



**NORTHPORT - EAST NORTHPORT  
UNION FREE SCHOOL DISTRICT**

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

**June 30, 2017**

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Northport - East Northport Union Free School District  
Northport, New York

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Northport - East Northport Union Free School District (District), as of and for the year ended June 30, 2017, 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 District'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 District'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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the Northport - East Northport Union Free School District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedules of funding progress for other postemployment benefits, the District's proportionate share of the net pension liability, and District's pension contributions on pages 3 through 18 and 56 through 59, 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 Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northport - East Northport Union Free School District's basic financial statements. The other supplementary information on pages 60 through 62 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information requested by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2017 on our consideration of the Northport - East Northport 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 Northport - East Northport Union Free School District's internal control over financial reporting and compliance.

*Cullen & Danowski, LLP*

September 27, 2017

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

The following is a discussion and analysis of the Northport-East Northport Union Free School District's (the "District") financial performance for the year ended June 30, 2017. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the district-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2017 are as follows:

- The general fund adopted 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, was \$161,380,883. This is an increase of \$1,792,558 or 1.12% over the previous year's budget and an increase of \$5,230,435 or 3.35% over the previous year's actual expenditures and transfers. As illustrated in the table below, although the adjusted budget increase from 2015-2016 to 2016-2017 was 1.01%, actual expenditures increased over the same period of time by 1.51%.
- Total actual expenditures and transfers for the 2016-2017 fiscal year increased by \$2,362,282 or 1.51% over the previous year's actual expenditures and transfers. This increase was primarily due to an increase in contractual salary obligations, equipment purchases, workers' compensation insurance and health insurance. It should be noted that several expenditures decreased from 2015-2016, including contributions to the New York State Teachers' Retirement System, debt service payments, including interest on the Tax Anticipation Note and the retirement of the public library bond and amounts transferred to the Capital Fund for various capital projects.

<u>Fiscal Year</u>	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenditures</u>
2015-2016	\$159,588,325	\$162,869,378	\$156,150,448
2016-2017	\$161,380,883	\$164,521,868	\$158,512,730
2016-2017 Increase	\$1,792,558	\$1,652,490	\$2,362,282
2016-2017 Percent Increase	1.12%	1.01%	1.51%

- The 2016-2017 adopted budget was adjusted for various items during the year. The final adjusted budget for the year ending June 30, 2017 was \$164,521,868. This difference of \$3,140,985 reflects the following adjustments: (1) roll-over of prior year (2015-2016) encumbrances of \$1,319,100, resulting in the original budget of \$162,699,983; (2) voter approval in May 2017 to use capital reserve funds for specific capital projects in the amount of \$1,557,500; (3) a Grant-in-Aid from New York State in the amount of \$100,000 and (4) donations and rebates received by the Board of Education from various sources in the amount of \$164,385.
- The 2016-2017 financial statements reflect actual revenues over the budgeted amount and actual expenditures and encumbrances under the budgeted amount. The budgetary savings of \$5,706,506 and how that savings was utilized is illustrated in the following table:

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**FINANCIAL HIGHLIGHTS (continued)**

Key financial highlights for fiscal year 2017 are as follows: (continued)

Revenues over budget	\$ 732,269
Expenditures and encumbrances under budget	4,974,237
<b>Total budgetary savings (revenues + expenditures)</b>	<b>5,706,506</b>
Transfer to Capital Reserve (established 2012)	(1,500,000)
Transfer to Capital Reserve (established 2008)	(1,126,816)
Transfer to Workers' Compensation Reserve	(75,270)
Transfer to Retirement Contribution Reserve	(75,270)
Transfer to Unemployment Insurance Reserve	(32,658)
Transfer to Employee Benefit Accrued Liability Reserve	(75,270)
Transfer to Nonspendable (Prepays)	(223,185)
Transfer interest earnings to reserve funds	(20,998)
Transfer to assigned fund balance to lower the tax levy	(2,500,000)
Transfer to unassigned fund balance	(77,039)
<b>Balance of budgetary savings</b>	<b>\$ -0-</b>

- The 2016-2017 total budgetary savings was \$5,706,506. The District used \$2,500,000 or 44% of the total budgetary savings to lower the 2017-2018 tax levy. The District consistently uses budgetary savings to lower the tax levy. Last year, the District used 48% of its 2015-2016 total budgetary savings to lower the 2016-2017 tax levy.
- The 2016-2017 revenues were over budget by \$732,269. This reflects the net variance amount for all the revenue items. Significant revenue variances existed as a result of the following: (1) state aid in the amount of \$208,596 was never received due to estimates versus actuals for expenditure driven aids, such as BOCES and transportation aid; (2) \$400,000 in anticipated rebates due to energy savings from the Energy Performance Contract never materialized as the District did not secure financing until October of 2016; (3) the premium received from Jefferies LLC in connection with the 2016-2017 TAN borrowing was \$238,597 lower than projected; (4) an additional \$206,119 was received from Western Suffolk BOCES due to refunds of prior year expenditures; (5) an additional \$212,052 was received in workers' compensation insurance recoveries and (6) an additional \$1,048,341 in interfund revenue was generated due to the close-out of completed capital projects.
- The 2016-2017 expenditures and encumbrances were under budget by \$4,974,237, primarily due to the following items: (1) actual utility costs for fuel oil, natural gas and electricity were less than anticipated; (2) actual contract transportation costs were less than budgeted; (3) actual salary costs were less than expected due to mid-year employee retirements that resulted in temporary vacant positions; (4) employer pension costs to the New York State Teachers' Retirement System and employer FICA & Medicare taxes were less than budgeted due to decreases in actual salary costs and (5) expenditures for BOCES services were less than projected. Please see 'General Fund Budgetary Highlights – Expenditures and Encumbrances Under Budget' for further discussion on this topic.
- The general fund total fund balance, as reflected on the balance sheet in the fund financial statements, increased by \$521,731 to \$24,844,483. This was due to the excess of revenues and other sources over expenditures and other uses.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**FINANCIAL HIGHLIGHTS (continued)**

Key financial highlights for fiscal year 2017 are as follows: (continued)

- The \$521,731 increase in the District's general fund balance from \$24,322,752 at June 30, 2016 to \$24,844,483 at June 30, 2017 is illustrated in the table below.

<b>Fund Balance as of June 30, 2016</b>	<b>\$24,322,752</b>
<b><u>INCREASES TO FUND BALANCE -</u></b>	
Reserve for Capital	\$2,630,425
Reserve for Insurance	90
Reserve for Prepaids	223,185
Unassigned Fund Balance	<u>77,039</u>
<b>TOTAL INCREASES TO FUND BALANCE</b>	<b>\$2,930,739</b>
<b><u>DECREASES TO FUND BALANCE -</u></b>	
Reserve for Capital	(1,557,500)
Reserve for Unemployment Insurance	(5,837)
Employee Benefit Accrued Liability Reserve	(42,822)
Workers' Compensation Reserve	(21,548)
Retirement Contribution Reserve	(420,102)
Assigned Fund Balance (roll-over prior year encumbrances)	(284,199)
Assigned Fund Balance (reduces the tax levy)	<u>(77,000)</u>
<b>TOTAL DECREASES TO FUND BALANCE</b>	<b>(\$2,409,008)</b>
<b>Fund Balance as of June 30, 2017</b>	<b>\$24,844,483</b>

- The amount of the general fund unassigned fund balance as of June 30, 2017 is \$6,532,273. This is 4.00% of the District's 2017-2018 approved operating budget of \$163,306,840. The District is in compliance with the New York State Real Property Tax Law §1318 limit, which restricts the unassigned fund balance to an amount not greater than 4% of the District's budget for the upcoming school year. Maintaining the maximum unassigned fund balance provides financial protection for unforeseen expenditures or revenue shortfalls and helps to ensure that adequate cash flow is available for operating expenses.
- Chapter 97 of the Laws of 2011 established a tax levy limit that affected all local governments, most school districts and independent taxing entities such as library, fire and water districts. The law has been referred to as the "2% property tax cap". Under this law, the growth in the property tax levy is capped at 2% or the rate of inflation, whichever is less, with some exceptions. School districts have the ability to override the cap by obtaining a super majority, or 60% approval by the District's budget voters. The District's 2017-2018 projected tax levy is under 2% for the ninth consecutive year.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

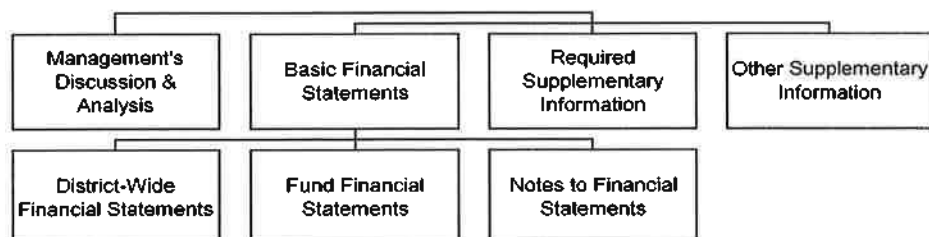
**FINANCIAL HIGHLIGHTS (continued)**

Key financial highlights for fiscal year 2017 are as follows: (continued)

- The District established and funded allowable reserves in anticipation of the 2% property tax cap and the pending LIPA tax certiorari on the Northport Power Plant. Reserve funds provide the District with a legal channel to save money for future needs. As part of the District's long range financial plan, these incremental savings have helped to alleviate the financial impact of the 2% property tax cap. There has not been a settlement with LIPA regarding its pending tax certiorari. The Northport Power Plant currently pays approximately \$52.7 million in taxes to the Northport-East Northport School District. The plant's assessed valuation represents approximately 37.5% of the total assessed valuation of the School District. A reduction in the school taxes paid by LIPA would cause a shift in the tax burden to the District's residential tax base and could impact future budgets. The impact would be contingent upon the amount of LIPA's property tax assessment reduction.
- The District received New York State Education Department approval on an Energy Performance Contract in the amount of \$12.9 million. The District was able to secure financing with Bank of America during 2016-2017. Included in the energy improvements are LED lighting, building envelope improvements, boiler controllers and computer management software. The energy improvements will be completed at all ten of the District's buildings.
- On the district-wide financial statements, total net position decreased by \$7,833,486 or 28.2% to \$19,967,507 for the year ended June 30, 2017, compared to \$27,800,993 at June 30, 2016. The decrease in net position is primarily the result of the increase of the unfunded addition to the OPEB liability. See Notes for further detail.
- The District's net other postemployment benefits obligation amounted to \$81,471,349 as of June 30, 2017, which is an increase of \$9,571,311 over the prior year amount. See Note 14 for further detail.
- On the district-wide financial statements, the District's expenses for the year totaled \$169,975,250. Of this amount, \$4,985,598 was offset by program charges for services and operating grants. General revenues of \$157,156,166 amount to 97% of total revenues, and were not adequate to cover the balance of program expenses.

**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.





**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

<b>Figure A-1 Major Features of the District-Wide and Fund Financial Statements</b>			
	<b>Fund Financial Statements</b>		
	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
<b>Type of asset/deferred outflows of resources/liability/deferred inflows of resources information</b>	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
<b>Type of inflow/outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**District-Wide Financial Statements**

The district-wide financial statements 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.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

**District-Wide Financial Statements (continued)**

The Statement of Net Position

The Statement of Net Position presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between the two 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. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

**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 that they become measurable, funded through available resources and payable within a current 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 Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

**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.

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

**Condensed Statement of Net Position**

The District's total net position decreased by \$7,833,486 between fiscal year 2017 and 2016. A summary of the District's Statements of Net Position follows.

	6/30/2017	6/30/2016	Change	Percent Change
Current and other assets	\$ 54,996,843	\$ 46,273,522	\$ 8,723,321	18.9%
Capital assets, net	60,979,740	54,317,692	6,662,048	12.3%
Net pension asset - proportionate share	-0-	43,855,268	(43,855,268)	-100.0%
<b>Total assets</b>	<b>115,976,583</b>	<b>144,446,482</b>	<b>(28,469,899)</b>	<b>-19.7%</b>
Deferred outflows of resources	49,840,085	18,046,916	31,793,169	176.2%
Other liabilities	17,110,631	14,854,283	2,256,348	15.2%
Non-current liabilities	116,356,734	95,724,044	20,632,690	21.6%
Net pension liability - proportionate share	9,353,801	8,035,059	1,318,742	16.4%
<b>Total liabilities</b>	<b>142,821,166</b>	<b>118,613,386</b>	<b>24,207,780</b>	<b>20.4%</b>
Deferred inflows of resources	3,027,995	16,079,019	(13,051,024)	-81.2%
<b>Net position:</b>				
Net investment in capital assets	41,061,500	39,967,692	1,093,808	2.7%
Restricted	17,689,190	16,683,248	1,005,942	6.0%
Unrestricted (deficit)	(38,783,183)	(28,849,947)	(9,933,236)	-34.4%
<b>Total net position</b>	<b>\$ 19,967,507</b>	<b>\$ 27,800,993</b>	<b>\$ (7,833,486)</b>	<b>-28.2%</b>

Current and other assets increased by \$8,723,321, as compared to the prior year. The increase is primarily related to the increase in cash.

Capital assets, net increased by \$6,662,048, as compared to the prior year. This increase was the result of asset purchases, net of depreciation expense during the year. The accompanying Notes to Financial Statements, Note 8 "Capital Assets" provides additional information.

Net pension asset – proportionate share decreased by \$43,855,268, as compared to the prior year. Prior year's asset represented the District's share of the New York State Teachers' Retirement System's collective net pension asset, the actuarial calculation for the current years District's share of the New York State Teachers' Retirement System's net pension resulted in a liability.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

**Condensed Statement of Net Position (continued)**

Deferred outflow of resources increased by \$31,793,169 as compared to the prior year. The deferred outflow of resources represents contributions to the state retirement plan subsequent to the measurement dates and actuarial adjustments at the plan level that will be amortized in future years.

Other liabilities increased by \$2,256,348, as compared to the prior year. This increase was primarily related to increases in accounts payable, and due to other governments reduced by a decrease in amounts due to the New York State Teachers' Retirement System.

Noncurrent liabilities increased by \$20,632,690, as compared to the prior year. This increase was primarily in connection with the addition of the energy performance contract, and the increase in other postemployment benefits accrual. The increase was offset by the payment of principal on serial bonds. See note 11 for additional information.

Net pension liability – proportionate share increased by \$1,318,742 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 and the New York State Teachers' Retirement System's collective net pension liability at 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. This amount decreased by \$13,051,024, as compared to the prior year due to changes in the actuarial adjustments.

The net investment in capital assets relates to the investment in capital assets at cost such as - buildings and improvements, and furniture and equipment, net of depreciation and related debt. This increased over the prior year by \$1,093,808 due to capital acquisitions net of current year's depreciation, plus current year bond principal payments, less additional debt issued during the year, plus unspent debt proceeds.

The restricted net position at June 30, 2017 is \$17,689,190 and is comprised of the District's restricted reserves as seen in the fund balance section on the balance sheet – governmental funds, less the amount representing unspent debt proceeds.

The unrestricted deficit amount of \$(38,783,183) relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation. This deficit increased over the prior year by \$9,933,236, primarily as a result of the increase of the unfunded addition to the OPEB liability.

The District's total net position decreased by \$7,833,486 or 28.2% to \$19,967,507 for the year ended June 30, 2017, compared to \$27,800,993 at June 30, 2016.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

**Changes in Net Position from Operating Results**

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. In the MD&A, STAR (school tax relief) revenue is included in the "Property Taxes" line. A summary of this statement for the years ended June 30, 2017 and 2016 is as follows:

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Revenues</b>				
Program revenues:				
Charges for services	\$ 1,913,523	\$ 1,937,892	\$ (24,369)	-1.3%
Operating grants	3,072,075	3,063,205	8,870	0.3%
General revenues:				
Property taxes and STAR	140,921,095	140,216,157	704,938	0.5%
Other tax items	1,222	1,383	(161)	-11.6%
State aid	14,593,006	13,991,457	601,549	4.3%
Federal aid - medicaid reimbursement	57,252	64,051	(6,799)	-10.6%
Other	1,583,591	2,059,742	(476,151)	-23.1%
Total revenues	<u>162,141,764</u>	<u>161,333,887</u>	<u>807,877</u>	0.5%
<b>Expenses</b>				
General support	23,078,889	21,559,018	1,519,871	7.0%
Instruction	135,208,412	120,843,042	14,365,370	11.9%
Pupil transportation	8,295,682	8,412,829	(117,147)	-1.4%
Community services	538,594	511,058	27,536	5.4%
Debt service - interest	1,126,292	1,085,082	41,210	3.8%
School lunch program	1,727,381	1,613,724	113,657	7.0%
Total expenses	<u>169,975,250</u>	<u>154,024,753</u>	<u>15,950,497</u>	10.4%
Increase in net position	(7,833,486)	<u>\$ 7,309,134</u>	<u>\$ (15,142,620)</u>	-207.2%
Net position - beginning	<u>27,800,993</u>			
Net position - ending	<u>\$ 19,967,507</u>			

The District's net position decreased by \$7,833,486 for the year ended June 30, 2017. The District's net position increased by \$7,309,134 for the year ended June 30, 2016.

The District's revenues increased by \$807,877 for the year ended June 30, 2017. The main areas of increase were in real property taxes and STAR, and state aid, offset by a decrease in other revenues.

The District's expenses increased by \$15,950,497 or 10.4% for the year ended June 30, 2017. The increase was primarily the result of the decrease in the District's share of the New York State Teachers' Retirement System's collective net pension credit, an increase in the OPEB liability, and increases in salaries.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

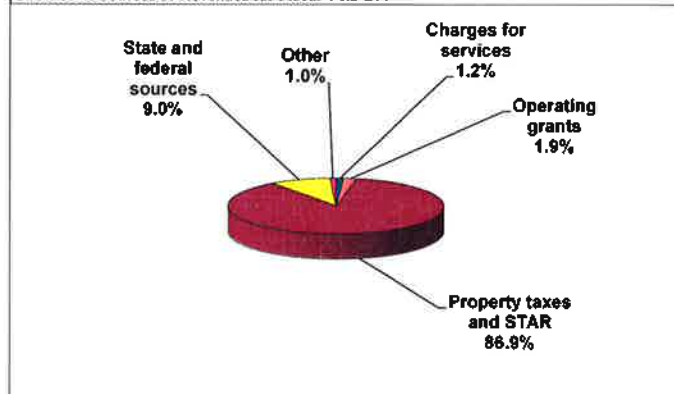
**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

**Changes in Net Position from Operating Results (continued)**

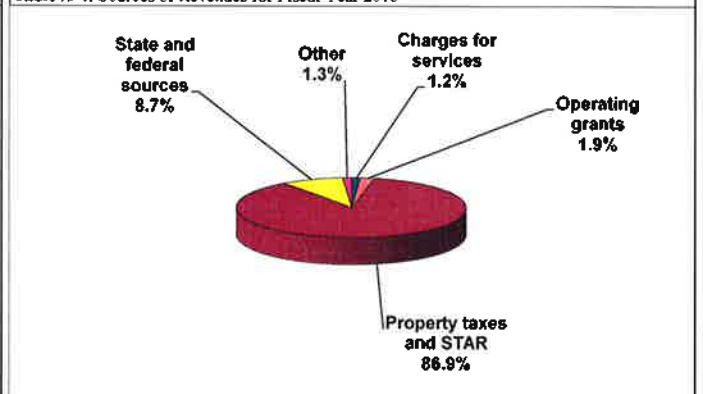
As indicated on the pie charts that follow, property taxes and STAR is the largest component of revenues recognized, representing 86.9% of the total revenues for the year ended June 30, 2017. Instruction expenses are the largest category of expenses incurred at 79.5% of the total expenses for the year ended June 30, 2017.

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

**Table A-4: Sources of Revenues for Fiscal Year 2017**

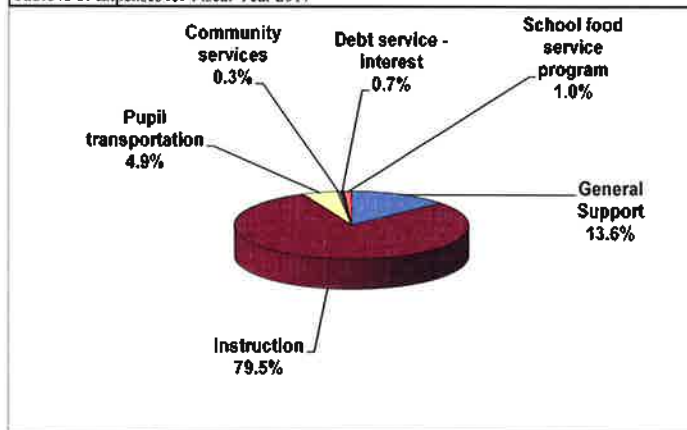


**Table A-4: Sources of Revenues for Fiscal Year 2016**

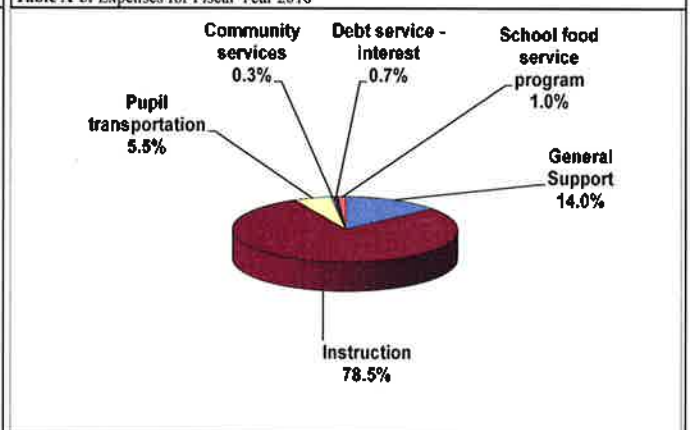


A graphic display of the distribution of expenses for the two years follows:

**Table A-5: Expenses for Fiscal Year 2017**



**Table A-5: Expenses for Fiscal Year 2016**



**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS**

At June 30, 2017, the District's governmental funds reported a combined fund balance of \$38,037,774, which is an increase of \$6,768,642 over the prior year. A summary of the change in fund balance by fund is as follows:

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>Increase (Decrease)</u>
<b>General Fund</b>			
Nonspendable:			
Prepays	\$ 1,829,811	\$ 1,606,626	\$ 223,185
Restricted:			
Capital	3,193,323	2,120,398	1,072,925
Unemployment Insurance	824,190	830,027	(5,837)
Insurance	49,694	49,604	90
Employee Benefit			
Accrued Liability	3,860,578	3,903,400	(42,822)
Workers' Compensation	2,408,599	2,430,147	(21,548)
Retirement Contribution	2,611,114	3,031,216	(420,102)
Total Restricted	<u>12,947,498</u>	<u>12,364,792</u>	<u>582,706</u>
Assigned	3,534,901	3,896,100	(361,199)
Unassigned	6,532,273	6,455,234	77,039
	<u>24,844,483</u>	<u>24,322,752</u>	<u>521,731</u>
<b>School Food Service Fund</b>			
Nonspendable:			
Inventory	29,010	36,222	(7,212)
Assigned	109,260	111,694	(2,434)
	<u>138,270</u>	<u>147,916</u>	<u>(9,646)</u>
<b>Capital Projects Fund</b>			
Restricted:			
Capital	9,754,111	4,318,456	5,435,655
Assigned	3,300,910	2,480,008	820,902
	<u>13,055,021</u>	<u>6,798,464</u>	<u>6,256,557</u>
Total Fund Balance	<u>\$ 38,037,774</u>	<u>\$ 31,269,132</u>	<u>\$ 6,768,642</u>

**General Fund**

The general fund fund balance increased by \$521,731. This increase was due to budgetary savings. Budgetary savings were achieved because costs were lower than anticipated. The following budgetary items accounted for these savings: (1) employee salaries were less than budgeted due to mid-year retirements and employees on leave due to illness or personal reasons; (2) energy costs, including electricity, fuel oil, natural gas and diesel were less than anticipated due to market conditions; (3) teachers' retirement pension costs, including FICA, were less than budgeted due to a reduction in the employer contribution rate and reduced salary costs; (4) the cost for BOCES services was less than anticipated and (5) transportation costs were less than budgeted.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2017**

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS (continued)**

**School Food Service Fund**

The school food service fund balance decreased by \$9,646, as compared to the prior year. The contributing factor for this decrease was the cost associated with the purchase of new computer equipment, including cash registers for the point-of-sale system. This equipment must be replaced every five years; the cost of the equipment was \$46,444.

The general fund will continue to subsidize the school food service fund in 2017-2018 by a budgeted interfund transfer of \$200,000. The Board of Education approved an increase in the cost of elementary and secondary lunches to \$2.65 and \$2.90, respectively for the 2017-2018 school year. These increases were based on the Paid Lunch Equity Tool provided by the United States Department of Agriculture. Districts are required to achieve equity in school lunch prices and ensure sufficient funds are provided to the school food service account. During the 2016-2017 school year, the Board of Education contracted with HMB Consultants to perform an assessment of the school food service program and provide recommendations for improving participation in the program. Many of the recommendations have been implemented by the School Lunch Director who continually evaluates ways to improve the program with a combined goal of reducing costs and increasing participation.

**Capital Projects Fund**

The capital projects fund balance increased by \$6,256,557. There were several transfers to the capital projects fund totaling \$3,689,500. During the 2016-2017 year the District issued \$12,465,659 related to the energy performance contract. The District made a payment of \$500,000 prior to closing and thus saved approximately \$45,000 in debt service costs. Transfers out totaling \$1,048,341 were made due to several capital projects being closed and the excess unspent funds were returned to either the general fund, the 2008 Capital Reserve Fund or the unassigned fund balance. Expenditures totaling \$8,850,261 were made for several capital projects, including the energy improvement upgrades associated with the energy performance contract, the upgrade to the fire alarm systems at all six elementary schools and the paving of the gravel parking lot at Northport High School. Work was commenced on the replacement of the boilers at Norwood Avenue Elementary School and Northport High School.

**General Fund Budgetary Highlights**

2016-17 Budget

The District's general fund adopted budget for the year ended June 30, 2017 was \$161,380,883. This amount was increased by encumbrances carried forward from the prior year in the amount of \$1,319,100, and various budget revisions resulting in additional increases of \$1,821,885 for a total final budget of \$164,521,868.

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

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



**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS (continued)**

**General Fund Budgetary Highlights (continued)**

Opening, Unassigned Fund Balance	\$ 6,455,234
Revenues Over Budget	732,269
Expenditures and Encumbrances Under Budget	4,974,237
Increase in Nonspendable Fund Balance	(223,185)
Transfer to Reserves (Restricted)	(2,873,624)
Unused Appropriated Reserves (Restricted)	(32,658)
Assigned - Appropriated for 2017-18 Budget	(2,500,000)
Closing, Unassigned Fund Balance	<u>\$ 6,532,273</u>

Opening, Unassigned Fund Balance

The \$6,455,234 shown in the table is the portion of the District's June 30, 2016 fund balance that was reported as unassigned. This is 4.00% of the District's 2016-17 approved operating budget of \$161,380,883.

Revenues Over Budget

The 2016-17 final budget for revenues and transfers was \$164,521,868. Reflected in this budget were the following components: (1) assigned fund balance in the amount of \$2,577,000; (2) appropriated fund balance reserves in the amount of \$766,076; (2) approved capital reserve referendum in the amount of \$1,557,500; (3) encumbrances rolled forward from 2015-2016 in the amount of \$1,319,100 and (5) estimated revenue of \$158,302,192. Actual revenues and other sources received for the year were \$159,034,461. The excess of actual revenues and other sources over estimated or budgeted revenues amounted to \$732,269. This reflects the net variance amount for all revenue streams combined. Significant revenue variances existed as a result of the following: (1) state aid in the amount of \$208,596 was never received due to estimates versus actuals for expenditure driven aids, such as BOCES aid and transportation aid; (2) \$400,000 in anticipated rebates due to energy savings from the Energy Performance Contract never materialized as the District did not secure financing until October of 2016; (3) the premium received from Jefferies LLC in connection with the 2016-2017 TAN borrowing was \$238,597 lower than projected; (4) an additional \$206,119 was received from Western Suffolk BOCES due to refunds of prior year expenditures; (5) an additional \$212,052 was received in workers' compensation insurance recoveries and (6) an additional \$1,048,341 in interfund revenue was generated due to the close-out of completed capital projects.

Expenditures and Encumbrances Under Budget

The 2016-17 final budget for expenditures and transfers, including prior year open encumbrances and budget revisions amounted to \$164,521,868. Actual expenditures and transfers as of June 30, 2017 were \$158,512,730, and outstanding encumbrances were \$1,034,901. Combined, the expenditures plus encumbrances for 2016-17 were \$159,547,631. The final budget was under-expended by \$4,974,237. Budget categories which contributed significantly to the under-expenditure of \$4,974,237 are: (1) contractual salaries (approximately \$850,000), (2) non-contractual salaries (approximately \$600,000); (3) BOCES programs, including special education services (approximately \$495,000), (4) utility costs (approximately \$470,000), (5) diesel fuel for buses and gasoline for vehicles (approximately \$100,000); (6) Teachers' Retirement System contributions (approximately \$185,000); (7) FICA and Medicare employer taxes (approximately \$125,000); (8) contract transportation costs (approximately \$330,000); (9) health and dental insurances (approximately \$385,000) and (10) other district-wide contractual services (approximately \$810,000).

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS (continued)**

**General Fund Budgetary Highlights (continued)**

Expenditures and current year encumbrances under budget contribute directly to the change in the unassigned portion of the general fund - fund balance from June 30, 2016 to June 30, 2017.

Increase in Nonspendable Fund Balance

Nonspendable fund balance consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Increases to the nonspendable fund balance decreases the District's unassigned portion of the fund balance by the amount of the increase. The \$223,185 in the table on the previous page reflects the net increase to prepaids, specifically health, dental and ancillary insurances provided to employees and retirees.

Transfer to Reserves (Restricted)

Monies transferred from budget lines within the general fund operations into required reserves such as the workers' compensation reserve, the unemployment insurance reserve, capital reserve, employee benefit accrued liability reserve, and the retirement contribution reserve do not affect the combined nonspendable, restricted, assigned and unassigned fund balance unless, and until, these monies are actually expended. The transfers do, however, reduce the District's discretion regarding the use of these transferred monies, and thus, reduce the unassigned portion of the fund balance by the amount of the transfer. The \$2,873,624 in the previously presented table reflects the net interest transferred into the reserves of \$20,998, plus transfers of \$1,500,000 and \$600,000 into the 2012 and 2008 capital reserve, \$75,270 into the retirement contribution reserve, \$75,270 into the employee benefit accrued liability reserve and \$75,270 into the workers' compensation reserve. In addition, \$526,816 was transferred back into the 2008 capital reserve which represents the amount of unspent funds on completed capital reserve projects.

Unused Appropriated Reserves

In the 2016-17 budget \$766,076 of reserves were appropriated to reduce the tax levy. Due to lower than budgeted expenditures, \$32,658 of these reserves were not needed and, therefore, were returned to the reserve for future use.

Assigned - Appropriated Fund Balance

The District has chosen to use \$2,500,000 of its available June 30, 2017 fund balance to partially fund its 2017-18 approved operating budget. The District's long-term goal is to annually reduce the amount of the assigned fund balance. The assigned fund balance has been reduced from \$2,577,000 in 2016-2017 to \$2,500,000 in 2017-2018.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the table, the District will begin the 2017-18 fiscal year with an unassigned fund balance of \$6,532,273. This is an increase of \$77,039 as compared to the prior year. This is 4.00% of the District's 2017-18 approved operating budget of \$163,306,840. The District's unassigned fund balance was in compliance with the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2017, the District had invested in a broad range of capital assets, including land, construction in progress, buildings and improvements, site improvements, and furniture, equipment and vehicles. The net increase in capital assets is due to capital additions less depreciation recorded for the year ended June 30, 2017. A summary of the District's capital assets, net of depreciation, at June 30, 2017 and 2016 is as follows:

Category	6/30/2017	6/30/16	% Change
Land	\$ 1,336,364	\$ 1,336,364	0.0%
Construction-in-progress	8,765,490	1,102,910	694.8%
Buildings and improvements	47,777,752	48,642,317	-1.8%
Site improvements	1,007,305	1,132,706	-11.1%
Furniture, equipment and vehicles	2,092,829	2,103,395	-0.5%
Totals	<u>\$ 60,979,740</u>	<u>\$ 54,317,692</u>	12.3%

Capital additions for the year ended June 30, 2017 were \$9,221,739. Depreciation expense for the year totaled \$2,555,761. The loss on disposition was \$3,930.

**Debt Administration**

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's total outstanding indebtedness currently does not exceed its debt limit, which is defined as 10% of the full valuation of the taxable real property within the District. The District has exhausted 1.32% of its debt contracting power at June 30, 2017.

At June 30, 2017, the District had total bonds payable of \$12,465,000 and energy performance contract debt of \$12,465,659. The 2013 Series A and B bonds were used to partially advance refund the 2004 and 2005 bond issuances, which were issued for various school improvements. The decrease in outstanding general obligation bonds represents scheduled principal payments. During the 2016-2017 year, the District issued \$12,465,659 of energy performance contract debt, which were issued for various school improvements to decrease the District's energy usage.

A summary of the long-term liabilities at June 30, 2017 and 2016 is as follows:

Category	6/30/17	6/30/16	% Change
General obligation bonds	\$ 12,465,000	\$ 14,350,000	-13.1%
Energy performance contract debt	12,465,659	-0-	100.0%
Other postemployment benefits payable	81,471,349	71,900,038	13.3%
Net pension liability - proportionate share	9,353,801	8,035,059	16.4%
Compensated absences	6,495,249	6,218,000	4.5%
Workers' compensation claims payable	3,459,477	3,256,006	6.2%
Totals	<u>\$ 125,710,535</u>	<u>\$103,759,103</u>	21.2%

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2017

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 16, 2017, for the year ending June 30, 2018, is \$163,306,840. This is an increase of \$1,925,957 or 1.19% over the previous year's adopted budget.

The District's adopted budget reflects non-property tax revenues at an increase of \$353,356 from the current year's estimate. The adopted budget reflects an increase in property tax revenues of 1.46%. The District's legally allowable tax levy limit was 1.67%. The assigned - appropriated fund balance applied to the June 30, 2018 budget to reduce taxes in the amount of \$2,500,000 is a decrease of \$77,000, as compared to the current year.

New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities and most school districts. For fiscal years beginning in 2012, no school district is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however there are permitted exceptions and adjustments. School districts can exceed the tax levy limit only by a 60% favorable vote by District's budget voters. The 1.46% increase in the property tax levy for 2017-2018 is in compliance with Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions.

The Long Island Power Authority has initiated a tax certiorari proceeding to challenge their property tax assessment. The result of such a challenge could have a considerable impact on the District's residential property taxes and future school district budgets. The Northport Power Plant currently pays approximately \$52.7 million in taxes to the Northport-East Northport School District. The plant's assessed valuation represents approximately 37.5% of the total assessed valuation of the School District. The District filed suit against LIPA in May 2011 alleging a breach of contract after LIPA filed the tax certiorari. In July of 2015, a state appellate court sided with the School District in its case challenging LIPA's efforts to reduce the tax assessment of the power plant. A reduction in the school taxes paid by LIPA would cause a shift in the tax burden to the District's residential tax base and could impact future budgets. The impact would be contingent upon the amount of LIPA's property tax assessment reduction. Any award of back taxes payable to LIPA as a result of the proceeding would not be the responsibility of the District.

**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:

Northport – East Northport Union Free School District  
ATTN: Kathleen Molander  
Assistant Superintendent for Business  
P.O. Box 210  
Northport, New York 11768  
(631) 262-6632

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

June 30, 2017

**ASSETS**

Cash	
Unrestricted	\$ 26,600,884
Restricted	22,701,609
Receivables:	
Due from state and federal	3,455,882
Due from other governments	161,155
Due from fiduciary funds	175,481
Other	43,011
Inventories	29,010
Prepaid expenditures	1,829,811
	<hr/>
Total Current Assets	54,996,843
	<hr/>
Non-depreciable capital assets	10,101,854
Depreciable capital assets, net of depreciation	50,877,886
	<hr/>
Total Non-Current Assets	60,979,740
	<hr/>
Total Assets	115,976,583

**DEFERRED OUTFLOWS OF RESOURCES**

Pensions	49,840,085
	<hr/>
Total Deferred Outflows of Resources	49,840,085

**LIABILITIES**

Accounts payable	5,990,026
Accrued liabilities	1,051,166
Due to other governments	339,027
Bond interest and matured bonds	418,038
Due to teachers' retirement system	8,084,128
Due to employees' retirement system	750,784
Compensated absences	64,236
Unearned revenue	413,226
Non-current liabilities	
Due and payable within one year:	
General obligation bonds payable	1,935,000
Energy performance contract payable	390,996
Compensated absences payable	324,762
Workers' compensation claims payable	575,000
Due and payable after one year:	
General obligation bonds payable	10,530,000
Energy performance contract payable	12,074,663
Compensated absences payable	6,170,487
Workers' compensation claims payable	2,884,477
Net other postemployment benefits payable	81,471,349
Net pension liability - proportionate share	9,353,801
	<hr/>
Total Liabilities	142,821,166

**DEFERRED INFLOWS OF RESOURCES**

Pensions	3,027,995
	<hr/>
Total Deferred Inflows of Resources	3,027,995

**NET POSITION**

Net investment in capital assets	41,061,500
Restricted	17,689,190
Unrestricted (deficit)	(38,783,183)
	<hr/>
Total Net Position	\$ 19,967,507

See Notes to Financial Statements.

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2017

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
<b>FUNCTIONS/PROGRAMS</b>				
General support	\$ 23,078,889			\$ (23,078,889)
Instruction	135,208,412	\$ 787,630	\$ 2,679,559	(131,741,223)
Pupil transportation	8,295,682			(8,295,682)
Community service	538,594			(538,594)
Debt service - interest	1,126,292			(1,126,292)
School food service program	1,727,381	1,125,893	392,516	(208,972)
Total Functions and Programs	<u>\$ 169,975,250</u>	<u>\$ 1,913,523</u>	<u>\$ 3,072,075</u>	<u>(164,989,652)</u>
<b>GENERAL REVENUES</b>				
Real property taxes				132,307,298
School tax relief reimbursement				8,613,797
Other tax items				1,222
Use of money and property				263,372
Sale of property and compensation for loss				325,501
State sources				14,593,006
Medicaid reimbursement				57,252
Miscellaneous				994,718
Total General Revenues				<u>157,156,166</u>
Change in Net Position				(7,833,486)
Total Net Position - Beginning of year				<u>27,800,993</u>
Total Net Position - End of year				<u>\$ 19,967,507</u>

See Notes to Financial Statements.

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
June 30, 2017

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>					
Cash					
Unrestricted	\$ 24,607,283	\$ 1,395,383	\$ 598,218		\$ 26,600,884
Restricted	14,307,247			\$ 8,394,362	22,701,609
Receivables:					
Due from state and federal	2,623,031	640,177	20,492	172,182	3,455,882
Due from other governments	161,155				161,155
Due from other funds	2,958,728	623,565	107,531	8,053,047	11,742,871
Due from fiduciary funds	175,481				175,481
Other	13,708		29,303		43,011
Inventories			29,010		29,010
Prepaid expenditures	1,829,811				1,829,811
<b>Total Assets</b>	<b>\$ 46,676,444</b>	<b>\$ 2,659,125</b>	<b>\$ 784,554</b>	<b>\$ 16,619,591</b>	<b>\$ 66,739,714</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 2,527,137	\$ 23,228	\$ 47,273	\$ 3,392,388	\$ 5,990,026
Accrued liabilities	1,024,625	16,863	9,678		1,051,166
Due to other funds	8,640,174	2,568,096	534,601		11,742,871
Due to other governments	338,898		129		339,027
Due to teachers' retirement system	8,084,128				8,084,128
Due to employees' retirement system	750,784				750,784
Compensated absences	64,236				64,236
Unearned revenues	307,685	50,938	54,603		413,226
<b>Total Liabilities</b>	<b>21,737,667</b>	<b>2,659,125</b>	<b>646,284</b>	<b>3,392,388</b>	<b>28,435,464</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenues	94,294			172,182	266,476
<b>Total Deferred Inflows of Resources</b>	<b>94,294</b>	<b>-0-</b>	<b>-0-</b>	<b>172,182</b>	<b>266,476</b>
<b>FUND BALANCES</b>					
Nonspendable:					
Inventory			29,010		29,010
Prepays	1,829,811				1,829,811
Restricted:					
Capital	3,193,323			4,741,692	7,935,015
Unspent debt proceeds				5,012,419	5,012,419
Unemployment Insurance	824,190				824,190
Insurance	49,694				49,694
Employee Benefit Accrued Liability	3,860,578				3,860,578
Workers' Compensation	2,408,599				2,408,599
Retirement Contribution	2,611,114				2,611,114
Assigned	3,534,901		109,260	3,300,910	6,945,071
Unassigned	6,532,273				6,532,273
<b>Total Fund Balances</b>	<b>24,844,483</b>	<b>-0-</b>	<b>138,270</b>	<b>13,055,021</b>	<b>38,037,774</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 46,676,444</b>	<b>\$ 2,659,125</b>	<b>\$ 784,554</b>	<b>\$ 16,619,591</b>	<b>\$ 66,739,714</b>

See Notes to Financial Statements.

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
June 30, 2017

Total Governmental Fund Balances	\$	38,037,774
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Amounts reported for governmental activities in  
the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds.

Capital assets - non-depreciable	\$ 10,101,854	
Capital assets - depreciable	102,790,227	
Accumulated depreciation	<u>(51,912,341)</u>	60,979,740

Current and long-term liabilities are not due and payable in  
the current period and therefore are not reported in the funds:

Accrued interest payable	(418,038)	
General obligation bonds payable	(12,465,000)	
Energy performance contract payable	(12,465,659)	
Other postemployment benefits payable	(81,471,349)	
Compensated absences payable	(6,495,249)	
Workers' compensation claims payable	<u>(3,459,477)</u>	(116,774,772)

Revenue that was deferred on the fund statements because it does not meet the availability criteria under the modified accrual basis of accounting is not deferred in the Statement of Net Position.		266,476
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Certain amounts reported for the proportionate share of the District's  
pension asset and/or deferred outflows are not considered a  
current available resource and is therefore not reported in the funds.

Pensions - deferred outflows	<u>49,840,085</u>	49,840,085
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Certain amounts reported for the proportionate share of the District's  
pension liabilities and/or deferred inflows are not due and payable in  
the current period and accordingly are not reported in the funds.

Net pension liability-proportionate share	(9,353,801)	
Pensions - deferred inflows	<u>(3,027,995)</u>	<u>(12,381,796)</u>

Net Position of Governmental Activities	\$	<u><u>19,967,507</u></u>
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**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2017

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>					
Real property taxes	\$ 132,307,298				\$ 132,307,298
School tax relief reimbursement	8,613,797				8,613,797
Other tax items	1,222				1,222
Charges for services	830,499				830,499
Use of money and property	262,827		\$ 545		263,372
Sale of property and compensation for loss	325,501				325,501
State aid	14,593,006	\$ 969,768	25,941		15,588,715
Sales - school lunch			1,101,287		1,101,287
Miscellaneous	994,718	9,953	24,606		1,029,277
Federal aid - medicaid reimbursement	57,252				57,252
Federal aid		1,699,838	271,205		1,971,043
Surplus food			95,370		95,370
<b>Total Revenues</b>	<b>157,986,120</b>	<b>2,679,559</b>	<b>1,518,954</b>	<b>\$ -0-</b>	<b>162,184,633</b>
<b>EXPENDITURES</b>					
General support	16,767,450				16,767,450
Instruction	89,670,787	2,996,669			92,667,456
Pupil transportation	7,559,684	309,979			7,869,663
Community service	397,054				397,054
Employee benefits	36,848,674		292,871		37,141,545
Debt service					
Principal	1,885,000				1,885,000
Interest	867,492				867,492
Cost of sales			1,435,729		1,435,729
Capital outlay				8,850,261	8,850,261
<b>Total Expenditures</b>	<b>153,996,141</b>	<b>3,306,648</b>	<b>1,728,600</b>	<b>8,850,261</b>	<b>167,881,650</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,989,979	(627,089)	(209,646)	(8,850,261)	(5,697,017)
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Proceeds of debt				12,465,659	12,465,659
Operating transfers in	1,048,341	627,089	200,000	3,689,500	5,564,930
Operating transfers (out)	(4,516,589)			(1,048,341)	(5,564,930)
<b>Total Other Sources (Uses)</b>	<b>(3,468,248)</b>	<b>627,089</b>	<b>200,000</b>	<b>15,106,818</b>	<b>12,465,659</b>
<b>Net change in fund balance</b>	<b>521,731</b>	<b>-0-</b>	<b>(9,646)</b>	<b>6,256,557</b>	<b>6,768,642</b>
Fund balance - Beginning of year	24,322,752	-0-	147,916	6,798,464	31,269,132
Fund balance - End of year	\$ 24,844,483	\$ -0-	\$ 138,270	\$ 13,055,021	\$ 38,037,774

See Notes to Financial Statements.

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2017

Net Changes in Fund Balances - Total Governmental Funds		\$ 6,768,642
Amounts reported for governmental activities in the Statement of Activities are different because:		
<u>Long-term revenue and expense differences</u>		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Charges for services		(42,869)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Net other postemployment benefits payable	\$ (9,571,311)	
Compensated absences payable	(277,249)	
Workers' compensation claims payable	<u>(203,471)</u>	(10,052,031)
<u>Pension differences</u>		
(Increases)/decrease in the proportionate share of net pension assets/liabilities and related deferred inflows and outflows reported in the Statement of Activities do not provide for or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds.		
Teachers' Retirement System	176,229	
Employees' Retirement System	<u>(506,046)</u>	(329,817)
<u>Capital related differences</u>		
Governmental funds report capital outlays as expenditures while in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Capital Outlay	9,221,739	
Depreciation expense	<u>(2,555,761)</u>	6,665,978
The net effect of various miscellaneous transactions involving capital assets related to sales, trade-ins and disposals is to decrease net position.		(3,930)
<u>Long-term debt transaction differences</u>		
Proceeds from the issuance of energy performance contract 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.		(12,465,659)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the Statement of Net Position.		
Repayment of bond principal		1,885,000
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. Accrued interest increased from June 30, 2016 to June 30, 2017.		<u>(258,800)</u>
Change in Net Position of Governmental Activities		<u>\$ (7,833,486)</u>

See Notes to Financial Statements.

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
June 30, 2017

	<u>Private Purpose Trusts</u>	<u>Agency</u>
<b>ASSETS</b>		
Cash	<u>\$ 65,339</u>	<u>\$ 1,564,025</u>
Total Assets	<u>65,339</u>	<u>\$ 1,564,025</u>
<b>LIABILITIES</b>		
Due to governmental funds		\$ 175,481
Extraclassroom activity balances		350,014
Other liabilities		<u>1,038,530</u>
Total Liabilities	<u>-0-</u>	<u>\$ 1,564,025</u>
<b>NET POSITION</b>		
Restricted for scholarships	<u>65,339</u>	
Total Net Position	<u>\$ 65,339</u>	

See Notes to Financial Statements.

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
For the Year Ended June 30, 2017

	<u>Private Purpose Trusts</u>
<b>ADDITIONS</b>	
Gifts and contributions	\$ 20,525
Investment earnings	<u>187</u>
Total Additions	<u>20,712</u>
 <b>DEDUCTIONS</b>	
Scholarships and awards	<u>24,810</u>
Total Deductions	<u>24,810</u>
Change in Net Position	(4,098)
Net Position - Beginning of year	<u>69,437</u>
Net Position - End of year	<u><u>\$ 65,339</u></u>

See Notes to Financial Statements.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**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 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 - Agency 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 one of many participating school districts in the Board of Cooperative Educational Services of Western Suffolk ("BOCES"). 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. There is no authority or process by which a school district can terminate its status as a BOCES participant.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Joint Venture (continued)**

BOCES are organized under Section 1950 of the New York State Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their participating member boards in accordance with provisions of Section 1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation under Section 1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section 119-n (a) of the New York State General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program, and capital costs. Each participating district's share of administrative and capital cost is determined by resident public school district enrollment as defined in New York State Education Law, Section 1950(4)(b)(7). In addition, participating 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 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.

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 category, governmental and fiduciary, are presented. The emphasis of fund financial statements is on major funds as defined by GASB, each displayed in a separate column. The District's financial statements reflect the following major fund categories:

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Presentation (continued)**

Fund Financial Statements (continued)

**Governmental Funds:**

**General Fund** – This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

**Special Revenue Funds** – This fund accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

**Special Aid Fund** – This fund accounts 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 by outside parties.

**School Food Service Fund** – This fund is used to account for the activities of the food service program.

**Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted or assigned to expenditure for capital outlays, including the acquisition, construction, or major repair of capital facilities.

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

**Private Purpose Trust Funds** - These funds are used to account for trust arrangements in which scholarship benefits are provided for students and in which net position-restricted-permanent principals are held in perpetuity, and income generated is used for annual third-party awards and scholarships for students. Established criteria govern the use of the funds. Members of the District or representatives of the donors may serve on committees to determine who benefits.

**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.

**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.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Basis of Accounting and Measurement Focus (continued)**

The district-wide and fiduciary fund financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. 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 on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method, 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, pension costs, 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.

**E. 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 during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of depreciation, other postemployment benefits, pension costs, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

**F. Cash and Cash Equivalents/Investments**

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

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

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities.



**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Cash and Cash Equivalents/Investments (continued)**

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 the State and its municipalities and Districts.

**G. Real Property Taxes**

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

Uncollected real property taxes are the responsibility of the County of Suffolk. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District in June.

**H. Restricted Resources**

When an expense is incurred for purposes for which both restricted and unrestricted net position 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.

**I. Receivables**

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

**J. 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 the transfer of expenditure and revenues to provide financing or other services.

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.

Refer to Note 9 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K. Inventories and Prepaid Items**

Inventories of food in the school food service fund are recorded at cost on a first-in, first-out basis or in the case of surplus food donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. These inventories are accounted for on the consumption method. A reserve for inventory has been recognized to indicate that this does not constitute available spendable resources.

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 prepaid items in both the district-wide and fund financial statements. These items are reported as assets on the Statement of Net Position or Balance Sheet using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed. A reserve for prepaids has been recognized to indicate that this does not constitute available spendable resources.

**L. Capital Assets**

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building and improvements	\$ 1,000	Straight line	20-50 years
Site improvements	\$ 1,000	Straight line	20 years
Furniture, equipment and vehicles	\$ 1,000	Straight line	5-20 years

**M. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category. This 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 asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. This amount also includes the District contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date. See Note 12.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**M. Deferred Outflows/Inflows of Resources (continued)**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. This 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 (ERS System) and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. See Note 12.

**N. Unearned Revenues**

Unavailable revenues 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. In subsequent periods, when the District has legal claim to the resources, the liability for unavailable revenues is removed and revenues are recognized. At June 30, 2017, the District recorded unavailable revenues in the general fund of \$307,685 for summer program fees, \$50,938 in the special aid fund for local grants where expenditures have not been incurred and \$54,603 in the school food service fund for prepaid lunch amounts.

**O. Vested 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 be eligible to receive a portion of the value of unused accumulated sick leave.

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within required time periods.

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

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

In the fund financial statements only the amount of matured liabilities is accrued within the general fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**P. Other Benefits**

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

District employees may choose to participate in the District's elective deferred compensation plan established under Internal Revenue Code Section 403(b).

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 employee 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 general fund, in the year paid. Other postemployment benefits costs are measured and disclosed using the accrual basis of accounting in the district-wide financial statements. See Note 14.

**Q. 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. One TAN was issued and repaid during the year ended June 30, 2017.

The District may issue bond anticipation notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as a liability of the fund 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. No BANs were outstanding at June 30, 2017.

**R. Accrued Liabilities and Long-Term Obligations**

Payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Workers' compensation claims and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent they have matured. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due and payable in one year or due and payable in more than one year in the Statement of Net Position.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 acquisition, constructions or improvements of those assets.

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

Unrestricted net position - reports the balance of net position that does not meet the definition of the above two classifications and is deemed to be available for general use by the District.

Fund Statements

In the fund basis statements there are four classifications of fund balance used by the District:

**Nonspendable** - Includes amounts that cannot be spent because they are either not in spendable form, not available within a year, or legally or contractually required to be maintained intact. Nonspendable fund balance includes the inventory recorded in the school food service fund of \$29,010 and prepaids in the general fund of \$1,829,811.

**Restricted** - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has established the following restricted fund balances:

Capital

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

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**S. Equity Classifications (continued)**

Restricted - Unspent debt proceeds

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

Unemployment Insurance Reserve

The 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 60 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. This reserve is accounted for in the general fund under Restricted Fund Balance.

Insurance Reserve

The insurance reserve (GML §6-n) is used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action and funded by budgetary appropriations or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. This reserve is accounted for in the general fund under Restricted Fund Balance.

Employee Benefit Accrued Liability Reserve

The employee benefit accrued liability reserve (GML §6-p) is used to reserve funds for the payment of accrued employee benefits primarily based on unused and unpaid sick leave, personal leave, holiday leave or vacation time due to 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. This reserve is accounted for in the general fund under Restricted Fund Balance.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**S. Equity Classifications (continued)**

Workers' Compensation Reserve

The 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. This reserve is accounted for in the general fund under Restricted Fund Balance.

Retirement Contribution Reserve

The 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 reserve must be accounted for separate and apart from all other funds and a detail report of the operations and condition of the fund must be provided to the Board. The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. This reserve is accounted for in the general fund under Restricted Fund Balance.

Restricted for Scholarships

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

**Assigned** - Includes amounts that are constrained by the District's intent to be used for specific purposes, but are not restricted. Assigned fund balance includes encumbrances reported in the general fund in the amount of \$1,034,901 and \$2,500,000 of appropriated fund balance applied to the June 30, 2018 budget to reduce taxes. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund.

**Unassigned** - Includes all other general fund amounts that do not meet the definition of the above three classifications and are deemed to be available for general use by the District. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

NYS Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the School District's budget for the general fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**S. Equity Classifications (continued)**

Order of Use of Fund Balance

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. Expenditures incurred in the unrestricted fund balances shall be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

**T. New Accounting Standards**

The District has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. During the year ended June 30, 2017, The District adopted the following:

GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement addresses tax abatements resulting from agreements entered into by the reporting government, as well as those that are initiated by other governments and reduce the reporting government's tax revenues. Regarding the latter, the reporting government will disclose the governments entering into the agreements, the specific tax being abated, and the amount abated. The district did not have any tax abatements to disclose.

**U. Future Changes in Accounting Standards**

GASB has issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for the year ending June 30, 2018. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District will evaluate the impact this pronouncement may have on its financial statements and will implement them as applicable and when material.

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

Due to the differences in the measurement focus and basis of accounting used in the funds 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 focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.



**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS (continued)**

**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 additional long-term economic focus of the Statement of Net Position versus the current financial resources focus of the governmental fund Balance Sheet, as applied to the reporting of capital assets and long-term assets and liabilities, including pensions.

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

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one 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, pension costs and other postemployment benefits.

Capital Related Differences

Capital related differences include the difference between proceeds for 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 payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, 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 recognizing pension costs under the modified accrual basis of accounting (whereby an expenditure is recognized based on the contractually required contribution as calculated by the plan) versus the accrual basis of accounting (whereby an expense is recognized related to the District's proportionate share of the collective pension expense of the plan).

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

The District's 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, and are recorded at the program line-item level, and constitute a limitation on expenditures (and encumbrances) that may be incurred. 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 are increased by the planned use of specific reserves, and 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). 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:

Various general and instructional expenditures funded by donations, state aid and other revenue	\$ 264,385
Voter approved Proposition 2 on May 16, 2017, transfer to capital for various improvements	<u>1,557,500</u>
Total	<u>\$ 1,821,885</u>

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. 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 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.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**4. DEPOSITS WITH FINANCIAL INSTITUTIONS**

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's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

- 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.

None of the Districts' bank balances that were not covered by Federal deposit insurance were exposed to custodial credit risk as described above.

**5. PARTICIPATION IN BOCES**

During the year ended June 30, 2017, the District was billed \$11,700,748 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,772,177. Financial statements for BOCES are available from the BOCES administrative offices at 507 Deer Park Road, P.O. Box 8007, Huntington Station, New York 11746-9007.

**6. DUE FROM STATE AND FEDERAL AID**

Due from state and federal aid at June 30, 2017, consisted of:

General Fund:		School Food Service Fund:	
General Aid	\$ 37,076	School Food Service Reimbursements	\$ 20,492
Miscellaneous	12,271		
Excess Cost Aid	801,507	Capital Projects Fund:	
BOCES Aid	1,772,177	EXCEL Aid	\$ 172,182
Total General Fund	<u>\$ 2,623,031</u>		
Special Aid Fund:			
Federal and State Grants	\$ 640,177	Total Due From State and Federal Aid	<u>\$ 3,455,882</u>

**7. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2017, consisted of:

General Fund:	
Tuition from other Districts	\$ 141,298
BOCES	19,377
IRS Refunds	480
	<u>\$ 161,155</u>

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**8. CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2017 were as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 1,336,364			\$ 1,336,364
Construction in progress	1,102,910	\$ 8,850,261	\$ (1,187,681)	8,765,490
Total nondepreciable assets	<u>2,439,274</u>	<u>8,850,261</u>	<u>(1,187,681)</u>	<u>10,101,854</u>
Capital assets that are depreciated:				
Buildings and improvements	91,529,736	1,220,378		92,750,114
Site improvements	3,037,002			3,037,002
Furniture, equipment and vehicles	6,970,131	338,781	(305,801)	7,003,111
Total depreciable assets	<u>101,536,869</u>	<u>1,559,159</u>	<u>(305,801)</u>	<u>102,790,227</u>
Less accumulated depreciation:				
Buildings and improvements	42,887,419	2,084,943		44,972,362
Site improvements	1,904,296	125,401		2,029,697
Furniture, equipment and vehicles	4,866,736	345,417	(301,871)	4,910,282
Total accumulated depreciation	<u>\$ 49,658,451</u>	<u>\$ 2,555,761</u>	<u>\$ (301,871)</u>	<u>51,912,341</u>
Total capital assets, net				<u><u>\$ 60,979,740</u></u>
Depreciation expense was charged to governmental functions as follows:				
General support				\$ 431,035
Instruction				1,991,766
Pupil Transportation				116,703
Community service				8,178
School Food Service				8,079
Total governmental activities depreciation expense				<u><u>\$ 2,555,761</u></u>

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The District's policy is to record an impairment loss in the period when the District determines that the carrying amount of the asset will not be recoverable. At June 30, 2017, the District has not recorded any such impairment losses.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**9. INTERFUND TRANSACTIONS**

Interfund balances and activities at June 30, 2017, are as follows:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	\$ 2,958,728	\$ 8,640,174	\$ 1,048,341	\$ 4,516,589
Special Aid Fund	623,565	2,568,096	627,089	
School Food Service Fund	107,531	534,601	200,000	
Capital Projects Fund	8,053,047		3,689,500	1,048,341
	<u>11,742,871</u>	<u>11,742,871</u>	<u>\$ 5,564,930</u>	<u>\$ 5,564,930</u>
General Fund	175,481			
Agency Fund		175,481		
	<u>\$ 11,918,352</u>	<u>\$ 11,918,352</u>		

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Position.

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

The District typically transfers from the general fund to the special aid fund, school food service fund and the capital projects fund in accordance with the general fund budget. The transfer to the special aid fund was for the District's share of the cost for the summer handicapped program and 4201 program. The transfer to the school food service fund was to fund current and prior year losses. The transfer to the capital projects fund was for District-wide improvements.

**10. SHORT-TERM DEBT**

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

	Balance July 1, 2016	Issued	Redeemed	Balance June 30, 2017
TAN matured 6/27/17 at 1.50%	\$ -0-	\$ 31,000,000	\$ 31,000,000	\$ -0-

Interest paid on short-term debt for the year was \$357,792. The premium received for the year was \$136,403, resulting in a net interest cost of \$221,389.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**11. LONG-TERM DEBT**

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

	Beginning balance	Additions	Reductions	Ending balance	Non-current liabilities due within one year	Non-current liabilities due in more than one year
Governmental activities:						
Bonds and Notes Payable:						
General obligation bonds	\$ 14,350,000		\$ 1,885,000	\$ 12,465,000	\$ 1,935,000	\$ 10,530,000
Other liabilities:						
Energy performance contract		12,465,659		12,465,659	390,996	12,074,663
Net Pension Liability - proportionate share	8,035,059	\$ 4,661,055	3,342,313	9,353,801		9,353,801
Other postemployment benefits payable	71,900,038	14,066,955	4,517,644	81,471,349		81,471,349
Compensated absences	6,218,000	479,319	202,070	6,495,249	324,762	6,170,487
Workers' compensation	3,256,006	1,649,525	1,446,054	3,459,477	575,000	2,884,477
Total noncurrent liabilities	<u>\$ 103,759,103</u>	<u>\$ 33,344,513</u>	<u>\$ 11,393,081</u>	<u>\$ 125,710,535</u>	<u>\$ 3,225,758</u>	<u>\$ 122,484,777</u>

The general fund has typically been used to liquidate compensated absences, workers' compensation, and other postemployment benefits when they become due.

Existing serial bond obligations:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding at 6/30/17
Serial bond - refunding	February 2013	April 2022	2.00-4.00%	\$ 8,015,000
Serial bond - refunding	February 2013	August 2025	2.00-4.00%	4,450,000
				<u>\$ 12,465,000</u>

The following is a summary of debt service requirements:

	Principal	Interest	Total
Fiscal year ended June 30, 2018	\$ 1,935,000	\$ 452,925	\$ 2,387,925
2019	1,995,000	394,650	2,389,650
2020	2,050,000	332,300	2,382,300
2021	2,125,000	249,900	2,374,900
2022	2,195,000	164,600	2,359,600
2023-2026	2,165,000	177,500	2,342,500
Total	<u>\$ 12,465,000</u>	<u>\$ 1,771,875</u>	<u>\$ 14,236,875</u>

The District entered into an agreement for an energy performance contract on October 21, 2016 for \$12,465,659. The proceeds will be used for various capital improvements and are being financed over 18 years at an interest rate of 3.20%, maturing September 2034. The assets and related obligations are accounted for in the government-wide financial statements and are included in the summary for capital assets. See Note 8. The cost of the improvements, which is included in construction in progress, is \$7,953,240. These assets have not begun depreciating as of June 30, 2017.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**11. LONG-TERM DEBT (continued)**

The following is a summary of energy performance contract obligations:

	Principal	Interest	Total
Fiscal year ended June 30, 2018	\$ 390,996	\$ 556,625	\$ 947,621
2019	565,722	381,899	947,621
2020	583,970	363,651	947,621
2021	602,806	344,815	947,621
2022	622,250	325,371	947,621
2023-2027	3,425,587	1,312,519	4,738,106
2028-2032	4,014,876	723,230	4,738,106
2033-2035	2,259,452	109,601	2,369,053
Total	<u>\$ 12,465,659</u>	<u>\$ 4,117,711</u>	<u>\$ 16,583,370</u>

Interest on long-term debt for the year ended June 30, 2017 was composed of:

Interest paid	\$ 509,700
Less: interest accrued in the prior year	(159,238)
Plus: interest accrued in the current year	418,038
Total interest expense on long-term debt	<u>\$ 768,500</u>

**12. PENSION PLANS**

**A. Pension Obligations**

New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems).

**B. Plan Descriptions and Benefits Provided**

Teachers' Retirement System (TRS)

The District participates in the New York State Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as, death and disability benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System is governed by a 10 member Board of Trustees. System benefits are established under New York State Law. 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 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 System, may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395 or by referring to the NYSSTR Comprehensive Annual Financial report which can be found on the System's website at [www.nysstrs.org](http://www.nysstrs.org).

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**12. PENSION PLANS (continued)**

Employees' Retirement System (ERS)

The District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System 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 System.

The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). 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. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

**C. Funding Policies**

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who contribute 3.0 (ERS) to 3.5 (TRS) percent of their salary for their entire length of service. In addition, employee contribution rates that joined after April 1, 2012 are required to contribute between 3% and 6% depending on their salary through active membership. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education law.

Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

Year	ERS	TRS
2016-2017	\$ 2,462,134	\$ 7,856,255
2015-2016	2,606,198	8,613,769
2014-2015	3,014,318	11,409,312



**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**12. PENSION PLANS (continued)**

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

At June 30, 2017, 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) were measured as of March 31, 2017 for ERS and June 30, 2016 for TRS. 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 ERS and TRS Systems in reports provided to the District.

	ERS	TRS
Measurement date	March 31, 2017	June 30, 2016
Net pension liability	\$ (4,692,746)	\$ (4,661,055)
District's portion of the Plan's total net pension liability	0.0499429%	0.4351890%
Change in proportion since the prior measurement date	-0.0001189	0.0129680

For the year ended June 30, 2017, the District's recognized pension expense of \$2,968,182 for ERS and \$7,678,718 for TRS. At June 30, 2017 the District's 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	
	ERS	TRS	ERS	TRS
Differences between expected and actual experience	\$ 117,596	\$ -0-	\$ 712,620	\$ 1,514,172
Changes of assumptions	1,603,214	26,552,337	-0-	-0-
Net difference between projected and actual earnings on pension plan investments	937,332	10,480,502	-0-	-0-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	869,812	675,345	40,098	761,105
District's contributions subsequent to the measurement date	750,784	7,853,162	-0-	-0-
Total	<u>\$ 4,278,738</u>	<u>\$ 45,561,346</u>	<u>\$ 752,718</u>	<u>\$ 2,275,277</u>

The District's contributions subsequent to the measurement date which will be recognized as a reduction/increase of the net pension liability/asset in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**12. PENSION PLANS (continued)**

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

	ERS	TRS
Year ending June 30, 2018	\$ 1,168,311	\$ 3,210,753
2019	1,168,311	3,210,753
2020	975,234	11,350,201
2021	(536,620)	8,817,782
2022	-0-	4,027,246
Thereafter	-0-	4,816,172

**E. Actuarial Assumptions**

The total pension liability/asset 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/asset to the measurement date.

Significant actuarial assumptions used in the valuations were as follows:

	ERS	TRS
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.0%	7.5%
Salary scale	3.8%	1.90% - 4.72%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience	July 1, 2009 - June 30, 2014 System's Experience
Inflation rate	2.5%	2.5%
Cost of living adjustment	1.3%	1.5%

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, annuitant mortality rates are based on July 1, 2009 – June 30, 2014 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale AA.

For ERS, the actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015. For TRS, the actuarial assumptions used in the June 30, 2015 valuation are based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

The long-term rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions Measuring Pension Obligations*, which includes using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation, as of the actuarial valuation date, are summarized in the following table:

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**12. PENSION PLANS (continued)**

**E. Actuarial Assumptions (continued)**

	TRS		ERS	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Measurement date	<u>June 30, 2016</u>		<u>March 31, 2017</u>	
Asset type				
Domestic equity	37.0%	6.10%	36.0%	4.55%
International equity	18.0%	7.30%	14.0%	6.35%
Real estate	10.0%	5.40%	10.0%	5.80%
Alternative investments	7.0%	9.20%	18.0%	4.00-7.75%
Domestic fixed income securities	17.0%	1.00%		
Global fixed income securities	2.0%	0.80%		
Bonds and mortgages	8.0%	3.10%	17.0%	1.31%
Short-term	1.0%	0.10%		
Cash			1.0%	-0.25%
Inflation indexed bonds			4.0%	1.50%
	<u>100.0%</u>		<u>100.0%</u>	

**F. Discount Rate**

The discount rate used to calculate the total pension liability was 7.0% for ERS and 7.5% for TRS (the discount rate used by the TRS at the prior year's measurement date of June 30, 2015, was 8.0%). 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. 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.

**G. 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 liability calculated using the discount rate of 7.0% for ERS and 7.5% for TRS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1-percentage point lower (6.0% for ERS and 6.5% for TRS) or 1-percentage point higher (8.0% for ERS and 8.5% for TRS) than the current rate:

ERS		1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share Of the net pension asset/(liability)		\$ (14,987,702)	\$ (4,692,746)	\$ 4,011,619
TRS		1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share Of the net pension asset/(liability)		\$ (60,814,056)	\$ (4,661,055)	\$ 42,437,139

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**12. PENSION PLANS (continued)**

**H. Pension Plan Fiduciary Net Position**

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

	(Dollars in Thousands)	
	ERS	TRS
Measurement date	March 31, 2017	June 30, 2016
Employers' total pension liability	\$ (177,400,586)	\$ (108,577,184)
Plan Net Position	168,004,363	107,506,142
Employers' net pension asset/(liability)	<u>\$ (9,396,223)</u>	<u>\$ (1,071,042)</u>
Ratio of plan net position to the Employers' total pension asset/(liability)	94.70%	99.01%

**I. PAYABLES TO THE PENSION PLAN**

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, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$750,784.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017 represent employee and employer contributions for the fiscal year ended June 30, 2017 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, 2017 amounted to \$7,853,162 of employer contributions and \$260,966 of employee contributions.

**13. OTHER PENSION PLANS**

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, 2017, totaled \$93,986 and \$4,272,764 respectively.

**14. NET OTHER POSTEMPLOYMENT BENEFITS**

In the District-wide financial statements, the cost of net other postemployment benefits (OPEB), like the cost of pension benefits, generally should be associated with the period in which the cost occurs, rather than in the future year when it will be paid. The District recognizes the costs of net other postemployment benefits in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, which commenced with the June 30, 2009 liability.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**14. NET OTHER POSTEMPLOYMENT BENEFITS (continued)**

Plan Description

The District provides postemployment health insurance benefits to eligible retirees and their covered dependents. The District contributes between 35% and 85% towards the cost of the insurance premiums. The District also reimburses eligible retirees and their spouse 100% of the Medicare Part B premiums. The benefits provided to employees upon retirement are based upon provisions in various contracts that the District has in place with different classifications of employees. All employees are eligible once they have attained the age of 55 and have at least 5 years of service with the District. Upon death of a retiree, the District will only continue the Medicare Part B reimbursement for the surviving spouse.

The number of participants as of July 1, 2016, the effective date of the OPEB valuation, is as follows:

	<u>Participants</u>
Active employees	951
Retired employees	<u>691</u>
Total	<u><u>1,642</u></u>

There have been no significant changes in the number of employees or the type of coverage since the valuation date.

Funding Policy

For the District's OPEB Plan, contribution requirements of the plan members and the District are established by the Board of Education. The District's annual (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid, on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The District currently pays for net other postemployment benefits on a pay-as-you-go basis.

Annual Net Other Postemployment Benefit Cost

For the year ended June 30, 2017, the District's annual net other postemployment benefits cost was \$14,088,955. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$4,517,644 for retirees and their beneficiaries, the result was an increase in the net other postemployment benefits liability of \$9,571,311 for the year ended June 30, 2017.

	<u>Total</u>
Retired employees	\$ 70,343,330
Active employees	<u>87,924,977</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 158,268,307</u></u>

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**14. NET OTHER POSTEMPLOYMENT BENEFITS (continued)**

The following table shows the components of the District's other postemployment benefits liability:

Annual required contribution (ARC)	\$ 15,211,843
Interest on beginning Net OPEB obligation	2,876,002
Less: Adjustments to ARC	<u>(3,998,890)</u>
Annual OPEB cost	14,088,955
Less: Contributions for the year ended June 30, 2017	<u>(4,517,644)</u>
Increase in net other postemployment benefits liability	9,571,311
Other net postemployment benefits liability at June 30, 2016	<u>71,900,038</u>
Other net postemployment benefits liability at June 30, 2017	<u><u>\$ 81,471,349</u></u>

The District's annual OPEB cost, the percent of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and two preceding years are as follows:

Year Ended	Annual OPEB Cost	Percent of annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 14,088,955	32.1%	\$ 81,471,349
June 30, 2016	12,297,721	34.5%	71,900,038
June 30, 2015	12,429,341	31.2%	63,845,873

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016 is as follows:

Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
\$ -0-	\$ 158,268,307	\$ 158,268,307	0.0%	\$ 75,347,918	210.1%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**14. NET OTHER POSTEMPLOYMENT BENEFITS (continued)**

Actuarial Methods and Assumptions

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 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, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the liabilities were computed using the entry age normal, as a percentage of salary cost method, using the level dollar amortization method on an open basis to amortize the initial unfunded liability. The maximum allowed period of 30 years was used. The remaining amortization period at June 30, 2017 was twenty-one years. The actuarial assumptions utilized a 4.0% discount rate. The valuation assumes a 9% healthcare cost trend increase for the year ended 2017 and reduced decrements to a rate of 5% after nine years.

**15. COMPENSATED ABSENCES**

District employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave, subject to certain limitations.

Estimated vacation, sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the Statement of Net Position. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. As of June 30, 2017, the value of the accumulated vacation time and sick leave was \$6,559,485, of which \$64,236 is recorded as compensated absences in the general fund.

**16. RISK MANAGEMENT**

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.

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 claims that have been incurred, but not reported (IBNR).

**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**16. RISK MANAGEMENT (continued)**

Claim liabilities are discounted at an estimated interest rate of 3%, and are calculated considering the effect of inflation, recent claim settlement trends including frequency and amounts of payouts, and other economic and social factors. The District has not purchased any annuity contracts with regard to its workers' compensation claims. Changes in the balances of claim liabilities for workers' compensation during the past two fiscal years are as follows:

	2017	2016
Unpaid claims at beginning of year	\$ 3,256,006	\$ 2,774,850
Incurred claims and claim adjustments	1,649,525	1,466,588
Claim payments	<u>(1,446,054)</u>	<u>(985,432)</u>
Unpaid claims at year end	<u>\$ 3,459,477</u>	<u>\$ 3,256,006</u>

**17. FUND BALANCES – ASSIGNED: APPROPRIATED FOR SUBSEQUENT YEAR'S BUDGET**

The amount of \$2,500,000 has been assigned as the amount to be appropriated to reduce taxes for the year ending June 30, 2018.

**18. FUND BALANCES – RESTRICTED: APPROPRIATED RESERVES**

The District has appropriated the following amounts from reserves, which are reported in the June 30, 2017 restricted fund balances, to fund the budget and reduce taxes for the year ending June 30, 2018:

Employee benefit accrued liability	\$ 75,000
Workers' compensation	125,000
Unemployment	7,500
Retirement contributions	<u>156,127</u>
	<u>\$ 363,627</u>

**19. COMMITMENTS AND CONTINGENCIES**

**A. 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, will be immaterial.

**B. 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 these financial statements.



**NORTHPORT-EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**19. COMMITMENTS AND CONTINGENCIES (continued)**

**C. Operating Leases**

The District leases various equipment under operating leases. Total rental expenditures on such leases for the fiscal year ended June 30, 2017, were \$28,101. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 18,276
2019	<u>9,001</u>
	<u>\$ 27,277</u>

**D. Encumbrances**

At June 30, 2017, the District encumbered the following amounts:

Restricted:	
Capital Projects Fund	
Capital Projects	<u>\$ 5,998,382</u>
Assigned:	
General Fund	
General Support	736,059
Instruction	289,531
Pupil Transportation	<u>9,311</u>
	1,034,901
School Food Service Fund	
School Food Service	<u>13,370</u>
Capital Projects Fund	
Capital Projects	<u>64,118</u>
Total Encumbrances	<u>\$ 7,110,771</u>

**20. SUBSEQUENT EVENT**

On September 6, 2017, the District issued tax anticipation notes in the amount of \$32,500,000, which are due June 27, 2018 and bear an effective net interest rate of 1.078343%.

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual		Variance With Final Budget
<b>REVENUES</b>					
Local Sources:					
Real property taxes	\$ 131,474,356	\$ 132,308,559	\$ 132,307,298	\$	739
School tax relief reimbursement	9,500,000	8,613,797	8,613,797		-0-
Other tax items	-0-	-0-	1,222		1,222
Charges for services	886,250	886,250	830,499		(55,751)
Use of money and property	246,500	246,500	262,827		16,327
Sale of property and compensation for loss	125,500	125,500	325,501		200,001
Miscellaneous	1,071,000	1,289,385	994,718		(294,667)
Total Local Sources	143,303,606	143,487,991	143,335,862		(132,129)
State aid	14,684,201	14,784,201	14,593,006		(191,195)
Federal aid - medicaid reimbursement	50,000	50,000	57,252		7,252
Total Revenues	158,037,807	158,302,192	157,986,120		(316,072)
<b>OTHER FINANCING SOURCES</b>					
Transfers from other funds			1,048,341		1,048,341
Total Financing Sources	-0-	-0-	1,048,341		1,048,341
Assigned fund balance	3,896,100	3,896,100			
Appropriated reserves	766,076	2,323,576			
Total Revenues, other financing sources and Assigned and Appropriated Fund Balance	\$ 162,699,983	\$ 164,521,868	159,034,461	\$	732,269
<b>EXPENDITURES</b>					
General Support					
Board of education	\$ 282,084	\$ 282,506	262,718	\$ 826	\$ 18,962
Central administration	325,620	356,760	355,590		1,170
Finance	1,367,721	1,369,841	1,214,386	55,432	100,023
Staff	1,252,049	1,273,501	1,195,378	2,385	75,738
Central services	14,051,407	14,355,334	12,681,548	677,217	996,569
Special items	1,152,251	1,156,251	1,057,830	199	98,222
Total General Support	18,431,132	18,794,193	16,767,450	736,059	1,290,684
Instruction					
Instruction, administration and improvement	6,956,990	7,215,762	7,027,565	27,602	160,595
Teaching - regular school	50,147,283	49,990,178	48,902,079	179,717	908,382
Programs for children with handicapping conditions	20,946,145	20,890,919	20,296,672	18,050	576,197
Occupational education	465,120	465,120	464,000		1,120
Teaching - special school	494,873	506,949	448,977		57,972
Instructional media	4,138,076	4,458,405	4,364,364	30,479	63,562
Pupil services	8,408,935	8,365,163	8,167,130	33,683	164,350
Total Instruction	91,557,422	91,892,496	89,670,787	289,531	1,932,178
Pupil Transportation	8,721,612	7,995,396	7,559,684	9,311	426,401
Community Services	448,848	441,460	397,054		44,406
Employee Benefits	37,569,416	37,369,270	36,848,674		520,596
Debt Service - Principal	2,416,103	2,416,103	1,885,000		531,103
Debt Service - Interest	1,078,450	1,078,450	867,492		210,958
Total Expenditures	160,222,983	159,987,368	153,996,141	1,034,901	4,956,326
<b>OTHER FINANCING USES</b>					
Transfers to other funds	2,477,000	4,534,500	4,516,589		17,911
Total Expenditures and Other Uses	\$ 162,699,983	\$ 164,521,868	158,512,730	\$ 1,034,901	\$ 4,974,237
Net change in fund balance			521,731		
Fund balance - beginning			24,322,752		
Fund balance - ending			\$ 24,844,483		

**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.

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)**  
**June 30, 2017**

<u>Actuarial Valuation Date July 1,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Covered Payroll</u>
2016	\$ -	\$ 158,268,307	\$ 158,268,307	0.0%	\$ 75,347,918	210.1%
2014	\$ -	\$ 143,698,881	\$ 143,698,881	0.0%	\$ 64,364,352	223.3%
2012	\$ -	\$ 141,400,145	\$ 141,400,145	0.0%	\$ 74,943,094	188.7%

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Last Three Fiscal Years**

<u>NYSERS</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability (asset)	0.0523119%	0.0500618%	0.0499429%
District's proportionate share of the net pension liability (asset)	\$ 1,767,224	\$ 8,035,059	\$ 4,692,746
District's covered payroll	15,983,442	16,053,707	16,535,569
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	11.06%	50.05%	28.38%
Plan fiduciary net position as a percentage of the total pension liability coming from plan	97.95%	90.70%	94.70%
<u>NYSTRS</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability (asset)	0.445478%	0.422221%	0.435189%
District's proportionate share of the net pension liability (asset)	\$ (49,623,455)	\$ (43,855,268)	\$ 4,661,055
District's covered payroll	66,912,386	64,568,886	67,988,347
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-74.16%	-67.92%	6.86%
Plan fiduciary net position as a percentage of the total pension liability coming from plan	111.48%	110.46%	99.01%

**Note to Required Supplementary Information**

Teachers' Retirement System

The discounted rate decreased from 8.0% to 7.5% as reflected in 2016 and 2017 above.

Employees' Retirement System

The discounted rate decreased from 7.5% to 7.0% as reflected in 2015 and 2017 above.

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS**  
Last Ten Fiscal Years

	NYRS									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Contractually required contribution	\$ 1,156,382	\$ 1,125,857	\$ 1,185,887	\$ 1,841,885	\$ 2,364,775	\$ 2,808,664	\$ 3,315,720	\$ 3,014,318	\$ 2,606,198	\$ 2,462,134
Contributions in relation to the contractually required contribution	1,156,382	1,125,857	1,185,887	1,841,885	2,364,775	2,808,664	3,315,720	3,014,318	2,606,198	2,462,134
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's covered-employee payroll	14,457,711	15,064,954	15,700,179	15,362,178	15,506,334	15,663,828	15,801,767	15,569,194	16,589,817	16,729,488
Contributions as a percentage of covered-employee payroll	8.00%	7.47%	7.55%	11.99%	15.25%	17.93%	20.98%	19.36%	15.71%	14.72%
	NYSTRS									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Contractually required contribution	\$ 5,205,342	\$ 5,213,618	\$ 4,186,514	\$ 5,444,138	\$ 7,254,049	\$ 7,861,665	\$ 10,693,152	\$ 11,409,312	\$ 8,613,769	\$ 7,856,255
Contributions in relation to the contractually required contribution	5,205,342	5,213,618	4,186,514	5,444,138	7,254,049	7,861,665	10,693,152	11,409,312	8,613,769	7,856,255
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's covered-employee payroll	62,519,428	66,319,594	67,734,549	64,145,738	66,214,583	67,612,978	66,912,386	64,568,886	67,988,347	67,677,371
Contributions as a percentage of covered-employee payroll	8.33%	7.86%	6.18%	8.49%	10.96%	11.63%	15.98%	17.67%	12.67%	11.61%

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**OTHER SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**  
**AND THE REAL PROPERTY TAX LIMIT - GENERAL FUND**  
For the Year Ended June 30, 2017

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

Adopted Budget	\$ 161,380,883
Add: Prior year's encumbrances	<u>1,319,100</u>
Original budget	162,699,983
Budget revision	<u>1,821,885</u>
Final budget	<u><u>\$ 164,521,868</u></u>

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

2017-18 voter-approved expenditure budget	<u>\$ 163,306,840</u>
Maximum allowed (4% of 2017-18 budget)	<u><u>\$ 6,532,274</u></u>

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

Unrestricted fund balance:		
Assigned fund balance	\$ 3,534,901	
Unassigned fund balance	<u>6,532,273</u>	<u>\$ 10,067,174</u>
Less:		
Appropriated fund balance	\$ 2,500,000	
Encumbrances	<u>1,034,901</u>	<u>3,534,901</u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law:		<u><u>\$ 6,532,273</u></u>
Actual Percentage		4.00%

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**OTHER SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PROJECT EXPENDITURES AND FINANCING RESOURCES - CAPITAL PROJECTS FUND**  
**For the Year Ended June 30, 2017**

PROJECT TITLE	Expenditures					Unexpended Balance	Methods of Financing				Fund Balance
	Budget June 30, 2016	Budget June 30, 2017	Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total	June 30, 2017
<b>Projects Funded by Capital Reserves</b>											
Northport HS Chimney Extension	\$ 100,000	\$ 92,536	\$ 92,536		\$ 92,536			\$ 100,000	\$ 100,000	\$ 7,464	*
Fifth Avenue Boilers	500,000	428,283	428,283		428,283			500,000	500,000	71,717	*
East Northport Middle School Boilers	700,000	700,000	499,630		499,630	\$ 200,370		700,000	700,000	200,370	
WJB Front Stairs	200,000	200,000	164,419		164,419	35,581		200,000	200,000	35,581	
Bellerose Avenue Boiler	622,200	570,427	570,427		570,427			622,200	622,200	51,773	*
ENMS Univents	111,400							111,400	111,400	111,400	*
NMS Univents	111,400		347	\$ (347)				111,400	111,400	111,400	*
District-wide Concrete Replacement	590,000	584,592	581,403	3,189	584,592			590,000	590,000	5,408	*
Ocean Avenue Brickwork	121,500	99,765	94,530	5,235	99,765			121,500	121,500	21,735	*
Ocean Avenue Electrical Upgrade	98,200	29,822	29,292	530	29,822			98,200	98,200	68,378	*
NMS Kitchen Ceiling Replacement	135,000	57,460	129,831	(72,371)	57,460			135,000	135,000	77,540	*
NHS L-Wing Corridor Window Replacement	160,300	160,300	157,978	2,322	160,300			160,300	160,300		
Elementary Buildings Fire Alarm Upgrade	650,000	650,000	301,892	283,074	584,966	65,034		650,000	650,000	65,034	
NHS Paving	325,000	316,600	218	282,779	282,997	33,603		316,600	316,600	33,603	
ENMS Auditorium Lighting	100,000	138,400		6,507	6,507	131,893		138,400	138,400	131,893	
NAES Boiler Replacement	750,000	720,000	758	60,271	61,029	658,971		720,000	720,000	658,971	
NMS Lockers	660,000	660,000		29,057	29,057	630,943		660,000	660,000	630,943	
Fifth Avenue Gas Conversion	60,000	60,000		1,565	1,565	58,435		60,000	60,000	58,435	
Ocean Ave Boiler	850,000	850,000		5,638	5,638	844,362		850,000	850,000	844,362	
NMS Gym Ceiling	525,000	525,000			525,000	525,000		525,000	525,000	525,000	
William J. Brosnan Tennis Courts & Perimeter Fencing		275,000			275,000	275,000		275,000	275,000	275,000	
East Northport Middle School Gymnasium Windows		275,000			275,000	275,000		275,000	275,000	275,000	
Northport High School Circuit Breaker Panels		162,500			162,500	162,500		162,500	162,500	162,500	
William J. Brosnan Auditorium Seating		195,000			195,000	195,000		195,000	195,000	195,000	
Northport High School Emergency Generator		650,000			650,000	650,000		650,000	650,000	650,000	
<b>Projects funded by General Fund - Appropriations</b>											
ENMS Field Irrigation	161,475	161,475	157,126		157,126	4,349		161,475	161,475	4,349	
NMS Field Irrigation	134,615	134,615	134,615		134,615			134,615	134,615		
NMS Electrical Upgrade	303,910	303,902	303,902		303,902			303,910	303,910		8
Northport High School Auditorium	1,381,924	1,380,791	1,379,650	1,141	1,380,791			1,381,924	1,381,924	1,133	
Ocean Avenue Boys' & Girls' Lavatories	128,775	123,311	123,165	146	123,311			128,775	128,775	5,464	
William J. Brosnan Generator	89,301	73,960	56,957	17,003	73,960			89,301	89,301	15,341	
Northport High School Auditorium Sound & Lighting	400,000	389,923	388,511	1,412	389,923			400,000	400,000	10,077	
Northport Middle School Auditorium Sound	79,733	79,078	66,636	12,442	79,078			79,733	79,733	655	
East Northport Middle School Auditorium Sound	97,394	96,466	94,493	1,973	96,466			97,394	97,394	928	
East Northport Middle School Locker Rooms	222,873	199,928	184,316	15,612	199,928			222,873	222,873	22,945	
NMS H-Wing Bathrooms	250,000	131,370	102,505	28,865	131,370			250,000	250,000	118,630	
William J. Brosnan Generator (2)	200,000	152,769	146,020	6,749	152,769			200,000	200,000	47,231	
NHS Exterior Bleachers	760,000	916,580	23,868	18,115	41,983	874,597		916,580	916,580	874,597	
NHS Press Box	65,000	115,205		3,512	3,512	111,693		115,205	115,205	111,693	
NHS Boilers	1,125,000	918,216	1,078	62,559	63,637	854,579		918,216	918,216	854,579	
NHS Locker Room Bathrooms and Softball Field		541,000		9,043	9,043	531,957		541,000	541,000	531,957	
Pulaski Rd Boilers & Gas Conversion		800,000		5,312	5,312	794,688		800,000	800,000	794,688	
Pulaski Rd Irrigation		91,000				91,000		91,000	91,000	91,000	
Elementary Buildings Fire Alarm Upgrade		200,000				200,000		200,000	200,000	200,000	
Carried Forward	\$ 12,770,000	\$ 15,210,274	\$ 6,214,386	\$ 791,333	\$ 7,005,719	\$ 8,204,555	\$ -	\$ -	\$ 15,959,501	\$ 15,959,501	\$ 8,953,782

**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**OTHER SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PROJECT EXPENDITURES AND FINANCING RESOURCES - CAPITAL PROJECTS FUND**  
**For the Year Ended June 30, 2017**

PROJECT TITLE	Expenditures					Methods of Financing				Fund Balance	
	Budget June 30, 2016	Budget June 30, 2017	Prior Years	Current Year	Total	Unexpended Balance	Proceeds of Obligations	State Aid	Local Sources	Total	June 30, 2017
Carried Forward	\$ 12,770,000	\$ 15,210,274	\$ 6,214,386	\$ 791,333	\$ 7,005,719	\$ 8,204,555	\$	\$	\$ 15,959,501	\$ 15,959,501	\$ 8,953,782
Projects funded by General Fund - Fund Balance											
Dickinson Avenue Boiler	563,050	458,238	458,238		458,238				563,050	563,050	104,812 *
East Northport Middle School Auditorium	406,950	298,089	297,909	180	298,089				299,200	299,200	1,111 *
Northport Middle School Auditorium	437,500	406,381	338,629	67,752	406,381				499,041	499,041	92,660 *
Northport Middle School Lavatories	187,500	133,178	117,641	15,537	133,178				233,709	233,709	100,531 *
EXCEL Projects											
Security Upgrades	183,869	183,869	151,421	22,219	173,640	10,229		\$ 172,182	11,687	183,869	10,229
Energy Performance Contract											
District-wide		12,965,659		7,953,240	7,953,240	5,012,419	12,465,659		500,000	12,965,659	5,012,419
	\$ 14,548,869	\$ 29,655,688	\$ 7,578,224	\$ 8,850,261	\$ 16,428,485	\$ 13,227,203	\$ 12,465,659	\$ 172,182	\$ 18,066,183	\$ 30,704,029	14,275,544
									Transfer to General Fund		(1,048,341) *
									EXCEL project revenue not realized		(172,182)
									Capital Projects Fund - Fund Balance		\$ 13,055,021



**NORTHPORT - EAST NORTHPORT UNION FREE SCHOOL DISTRICT**  
**OTHER SUPPLEMENTARY INFORMATION**  
**NET INVESTMENT IN CAPITAL ASSETS**  
For the Year Ended June 30, 2017

Capital assets, net		\$ 60,979,740
Deduct:		
Short-term portion of bonds payable	\$ (1,935,000)	
Long-term portion of bonds payable	<u>(10,530,000)</u>	<u>(12,465,000)</u>
Short-term portion of energy performance contract	\$ (390,996)	
Long-term portion of energy performance contract	(12,074,663)	
Less: unspent energy performance contract proceeds	<u>5,012,419</u>	<u>(7,453,240)</u>
Net Investment in capital assets		<u><u>\$ 41,061,500</u></u>

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

To the Board of Education  
Northport - East Northport Union Free School District  
Northport, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the Northport - East Northport Union Free School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 27, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Northport - East Northport 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 Northport - East Northport Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Northport - East Northport 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Northport - East Northport 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*.

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Northport - East Northport Union Free School District in a separate letter dated September 27, 2017.

## **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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cullen & Danowski, LLP*

September 27, 2017

