

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITOR'S REPORTS**

**June 30, 2016**

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

*Accountants & Consultants for Over 75 years*

Robert S. Abrams  
(1926-2014)

Marianne E. Van Duyne, CPA  
Alexandria M. Battaglia, CPA

## 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 fiscal year ended June 30, 2016, 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.

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## *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, 2016, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress, schedule of District's proportionate share of the net pension liability, and the schedule of District's contributions on pages 3 through 14 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 *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016, on our consideration of the Port Jefferson Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port Jefferson Union Free School District's internal control over financial reporting and compliance.

*R.S. Abrams & Co., LLP*

R.S. Abrams & Co., LLP  
Islandia, NY  
September 29, 2016

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

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The Port Jefferson Union Free School District's discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016 in comparison with the year ended June 30, 2015, 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 2016 are as follows:

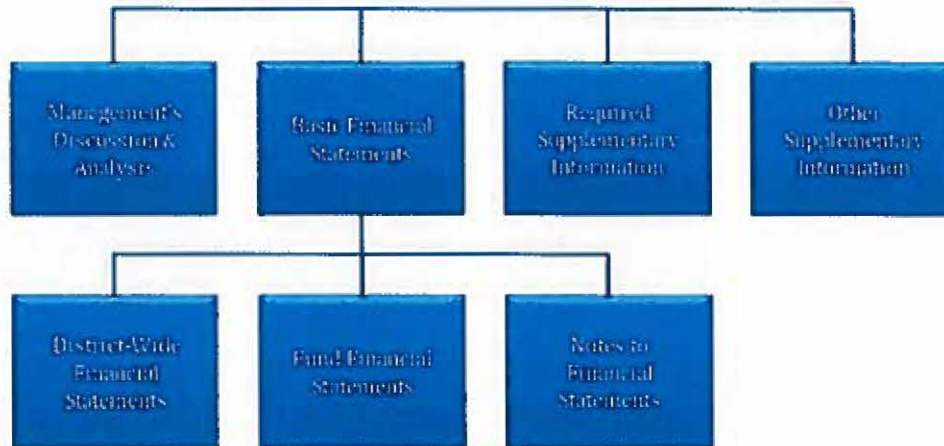
- The District's total net position, as reflected in the district-wide financial statements, increased by \$2,605,141. This was due to an excess of revenues over expenses based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$39,398,374. Of this amount, \$1,233,028 was offset by program charges for services and operating grants. General revenues of \$40,770,487 amount to 97% 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 \$3,003,861. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- The budget for the 2016-17 school year in the amount of \$41,400,492 was approved by the voters on May 17, 2016. The budget presented to the taxpayers showed a 2.35% spending decrease from the prior year budget.
- The District received a Legislative Grant from New York State in the amount of \$150,000, which was transferred by board resolution to the capital projects fund for bathroom renovations.
- In 2015 the voters of the District passed a proposition to establish a capital reserve to fund future capital improvements in the amount of \$10,000,000 for a term not to exceed ten years. The maximum annual funding into the capital reserve is \$1,500,000. During the current fiscal year, the capital reserve was funded to the annual maximum. The balance in the reserve, including interest earned, is \$3,003,571 as of June 30, 2016.
- On February 16, 2016, the District issued \$3,755,000 in general obligation bonds to advance refund \$3,800,000 of outstanding serial bonds. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$204,600.

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

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**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:



**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 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.

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

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

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

Because the focus of governmental funds is narrower than that of district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, you may better 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 lunch 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 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's district-wide financial statements because the District cannot use these assets to finance its operations.

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

**3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**A. Net Position**

The District's total net position increased by \$2,605,141 between fiscal year 2016 and 2015. The increase is due to revenues in excess of expenses based on the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	2016	2015	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 23,473,336	\$ 21,007,732	\$ 2,465,604	11.74 %
Capital Assets, Net	13,576,814	13,989,633	(412,819)	(2.95)%
Net Pension Asset - Proportionate Share	10,269,101	10,766,658	(497,557)	(4.62)%
<b>Total Assets</b>	<b>47,319,251</b>	<b>45,764,023</b>	<b>1,555,228</b>	<b>3.40 %</b>
Deferred Outflows of Resources	3,717,616	2,830,206	887,410	31.35 %
Current and Other Liabilities	3,476,039	3,275,909	200,130	6.11 %
Long-Term Liabilities	7,335,343	7,825,015	(489,672)	(6.26)%
Net Other Postemployment Benefits Obligation	26,384,231	23,816,780	2,567,451	10.78 %
Net Pension Liability - Proportionate Share	1,716,255	369,157	1,347,098	364.91 %
<b>Total Liabilities</b>	<b>38,911,868</b>	<b>35,286,861</b>	<b>3,625,007</b>	<b>10.27 %</b>
Deferred Inflows of Resources	4,354,385	8,141,895	(3,787,510)	(46.52)%
Net Investment in Capital Assets	9,906,814	9,124,633	782,181	8.57 %
Restricted	15,372,004	13,707,699	1,664,305	12.14 %
Unrestricted (Deficit)	(17,508,204)	(17,666,859)	158,655	0.90 %
<b>Total Net Position</b>	<b>\$ 7,770,614</b>	<b>\$ 5,165,473</b>	<b>\$ 2,605,141</b>	<b>50.43 %</b>

Current and other assets increased by \$2,465,604 during the year. The District's cash position increased by \$2,893,445 as the District generated positive cash flow from operations during the year, while amounts due from federal, state and other governments decreased by \$526,724.

Capital assets, net decreased during the year by \$412,819. The current year depreciation expense of \$1,490,890 was offset by equipment purchases and capital project expenditures totaling \$1,078,071.

Net pension asset – proportionate share decreased by \$497,557, as compared to the prior year. This asset represents the District's share of the New York State Teachers' Retirement System's collective net pension asset at June 30, the measurement date of the respective year.

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



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

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Current and other liabilities increased by \$200,130. The increase in accounts payable in the amount of \$753,179 was offset by a decrease in the amounts due to the pension systems of \$655,615.

Long-term liabilities decreased by \$489,672. The decrease in bonds payable of \$991,061 was offset by a \$501,389 increase in the liabilities for compensated absences and workers' compensation.

Net other postemployment benefits (OPEB) obligation increased by \$2,567,451, as compared to the prior year. This increase is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 14 "Postemployment Healthcare Benefits", provides additional information.

Net pension liability – proportionate share increased by \$1,347,098 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 March 31, the measurement date of the respective year.

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

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	\$ 1,078,071
Principal debt reduction of construction bonds	1,195,000
Depreciation expense	<u>(1,490,890)</u>
	<u>\$ 782,181</u>

The restricted amount of \$15,372,004 relates to the District's reserves. This number increased over the prior year by \$1,664,305 as a result of Board approved transfers and interest earned.

The unrestricted deficit amount of \$(17,508,204) 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 decreased from the prior year by \$158,655, primarily as a result of the inclusion of the proportionate share of the state retirement plans' collective assets, deferred outflows, liabilities and deferred inflows offset by an unfunded addition to the OPEB liability.

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

**B. Changes in Net Position**

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 625,809	\$ 664,497	\$ (38,688)	(5.82)%
Operating Grants	607,219	594,698	12,521	2.11 %
General Revenues				
Property Taxes and STAR	34,644,427	34,092,177	552,250	1.62 %
State Sources	3,477,140	3,384,306	92,834	2.74 %
Other	2,648,920	2,580,494	68,426	2.65 %
Total Revenues	<u>42,003,515</u>	<u>41,316,172</u>	<u>687,343</u>	1.66 %
<b>Expenses</b>				
General Support	6,431,986	6,508,378	(76,392)	(1.17)%
Instruction	30,547,202	30,097,363	449,839	1.49 %
Pupil Transportation	2,085,426	1,898,512	186,914	9.85 %
Debt Service - Interest	119,789	229,601	(109,812)	(47.83)%
Food Service Program	213,971	233,645	(19,674)	(8.42)%
Total Expenses	<u>39,398,374</u>	<u>38,967,499</u>	<u>430,875</u>	1.11 %
Increase in Net Position	<u>\$ 2,605,141</u>	<u>\$ 2,348,673</u>	<u>\$ 256,468</u>	10.92 %

The District's net position increased \$2,605,141 and \$2,348,673 for the years ended June 30, 2016 and 2015, respectively.

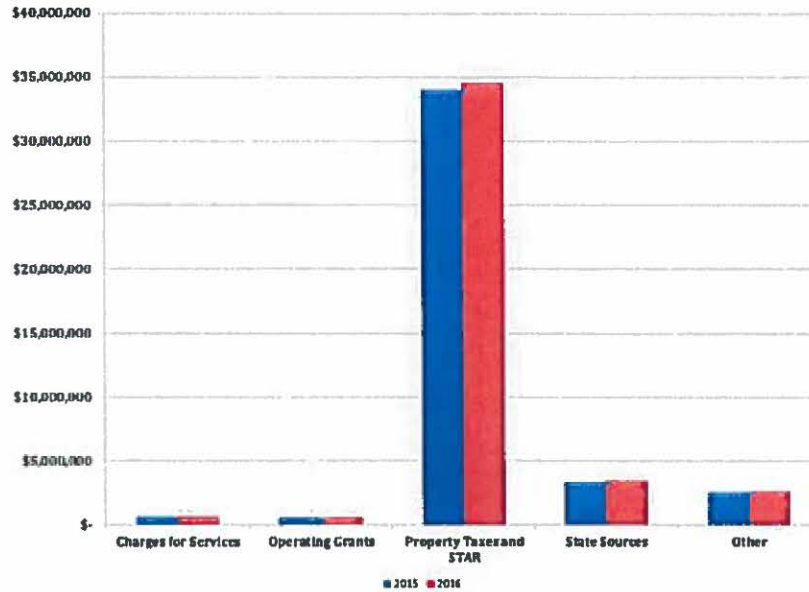
The District's revenues increased by \$687,343 or 1.66%. Property taxes and STAR revenue increased \$552,250, which was within the 2% tax cap legislation. State aid increased by \$92,834 as a result of receiving a special legislative grant for \$165,000.

The District's expenses for the year increased by \$430,875 or 1.11%.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 82.5% of the total for the years ended June 30, 2016 and 2015). Instruction expenses is the largest category of expenses incurred (i.e., 77.6% and 77.2% of the total for the years ended June 30, 2016 and 2015, respectively).

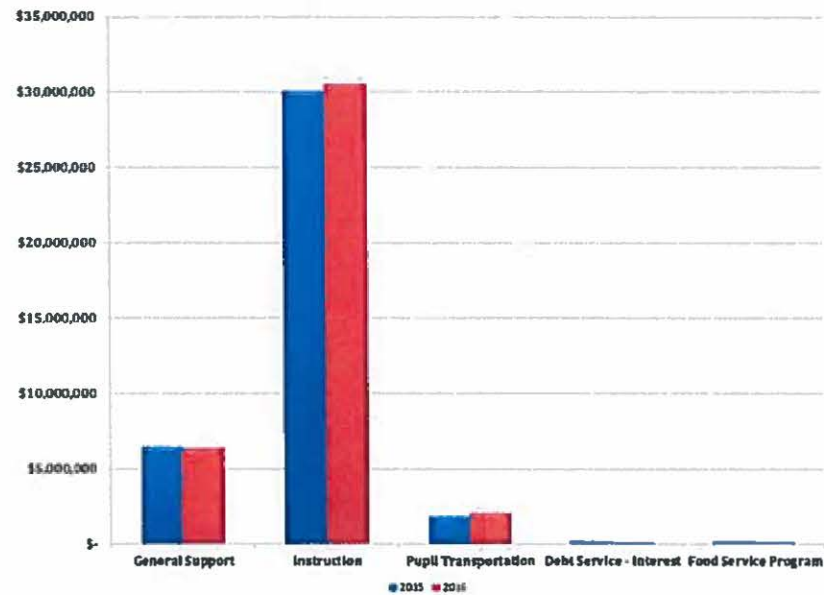
**PORT JEFFERSON UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)**

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



	Charges for Services	Operating Grants	Property Taxes and STAR	State Sources	Other
2015	1.6%	1.4%	82.5%	8.2%	6.3%
2016	1.5%	1.4%	82.5%	8.3%	6.3%

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
2015	16.7%	77.2%	4.9%	0.6%	0.6%
2016	16.3%	77.6%	5.3%	0.3%	0.5%

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

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

At June 30, 2016, the District's governmental funds reported a combined fund balance of \$19,060,289, which is an increase of \$2,434,935 over the prior year. This increase is due to an excess of revenues over expenditures based on the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
<b>General Fund</b>			
Restricted:			
Workers' compensation	\$ 2,586,675	\$ 2,081,718	\$ 504,957
Unemployment insurance	1,844,074	1,601,912	242,162
Retirement contribution	3,379,774	2,972,696	407,078
Employee benefit accrued liability	3,051,824	2,745,287	306,537
Capital	3,003,571	1,500,000	1,503,571
Assigned:			
Unappropriated fund balance	808,395	736,439	71,956
Unassigned: Fund balance	<u>1,656,020</u>	<u>1,688,420</u>	<u>(32,400)</u>
	<u>16,330,333</u>	<u>13,326,472</u>	<u>3,003,861</u>
 <b>School Lunch Fund</b>			
Nonspendable: Inventory	162	468	(306)
Assigned: Unappropriated fund balance	<u>65,525</u>	<u>34,435</u>	<u>31,090</u>
	<u>65,687</u>	<u>34,903</u>	<u>30,784</u>
 <b>Debt Service Fund</b>			
Restricted: Debt service	<u>1,506,086</u>	<u>2,806,086</u>	<u>(1,300,000)</u>
 <b>Capital Projects Fund</b>			
Assigned: Unappropriated fund balance	<u>1,158,183</u>	<u>457,893</u>	<u>700,290</u>
 Total Fund Balance	<u>\$ 19,060,289</u>	<u>\$ 16,625,354</u>	<u>\$ 2,434,935</u>

**A. General Fund**

The general fund operated at a \$3,003,861 profit during the year, as compared to a profit of \$1,594,780 from the prior year. Actual operating revenues increased by \$682,136, mainly due to an increase in property tax and STAR revenue of \$552,250. In addition, other financing sources increased by \$1,300,000, as that amount was transferred from the debt service fund to offset the cost of principal and interest payments on the District's outstanding serial bonds. Actual operating expenditures decreased from the prior year by \$523,882, as the cost of employee benefits declined by \$334,394. Other financing uses increased by \$1,096,937 as the District transferred an additional \$1,095,000 to the capital projects fund for building improvements, and an additional \$1,937 to the special aid fund.

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

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**B. School Lunch Fund**

The net change in the school lunch fund – fund balance is an increase of \$30,784, which was the operating profit incurred during the year. In the prior year, the school lunch fund had an operating profit of \$46,148. The general fund transferred \$15,000 in both 2016 and 2015 to subsidize the school lunch fund's operations.

**C. Debt Service Fund**

The change in the debt service fund – fund balance is a decrease of \$1,300,000, which is the amount transferred to the general fund to offset bond principal and interest expenditures.

**D. Capital Projects Fund**

The net change in the capital projects fund – fund balance is an increase of \$700,290, which was the amount that the interfund transfer revenue from the general fund exceeded current year expenditures on capital projects.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2015-16 Budget**

The District's general fund adopted budget for the year ended June 30, 2016 was \$42,397,368. This amount was increased by encumbrances carried forward from the prior year in the amount of \$736,439 and budget revisions totaling \$265,000, for a total final budget of \$43,398,807.

The budget was funded through a combination of estimated revenues. The majority of this funding source was \$34,644,427 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, encumbrances and amounts classified as nonspendable. 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	\$ 1,688,420
Fund Balance Used for Budget Revision	(100,000)
Revenues Under Budget	(52,033)
Expenditures and Encumbrances Under Budget	3,083,938
Interest Allocated to Reserves	(25,957)
Allocation to Reserves	<u>(2,938,348)</u>
Closing Unassigned Fund Balance	<u>\$ 1,656,020</u>

**Opening Unassigned Fund Balance**

The \$1,688,420 shown in the table is the portion of the District's June 30, 2015 fund balance that was retained as unassigned. This was 4% of the District's 2015-16 approved operating budget of \$42,397,368, and is at the maximum unassigned fund balance permitted by law.



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

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Fund Balance Used for Budget Revision

The Board of Education approved a budget revision to provide financing for the lawsuit with the Long Island Power Authority in the amount of \$100,000, using unassigned fund balance to fund this expenditure.

Revenues Under Budget

The District's actual revenues were less than the amount estimated by \$52,033. The District collected \$144,481 less state aid than originally estimated.

Expenditures and Encumbrances Under Budget

The District's expenditures and encumbrances totaling \$40,314,869 were \$3,083,938 less than budgeted. Some of the factors contributing to this positive variance were:

Central Services – Less support overtime was needed than anticipated and there was a decrease in utility costs due to district efficiencies and lower market costs. Additionally, there were salary savings as a result of support staff retirements.

Teaching – Regular School – There were a number of planned textbook purchases that did not occur due to continued revisions to the common core. Para professional salary savings occurred through retirements, a reduction in overtime and the need for less substitutes. Contractual testing costs were also less than budgeted.

Programs for Students with Disabilities – Student were provided services in-district rather than from outside placements and more in-house staff resources were used for services instead of utilizing outside contractors.

Pupil Transportation – Contractual transportation, which is based on the May consumer price index increase, was estimate higher than the actual increase. There was a decrease in athletic transportation due to schedules and less transportation to private schools than anticipated.

Employee Benefits – Contribution rates to the retirement systems decreased and there were less unemployment claims than anticipated. Also, contractual increases in employee health insurance contributions reduced the District's expenditure.

Allocation to Reserves

Pursuant to resolutions by the Board of Education, the District transferred \$2,938,348 to the following reserves to set aside funds to cover future District expenditures:

Capital	\$ 1,500,000
Workers' compensation	500,000
Retirement contribution	400,000
Employee benefit accrued liability	300,000
Unemployment insurance	238,348
	<u>\$ 2,938,348</u>

Closing Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2016 was \$1,656,020. This amount equals 4% of the 2016-17 voter approved budget and is within the 4% statutory limit.

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

**6. CAPITAL ASSETS AND DEBT ADMINISTRATION**

**A. Capital Assets**

At June 30, 2016, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to depreciation of \$1,490,890 in excess of capital additions of \$1,078,071 recorded for the year ended June 30, 2016. A summary of the District's capital assets, net of depreciation at June 30, 2016 and 2015 is as follows:

	2016	2015	Increase (Decrease)
Land	\$ 171,241	\$ 171,241	\$ -
Construction work in progress	2,247,269	1,402,559	844,710
Buildings and improvements	9,795,216	11,149,544	(1,354,328)
Furniture and equipment	1,363,088	1,266,289	96,799
Capital assets, net	<u>\$ 13,576,814</u>	<u>\$ 13,989,633</u>	<u>\$ (412,819)</u>

**B. Debt Administration**

At June 30, 2016, the District had total bonds payable of \$3,670,000. The bonds were issued for school building improvements. The decrease in outstanding debt represents principal payments and the effect of the bond refunding done on February 16, 2016. A summary of the outstanding debt at June 30, 2016 and 2015 is as follows:

Issue Date	Interest Rate	2016	2015	Increase (Decrease)
2006	4% - 4.375%	\$	\$ 1,200,000	\$ (1,200,000)
2008	3% - 4%	445,000	1,065,000	(620,000)
2008	3.5% - 4%		2,600,000	(2,600,000)
2016	2% - 5%	<u>3,225,000</u>		<u>3,225,000</u>
		<u>\$ 3,670,000</u>	<u>\$ 4,865,000</u>	<u>\$ (1,195,000)</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, 2016 are approximately 1.31% of the District's debt limit.

**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 17, 2016, for the year ending June 30, 2017, is \$41,400,492, which is a decrease of \$996,876 from the prior year's budget.

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

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**B. Future Budgets**

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

**C. Tax Cap**

New York State law limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation to June 15, 2020. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. The District's 2016-17 property tax increase of 0.47% was equal to the tax cap and did not require an override vote.

**D. Property Tax Freeze Credit and Property Tax Relief Credit**

New York State law provides a "Property Tax Freeze Credit" that effectively "freezes" property taxes for two years on the primary residences of homeowners with annual incomes at or below \$500,000 in school districts and local governments that stay within the tax cap. Qualifying homeowners receive a credit, which is distributed in the form of a check from New York State, up to the calculated amount of the tax cap. The program also requires the school districts and local governments, in the second year, to develop or participate in the development of a state approved government efficiency plan that will achieve savings for taxpayers. The program ends for school districts with the 2015-16 school year.

New York State enacted a new law that provides a "Property Tax Relief Credit" to eligible taxpayers for the 2016-17 through 2019-20 school years. To be eligible, a taxpayer, based on income tax return filings for the taxable two years prior, must be a New York State resident, 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. Eligible District taxpayers will receive a tax credit in the form of a check in the amount of \$130 in the first year. In subsequent years, the amount of the credit is a function of the basic STAR savings and the taxpayer's income.

These property tax credit programs provide 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, 2016

<b>ASSETS</b>	
Cash	
Unrestricted	\$ 6,937,962
Restricted	15,372,004
Receivables	
Accounts receivable	92,314
Due from fiduciary funds	10,315
Due from state and federal	464,232
Due from other governments	173,745
Inventory	162
Prepays	422,602
Capital assets:	
Not being depreciated	2,418,510
Being depreciated, net of accumulated depreciation	11,158,304
Net pension asset - proportionate share	10,269,101
<b>Total Assets</b>	<b>47,319,251</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges from advance refunding, net	106,874
Pensions	3,610,742
<b>Total Deferred Outflows of Resources</b>	<b>3,717,616</b>
<b>LIABILITIES</b>	
Payables	
Accounts payable	793,594
Accrued liabilities	197,800
Accrued interest on bonds payable	10,997
Due to other governments	203,703
Due to teachers' retirement system	2,084,500
Due to employees' retirement system	111,364
Compensated absences payable	62,551
Unearned credits	
Collections in advance	11,530
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	702,598
Compensated absences payable	100,000
Due and payable after one year	
Bonds payable, net	3,171,341
Compensated absences payable	2,958,964
Workers' compensation liabilities	402,440
Net other postemployment benefits obligation	26,384,231
Net pension liability - proportionate share	1,716,255
<b>Total Liabilities</b>	<b>38,911,868</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred revenues	537,069
Pensions	3,817,316
<b>Total Deferred Inflows of Resources</b>	<b>4,354,385</b>
<b>NET POSITION</b>	
Net investment in capital assets	9,906,814
Restricted	
Workers' compensation	2,586,675
Unemployment insurance	1,844,074
Retirement contribution	3,379,774
Employee benefit accrued liability	3,051,824
Capital	3,003,571
Debt service	1,506,086
	15,372,004
Unrestricted (deficit)	(17,508,204)
<b>Total Net Position</b>	<b>\$ 7,770,614</b>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Statement of Activities**  
**For The Year Ended June 30, 2016**

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Position
<b>FUNCTIONS/PROGRAMS</b>				
General support	\$ 6,431,986	\$	\$ 3,528	\$ (6,428,458)
Instruction	30,547,202	447,630	555,266	(29,544,306)
Pupil transportation	2,085,426			(2,085,426)
Debt service - interest	119,789			(119,789)
Food service program	213,971	178,179	48,425	12,633
<b>Total Functions and Programs</b>	<b>\$ 39,398,374</b>	<b>\$ 625,809</b>	<b>\$ 607,219</b>	<b>(38,165,346)</b>
<b>GENERAL REVENUES</b>				
Real property taxes				33,392,495
Other tax items				2,795,224
Use of money and property				811,574
Forfeitures				752
Sale of property and compensation for loss				18,911
Miscellaneous				261,232
State sources				3,477,140
Medicaid reimbursement				13,159
<b>Total General Revenues</b>				<b>40,770,487</b>
<b>Change in Net Position</b>				<b>2,605,141</b>
<b>Total Net Position - Beginning of Year</b>				<b>5,165,473</b>
<b>Total Net Position - End of Year</b>				<b>\$ 7,770,614</b>



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2016

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash						
Unrestricted	\$ 5,084,146	\$ 376,919	\$ 56,550	\$	\$ 1,420,347	\$ 6,937,962
Restricted	15,219,939				152,065	15,372,004
Receivables						
Accounts receivable	90,815		1,499			92,314
Due from other funds			15,668	1,506,086		1,521,754
Due from state and federal	61,755	399,026	3,451			464,232
Due from other governments	173,745					173,745
Inventory			162			162
Total Assets	<u>\$ 20,630,400</u>	<u>\$ 775,945</u>	<u>\$ 77,330</u>	<u>\$ 1,506,086</u>	<u>\$ 1,572,412</u>	<u>\$ 24,562,173</u>
<b>LIABILITIES</b>						
Payables						
Accounts payable	\$ 531,430	\$	\$	\$	\$ 262,164	\$ 793,594
Accrued liabilities	197,800					197,800
Due to other funds	583,429	775,945			152,065	1,511,439
Due to other governments	203,590		113			203,703
Due to teachers' retirement system	2,084,500					2,084,500
Due to employees' retirement system	111,364					111,364
Compensated absences payable	62,551					62,551
Unearned credits						
Collections in advance			11,530			11,530
Total Liabilities	<u>3,774,664</u>	<u>775,945</u>	<u>11,643</u>	<u>-</u>	<u>414,229</u>	<u>4,976,481</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenues	<u>525,403</u>					<u>525,403</u>
Total Deferred Inflows of Resources	<u>525,403</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>525,403</u>
<b>FUND BALANCES</b>						
Nonspendable: Inventory			162			162
Restricted:						
Workers' compensation	2,586,675					2,586,675
Unemployment insurance	1,844,074					1,844,074
Retirement contribution	3,379,774					3,379,774
Employee benefit accrued liability	3,051,824					3,051,824
Capital	3,003,571					3,003,571
Debt service				1,506,086		1,506,086
Assigned:						
Unappropriated fund balance	808,395		65,525		1,158,183	2,032,103
Unassigned: Fund balance	<u>1,656,020</u>					<u>1,656,020</u>
Total Fund Balances	<u>16,330,333</u>	<u>-</u>	<u>65,687</u>	<u>1,506,086</u>	<u>1,158,183</u>	<u>19,060,289</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 20,630,400</u>	<u>\$ 775,945</u>	<u>\$ 77,330</u>	<u>\$ 1,506,086</u>	<u>\$ 1,572,412</u>	<u>\$ 24,562,173</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
June 30, 2016

Total Governmental Fund Balances \$ 19,060,289

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. 422,602

Grant revenues received are deferred in the governmental funds until the related expenditures are incurred; however, they are recorded as current revenue in the Statement of Activities. 6,902

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

Original cost of capital assets	\$ 37,540,797	
Accumulated depreciation	<u>(23,963,983)</u>	13,576,814

Proportionate share of long-term asset and 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	10,269,101	
Deferred outflows of resources	3,610,742	
Net pension liability - employees' retirement system	(1,716,255)	
Deferred inflows of resources	<u>(3,817,316)</u>	8,346,272

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>(35,380)</u>	106,874

Premiums received on bonds are recorded as revenue in the governmental funds in the year received. However, the premium is recorded as a deferred inflow of resources in the Statement of Net Position and amortized over the life of the related bond issue.

Total bond premium	(61,904)	
Less: accumulated amortization	<u>43,336</u>	(18,568)

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	(10,997)	
Bonds payable, net	(3,873,939)	
Compensated absences payable	(3,058,964)	
Workers' compensation liabilities	(402,440)	
Net other postemployment benefits obligation	<u>(26,384,231)</u>	(33,730,571)

Total Net Position		<u>\$ 7,770,614</u>
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**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Governmental Funds**  
**For The Year Ended June 30, 2016**

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$ 33,392,495	\$	\$	\$	\$	\$ 33,392,495
Other tax items	2,795,224					2,795,224
Charges for services	447,630					447,630
Use of money and property	802,722		2,661			805,383
Forfeitures	752					752
Sale of property and compensation for loss	18,911					18,911
Miscellaneous	258,774		2,384			261,158
State sources	3,477,140	226,007	2,571			3,705,718
Medicaid reimbursement	13,159					13,159
Federal sources	3,528	329,259	45,854			378,641
Sales - school lunch			178,179			178,179
<b>Total Revenues</b>	<b>41,210,335</b>	<b>555,266</b>	<b>231,649</b>	<b>-</b>	<b>-</b>	<b>41,997,250</b>
<b>EXPENDITURES</b>						
General support	5,108,853			84,197		5,193,050
Instruction	19,891,100	518,533				20,409,633
Pupil transportation	1,935,954	74,591				2,010,545
Employee benefits	9,670,861					9,670,861
Debt service						
Principal	1,150,000					1,150,000
Interest	151,848					151,848
Cost of sales			215,865			215,865
Capital outlay					844,710	844,710
<b>Total Expenditures</b>	<b>37,908,616</b>	<b>593,124</b>	<b>215,865</b>	<b>84,197</b>	<b>844,710</b>	<b>39,646,512</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>3,301,719</b>	<b>(37,858)</b>	<b>15,784</b>	<b>(84,197)</b>	<b>(844,710)</b>	<b>2,350,738</b>
<b>OTHER FINANCING SOURCES AND (USES)</b>						
Proceeds of advance refunding				3,755,000		3,755,000
Premium on obligation				271,451		271,451
Payment to escrow agent				(3,942,254)		(3,942,254)
Operating transfers in	1,300,000	37,858	15,000		1,545,000	2,897,858
Operating transfers (out)	(1,597,858)			(1,300,000)		(2,897,858)
<b>Total Other Financing Sources and (Uses)</b>	<b>(297,858)</b>	<b>37,858</b>	<b>15,000</b>	<b>(1,215,803)</b>	<b>1,545,000</b>	<b>84,197</b>
<b>Net Change in Fund Balances</b>	<b>3,003,861</b>	<b>-</b>	<b>30,784</b>	<b>(1,300,000)</b>	<b>700,290</b>	<b>2,434,935</b>
<b>Fund Balances - Beginning of Year</b>	<b>13,326,472</b>		<b>34,903</b>	<b>2,806,086</b>	<b>457,893</b>	<b>16,625,354</b>
<b>End of Year</b>	<b>\$ 16,330,333</b>	<b>\$ -</b>	<b>\$ 65,687</b>	<b>\$ 1,506,086</b>	<b>\$ 1,158,183</b>	<b>\$ 19,060,289</b>

**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, 2016**

Net Change in Fund Balances \$ 2,434,935

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 increased from June 30, 2015 to June 30, 2016.

\$ 30,538

Bond premiums are recorded as revenue in the governmental funds when received; however, the revenue is recorded in the Statement of Activities over the life of the bonds.

6,191

Certain revenues are recognized in the governmental funds when they provide current financial resources. However, these revenues were recognized in the Statement of Activities in prior years when they were earned.

74

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

(398,520)

Increase in compensated absences payable

(102,869)

Increase in net other postemployment benefits obligation

(2,567,451)

(3,032,037)

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 depreciation exceeded capital outlays in the period.

Capital outlays

1,078,071

Depreciation expense

(1,490,890)

(412,819)

Long-Term Debt Transactions Differences

Proceeds and premium from the issuance of bonds are other funding sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position and do not affect the Statement of Activities.

(4,026,451)

Payment to escrow agent is an expenditure in the governmental funds, but it decreases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities

3,942,254

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.

32,132

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

1,150,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest increased from June 30, 2015 to June 30, 2016

(73)

1,097,862

Pension Differences

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

Teachers' retirement system

2,664,364

Employees' retirement system

(147,164)

2,517,200

Change in Net Position of Governmental Activities

\$ 2,605,141

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position -**  
**Fiduciary Funds**  
**June 30, 2016**

	<u>Agency</u>	<u>Private Purpose Trust</u>
<b>ASSETS</b>		
Cash		
Unrestricted	\$ 82,440	\$
Restricted		16,046
Due from other funds		<u>500</u>
<b>Total Assets</b>	<u><u>\$ 82,440</u></u>	<u><u>\$ 16,546</u></u>
 <b>LIABILITIES</b>		
Extraclassroom activity balances	\$ 64,914	\$
Due to other funds	9,990	825
Other liabilities	<u>7,536</u>	
<b>Total Liabilities</b>	<u><u>\$ 82,440</u></u>	<u><u>825</u></u>
 <b>NET POSITION</b>		
Restricted for scholarships		<u><u>\$ 15,721</u></u>



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Position -**  
**Fiduciary Funds**  
**For The Year Ended June 30, 2016**

	<u>Private Purpose Trust</u>
<b>ADDITIONS</b>	
Contributions	\$ 12,144
<b>DEDUCTIONS</b>	
Scholarships and awards	<u>11,214</u>
Change In Net Position	930
Net Position - Beginning of Year	<u>14,791</u>
Net Position - End of Year	<u>\$ 15,721</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**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 seven members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

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

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

**Extraclassroom Activity Funds**

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management. The District reports these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Position - Fiduciary 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

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

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§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.

**C. Basis of Presentation**

**District-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

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

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

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

**School Lunch Fund** - is used to account for the activities of the food service program.

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

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***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. The following are the District's fiduciary funds:

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

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

**D. Measurement Focus and Basis of Accounting**

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

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

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

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

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**E. Real Property Taxes**

Calendar

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

Enforcement

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

**F. Restricted Resources**

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

**G. Interfund Transactions**

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

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

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

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

**H. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities 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.

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

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**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.

**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 lunch 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.

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

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

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 estimated fair market 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



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

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**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/expenditure) until that time. The District has three items that qualify for reporting in this category. First is the unamortized amount of deferred charges from the refunding of bonds that is being amortized as a component of interest expense on a weighted average basis through June 30, 2023. The second item is related to pensions and represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. The third item is the District's contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

**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 period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. 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. This represents the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense.

**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. 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.

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.

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.

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

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

**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.

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 accrual basis of accounting in accordance with GASB Statement No. 45.

**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.

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

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

**Fund Statements**

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

*Nonspendable* – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of inventories, prepaids and the long-term portion of loans receivable.

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

*Workers' Compensation Reserve*

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

*Unemployment Insurance Reserve*

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

*Retirement Contribution Reserve*

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

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

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*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.

*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 for specific purposes for which amounts had been restricted or assigned. 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)

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**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 liabilities, including pensions.

**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 modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities, thereby affecting expenses such as compensated absences and other postemployment benefits.



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

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**Capital Related Differences**

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

**Long-Term Debt Transaction Differences**

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

**Pension Differences**

Pension differences occur as a result of changes in the District's proportion of the collective net pension asset/liability, differences between the District's contributions and its proportionate share of the total contributions to the pension systems and District contributions to the pension systems subsequent to the measurement date.

**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 adopted at the program line item level.

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

LIPA litigation funded through the use of unassigned fund balance.	\$ 100,000
Additional appropriation for the high school bathroom capital project - funded by a legislative grant.	150,000
Additional appropriation to participate in the STEM program at SUNY Stony Brook - funded by a legislative grant.	15,000
	<u>\$ 265,000</u>



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

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Budgets are adopted annually on a basis consistent with GAAP.

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

**B. Encumbrances**

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of 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, 2016, the District was billed \$1,700,101 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$264,741. 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, 2016 consisted of:

General Fund		
New York State - excess cost aid	\$	61,755
Special Aid Fund		
Federal and state grants		399,026
School Lunch Fund		
Federal & state food service program reimbursements		<u>3,451</u>
	\$	<u>464,232</u>

**7. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2016 in the amount of \$173,745 consists of amounts due from other school districts for tuition and health services in the amount of \$54,563 and \$119,182 due from BOCES.

**8. INTERFUND TRANSACTIONS**

Interfund balances and activities at June 30, 2016, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$	\$ 583,429	\$ 1,300,000	\$ 1,597,858
Special Aid Fund		775,945	37,858	
School Lunch Fund	15,668		15,000	
Debt Service Fund	1,506,086			1,300,000
Capital Projects Fund		152,065	1,545,000	
Total Governmental Funds	<u>1,521,754</u>	<u>1,511,439</u>	<u>2,897,858</u>	<u>2,897,858</u>
Fiduciary Funds	<u>500</u>	<u>10,815</u>		
Total	<u>\$ 1,522,254</u>	<u>\$ 1,522,254</u>	<u>\$ 2,897,858</u>	<u>\$ 2,897,858</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.

**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, 2016 were as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Governmental activities				
Capital assets not being depreciated				
Land	\$ 171,241	\$	\$	\$ 171,241
Construction work in progress	1,402,559	844,710		2,247,269
Total capital assets not being depreciated	1,573,800	844,710	-	2,418,510
Capital assets being depreciated				
Buildings and improvements	32,694,422			32,694,422
Furniture and equipment	2,257,661	233,361	(63,157)	2,427,865
Total capital assets being depreciated	34,952,083	233,361	(63,157)	35,122,287
Less accumulated depreciation for:				
Buildings and improvements	21,544,878	1,354,328		22,899,206
Furniture and equipment	991,372	136,562	(63,157)	1,064,777
Total accumulated depreciation	22,536,250	1,490,890	(63,157)	23,963,983
Total capital assets, being depreciated, net	12,415,833	(1,257,529)	-	11,158,304
Capital assets, net	\$ 13,989,633	\$ (412,819)	\$ -	\$ 13,576,814

Depreciation expense was charged to governmental functions as follows:

General support	\$ 32,486
Instruction	1,452,643
Food service program	5,761
Total depreciation expense	\$ 1,490,890

**10. SHORT-TERM DEBT**

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

	Maturity	Effective Interest Rate	Balance June 30, 2015	Issued	Redeemed	Balance June 30, 2016
TAN	6/24/2016	0.62%	\$	\$ 2,500,000	\$ (2,500,000)	\$

Interest on short-term debt for the year, net of a \$14,652 premium, was \$10,348.

**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, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 4,865,000	\$ 3,755,000	\$ (4,950,000)	\$ 3,670,000	\$ 645,000
Add: Premium on refunding		271,451	(67,512)	203,939	57,598
	<u>4,865,000</u>	<u>4,026,451</u>	<u>(5,017,512)</u>	<u>3,873,939</u>	<u>702,598</u>
Other long-term liabilities					
Compensated absences	2,956,095	102,869		3,058,964	100,000
Workers' compensation	<u>3,920</u>	<u>587,781</u>	<u>(189,261)</u>	<u>402,440</u>	
	<u>\$ 7,825,015</u>	<u>\$ 4,717,101</u>	<u>\$ (5,206,773)</u>	<u>\$ 7,335,343</u>	<u>\$ 802,598</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, 2016
Construction serial bond	2008	6/1/2019	3% - 4%	\$ 445,000
Advance refunding	2016	6/1/2023	2% - 5%	<u>3,225,000</u>
				<u>\$ 3,670,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 645,000	\$ 129,244	\$ 774,244
2018	640,000	103,913	743,913
2019	635,000	78,600	713,600
2020	540,000	51,200	591,200
2021	540,000	24,200	564,200
2022 - 2023	<u>670,000</u>	<u>20,000</u>	<u>690,000</u>
Total	<u>\$ 3,670,000</u>	<u>\$ 407,157</u>	<u>\$ 4,077,157</u>

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**C. Advance Refunding**

On February 16, 2016, the District issued \$3,755,000 in general obligation bonds with interest rates of 2.0 – 5.0% to advance refund \$3,800,000 of outstanding serial bonds with interest rates of 3.5 to 4.375%. The net proceeds of \$3,942,254 (including a premium of \$271,451, and after payment of \$84,197 in underwriting fees, insurance and other issuance costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$204,600. The outstanding principal balance of the defeased bonds is \$2,600,000 at June 30, 2016.

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>Fiscal Year Ending June 30,</u>	<u>Amortization of Deferred Charges</u>	<u>Amortization of Premium</u>	<u>Interest Expense (Decrease)</u>
2017	\$ 30,184	\$ (57,598)	\$ (27,414)
2018	25,192	(48,071)	(22,879)
2019	20,224	(38,592)	(18,368)
2020	15,003	(28,630)	(13,627)
2021	9,529	(18,184)	(8,655)
2022 - 2023	<u>6,742</u>	<u>(12,864)</u>	<u>(6,122)</u>
Total	<u>\$ 106,874</u>	<u>\$ (203,939)</u>	<u>\$ (97,065)</u>

**D. Interest Expense**

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

Interest paid	\$ 141,500
Less interest accrued in the prior year	(10,924)
Plus interest accrued in the current year	10,997
Less amortization of deferred amounts from bond refunding	<u>(32,132)</u>
Total interest expense on long-term debt	<u>\$ 109,441</u>

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

**A. General Information**

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

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

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**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](http://www.nystrs.org) or obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. 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. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of its funds. Once a public employer elects to participate in 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 on the NYS comptrollers website at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

**C. Funding Policies**

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



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

The District's share of the required contributions, based on covered payroll paid for the District's year ended June 30<sup>th</sup>, for the current year and two preceding years was:

Year	TRS	ERS
2016	\$ 1,979,471	\$ 474,183
2015	2,607,335	535,302
2014	2,313,223	545,222

**D. Pension Asset/Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for each of the Systems. The net pension asset/(liability) was measured as of June 30, 2015, for TRS and March 31, 2016 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 ERS Systems in reports provided to the District.

	TRS	ERS
Measurement date	June 30, 2015	March 31, 2016
District's proportionate share of the net pension asset/(liability)	\$ 10,269,101	\$ (1,716,255)
District's portion of the Plan's total net pension asset/(liability)	0.0988670%	0.0106930%
Change in proportion since the prior measurement date	0.0022130	(0.0002345)

For the year ended June 30, 2016, the District recognized pension expense (credit) of \$(689,022) for TRS and \$621,347 for ERS. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	TRS	ERS	TRS	ERS
Differences between expected and actual experience	\$	\$ 8,673	\$ 284,601	\$ 203,433
Changes of assumptions		457,673		
Net difference between projected and actual earnings on pension plan investments		1,018,176	3,246,116	
Changes in proportion and differences between the District's contributions and proportionate share of contributions		35,385	78,133	5,033
District's contributions subsequent to the measurement date	1,979,471	111,364		
Total	\$ 1,979,471	\$ 1,631,271	\$ 3,608,850	\$ 208,466

**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, 2017. 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 Ended	TRS	ERS
2017	\$ (1,318,891)	\$ 333,136
2018	(1,318,891)	333,136
2019	(1,318,891)	333,136
2020	530,239	312,033
2021	(45,079)	
Thereafter	(137,337)	
	<u>\$ (3,608,850)</u>	<u>\$ 1,311,441</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, 2015	March 31, 2016
Actuarial valuation date	June 30, 2014	April 1, 2015
Interest rate	8.0%	7.0%
Salary scale	4.01-10.91%	3.8%
Decrement tables	July 1, 2005 - June 30, 2010 System's Experience	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	3.0%	2.5%

For TRS, annuitant mortality rates are based on July 1, 2005 – June 30, 2010 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale AA. For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

For TRS, the actuarial assumptions used in the June 30, 2014 valuation are based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010. For ERS, the actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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)

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, 2015		March 31, 2016
Asset type				
Domestic equity	37.0%	6.50%	38.0%	7.30%
International equity	18.0%	7.70%	13.0%	8.55%
Real estate	10.0%	4.60%	8.0%	8.25%
Alternative investments	7.0%	9.90%	19.0%	6.75-11.00%
Domestic fixed income securities	17.0%	2.10%		
Global fixed income securities	2.0%	1.90%		
Bonds and mortgages	8.0%	3.40%	18.0%	4.00%
Short-term	1.0%	1.20%		
Cash			2.0%	2.25%
Inflation indexed bonds			2.0%	4.00%
	100.0%		100.0%	

**Discount Rate**

The discount rate used to calculate the total pension liability was 8.0% 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.

**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 8.0% 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 (7.0% for TRS and 6.0% for ERS) or 1 percentage point higher (9.0% for TRS and 8.0% for ERS) than the current rate:

TRS	1% Decrease (7.00)%	Current Assumption (8.00)%	1% Increase (9.00)%
Employer's proportionate share of the net pension asset (liability)	\$ (700,485)	\$ 10,269,101	\$ 19,623,855
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
Employer's proportionate share of the net pension asset (liability)	\$ (3,870,030)	\$ (1,716,255)	\$ 103,593

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

**Pension Plan Fiduciary Net Position**

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

	<u>TRS</u>	<u>ERS</u>
	<i>(Dollars in Thousands)</i>	
Measurement Date	June 30, 2015	March 31, 2016
Employers' total pension liability	\$ (99,332,104)	\$ (172,303,544)
Plan fiduciary net position	<u>109,718,917</u>	<u>156,253,265</u>
Employers' net pension asset/(liability)	<u>\$ 10,386,813</u>	<u>\$ (16,050,279)</u>
Ratio of plan fiduciary net position to the employers' net pension asset/(liability)	110.46%	90.68%

**Payables to the Pension Plan**

For TRS, employer and employee contributions for the fiscal year ended June 30, 2016, are paid to the System in September, October and November 2016 through a state aid intercept, with a balance to be paid by the District, if necessary. Accrued retirement contributions as of June 30, 2016, represent employer and employee contributions for the fiscal year ended June 30, 2016, 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 System. Accrued retirement contributions as of June 30, 2016 amounted to \$1,979,471 of employer contributions and \$105,029 of employee contributions.

For ERS, employer contributions are paid annually based on the System's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2016, represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2016 amounted to \$111,364 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 termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2016, totaled \$84,371 and \$907,951, 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, 2016 totaled \$159,534.

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

**15. POSTEMPLOYMENT BENEFITS**

**A. Plan Description**

The District provides postemployment health care insurance coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the New York State Health Insurance Program – Empire Plan. The District implemented GASB 45 prospectively in this transition year of implementation. The plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan.

**B. Funding Policy**

The District and the retired employee share the cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums mature (come due for payment). For the year ended June 30, 2015, the District recognized a general fund expenditure of \$2,116,597 for 207 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the "pay as you go" method.

**C. Annual OPEB Cost and Net OPEB Obligation**

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution (ARC)	\$ 5,052,639
Interest on net OPEB obligation	1,056,668
Adjustment to ARC	<u>(1,309,291)</u>
Annual OPEB cost (expense)	4,800,016
Contributions made	<u>(2,116,597)</u>
 Increase in net OPEB obligation	 2,683,419
Net OPEB obligation - beginning of year	<u>21,133,361</u>
 Net OPEB obligation - end of year	 <u>\$ 23,816,780</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2015 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 4,800,016	44.1%	\$ 23,816,780
June 30, 2014	5,348,355	39.1%	21,133,361
June 30, 2013	5,120,306	37.9%	17,875,373

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

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**D. Funded Status and Funding Progress**

As of July 1, 2014, the most recent valuation date derived from estimates from the previous actuarial valuation dated July 1, 2012, the plan was 0% funded. The actuarial accrued liability for benefits was \$54,374,572 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$54,374,572. The covered payroll (annual payroll of active employees covered by the plan) was \$16,713,300, and the ratio of the UAAL to the covered payroll was 325.3%.

Actuarial valuations of an ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**E. Actuarial Methods and Assumptions**

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

In the July 1, 2014 valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5% discount rate and for medical inflation an ultimate healthcare cost trend rate in the initial year of 4.70%, declining to 3.84 % in the final year. The UAAL is being amortized over 30 years using an interest rate equal to the funding rate of 5%.

**16. RISK MANAGEMENT**

**A. General Information**

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



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

**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:

	2014	2015
Unpaid claims at beginning of year	\$ 18,837	\$ 62,325
Incurred claims and claim adjustment expenses	142,381	142,984
Claim payments	<u>(98,893)</u>	<u>(201,389)</u>
Unpaid claims at year end	<u>\$ 62,325</u>	<u>\$ 3,920</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.

**17. RESTATEMENT OF NET POSITION**

For the fiscal year ended June 30, 2015, the District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. The implementation of Statement No. 68 resulted in the reporting of an asset, deferred outflow of resources, liability and deferred inflow of resources related to the District's participation in the New York State Teachers' and Employees' retirement systems. The District's net position has been restated as follows:

Net position beginning of year, as previously stated	<u>\$ 216,879</u>
<b>GASB Statement No. 68 Implementation</b>	
Beginning system asset - teachers' retirement system	624,830
Beginning system liability - employees' retirement system	(493,797)
Beginning deferred outflow of resources for contributions subsequent to the measurement date	
Teachers' retirement system	2,320,062
Employees' retirement system	<u>148,826</u>
	<u>2,599,921</u>
Net position beginning of year, as restated	<u>\$ 2,816,800</u>

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

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**18. COMMITMENTS AND CONTINGENCIES**

**A. Encumbrances**

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2015, the District encumbered the following amounts:

**Assigned: Unappropriated Fund Balance:**

General Fund	
General Support	\$ 549,610
Instruction	186,829
	<u>736,439</u>
Capital Projects Fund	
Capital projects	11,494
	<u>\$ 747,933</u>

**B. Grants**

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

**C. Litigation**

The District is involved in lawsuits arising from the normal conduct of its affairs. Management 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 \$79,133. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 69,831
2017	69,831
2018	69,831
2019	<u>21,135</u>
	<u>\$ 230,628</u>

**19. SUBSEQUENT EVENTS**

The District has evaluated subsequent events through September 28, 2015, 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, 2015**

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
<b>REVENUES</b>				
Local Sources				
Real property taxes	\$ 32,854,063	\$ 32,854,063	\$ 32,869,492	\$ 15,429
Other tax items	2,877,000	2,877,000	2,854,870	(22,130)
Charges for services	432,500	432,500	462,796	30,296
Use of money and property	810,000	810,000	787,804	(22,196)
Forfeitures	8,858	8,858	1,361	(7,497)
Sale of property and compensation for loss			16,544	16,544
Miscellaneous	105,000	105,000	116,558	11,558
<b>Total Local Sources</b>	<b>37,087,421</b>	<b>37,087,421</b>	<b>37,109,425</b>	<b>22,004</b>
State Sources	3,239,427	3,509,527	3,404,406	(105,121)
Medicaid Reimbursement			14,368	14,368
<b>Total Revenues</b>	<b>40,326,848</b>	<b>40,596,948</b>	<b>40,528,199</b>	<b>\$ (68,749)</b>
<b>APPROPRIATED FUND BALANCE</b>				
Prior Year's Encumbrances	1,235,306	1,235,306		
Appropriated Fund Balance	-	110,000		
<b>Total Appropriated Fund Balance</b>	<b>1,235,306</b>	<b>1,345,306</b>		
<b>Total Revenues and Appropriated Fund Balance</b>	<b>\$ 41,562,154</b>	<b>\$ 41,942,254</b>		

**Note to Required Supplementary Information**

**Budget Basis of Accounting**

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

**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, 2015**

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
<b>EXPENDITURES</b>					
General Support					
Board of education	\$ 42,000	\$ 42,000	\$ 36,861	\$	\$ 5,139
Central administration	354,218	366,196	364,905	950	341
Finance	573,751	602,651	581,148	10,550	10,953
Staff	250,976	255,491	238,249		17,242
Central services	3,914,309	4,464,772	3,771,462	538,110	155,200
Special items	423,636	412,045	383,024		29,021
<b>Total General Support</b>	<b>5,558,890</b>	<b>6,143,155</b>	<b>5,375,649</b>	<b>549,610</b>	<b>217,896</b>
Instruction					
Administration & improvement	1,616,658	1,670,109	1,571,251	3,343	95,515
Teaching - regular school	10,836,233	10,947,023	10,581,034	49,894	316,095
Programs for students with disabilities	4,697,406	4,740,686	4,336,270	48,644	355,772
Occupational education	203,571	143,571	103,765		39,806
Teaching - special schools	12,000	12,000	-		12,000
Instructional media	1,076,501	1,193,243	1,137,918	46,402	8,923
Pupil services	2,143,362	2,263,179	2,095,948	38,546	128,685
<b>Total Instruction</b>	<b>20,585,731</b>	<b>20,969,811</b>	<b>19,826,186</b>	<b>186,829</b>	<b>956,796</b>
Pupil Transportation	2,177,590	2,179,980	1,857,828		322,152
Employee Benefits	11,441,789	10,775,842	10,005,255		770,587
Debt Service					
Principal	1,358,154	1,135,000	1,135,000		-
Interest	240,000	237,466	232,580		4,886
<b>Total Debt Service</b>	<b>1,598,154</b>	<b>1,372,466</b>	<b>1,367,580</b>	<b>-</b>	<b>4,886</b>
<b>Total Expenditures</b>	<b>41,362,154</b>	<b>41,441,254</b>	<b>38,432,498</b>	<b>736,439</b>	<b>2,272,317</b>
<b>OTHER USES</b>					
Operating transfers out	200,000	501,000	500,921		79
<b>Total Expenditures and Other Uses</b>	<b>\$ 41,562,154</b>	<b>\$ 41,942,254</b>	<b>38,933,419</b>	<b>\$ 736,439</b>	<b>\$ 2,272,396</b>
Net Change in Fund Balances			1,594,780		
Fund Balances - Beginning of Year			11,731,692		
Fund Balances - End of Year			<u>\$ 13,326,472</u>		

**Note to Required Supplementary Information**

**Budget Basis of Accounting**

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Schedule of Funding Progress - Other Postemployment Benefits**  
**June 30, 2015**

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2014	\$ -	\$ 54,374,572	\$ 54,374,572	0%	\$ 16,713,300	325.3%
July 1, 2012	-	56,828,708	56,828,708	0%	15,963,195	356.0%
July 1, 2010	+	54,583,834	54,583,834	0%	17,262,199	316.2%



**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Schedule of the District's Proportionate Share of the Net Pension Asset/Liability**  
**For The Years Ended June 30, 2015 and 2014**

***Teachers' Retirement System***

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension asset	0.0966540%	0.0949220%
District's proportionate share of the net pension asset	\$ 10,766,658	\$ 624,830
District's covered employee payroll	\$ 15,055,528	\$ 14,882,547
District's proportionate share of the net pension asset as a percentage of its covered employee payroll	71.51 %	4.20 %
Plan fiduciary net position as a percentage of the total pension asset	111.48%	100.70%

***Employees' Retirement System***

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0109275%	0.0109275%
District's proportionate share of the net pension liability	\$ 369,157	\$ 493,797
District's covered employee payroll	\$ 3,311,043	\$ 3,243,925
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	11.15 %	15.22 %
Plan fiduciary net position as a percentage of the total pension liability	97.95%	97.20%

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

**PORT JEFFERSON UNION FREE SCHOOL DISTRICT**  
**Schedule of District Contributions**  
**June 30, 2015**

*Teachers' Retirement System*

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 2,607,335	\$ 2,313,223	\$ 1,659,326	\$ 1,614,280	\$ 1,330,200	\$ 896,711	\$ 1,078,930	\$ 1,250,031	\$ 1,107,620	\$ 1,030,550
Contributions in relation to the contractually required contribution	<u>2,607,335</u>	<u>2,313,223</u>	<u>1,659,326</u>	<u>1,614,280</u>	<u>1,330,200</u>	<u>896,711</u>	<u>1,078,930</u>	<u>1,250,031</u>	<u>1,107,620</u>	<u>1,030,550</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 employee payroll	15,696,052	15,055,520	14,882,547	15,458,092	16,437,107	16,092,157	16,205,069	13,834,552	13,143,558	13,104,635
Contributions as a percentage of covered employee payroll	17%	15%	11%	10%	8%	6%	7%	9%	8%	8%

*Employees' Retirement System*

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 535,302	\$ 545,222	\$ 598,836	\$ 451,428	\$ 359,121	\$ 212,942	\$ 214,367	\$ 293,713	\$ 284,989	\$ 195,817
Contributions in relation to the contractually required contribution	<u>535,302</u>	<u>545,222</u>	<u>598,836</u>	<u>451,428</u>	<u>359,121</u>	<u>212,942</u>	<u>214,367</u>	<u>293,713</u>	<u>284,989</u>	<u>195,817</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 employee payroll	3,282,751	3,211,679	3,173,931	3,227,021	3,225,691	3,048,651	3,111,918	3,081,637	2,863,586	2,683,676
Contributions as a percentage of covered employee payroll	16%	17%	19%	14%	11%	7%	7%	10%	10%	7%

**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, 2015**

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

Adopted Budget	\$ 40,326,848
Additions:	
Prior year's encumbrances	<u>1,235,306</u>
Original Budget	41,562,154
Budget revision	<u>380,100</u>
Final Budget	<u><u>\$ 41,942,254</u></u>

**SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION**

2015-16 voter-approved expenditure budget	<u>\$ 42,397,368</u>
Maximum allowed (4% of 2015-16 budget)	<u>\$ 1,695,895</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	
Unrestricted fund balance:	
Assigned fund balance	\$ 736,439
Unassigned fund balance	<u>1,688,420</u>
	\$ 2,424,859
Less:	
Encumbrances	<u>736,439</u>
Total adjustments	<u>736,439</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	<u><u>\$ 1,688,420</u></u>
Actual Percentage	3.98%

PORT JEFFERSON UNION FREE SCHOOL DISTRICT  
Schedule of Project Expenditures -  
Capital Projects Fund  
For The Year Ended June 30, 2015

PROJECT TITLE	Budget	Budget	Expenditures			Unexpended	Methods of Financing				Fund
	June 30, 2014	June 30, 2015	Prior Years	Current Year	Total	Balance	Proceeds of Obligations	State Aid	Local Sources	Total	Balance June 30, 2015
Tech Ed	\$ 585,000	\$ 796,839	\$ 421,547	\$ 303,878	\$ 725,425	\$ 71,414	\$	\$	\$ 796,839	\$ 796,839	\$ 71,414
Bathroom Renovations		250,000				250,000			250,000	250,000	250,000
Elevator	136,479	136,479	-	-		136,479	-	-	136,479	136,479	136,479
	<u>\$ 721,479</u>	<u>\$ 1,183,318</u>	<u>\$ 421,547</u>	<u>\$ 303,878</u>	<u>\$ 725,425</u>	<u>\$ 457,893</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,183,318</u>	<u>\$ 1,183,318</u>	<u>\$ 457,893</u>

See Paragraph on Other Information Included in Auditor's Report



**R.S. ABRAMS & CO., LLP**

*Accountants & Consultants for Over 75 years*

Robert S. Abrams  
(1926-2014)

Marianne E. Van Duyne, CPA  
Alexandria M. Battaglia, CPA

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 fiscal year ended June 30, 2016, 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 September 29, 2016.

**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.

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## **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  
September 29, 2016