\$ 402,440	\$ 502,219
Incurred claims and claim adjustment expenses	580,075	330,778
Claim payments	<u>(480,296)</u>	<u>(419,505)</u>
Unpaid claims at year end	<u><u>\$ 502,219</u></u>	<u><u>\$ 413,492</u></u>

C. Public Entity Risk Pool

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

17. RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75. The implementation of Statement No. 75 resulted in the reporting of a change in the liability for other postemployment benefits obligation and a deferred outflow of resources. The District also restated capital assets based on the capital asset inventory records. See Note 10 "Capital Assets/Prior Period Adjustment" for further detail on the capital asset restatement. The District's net position has been restated as follows:

Net position beginning of year, as previously stated	<u>\$ 6,714,798</u>
GASB Statement No. 75 implementation	
Beginning total other postemployment benefits obligation	(87,928,316)
Less: Net other postemployment benefits obligation under GASB Statement No. 45	<u>29,200,747</u> <u>(58,727,569)</u>
Restatement of Capital Assets	
Capital assets - net, beginning	13,627,946
Capital assets - net, beginning (restated)	<u>14,783,463</u>
Increase in Net Position	<u>1,155,517</u>
Net position (deficit) beginning of year, as restated	<u><u>\$(50,857,254)</u></u>

18. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

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

Assigned: Unappropriated Fund Balance:	
General Fund	
General support	\$ 827,849
Instruction	<u>39,472</u>
	867,321
Capital Projects Fund	
Capital projects	<u>1,007,145</u>
	<u><u>\$ 1,874,466</u></u>

B. Grants

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

C. Litigation

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

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$73,707. The minimum remaining operating lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 25,011
2020	3,876
2021	3,876
2022	<u>1,290</u>
	<u>\$ 34,053</u>

19. SUBSEQUENT EVENTS

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

SUPPLEMENTARY INFORMATION

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

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 34,391,700	\$ 34,391,700	\$ 34,406,377	\$ 14,677
Other tax items	2,818,842	2,818,842	2,822,164	3,322
Charges for services	465,000	465,000	743,361	278,361
Use of money and property	465,000	465,000	587,104	122,104
Forfeitures	1,000	1,000	393	(607)
Miscellaneous	226,000	226,000	258,830	32,830
Total Local Sources	38,367,542	38,367,542	38,818,229	450,687
State Sources	3,702,309	3,702,309	3,688,398	(13,911)
Total Revenues	42,069,851	42,069,851	42,506,627	436,776
OTHER FINANCING SOURCES				
Operating Transfers In	810,000	810,000	810,000	-
Total Revenues and Other Sources	42,879,851	42,879,851	43,316,627	\$ 436,776
APPROPRIATED FUND BALANCE				
Prior Year's Encumbrances	749,440	749,440		
Appropriated Reserves		456,000		
Total Revenues, Other Sources and Appropriated Fund Balance	\$ 43,629,291	\$ 44,085,291		

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.

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

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 48,475	\$ 48,475	\$ 40,318	\$	\$ 8,157
Central administration	386,541	387,505	359,472		28,033
Finance	725,966	747,170	679,783	3,688	63,699
Staff	358,832	571,212	437,920		133,292
Central services	3,584,062	4,724,992	3,589,638	824,161	311,193
Special items	435,987	435,987	418,320		17,667
Total General Support	5,539,863	6,915,341	5,525,451	827,849	562,041
Instruction					
Administration & improvement	1,913,844	1,934,060	1,798,118		135,942
Teaching - regular school	11,545,332	11,470,511	11,186,217		284,294
Programs for students with disabilities	4,847,354	4,636,769	4,230,327		406,442
Occupational education	208,000	208,000	147,248		60,752
Teaching - special schools	12,000	7,000	-		7,000
Instructional media	1,162,124	1,154,318	1,047,575	39,472	67,271
Pupil services	2,271,934	2,335,429	2,248,176		87,253
Total Instruction	21,960,588	21,746,087	20,657,661	39,472	1,048,954
Pupil Transportation	2,394,304	2,154,383	1,972,163		182,220
Employee Benefits	11,621,896	10,871,895	10,693,676		178,219
Debt Service					
Principal	755,401	755,401	755,401		-
Interest	422,239	216,765	202,238		14,527
Total Debt Service	1,177,640	972,166	957,639	-	14,527
Total Expenditures	42,694,291	42,659,872	39,806,590	867,321	1,985,961
OTHER FINANCING USES					
Operating Transfers Out	935,000	1,425,419	1,425,419		-
Total Expenditures and Other Uses	\$ 43,629,291	\$ 44,085,291	41,232,009	\$ 867,321	\$ 1,985,961
Net Change in Fund Balances			2,084,618		
Fund Balance - Beginning of Year			18,566,054		
Fund Balance - End of Year			\$ 20,650,672		

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.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Asset/(Liability)
For the Last Five Fiscal Years Ended June 30,

Teachers' Retirement System

	2018	2017	2016	2015	2014
District's proportion of the net pension asset (liability)	0.0979360%	0.0967410%	0.0988670%	0.0966540%	0.0949220%
District's proportionate share of the net pension asset (liability)	\$ 744,407	\$ (1,036,138)	\$ 10,269,101	\$ 10,766,658	\$ 624,830
District's covered payroll	\$ 15,519,556	\$ 15,372,816	\$ 15,696,052	\$ 15,055,528	\$ 14,882,547
District's proportionate share of the net pension asset (liability) as a percentage of its covered payroll	4.80 %	(6.74)%	65.42 %	71.51 %	4.20 %
Plan fiduciary net position as a percentage of the total pension asset	100.66%	99.01%	110.46%	111.48%	100.70%

Employees' Retirement System

	2018	2017	2016	2015	2014
District's proportion of the net pension (liability)	0.0112775%	0.0105772%	0.0106930%	0.0109275%	0.0109275%
District's proportionate share of the net pension (liability)	\$ (363,974)	\$ (993,860)	\$ (1,716,255)	\$ (369,157)	\$ (493,797)
District's covered payroll	\$ 3,235,997	\$ 3,237,518	\$ 2,874,263	\$ 3,311,043	\$ 3,243,925
District's proportionate share of the net pension (liability) as a percentage of its covered payroll	(11.25)%	(30.70)%	(59.71)%	(11.15)%	15.22 %
Plan fiduciary net position as a percentage of the total pension (liability)	98.24%	94.70%	90.68%	97.95%	97.20%

* The amounts presented for each fiscal year were determined as of the measurement dates of the plan.

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.

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedule of District Pension Contributions
For the Last Ten Fiscal Years Ended June 30,

Teachers' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 1,544,773	\$ 1,818,892	\$ 1,979,471	\$ 2,607,335	\$ 2,313,223	\$ 1,659,326	\$ 1,614,280	\$ 1,330,200	\$ 896,711	\$ 1,078,930
Contributions in relation to the contractually required contribution	<u>1,544,773</u>	<u>1,818,892</u>	<u>1,979,471</u>	<u>2,607,335</u>	<u>2,313,223</u>	<u>1,659,326</u>	<u>1,614,280</u>	<u>1,330,200</u>	<u>896,711</u>	<u>1,078,930</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	15,762,990	15,519,556	15,372,816	15,696,052	15,055,528	14,882,547	15,458,092	16,437,107	16,092,157	16,205,069
Contributions as a percentage of covered payroll	10%	12%	13%	17%	15%	11%	10%	8%	6%	7%

Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 470,687	\$ 445,275	\$ 474,183	\$ 535,302	\$ 545,222	\$ 598,836	\$ 451,428	\$ 359,121	\$ 212,942	\$ 214,367
Contributions in relation to the contractually required contribution	<u>470,687</u>	<u>445,275</u>	<u>474,183</u>	<u>535,302</u>	<u>545,222</u>	<u>598,836</u>	<u>451,428</u>	<u>359,121</u>	<u>212,942</u>	<u>214,367</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	3,215,584	3,186,677	3,203,475	3,282,751	3,211,679	3,173,931	3,227,021	3,225,691	3,048,651	3,111,918
Contributions as a percentage of covered payroll	15%	14%	15%	16%	17%	19%	14%	11%	7%	7%

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
June 30, 2018

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 2,573,451
Interest	3,101,407
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	(4,396,416)
Benefit payments	<u>(2,593,658)</u>
Net change in total OPEB liability	(1,315,216)
Total OPEB liability, beginning	<u>87,928,316</u>
Total OPEB liability, ending	<u><u>\$ 86,613,100</u></u>
 Covered employee payroll	 \$ 18,077,259
Total OPEB liability as a percentage of covered employee payroll	479.13%

Notes to Schedule:

Trust Assets

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

The amounts presented for the fiscal year were determined as of the measurement date of the plan.

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

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 42,879,851
Additions:	
Prior year's encumbrances	<u>749,440</u>
Original Budget	43,629,291
Budget revision	<u>456,000</u>
Final Budget	<u><u>\$ 44,085,291</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2018-19 voter-approved expenditure budget	<u><u>\$ 43,889,812</u></u>
Maximum allowed (4% of 2018-19 budget)	<u><u>\$ 1,755,592</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	
Unrestricted fund balance:	
Assigned fund balance	\$ 867,321
Unassigned fund balance	<u>1,745,887</u>
	\$ 2,613,208
Less:	
Encumbrances	<u>867,321</u>
Total adjustments	<u>867,321</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	<u><u>\$ 1,745,887</u></u>
Actual Percentage	3.98%

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

PROJECT TITLE	Budget	Budget	Expenditures			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2018
	June 30, 2017	June 30, 2018	Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total	
HS Electrical Upgrade	\$	\$ 675,000	\$	\$ 378,867	\$ 378,867	\$ 296,133	\$	\$	\$ 675,000	\$ 675,000	\$ 296,133
HS Track/Masonry Project		590,000		274,305	274,305	315,695			590,000	590,000	315,695
ES Paving (DASNY)	200,297	176,627	2,797	173,830	176,627			176,627		176,627	-
HS Paving (DASNY)	49,903	70,433	4,194	66,239	70,433			70,433		70,433	-
HS Roof replacement		456,000		32,012	32,012	423,988			456,000	456,000	423,988
Tech Ed upgrade	1,152,712	1,197,313	856,160	228,400	1,084,560	112,753			1,197,313	1,197,313	112,753
EPC	2,535,786	2,535,786	499,778	1,633,066	2,132,844	402,942	2,535,786			2,535,786	402,942
HS Bathroom Renovations		400,000	379,027	379,027	379,027	20,973			400,000	400,000	20,973
HS Elevator		930,000	873,208	873,208	873,208	56,792			930,000	930,000	56,792
	<u>\$ 3,938,698</u>	<u>\$ 7,031,159</u>	<u>\$ 2,615,164</u>	<u>\$ 2,786,719</u>	<u>\$ 5,401,883</u>	<u>\$ 1,629,276</u>	<u>\$ 2,535,786</u>	<u>\$ 247,060</u>	<u>\$ 4,248,313</u>	<u>\$ 7,031,159</u>	<u>\$ 1,629,276</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2018

Capital assets, net	<u>\$ 16,203,526</u>
Deduct:	
Short-term portion of bonds payable	635,000
Long-term portion of bonds payable	1,750,000
Short-term portion of energy performance contract payable	151,801
Long-term portion of energy performance contract payable	2,268,584
Less: Unspent debt proceeds	<u>(402,942)</u>
	<u>4,402,443</u>
Net investment in capital assets	<u><u>\$ 11,801,083</u></u>

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

To the Board of Education
Port Jefferson Union Free School District

We have audited, 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, the financial statements of the governmental activities, each major fund, and the fiduciary funds of the Port Jefferson Union Free School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Port Jefferson Union Free School District's basic financial statements, and have issued our report thereon dated October 11, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Compliance and Other Matters

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

Purpose of this Report

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

R. S. Abrams & Co., LLP

R.S. Abrams & Co., LLP
Islandia, NY
October 11, 2018