

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2019**

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
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R.S. ABRAMS & CO., LLP

Accountants & Consultants for Over 75 years

Robert S. Abrams
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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, 2019, 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, 2019, 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.

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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 13 and 48 through 52, 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 Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2019, 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 solely 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 the effectiveness of Port Jefferson Union Free School District's 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 1, 2019

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

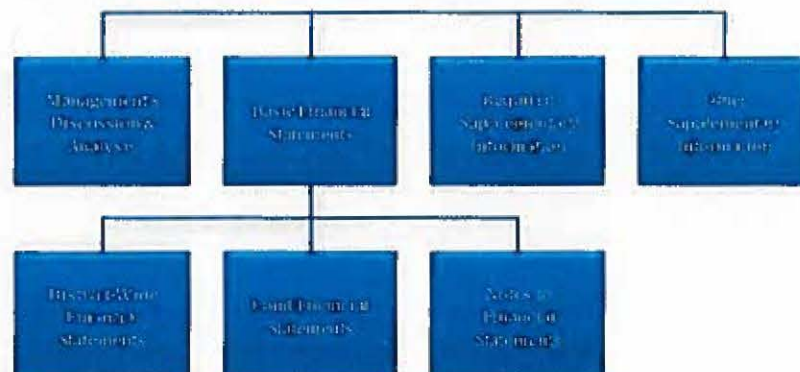
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2019 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, decreased by \$2,915,410. This was due to an excess of expenses over revenues based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$46,995,688. Of this amount, \$1,469,751 was offset by program charges for services and operating grants. General revenues of \$42,610,527 amount to 96.7% 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 \$464,083. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- The District established the teachers' retirement system retirement contribution reserve, which limits the annual contribution to 2% of the prior year's covered TRS salaries. This reserve was funded during the 2018-2019 year in the amount of \$310,000.
- The budget for the 2019-2020 school year in the amount of \$43,936,166 was approved by the voters on May 21, 2019. The budget presented to the taxpayers showed a \$46,354 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. Additionally, the voters approved the use of \$1,056,000 to replace certain sections of the high school roof. The balance in the reserve, including interest earned, is \$6,062,051 as of June 30, 2019.
- On May 21, 2019, the District voters approved the use of \$3,600,000 from the capital reserve to finance the cost of replacing sections of the roofs at the high school and elementary school.

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.

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

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

The District maintains 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 \$2,915,410 between fiscal year 2019 and 2018. The decrease is due to expenses in excess of revenues based on the economic measurement focus and the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	2019	2018	Increase (Decrease)	Percentage Change
Assets				
Current and Other Assets	\$ 26,461,541	\$ 26,773,892	\$ (312,351)	(1.17)%
Capital Assets, Net	16,646,295	16,203,526	442,769	2.73 %
Net Pension Asset - Proportionate Share - TRS	1,749,884	744,407	1,005,477	135.07 %
Total Assets	44,857,720	43,721,825	1,135,895	2.60 %
Deferred Outflows of Resources	24,488,110	10,988,847	13,499,263	122.85 %
Liabilities				
Current and Other Liabilities	3,230,020	3,070,795	159,225	5.19 %
Long-Term Liabilities	7,858,326	8,959,386	(1,101,060)	(12.29)%
Net Pension Liability - Proportionate Share - ERS	725,973	363,974	361,999	99.46 %
Total OPEB Obligation	106,153,224	86,613,100	19,540,124	22.56 %
Total Liabilities	117,967,543	99,007,255	18,960,288	19.15 %
Deferred Inflows of Resources	5,860,603	7,270,323	(1,409,720)	(19.39)%
Net Position (Deficit)				
Net Investment in Capital Assets	12,900,829	11,801,083	1,099,746	9.32 %
Restricted	19,651,855	19,157,538	494,317	2.58 %
Unrestricted (Deficit)	(87,035,000)	(82,525,527)	(4,509,473)	(5.46)%
Total Net Position (Deficit)	\$ (54,482,316)	\$ (51,566,906)	\$ (2,915,410)	(5.65)%

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

Current and other assets decreased during the year by \$312,351. The decrease in cash of \$592,216 was offset by a \$287,640 increase in amounts due from state, federal and other governments.

Capital assets, net increased during the year by \$442,769. Equipment purchases and capital project expenditures totaling \$1,921,067 were offset by depreciation expense of \$1,478,298.

Net pension asset – proportionate share – teachers' retirement system increased by \$1,005,477, as the New York State Teachers' Retirement System experienced a gain resulting in an ending asset balance of \$1,749,884.

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

Long-term liabilities decreased by \$1,101,060. The District made principal payments totaling \$1,059,919 on its outstanding bonds and energy performance contract payable.

Net pension liability – proportionate share increased by \$361,999 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 of the respective year.

Total other postemployment benefits (OPEB) obligation increased by \$19,540,124, based on the actuarial valuation for the plan. The accompanying Notes to Financial Statements, Note 14 "Postemployment Healthcare Benefits", provides additional information.

Deferred inflows of resources represents actuarial adjustments of the pension and OPEB plans that will be amortized in future years 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	\$ 1,921,067
Less: Additions funded by debt	(129,824)
Principal debt reduction	1,059,919
Less: Repayment of unspent debt proceeds	(273,118)
Depreciation expense	<u>(1,478,298)</u>
	<u>\$ 1,099,746</u>

The restricted amount of \$19,651,855 relates to the District's reserves. This number increased over the prior year by \$494,317, as a result of Board approved additions to the restricted amounts and interest earned.

The unrestricted deficit amount of \$(87,035,000) 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 \$4,509,473.

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, 2019 and 2018 is as follows:

	2019	2018	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 795,384	\$ 901,570	\$ (106,186)	(11.78)%
Operating Grants	674,367	584,001	90,366	15.47 %
Capital Grants		247,060	(247,060)	(100.00)%
General Revenues				
Property Taxes and STAR	36,434,582	35,626,790	807,792	2.27 %
State Sources	3,718,964	3,688,398	30,566	0.83 %
Other	2,456,981	2,464,966	(7,985)	(0.32)%
Total Revenues	<u>44,080,278</u>	<u>43,512,785</u>	<u>567,493</u>	1.30 %
Expenses				
General Support	7,930,044	7,300,933	629,111	8.62 %
Instruction	36,280,882	34,526,428	1,754,454	5.08 %
Pupil Transportation	2,362,784	2,053,800	308,984	15.04 %
Debt Service - Interest	119,633	144,180	(24,547)	(17.03)%
Food Service Program	302,345	197,096	105,249	53.40 %
Total Expenses	<u>46,995,688</u>	<u>44,222,437</u>	<u>2,773,251</u>	6.27 %
Decrease in Net Position	<u>\$ (2,915,410)</u>	<u>\$ (709,652)</u>	<u>\$ (2,205,758)</u>	(310.82)%

The District's net position decreased \$2,915,410 and \$709,652 for the years ended June 30, 2019 and June 30, 2018, respectively.

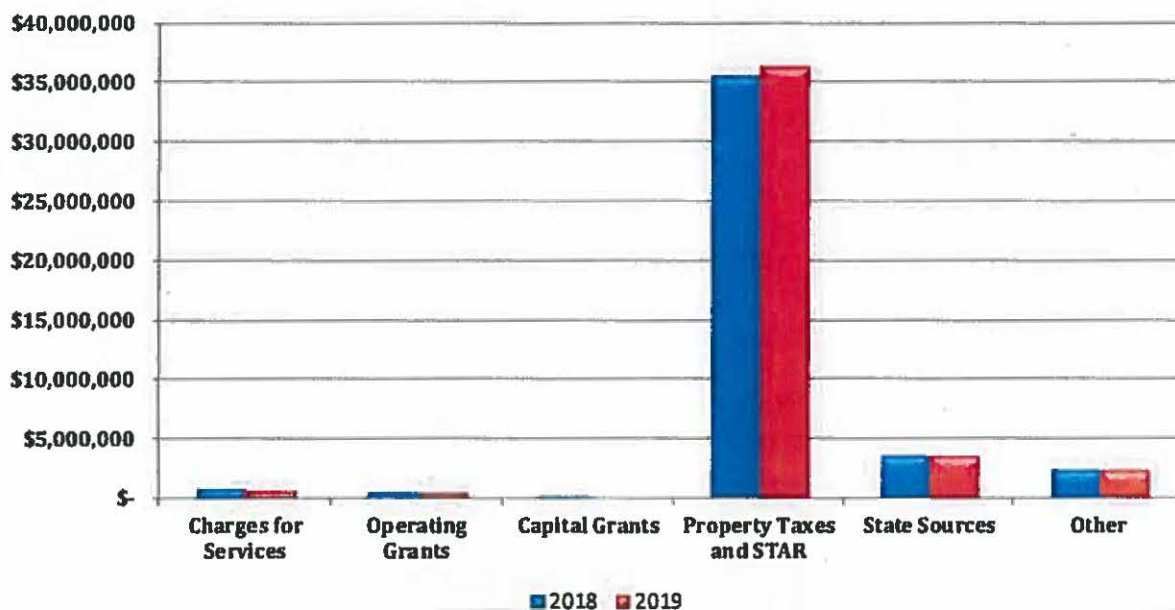
The District's revenues increased by \$567,493 or 1.30%. Property taxes and STAR revenue increased \$807,792, which was within the 2% tax cap legislation. This increase was offset by a decrease in program revenues.

The District's expenses for the year increased by \$2,773,251 or 6.27%. The majority of the increase was in employee benefits and cost related to handicapped programs.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 82.7% and 81.9% of the total for the years ended June 30, 2019 and 2018, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 77.2% and 78.2% of the total for the years ended June 30, 2019 and 2018, respectively).

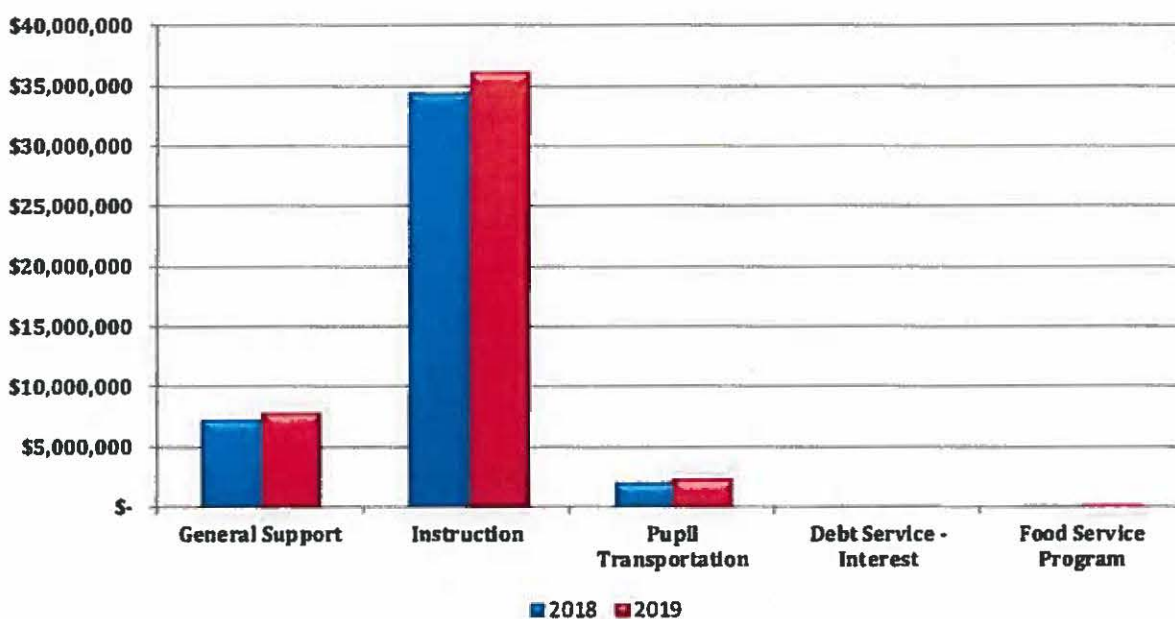
**PORT JEFFERSON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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
2018	2.1%	1.3%	0.6%	81.9%	8.5%	5.6%
2019	1.8%	1.5%	0.0%	82.7%	8.4%	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
2018	16.5%	78.2%	4.6%	0.3%	0.4%
2019	16.9%	77.2%	5.0%	0.3%	0.6%

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

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2019, the District's governmental funds reported a combined fund balance of \$22,709,316, which is a decrease of \$382,922 from the prior year. This decrease is due to an excess of expenditures over revenues 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:

	2019	2018	Increase (Decrease)
General Fund			
Restricted:			
Workers' compensation	\$ 3,285,450	\$ 3,285,450	\$ -
Unemployment insurance	1,956,220	1,956,220	-
Retirement contribution			
Teachers' retirement system	310,000		310,000
Employees' retirement system	3,409,114	3,584,114	(175,000)
Employee benefit accrued liability	3,583,944	3,641,561	(57,617)
Capital	6,062,051	5,570,119	491,932
Assigned:			
Unappropriated fund balance	750,704	867,321	(116,617)
Unassigned: Fund balance	1,757,272	1,745,887	11,385
	<u>21,114,755</u>	<u>20,650,672</u>	<u>464,083</u>
School Food Service Fund			
Nonspendable: Inventory	223	1,331	(1,108)
Assigned: Unappropriated fund balance	56,501	114,873	(58,372)
	<u>56,724</u>	<u>116,204</u>	<u>(59,480)</u>
Debt Service Fund			
Restricted: Debt service	86	696,086	(696,000)
Capital Projects Fund			
Restricted:			
Capital	1,044,990		1,044,990
Unspent bond proceeds		423,988	(423,988)
Assigned: Unappropriated fund balance	492,761	1,205,288	(712,527)
	<u>1,537,751</u>	<u>1,629,276</u>	<u>(91,525)</u>
Total Fund Balance	<u>\$ 22,709,316</u>	<u>\$ 23,092,238</u>	<u>\$ (382,922)</u>

A. General Fund

The general fund operated at a \$464,083 profit during the year, as compared to a profit of \$2,084,618 in the prior year. Actual operating revenues and other financing sources increased by \$882,791. Actual operating expenditures and other financial uses increased \$2,503,326, or 6.1% in the current year.

B. School Food Service Fund

The net change in the school food service fund – fund balance is a decrease of \$59,480, which was the operating loss for the year. In the prior year, the school food service fund had an operating profit of \$28,031. During the current year, the District purchased equipment for \$87,900.

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

C. Debt Service Fund

The District transferred \$696,000 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 \$91,525. Interfund transfer revenue from the general fund of \$1,868,000 was offset by current period construction costs of \$1,686,407 and a transfer to the general fund of unexpended energy performance contract proceeds of \$273,118.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2018-2019 Budget

The District's general fund adopted budget for the year ended June 30, 2019 was \$43,889,812. This amount was increased by encumbrances carried forward from the prior year in the amount of \$867,321 and a budget revision of \$1,231,000 for a total final budget of \$45,988,133.

The budget was funded through a combination of estimated revenues. The majority of this funding source was \$36,434,479 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	\$ 1,745,887
Revenues Over Budget	584,606
Expenditures and Encumbrances Under Budget	1,502,094
Interest Allocated to Reserves	(84,315)
Transfers to Reserves	<u>(1,991,000)</u>
Closing Unassigned Fund Balance	<u>\$ 1,757,272</u>

Opening, Unassigned Fund Balance

The \$1,745,887 shown in the table is the portion of the District's June 30, 2018 fund balance that was retained as unassigned. This was 3.98% of the District's 2018-2019 approved operating budget of \$43,889,812.

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

Revenues Under Budget

The District's actual revenues of \$44,199,418 were \$584,606 more than estimated at the time the budget was prepared. The District collected \$252,852 more in use of money and property and an additional \$273,118 in other financing sources from the capital projects fund.

Expenditures and Encumbrances Under Budget

The District's expenditures and encumbrances totaling \$44,486,039 were \$1,502,094 less than budgeted. Total instruction and general support accounted for the majority of this positive variance.

Transfers to Reserves

Pursuant to resolutions by the Board of Education, the District transferred \$1,991,000 to the following reserves to set aside funds to cover future District expenditures:

Capital	\$ 1,500,000
Retirement contribution:	
Teachers' retirement system	310,000
Employee benefit accrued liability	<u>181,000</u>
	<u>\$ 1,991,000</u>

In addition, \$84,315 of interest earnings was allocated to the reserves.

Closing Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2019 was \$1,757,272. This amount equals 4% of the 2019-2020 voter approved budget and is at the statutory limit.

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

A. Capital Assets

At June 30, 2019, the District had invested in a broad range of capital assets, as indicated in the table below. The net increase in capital assets is due to capital additions of \$1,921,067 exceeding depreciation of \$1,478,298 for the year ended June 30, 2019. A summary of the District's capital assets, net of depreciation at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
Land	\$ 171,241	\$ 171,241	\$ -
Construction work in progress	8,142,679	6,456,272	1,686,407
Buildings and improvements	7,538,921	8,822,128	(1,283,207)
Outdoor improvements	74,776	124,996	(50,220)
Furniture and equipment	618,474	573,798	44,676
Licensed vehicles	<u>100,204</u>	<u>55,091</u>	<u>45,113</u>
Capital assets, net	<u>\$ 16,646,295</u>	<u>\$ 16,203,526</u>	<u>\$ 442,769</u>

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

B. Debt Administration

At June 30, 2019, the District had total bonds payable of \$1,750,000. The bonds were issued for school building improvements. The decrease in outstanding debt represents principal payments made during the year in the amount of \$635,000. A summary of the outstanding debt at June 30, 2019 and 2018 is as follows:

	Issue Date	Interest Rate	2019	2018	Increase (Decrease)
Bonds Payable					
	2016	2% - 5%	\$ 1,750,000	\$ 2,240,000	\$ (490,000)
	2008	3% - 4%		145,000	(145,000)
			<u>\$ 1,750,000</u>	<u>\$ 2,385,000</u>	<u>\$ (635,000)</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, 2019 and 2018 is as follows:

Energy Performance Contract Payable					
	12/15/2016	2.599%	<u>\$ 1,995,466</u>	<u>\$ 2,420,385</u>	<u>\$ (424,919)</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's outstanding serial bonds at June 30, 2019 are approximately 0.6% of the District's debt limit.

C. Other Long-Term Liabilities

Included in the District's long-term liabilities are the estimated amounts due for compensated absences, workers' compensation, 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.

	2019	2018	Increase
Compensated absences payable	\$ 3,621,191	\$ 3,642,239	\$ (21,048)
Workers' compensation liabilities	431,991	413,492	18,499
Net pension liability - proportionate share	725,973	363,974	361,999
Total OPEB obligation	<u>106,153,224</u>	<u>86,613,100</u>	<u>19,540,124</u>
	<u>\$ 110,932,379</u>	<u>\$ 91,032,805</u>	<u>\$ 19,899,574</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 21, 2019, for the year ending June 30, 2020, is \$43,936,166, which is an increase of \$46,354 or 0.11% over the prior year's budget.

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

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. 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 2019-2020 property tax increase of 1.27% 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 the 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.

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, 2019

ASSETS

Cash	
Unrestricted	\$ 5,322,220
Restricted	19,651,855
Receivables	
Accounts receivable	40,257
Due from fiduciary funds	2,743
Due from state and federal	549,843
Due from other governments	408,808
Inventory	223
Prepays	485,592
Capital assets:	
Not being depreciated	8,313,920
Being depreciated, net of accumulated depreciation	8,332,375
Net pension asset - proportionate share - teachers' retirement system	1,749,884
Total Assets	<u>44,857,720</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges from advance refunding, net	31,274
Pensions	9,886,423
Other postemployment benefits obligation	14,570,413
Total Deferred Outflows of Resources	<u>24,488,110</u>

LIABILITIES

Payables	
Accounts payable	676,300
Accrued liabilities	296,749
Accrued interest on bonds payable	6,888
Due to other governments	103,212
Due to teachers' retirement system	1,839,946
Due to employees' retirement system	124,257
Compensated absences payable	170,260
Unearned credits	
Collections in advance	12,408
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	568,630
Energy performance contract payable	162,917
Compensated absences payable	100,000
Due and payable after one year	
Bonds payable, net	1,241,048
Energy performance contract payable	1,832,549
Compensated absences payable	3,521,191
Workers' compensation liabilities	431,991
Net pension liability - proportionate share - employees' retirement system	725,973
Total other postemployment benefits obligation	106,153,224
Total Liabilities	<u>117,967,543</u>

DEFERRED INFLOWS OF RESOURCES

Deferred revenues	43,501
Pensions	2,573,286
Other postemployment benefits obligation	3,243,816
Total Deferred Inflows of Resources	<u>5,860,603</u>

NET POSITION (DEFICIT)

Net investment in capital assets	<u>12,900,829</u>
Restricted	
Workers' compensation	3,285,450
Unemployment insurance	1,956,220
Retirement contribution	
Teachers' retirement system	310,000
Employees' retirement system	3,409,114
Employee benefit accrued liability	3,583,944
Capital	7,107,041
Debt service	86
	<u>19,651,855</u>
Unrestricted (deficit)	<u>(87,035,000)</u>
Total Net Position (Deficit)	<u>\$ (54,482,316)</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2019

		<u>Program Revenues</u>		<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants</u>	<u>Changes in</u>
				<u>Net Position</u>
FUNCTIONS/PROGRAMS				
General support	\$ 7,930,044	\$	\$	\$ (7,930,044)
Instruction	36,280,882	622,892	612,386	(35,045,604)
Pupil transportation	2,362,784			(2,362,784)
Debt service - interest	119,633			(119,633)
Food service program	302,345	172,492	61,981	(67,872)
Total Functions and Programs	<u>\$ 46,995,688</u>	<u>\$ 795,384</u>	<u>\$ 674,367</u>	<u>(45,525,937)</u>
GENERAL REVENUES				
Real property taxes				35,255,872
Other tax items				2,726,380
Use of money and property				725,867
Forfeitures				427
Miscellaneous				183,017
State sources				<u>3,718,964</u>
Total General Revenues				<u>42,610,527</u>
Change in Net Position				(2,915,410)
Total Net Position (Deficit) - Beginning of Year				<u>(51,566,906)</u>
Total Net Position (Deficit) - End of Year				<u>\$ (54,482,316)</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2019

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 4,114,711	\$ 169,291	\$ 152,968	\$	\$ 885,250	\$ 5,322,220
Restricted	18,606,779				1,045,076	19,651,855
Receivables						
Accounts receivable	36,876		3,381			40,257
Due from other funds	1,735,222			86		1,735,308
Due from state and federal	79,262	466,543	4,038			549,843
Due from other governments	408,808					408,808
Inventory			223			223
Total Assets	<u>\$ 24,981,658</u>	<u>\$ 635,834</u>	<u>\$ 160,610</u>	<u>\$ 86</u>	<u>\$ 1,930,326</u>	<u>\$ 27,708,514</u>
LIABILITIES						
Payables						
Accounts payable	\$ 195,463	\$	\$ 88,262	\$	\$ 392,575	\$ 676,300
Accrued liabilities	296,749					296,749
Due to other funds	1,093,651	635,834	3,080			1,732,565
Due to other governments	103,076		136			103,212
Due to teachers' retirement system	1,839,946					1,839,946
Due to employees' retirement system	124,257					124,257
Compensated absences payable	170,260					170,260
Unearned credits						
Collections in advance			12,408			12,408
Total Liabilities	<u>3,823,402</u>	<u>635,834</u>	<u>103,886</u>	<u>-</u>	<u>392,575</u>	<u>4,955,697</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	<u>43,501</u>					<u>43,501</u>
FUND BALANCES						
Nonspendable: Inventory			223			223
Restricted:						
Workers' compensation	3,285,450					3,285,450
Unemployment insurance	1,956,220					1,956,220
Retirement contribution						
Teachers' retirement system	310,000					310,000
Employees' retirement system	3,409,114					3,409,114
Employee benefit accrued liability	3,583,944					3,583,944
Capital	6,062,051				1,044,990	7,107,041
Debt service				86		86
Assigned:						
Unappropriated fund balance	750,704		56,501		492,761	1,299,966
Unassigned: Fund balance	<u>1,757,272</u>					<u>1,757,272</u>
Total Fund Balances	<u>21,114,755</u>	<u>-</u>	<u>56,724</u>	<u>86</u>	<u>1,537,751</u>	<u>22,709,316</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 24,981,658</u>	<u>\$ 635,834</u>	<u>\$ 160,610</u>	<u>\$ 86</u>	<u>\$ 1,930,326</u>	<u>\$ 27,708,514</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2019

Total Governmental Fund Balances \$ 22,709,316

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. 485,592

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	\$ 43,743,779	
Accumulated depreciation	<u>(27,097,484)</u>	16,646,295

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	1,749,884	
Deferred outflows of resources	9,886,423	
Net pension liability - employees' retirement system	(725,973)	
Deferred inflows of resources	<u>(2,573,286)</u>	8,337,048

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

Deferred outflows of resources	14,570,413	
Total other postemployment benefits obligation	(106,153,224)	
Deferred inflows of resources	<u>(3,243,816)</u>	(94,826,627)

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>(110,980)</u>	31,274

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	(6,888)	
Bonds payable, net	(1,809,678)	
Energy performance contract payable	(1,995,466)	
Compensated absences payable	(3,621,191)	
Workers' compensation liabilities	<u>(431,991)</u>	(7,865,214)

Total Net Position (Deficit) \$ (54,482,316)

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

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 35,255,872	\$	\$	\$	\$	\$ 35,255,872
Other tax items	2,726,380					2,726,380
Charges for services	622,892					622,892
Use of money and property	722,852		3,015			725,867
Forfeitures	427					427
Miscellaneous	182,913		104			183,017
State sources	3,718,964	174,307	2,592			3,895,863
Federal sources		438,079	59,389			497,468
Sales			172,492			172,492
Total Revenues	43,230,300	612,386	237,592	-	-	44,080,278
EXPENDITURES						
General support	5,981,221					5,981,221
Instruction	21,732,204	587,696				22,319,900
Pupil transportation	2,226,471	49,367				2,275,838
Employee benefits	10,702,317					10,702,317
Debt service						
Principal	1,059,919					1,059,919
Interest	140,526					140,526
Food service program			297,072			297,072
Capital outlay					1,686,407	1,686,407
Total Expenditures	41,842,658	637,063	297,072	-	1,686,407	44,463,200
Excess (Deficiency) of Revenues Over Expenditures	1,387,642	(24,677)	(59,480)	-	(1,686,407)	(382,922)
OTHER FINANCING SOURCES AND (USES)						
Operating transfers in	969,118	24,677			1,868,000	2,861,795
Operating transfers (out)	(1,892,677)			(696,000)	(273,118)	(2,861,795)
Total Other Financing Sources and (Uses)	(923,559)	24,677	-	(696,000)	1,594,882	-
Net Change in Fund Balances	464,083	-	(59,480)	(696,000)	(91,525)	(382,922)
Fund Balances - Beginning of Year	20,650,672		116,204	696,086	1,629,276	23,092,238
End of Year	\$ 21,114,755	\$ -	\$ 56,724	\$ 86	\$ 1,537,751	\$ 22,709,316

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, 2019

Net Change in Fund Balances \$ (382,922)

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

Long-Term Revenue and Expense Differences

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 decreased from June 30, 2018 to June 30, 2019.

\$ (16,179)

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 compensated absences payable 21,048

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 workers' compensation claims liability (18,499) (13,630)

Capital Related Differences

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

Capital outlays 1,921,067
 Depreciation expense (1,478,298) 442,769

Long-Term Debt Transactions Differences

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. 18,368

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 635,000
 Repayment of energy performance contract principal 424,919

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2018 to June 30, 2019.

2,525 1,080,812

Pension and Other Postemployment Benefits Differences

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

Teachers' retirement system 396,068
 Employees' retirement system (45,096)
 Other postemployment benefits (4,393,411) (4,042,439)

Change in Net Deficit of Governmental Activities \$ (2,915,410)

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2019

	<u>Agency</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash		
Unrestricted	\$ 113,172	\$
Restricted		<u>10,210</u>
Total Assets	<u>\$ 113,172</u>	<u>\$ 10,210</u>
 LIABILITIES		
Extraclassroom activity balances	\$ 83,312	\$
Due to governmental funds	2,743	
Other liabilities	<u>27,117</u>	
Total Liabilities	<u>\$ 113,172</u>	<u>-</u>
 NET POSITION		
Restricted for scholarships		<u>\$ 10,210</u>

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

	Private Purpose Trust
ADDITIONS	
Contributions	<u>\$ 11,128</u>
DEDUCTIONS	
Scholarships and awards	<u>15,500</u>
Total Deductions	<u>15,500</u>
Change in Net Position	(4,372)
Net Position - Beginning of Year	<u>14,582</u>
Net Position - End of Year	<u>\$ 10,210</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 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 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:

	Capitalization Threshold	Estimated Useful Life
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 four 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. The fourth item relates to the District's OPEB plan and consists of differences between expected and actual experiences and changes of assumptions, which will be amortized over future periods.

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 Teachers' Retirement System and the New York State and Local Employees' Retirement System. The Board, by resolution, may establish the reserve and authorize expenditures from the reserve. The reserve is funded by budgetary appropriations or taxes raised for the reserve, revenues that are not required by law to be paid into any other fund or account, transfers from reserves and other funds that may legally be appropriated. Effective April 1, 2019, a board may adopt a resolution establishing a sub-fund for contributions to the New York State Teachers' Retirement System. During a fiscal year, the Board may authorize payment into the sub-fund of up to 2% of the total covered salaries paid during the preceding fiscal year, with the total amount funded not to exceed 10% of the total covered salaries during the preceding fiscal year. The sub-fund is separately administered, but must comply with all the existing provisions of General Municipal Law §6-r. These reserves are accounted for in the general fund.

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

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.

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 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.

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

Fund Balance Classification

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

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

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

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

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

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.

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

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.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

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

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

Transfer to the capital projects fund approved by the District voters on May 15, 2018, to be funded out of the capital reserve.	\$ 1,056,000
Sick day payout to retirees funded out of the employee benefit accrued liability reserve.	<u>175,000</u>
	<u>\$ 1,231,000</u>

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.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

5. PARTICIPATION IN BOCES

During the year ended June 30, 2019, the District was billed \$1,682,493 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$305,550. 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)

6. DUE FROM STATE AND FEDERAL

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

General Fund	
New York State - excess cost aid	\$ 79,262
Special Aid Fund	
Federal and state grants	466,543
School Food Service Fund	
Federal & state food service program reimbursements	<u>4,038</u>
	<u>\$ 549,843</u>

7. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2019 in the amount of \$408,808 consists of \$80,832 due from other school districts for tuition and health services, \$22,426 due from the Suffolk County IDA, and \$305,550 due from BOCES.

8. INTERFUND TRANSACTIONS

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 1,735,222	\$ 1,093,651	\$ 969,118	\$ 1,892,677
Special Aid Fund		635,834	24,677	
School Food Service Fund		3,080		
Debt Service Fund	86			696,000
Capital Projects Fund			1,868,000	273,118
Total Governmental Funds	<u>1,735,308</u>	<u>1,732,565</u>	<u>\$ 2,861,795</u>	<u>\$ 2,861,795</u>
Fiduciary Funds		<u>2,743</u>		
Total	<u>\$ 1,735,308</u>	<u>\$ 1,735,308</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 \$696,000 to the general fund to offset principal and interest expenditures on the District's serial bonds. The capital projects fund transferred \$273,118 of unused energy performance contract proceeds to reduce the outstanding debt.

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

9. CAPITAL ASSETS

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

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019
Governmental activities				
Capital assets not being depreciated				
Land	\$ 171,241	\$	\$	\$ 171,241
Construction work in progress	6,456,272	1,686,407		8,142,679
Total capital assets not being depreciated	6,627,513	1,686,407	-	8,313,920
Capital assets being depreciated				
Buildings and improvements	32,222,413			32,222,413
Outdoor improvements	1,301,629			1,301,629
Furniture and equipment	1,482,386	169,824	(6,512)	1,645,698
Licensed vehicles	195,283	64,836		260,119
Total capital assets being depreciated	35,201,711	234,660	(6,512)	35,429,859
Less accumulated depreciation for:				
Buildings and improvements	23,400,285	1,283,207		24,683,492
Outdoor improvements	1,176,633	50,220		1,226,853
Furniture and equipment	908,588	125,148	(6,512)	1,027,224
Licensed vehicles	140,192	19,723		159,915
Total accumulated depreciation	25,625,698	1,478,298	(6,512)	27,097,484
Total capital assets, being depreciated, net	9,576,013	(1,243,638)	-	8,332,375
Capital assets, net	\$ 16,203,526	\$ 442,769	\$ -	\$ 16,646,295

Depreciation expense was charged to governmental functions as follows:

General support	\$ 38,416
Instruction	1,434,609
Food service program	5,273
Total depreciation expense	\$ 1,478,298

10. SHORT-TERM DEBT

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

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

11. LONG-TERM LIABILITIES

A. Changes

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

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 2,385,000	\$	\$ (635,000)	\$ 1,750,000	\$ 540,000
Add: Premium on refunding	98,270		(38,592)	59,678	28,630
	2,483,270		(673,592)	1,809,678	568,630
Energy performance contract	2,420,385		(424,919)	1,995,466	162,917
Other long-term liabilities					
Compensated absences	3,642,239	149,212	(170,260)	3,621,191	100,000
Workers' compensation	413,492	210,893	(192,394)	431,991	
	<u>\$ 8,959,386</u>	<u>\$ 360,105</u>	<u>\$ (1,461,165)</u>	<u>\$ 7,858,326</u>	<u>\$ 831,547</u>

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

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2019
Advance refunding	2016	6/1/2023	2% - 5%	<u>\$ 1,750,000</u>

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

Year Ending June 30,	Principal	Interest	Total
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>\$ 1,750,000</u>	<u>\$ 95,400</u>	<u>\$ 1,845,400</u>

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, 2019
Energy performance contract	12/15/2016	12/15/2030	2.599%	<u>\$ 1,995,466</u>

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 162,917	\$ 50,810	\$ 213,727
2021	167,178	46,549	213,727
2022	171,552	42,176	213,728
2023	176,039	37,688	213,727
2024	180,644	33,082	213,726
2025-2029	976,621	92,012	1,068,633
2030	160,515	2,086	162,601
Total	\$ 1,995,466	\$ 304,403	\$ 2,299,869

During the year, \$273,118 of unspent energy performance contract proceeds was used to reduce the debt, saving the District \$98,598 in interest.

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, 2019.

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:

<u>Year Ending June 30,</u>	<u>Amortization of Deferred Charges</u>	<u>Amortization of Premium</u>	<u>Interest Expense (Decrease)</u>
2020	\$ 15,003	\$ (28,630)	\$ (13,627)
2021	9,529	(18,184)	(8,655)
2022	5,069	(9,672)	(4,603)
2023	1,673	(3,192)	(1,519)
Total	\$ 31,274	\$ (59,678)	\$ (28,404)

E. Interest Expense

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

Interest paid	\$ 140,526
Less interest accrued in the prior year	(9,413)
Plus interest accrued in the current year	6,888
Less amortization of deferred amounts from bond refunding	(18,368)
Total interest expense on long-term debt	\$ 119,633

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

12. PENSION PLANS – NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

The TRS is administered by the New York State Teachers' Retirement Board. The TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law 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.

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

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

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 9.8% of covered payroll for the TRS' fiscal year ended June 30, 2018. The District's average contribution rate was 13% of covered payroll for the ERS' fiscal year ended March 31, 2019.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2019 was \$1,761,936 for TRS and \$447,787 for ERS.

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

At June 30, 2019, the District reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for each of the systems. The net pension asset/(liability) was measured as of June 30, 2018, for TRS and March 31, 2019 for ERS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The District's proportion of the net pension asset/(liability) was based on a projection of the District's long-term share of contributions to the systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and the ERS in reports provided to the District.

	TRS	ERS
Measurement date	June 30, 2018	March 31, 2019
District's proportionate share of the net pension asset/(liability)	\$ 1,749,884	\$ (725,973)
District's portion of the Plan's total net pension asset/(liability)	0.0967720%	0.0102462%
Change in proportion since the prior measurement date	(0.0011640)	(0.0010313)

For the year ended June 30, 2019, the District recognized pension expense of \$1,366,670 for TRS and \$499,468 for ERS. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	TRS	ERS	TRS	ERS
Differences between expected and actual experience	\$ 1,307,674	\$ 142,959	\$ 236,871	\$ 48,733
Changes of assumptions	6,116,993	182,480		
Net difference between projected and actual earnings on pension plan investments			1,942,505	186,325
Changes in proportion and differences between the District's contributions and proportionate share of contributions	154,846	95,278	110,723	48,129
District's contributions subsequent to the measurement date	1,761,936	124,257		
Total	\$ 9,341,449	\$ 544,974	\$ 2,290,099	\$ 283,187

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

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

Year Ending June 30,	TRS	ERS
2020	\$ 1,762,559	\$ 171,750
2021	1,199,434	(127,482)
2022	134,178	(2,629)
2023	1,195,311	95,891
2024	800,360	
Thereafter	197,572	
	<u>\$ 5,289,414</u>	<u>\$ 137,530</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, 2018	March 31, 2019
Actuarial valuation date	June 30, 2017	April 1, 2018
Inflation	2.25%	2.50%
Salary increases	1.90-4.72%	4.20%
Investment rate of return (net of investment expense, including inflation)	7.25%	7.00%
Cost of living adjustments	1.50%	1.30%

For TRS, annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on 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.

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

For ERS, the long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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, 2018		March 31, 2019
Asset type				
Domestic equity	33.0%	5.80%	36.0%	4.55%
International equity	16.0%	7.30%	14.0%	6.35%
Global equity	4.0%	6.70%		
Real estate	11.0%	4.90%	10.0%	5.55%
Private equities	8.0%	8.90%	10.0%	7.50%
Alternative investments			8.0%	3.75-5.68%
Domestic fixed income securities	16.0%	1.30%		
Global fixed income securities	2.0%	0.09%		
High-yield fixed income securities	1.0%	3.50%		
Bonds and mortgages	8.0%	2.8%-6.8%	17.0%	1.31%
Short-term	1.0%	0.30%		
Cash			1.0%	(0.25)%
Inflation indexed bonds			4.0%	1.25%
	<u>100.0%</u>		<u>100.0%</u>	

Real rates of return are net of a long-term inflation assumption of 2.3% for TRS and 2.5% for ERS.

Discount Rate

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

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

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:

TRS	1% Decrease (6.25)%	Current Assumption (7.25)%	1% Increase (8.25)%
District's proportionate share of the net pension asset (liability)	\$ (12,021,990)	\$ 1,749,884	\$ 13,286,887

ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	\$ (3,174,071)	\$ (725,973)	\$ 1,330,602

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

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2019, are paid to the system in September, October and November 2019 through a state aid intercept, with a balance to be paid by the District, if necessary. Accrued retirement contributions as of June 30, 2019, represent employer and employee contributions for the fiscal year ended June 30, 2019, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS. Accrued retirement contributions as of June 30, 2019 amounted to \$1,761,936 of employer contributions and \$78,010 of employee contributions.

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

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, 2019, represent the projected employer contribution for the period of April 1, 2019 through June 30, 2019 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2019 amounted to \$124,257 of employer contributions. Employee contributions are remitted monthly.

13. PENSION PLANS - OTHER

A. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain compensated absence payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2019, totaled \$172,390 and \$1,202,509, 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, 2019 totaled \$171,207.

14. 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, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	229
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>235</u>
	<u><u>464</u></u>

B. Total OPEB Liability

The District's total OPEB liability of \$106,153,224 was measured as of June 30, 2019, and was determined by an actuarial valuation as of June 30, 2018.

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

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

Inflation	3.00%
Salary increases	various varied by years of service and retirement system
Discount rate	3.51%
Healthcare cost trend rates	5.50% for 2018, decreasing to an ultimate rate of 3.84% by 2075
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 Pub-2010 Headcount-Weighted table (Teachers for TRS group and General Employees for ERS group) projected fully generationally using MP-2018.

C. Changes in the Total OPEB Liability

Balance at June 30, 2018	<u>\$ 86,613,100</u>
Changes for the year	
Service cost	2,481,813
Interest	3,390,774
Changes of benefit terms	
Differences between expected and actual experience	4,904,561
Changes in assumptions or other inputs	11,747,339
Benefit payments	<u>(2,984,363)</u>
	<u>19,540,124</u>
Balance at June 30, 2019	<u>\$ 106,153,224</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.87% in 2018 to 3.51% in 2019.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.51%) or 1 percentage point higher (4.51%) than the current discount rate:

OPEB	1% Decrease (2.51)%	Discount Rate (3.51)%	1% Increase (4.51)%
Total OPEB liability	<u>\$ (131,112,507)</u>	<u>\$ (106,153,224)</u>	<u>\$ (94,895,259)</u>

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

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% decreasing to 2.84%)	Healthcare Cost Trend Rates (5.50% decreasing to 3.84%)	1% Increase (6.50% decreasing to 4.84%)
Total OPEB liability	<u><u>\$ (91,148,873)</u></u>	<u><u>\$ (106,153,224)</u></u>	<u><u>\$ (136,938,655)</u></u>

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$7,377,774. At June 30, 2019, the District reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,291,491	\$
Changes of assumptions	10,278,922	3,243,816
District's contributions subsequent to the measurement date		
Total	<u><u>\$ 14,570,413</u></u>	<u><u>\$ 3,243,816</u></u>

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

Year Ending June 30,	Amount
2020	\$ 1,505,187
2021	1,505,187
2022	1,505,187
2023	1,505,187
2024	1,505,187
Thereafter	<u>3,800,662</u>
	<u><u>\$ 11,326,597</u></u>

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

15. RISK MANAGEMENT

A. General Information

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by a combination of self-insurance reserves 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>2018</u>	<u>2019</u>
Unpaid claims at beginning of year	\$ 502,219	\$ 413,492
Incurred claims and claim adjustment expenses	330,778	210,893
Claim payments	<u>(419,505)</u>	<u>(192,394)</u>
Unpaid claims at year end	<u>\$ 413,492</u>	<u>\$ 431,991</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.

16. TAX ABATEMENTS

The Town of Brookhaven Industrial Development Agency, enters into various property tax abatement programs for the purpose of economic development. The District received payment in lieu of taxes (PILOT) payments totaling \$42,742. The amount of the District's property tax reduction was not available.

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

17. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

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

Assigned: Unappropriated Fund Balance:

General Fund

General support

\$ 732,861

Instruction

17,843

750,704

Capital Projects Fund

Capital projects

1,317,123

\$ 2,067,827

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.

D. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$34,865. The minimum remaining operating lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 39,416
2021	39,416
2022	39,416
2023	<u>29,562</u>
	<u><u>\$ 147,810</u></u>

18. 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, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget Variance with Actual</u>
REVENUES				
Local Sources				
Real property taxes	\$ 35,214,066	\$ 35,214,066	\$ 35,255,872	\$ 41,806
Other tax items	2,669,776	2,669,776	2,726,380	56,604
Charges for services	520,000	520,000	622,892	102,892
Use of money and property	470,000	470,000	722,852	252,852
Forfeitures	1,000	1,000	427	(573)
Miscellaneous	259,000	259,000	182,913	(76,087)
Total Local Sources	39,133,842	39,133,842	39,511,336	377,494
State Sources	3,784,970	3,784,970	3,718,964	(66,006)
Total Revenues	42,918,812	42,918,812	43,230,300	311,488
OTHER FINANCING SOURCES				
Operating Transfers In	696,000	696,000	969,118	273,118
Total Revenues and Other Sources	43,614,812	43,614,812	44,199,418	\$ 584,606
APPROPRIATED FUND BALANCE				
Prior Year's Encumbrances	867,321	867,321		
Appropriated Reserves	275,000	1,506,000		
Total Revenues, Other Sources and Appropriated Fund Balance	\$ 44,757,133	\$ 45,988,133		

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, 2019

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 49,085	\$ 52,648	\$ 43,514	\$	\$ 9,134
Central administration	388,985	421,799	401,275		20,524
Finance	768,197	791,762	732,181		59,581
Staff	289,438	353,549	267,893		85,656
Central services	3,886,127	4,995,993	4,093,474	732,861	169,658
Special items	450,512	454,212	442,884		11,328
Total General Support	5,832,344	7,069,963	5,981,221	732,861	355,881
Instruction					
Administration & improvement	1,974,150	2,011,185	1,894,575		116,610
Teaching - regular school	11,718,371	11,746,269	11,167,117	10,800	568,352
Programs for students with disabilities	4,901,086	5,244,552	5,090,991	7,043	146,518
Occupational education	178,000	153,000	149,325		3,675
Teaching - special schools	12,000	12,000	-		12,000
Instructional media	1,177,812	1,136,161	1,113,999		22,162
Pupil services	2,353,795	2,397,760	2,316,197		81,563
Total Instruction	22,315,214	22,700,927	21,732,204	17,843	950,880
Pupil Transportation	2,363,866	2,309,463	2,226,471		82,992
Employee Benefits	12,330,846	10,811,122	10,702,317		108,805
Debt Service					
Principal	786,801	1,059,919	1,059,919		-
Interest	316,062	144,062	140,526		3,536
Total Debt Service	1,102,863	1,203,981	1,200,445	-	3,536
Total Expenditures	43,945,133	44,095,456	41,842,658	750,704	1,502,094
OTHER FINANCING USES					
Operating Transfers Out	812,000	1,892,677	1,892,677		-
Total Expenditures and Other Uses	\$ 44,757,133	\$ 45,988,133	43,735,335	\$ 750,704	\$ 1,502,094
Net Change in Fund Balances			464,083		
Fund Balance - Beginning of Year			20,650,672		
Fund Balance - End of Year			\$ 21,114,755		

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 Six Years Ended June 30, *

Teachers' Retirement System						
	2019	2018	2017	2016	2015	2014
District's proportion of the net pension asset (liability)	0.0967720%	0.0979360%	0.0967410%	0.0988670%	0.0966540%	0.0949220%
District's proportionate share of the net pension asset (liability)	\$ 1,749,884	\$ 744,407	\$ (1,036,138)	\$ 10,269,101	\$ 10,766,658	\$ 624,830
District's covered payroll	\$ 15,762,990	\$ 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	11.10 %	4.80 %	(6.74)%	65.42 %	71.51 %	4.20 %
Plan fiduciary net position as a percentage of the total pension asset	101.53%	100.66%	99.01%	110.46%	111.48%	100.70%

Employees' Retirement System						
	2019	2018	2017	2016	2015	2014
District's proportion of the net pension (liability)	0.0102462%	0.0112775%	0.0105772%	0.0106930%	0.0109275%	0.0109275%
District's proportionate share of the net pension (liability)	\$ (725,973)	\$ (363,974)	\$ (993,860)	\$ (1,716,255)	\$ (369,157)	\$ (493,797)
District's covered payroll	\$ 3,320,770	\$ 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	(21.86)%	(11.25)%	(30.70)%	(59.71)%	(11.15)%	15.22 %
Plan fiduciary net position as a percentage of the total pension (liability)	96.27%	98.24%	94.70%	90.68%	97.95%	97.20%

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

* 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 Years Ended June 30,

Teachers' Retirement System

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 1,761,936	\$ 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
Contributions in relation to the contractually required contribution	<u>1,761,936</u>	<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>
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	16,590,734	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
Contributions as a percentage of covered payroll	11%	10%	12%	13%	17%	15%	11%	10%	8%	6%

Employees' Retirement System

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 447,787	\$ 470,687	\$ 445,275	\$ 474,183	\$ 535,302	\$ 545,222	\$ 598,836	\$ 451,428	\$ 359,121	\$ 212,942
Contributions in relation to the contractually required contribution	<u>447,787</u>	<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>
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	3,321,919	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
Contributions as a percentage of covered payroll	13%	15%	14%	15%	16%	17%	19%	14%	11%	7%

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Last Two Years Ended June 30,

	<u>2019</u>	<u>2018</u>
Total OPEB liability		
Service cost	\$ 2,481,813	\$ 2,573,451
Interest	3,390,774	3,101,407
Changes in benefit terms	-	-
Differences between expected and actual experience	4,904,561	-
Changes of assumptions or other inputs	11,747,339	(4,396,416)
Benefit payments	<u>(2,984,363)</u>	<u>(2,593,658)</u>
Net change in total OPEB liability	19,540,124	(1,315,216)
Total OPEB liability, beginning	<u>86,613,100</u>	<u>87,928,316</u>
Total OPEB liability, ending	<u>\$ 106,153,224</u>	<u>\$ 86,613,100</u>
 Covered employee payroll	 \$ 17,601,933	 \$ 18,077,259
 Total OPEB liability as a percentage of covered employee payroll	 603.08%	 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.

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

Note to Required Supplementary Information

The discount rate decreased from 3.87% to 3.51%, as reflected in 2018 and 2019 above.

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, 2019

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 43,889,812
Additions:	
Prior year's encumbrances	<u>867,321</u>
Original Budget	44,757,133
Budget revision	<u>1,231,000</u>
Final Budget	<u><u>\$ 45,988,133</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2019-2020 voter-approved expenditure budget	<u><u>\$ 43,936,166</u></u>
Maximum allowed (4% of 2019-2020 budget)	<u><u>\$ 1,757,447</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	
Unrestricted fund balance:	
Assigned fund balance	\$ 750,704
Unassigned fund balance	<u>1,757,272</u>
	\$ 2,507,976
Less:	
Encumbrances	<u>750,704</u>
Total adjustments	<u>750,704</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	<u><u>\$ 1,757,272</u></u>
Actual Percentage	4.00%

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures and Financing Resources -
Capital Projects Fund
For The Year Ended June 30, 2019

PROJECT TITLE	Budget June 30, 2018	Budget June 30, 2019	Expenditures			Unexpended Balance	Methods of Financing			Fund Balance June 30, 2019
			Prior Years	Current Year	Total		Proceeds of Obligations	Local Sources	Total	
HS Electrical Upgrade	\$ 675,000	\$ 675,000	\$ 378,867	\$ 269,598	\$ 648,465	\$ 26,535	\$	\$ 675,000	\$ 675,000	\$ 26,535
HS Track/Masonry Project	590,000	590,000	274,305	122,563	396,868	193,132		590,000	590,000	193,132
HS Roof replacement	456,000	456,000	32,012	746,777	778,789	(322,789)		456,000	456,000	(322,789)
Tech Ed upgrade	1,197,313	1,197,313	1,084,560	3,769	1,088,329	108,984		1,197,313	1,197,313	108,984
EPC	2,535,786	2,262,668	2,132,844	129,824	2,262,668		2,262,668		2,262,668	
HS Bathroom Renovations	400,000	400,000	379,027		379,027	20,973		400,000	400,000	20,973
HS Elevator	930,000	930,000	873,208		873,208	56,792		930,000	930,000	56,792
Security Vestibules		269,000		6,786	6,786	262,214		269,000	269,000	262,214
HS Renovation		500,000		396,080	396,080	103,920		500,000	500,000	103,920
HS Roof Replacement - Phase II		1,056,000		11,010	11,010	1,044,990		1,056,000	1,056,000	1,044,990
Handicapped Parking		43,000				43,000		43,000	43,000	43,000
	<u>\$ 6,784,099</u>	<u>\$ 8,378,981</u>	<u>\$ 5,154,823</u>	<u>\$ 1,686,407</u>	<u>\$ 6,841,230</u>	<u>\$ 1,537,751</u>	<u>\$ 2,262,668</u>	<u>\$ 6,116,313</u>	<u>\$ 8,378,981</u>	<u>\$ 1,537,751</u>

PORT JEFFERSON UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2019

Capital assets, net	<u>\$ 16,646,295</u>
Deduct:	
Short-term portion of bonds payable	540,000
Long-term portion of bonds payable	1,210,000
Short-term portion of energy performance contract payable	162,917
Long-term portion of energy performance contract payable	<u>1,832,549</u>
	<u>3,745,466</u>
Net investment in capital assets	<u><u>\$ 12,900,829</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, 2019, 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 1, 2019.

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 1, 2019