

**PATCHOGUE-MEDFORD  
UNION FREE SCHOOL DISTRICT  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016**

# PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Patchogue-Medford Union Free School District

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Patchogue-Medford Union Free School District as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary fund of the Patchogue-Medford Union Free School District as of June 30, 2016, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress, schedule of District's proportionate share of the net pension liability, and the schedule of District's contributions on pages 1 through 15 and 60 through 64 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

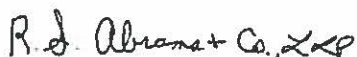
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Patchogue-Medford Union Free School District's basic financial statements. The other supplementary financial information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary financial information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary financial information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016, on our consideration of the Patchogue-Medford 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 Patchogue-Medford Union Free School District's internal control over financial reporting and compliance.



R.S. Abrams & Co., LLP  
Islandia, NY  
October 7, 2016



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The following is a discussion and analysis of the Patchogue-Medford Union Free School District's (the "District") financial performance for the fiscal year ended June 30, 2016. 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 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.

**1. FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2016 are as follows:

- Total fund balance of the general fund for the fiscal years ending June 30, 2015 (as restated) and June 30, 2016 was \$23,650,112 and \$26,069,277 respectively, an increase of \$2,419,165.
- Property taxes and other tax items, and state sources accounted for 92.91% of the 2015/2016 district-wide revenues, 57.34% and 35.57% respectively. In 2014/2015, property taxes and other tax items, and state sources represented approximately 92.89% of district-wide revenues, 57.42% and 35.47% respectively.
- The District reduced the reliance on appropriated fund balance by \$1,000,000 when developing the budget for 2016/2017.
- On Tuesday May 19, 2015 the voters of the District authorized the establishment of a capital reserve fund in the amount of \$5,000,000. Through conservative budgeting of state aid revenues, the District was able to fully fund the reserve during the 2015-2016 school year. On Tuesday May 17, 2016 the voters approved for the District to expend funds deposited into the capital reserve fund to recoat the roofs at the Eagle Elementary School, Saxton Middle School, Barton Elementary School, Tremont Elementary School, Medford Elementary School, Bay Elementary School and Canaan Elementary School, and to replace the South Windows at the Medford Elementary School including any ancillary or related work required in connection with such projects.

**2. OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

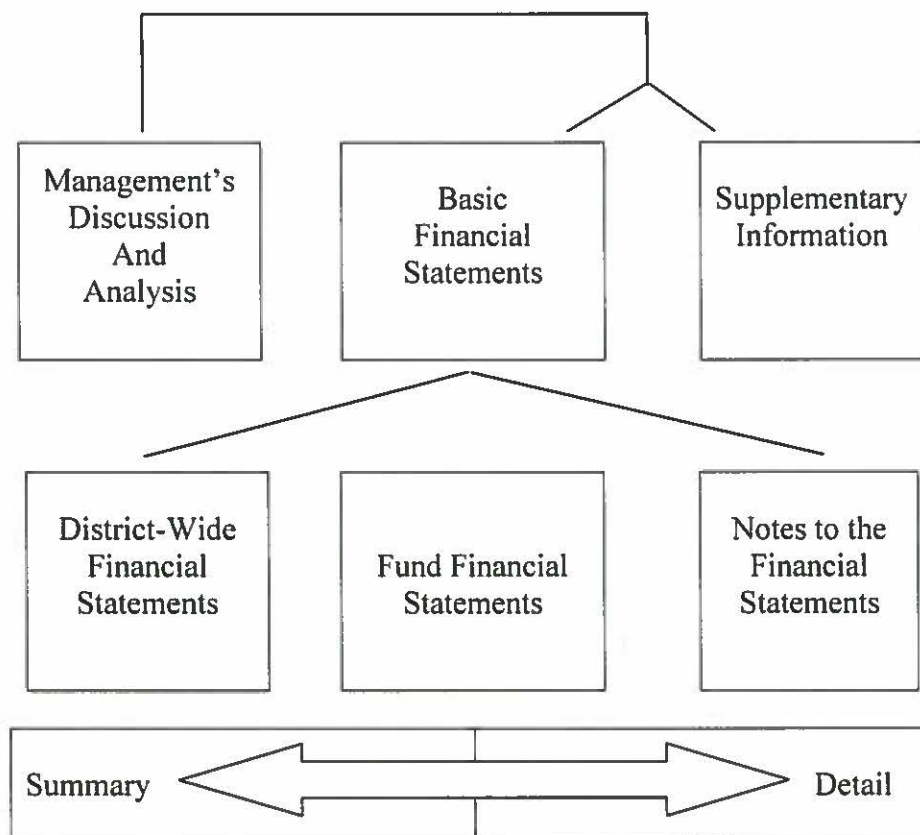
- The first two statements are *District-Wide Financial Statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-Wide Financial Statements.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

- The *Governmental Fund Statements* tell how basic services such as instruction and support functions were financed in the *short term* as well as what remains for future spending.
- *Fiduciary Funds Statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of District.

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Table A-1 shows how the various parts of this annual report are arranged and related to one another.

Table A-1: Organization of the District's Annual Financial Report





**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Table A-2: Major Features of the District-Wide and Fund Financial Statements

	District-Wide Financial Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	<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 Balance</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>
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/liability/deferred inflows or resources information	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 or available 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
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; 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



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**A) District-Wide Financial Statements:**

The District-Wide Financial Statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-Wide Financial Statements report the District's net position and how it has changed. Net Position, the difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources is one way to measure the financial health or position of the District.

- Over time, increases and decreases in net position is an indicator of whether the financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the District, additional non-financial factors such as changes in the District's property tax base and the condition of buildings and other facilities should be considered.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated if it does not provide or reduce current financial resources. Finally, capital assets and long-term debt are both accounted for in account groups and do not affect the fund balances.

District-Wide Financial Statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the Statement of Net Position:

- Capitalize current outlays for capital assets;
- Report long-term debt as a liability;
- Depreciate capital assets and allocate the depreciation to the proper program/activities;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting; and
- Allocate net position balances as follows:
  - *Net investment* in capital assets;
  - *Restricted net position* is that with constraints placed on the use by external sources (creditors, grantors, contributors or laws or regulations of governments) or approved by law through constitutional provisions or enabling legislation; and
  - *Unrestricted net position* is net position that does not meet any of the above restrictions.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**B) Fund Financial Statements:**

The Fund Financial Statements provide more detailed information about the District's funds. Funds are accounting devices that the District uses to keep track of specific revenue sources and spending on particular programs. The funds have been established by the laws of the State of New York.

The District has two kinds of funds:

- *Governmental funds:* Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-Wide Financial Statements, additional schedules explain the relationship (or differences) between them. In summary, the government fund statements focus primarily on the sources, uses and balances of current financial resources and often has a budgetary orientation. Included are the general fund, special aid fund, school lunch fund, debt service fund, and capital projects fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- *Fiduciary funds:* The District is the trustee or *fiduciary* for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on position and changes in net position, and is developed using the economic resources measurement focus and the accrual basis of accounting.

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

**A) Net Position:**

The District's net position increased by \$13,630,827 in the fiscal year ended June 30, 2016 as detailed in Table A-3.



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Table A-3 – Condensed Statement of Net Positions-Governmental Activities (Restated for 2015)

	Fiscal Year 2016	Fiscal Year 2015*	Increase (Decrease)	Total Percentage Change
Current assets and other assets	\$ 44,199,052	\$ 44,919,032	\$ (719,980)	(1.60%)
Capital assets, net	126,952,538	130,263,681	(3,311,143)	(2.54%)
Net pension asset, proportionate share	44,587,735	47,992,057	(3,404,322)	(7.09%)
<b>Total Assets</b>	<b>215,739,325</b>	<b>223,174,770</b>	<b>(7,435,445)</b>	<b>(3.33%)</b>
Deferred outflows of resources	16,171,506	13,069,052	3,102,454	23.74%
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 231,910,831</b>	<b>\$ 236,243,822</b>	<b>\$ (4,332,991)</b>	<b>(1.83%)</b>
Other liabilities	\$ 18,830,085	\$ 20,883,093	\$ (2,053,008)	(9.83%)
Long-term liabilities	163,737,438	162,219,229	1,518,209	0.94%
<b>Total Liabilities</b>	<b>182,567,523</b>	<b>183,102,322</b>	<b>(534,799)</b>	<b>(0.29%)</b>
Deferred inflows of resources	19,465,317	36,894,336	(17,429,019)	(47.24%)
<b>Total liabilities and deferred inflows of resources</b>	<b>202,032,840</b>	<b>219,996,658</b>	<b>(17,963,818)</b>	<b>(8.17%)</b>
<b>Net Position</b>				
Net investment in capital assets	16,701,943	13,686,066	3,015,877	22.04%
Restricted	15,663,412	10,845,017	4,818,395	44.43%
Unrestricted (deficit) (as restated for 2015)	(2,487,364)	(8,283,919)	5,796,555	(69.97%)
<b>Total net position</b>	<b>29,877,991</b>	<b>16,247,164</b>	<b>13,630,827</b>	<b>83.90%</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 231,910,831</b>	<b>\$ 236,243,822</b>	<b>\$ (4,332,991)</b>	<b>(1.83%)</b>

\*As restated, see Note 19

Current assets and other assets decreased \$719,980 from the prior year primarily due to a decrease in the amount of state and federal aid receivable. Capital assets (net of depreciation) decreased by \$3,311,143. This was primarily attributable to the purchase of a bus and other equipment items, and building improvements offset by current year depreciation expense. Net pension asset, proportionate share decreased by \$3,404,322 due to changes in the actuarial value provided by the state. Other liabilities decreased by \$2,053,008. This was primarily attributable to a decrease in the amount due to teachers' retirement system offset by an increase in accounts payable. Long-term liabilities increased by \$1,518,209 primarily due to an increase in the net pension liability proportionate share due to changes in the actuarial value provided by the state, in addition to an increase in net other post-employment benefits, offset by principal payments on long term debt. The changes in deferred inflows and outflows represent amortization of pension related items as described in Note 1 and amortization on the gain and loss on defeasance.

The net investment in capital assets, relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, and machinery & equipment, net of depreciation and related debt. This number increased from the prior year by \$3,015,877 primarily due to the reduction in the principal balance of related debt and District Wide capital improvements, net of current year depreciation expense.



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The restricted net position in the amount of \$15,663,412 is comprised of amounts with constraints placed on the use externally imposed by creditors, grantors and contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions of enabling legislation. See page 12 of this MD&A and Note 1 to Financial Statements for further descriptions and detailed balances.

The unrestricted net position deficit of \$2,487,364 relates to the balance of the District's net position. The unrestricted net position deficit decreased by \$5,796,555 from the prior year and represents the amount by which the District's liabilities excluding debt related to capital construction and its deferred inflows of resources exceeded assets other than capital assets and its deferred outflows of resources.

Overall, the net position increased by \$13,630,827.

**B) Changes in Net Position:**

The results of operations as a whole are reported in the Statement of Activities and Changes in Net Position-Governmental Activities. A summary of this statement for the years ended June 30, 2016 and 2015 is as follows:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Table A-4: Change in Net Position from Operating Results Governmental Activities Only:

	Fiscal Year 2016	Fiscal Year 2015	Increase (Decrease)	Total Percentage Change
<b>Revenues</b>				
<b>Program Revenues</b>				
Charges for services	\$2,809,826	\$2,888,980	(\$79,154)	(2.74%)
Operating grants	7,659,581	7,600,477	59,104	0.78%
<b>General Revenues</b>				
Property taxes and other tax items	103,010,741	100,359,686	2,651,055	2.64%
State sources	63,905,737	61,993,402	1,912,335	3.08%
Medicaid reimbursement	308,594	216,664	91,930	42.43%
Use of money & property	391,856	394,752	(2,896)	(0.73%)
Other	1,560,748	1,333,219	227,529	17.07%
<b>Total Revenues</b>	<u>179,647,083</u>	<u>174,787,180</u>	<u>4,859,903</u>	2.78%
<b>Expenses</b>				
General support	20,785,098	21,314,211	(529,113)	(2.48%)
Instruction	128,572,055	127,210,027	1,362,028	1.07%
Pupil transportation	8,828,717	8,058,664	770,053	9.56%
Community services	1,184,150	967,396	216,754	22.41%
Debt service - interest	3,663,640	3,899,429	(235,789)	(6.05%)
Food service program	2,982,596	2,916,814	65,782	2.26%
<b>Total Expenses</b>	<u>166,016,256</u>	<u>164,366,541</u>	<u>1,649,715</u>	1.00%
<b>Increase (Decrease) in Net Position</b>	<u>\$13,630,827</u>	<u>\$10,420,639</u>	<u>\$3,210,188</u>	30.81%

2015 information was not restated because the restatement affected revenues and expenditures for earlier years and the cumulative effect is presented as an adjustment to the June 30, 2015 net position (see note 19).

The District's fiscal year 2016 revenues totaled \$179,647,083 (See Table A-4). Property taxes and other tax items, and state sources accounted for most of the District's revenue by contributing 57.34% and 35.57%, respectively of total revenue (See Table A-5). The remainder resulted from fees charged for services, operating grants, use of money and property, and other miscellaneous sources.

The total cost of all programs and services totaled \$166,016,256 for fiscal year 2016. These expenses are predominantly related to general instruction and transporting students, which account for 82.76% of district expenses (See Table A-6). The District's general support activities accounted for 12.52% of total costs.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Table A-5: Revenues for Fiscal Year 2016 (See Table A-4)

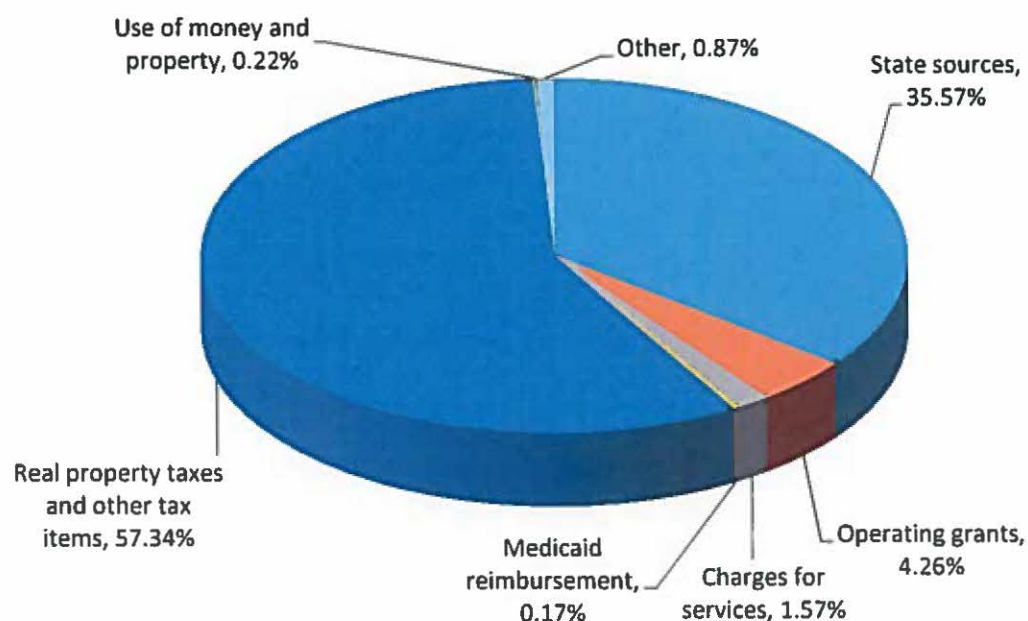
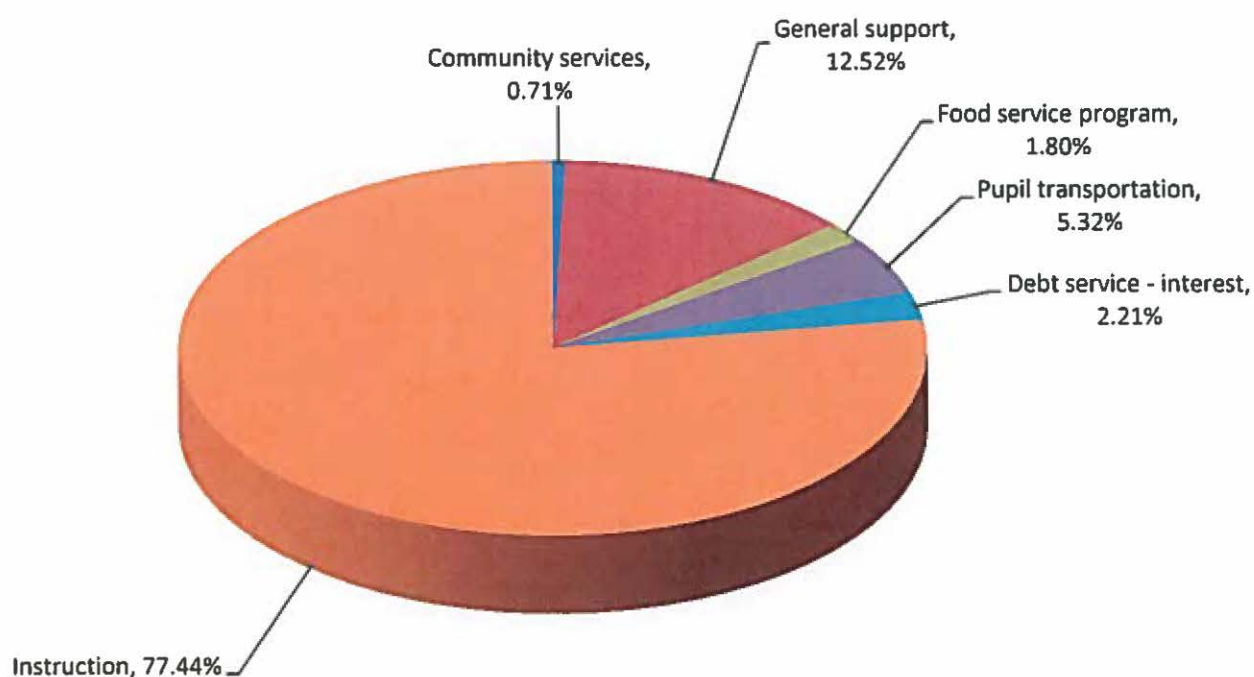


Table A-6: Expenses for Fiscal Year 2016 (See Tables A-4 and A-7)





**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Governmental Activities:**

Revenues for the District's governmental activities totaled \$179,647,083 while total expenses equaled \$166,016,256. Actual revenues exceeded actual expenditures by \$13,630,827. The overall financial strength of the District can be attributed to:

- Sustained and collaborative leadership of the District's Board and administration;
- Careful monitoring of the District's spending;
- Consolidating BOCES services, where necessary;
- Careful analysis of pupil transportation routes;
- Reduced reliance on fund balance appropriations; and
- Conservative and forward-looking multi-year financial planning.

Table A-7 presents the cost of major District activities: general support, instruction, pupil transportation, debt service and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Table A-7: Net Cost of Governmental Activities

Category	Total Cost of Services		Net Cost of Services	
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2016	2015	2016	2015
General support	\$20,785,098	\$21,314,211	\$20,785,098	\$21,314,211
Instruction	128,572,055	127,210,027	121,444,101	119,942,873
Pupil transportation	8,828,717	8,058,664	8,534,191	7,796,037
Community service	1,184,150	967,396	1,184,150	967,396
Debt service - interest	3,663,640	3,899,429	3,663,640	3,899,429
Food service program	2,982,596	2,916,814	(64,331)	(42,862)
Total	<u>\$166,016,256</u>	<u>\$164,366,541</u>	<u>\$155,546,849</u>	<u>\$153,877,084</u>

- The cost of all governmental activities this year was \$166,016,256. (Statement of Activities, Expenses column-see Exhibit 3)
- The users of the District's programs financed \$2,809,826 of the cost. (Statement of Activities, Charges For Services column-see Exhibit 3)
- The federal and state governments subsidized certain programs with grants of \$7,659,581. (Statement of Activities, Operating Grants – see Exhibit 3)
- Most of the District's net costs of \$155,546,849 were financed by District taxpayers and state and federal aid. (Statements of Activities, Net (Expense) Revenue and Changes in Net Position column-see Exhibit 3)

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Variances between years for the Governmental Fund Financial Statements are not the same as variances between years for the District-Wide Financial Statements. The District's governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Based on this presentation, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt.

As of June 30, 2016, the District's combined governmental funds reported a total fund balance of \$26,609,352, which is an increase of \$1,720,803 from the prior year. The increase is primarily due to an increase in the general fund total fund balance of \$2,419,165 net of a decrease in the capital projects fund total fund balance of \$871,175.

A summary of the changes in fund balance for all funds is as follows:

	2016	2015	Increase (Decrease)	Total Percentage Change
<b>General Fund</b>				
Restricted				
Employee benefit accrued liability	\$6,286,986	\$6,071,768	\$215,218	3.54%
Capital reserve 2015	5,000,000	-	5,000,000	N/A
Retirement contribution	3,164,106	3,565,029	(400,923)	(11.25%)
Unemployment insurance	132,501	132,170	331	0.25%
Insurance	202,308	201,802	506	0.25%
Workers' compensation	873,448	871,265	2,183	0.25%
Assigned				
Designated for subsequent year's expenditures	2,055,179	3,055,179	(1,000,000)	(32.73%)
General support	973,691	87,073	886,618	1018.25%
Instruction	303,152	181,542	121,610	66.99%
Pupil transportation	1,325	-	1,325	N/A
Community services	175	-	175	N/A
Unassigned (Restated for 2015)	7,076,406	9,484,284	(2,407,878)	(25.39%)
Total Fund Balance- General Fund	<u>\$26,069,277</u>	<u>\$23,650,112</u>	<u>\$2,419,165</u>	10.23%
<b>School Lunch Fund</b>				
Nonspendable: inventory	\$66,275	\$73,229	(\$6,954)	(9.50%)
Assigned (Restated for 2015)	336,238	157,551	178,687	113.42%
Total Fund Balance- School Lunch Fund	<u>\$402,513</u>	<u>\$230,780</u>	<u>\$171,733</u>	74.41%

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	2016	2015	Increase (Decrease)	Total Percentage Change
<b>Debt Service Fund</b>				
Restricted	\$4,063	\$2,983	\$1,080	36.21%
Total Fund Balance- Debt Service Fund	<u>\$4,063</u>	<u>\$2,983</u>	<u>\$1,080</u>	36.21%
<b>Capital Projects Fund</b>				
Restricted -Unspent energy performance debt proceeds	\$91,017	\$1,004,674	\$ (913,657)	(90.94%)
Unassigned	42,482		42,482	N/A
Total Fund Balance - Capital Projects Fund	<u>\$133,499</u>	<u>\$1,004,674</u>	<u>(\$871,175)</u>	(86.71%)
Total Fund Balances - All Funds	<u>\$26,609,352</u>	<u>\$24,888,549</u>	<u>\$1,720,803</u>	6.91%

Changes to fund balances can be attributed to the following:

The increase in restricted fund balance in the general fund is primarily due to allocating surplus funds to the capital reserve – 2015 for \$5,000,000. The increase can also be attributed to the District allocating \$400,000 to the employee benefits accrued liability and retirement contribution reserves, offset by the planned use of reserve balances during the budgeting process. The changes in the assigned fund balance are attributable to a planned decrease in the amount of appropriated fund balance as well as increases in the amount of encumbrances as of June 30, 2016. The increase in unassigned fund balance is primarily due to operating results for the 2015/2016 fiscal year plus a prior period adjustment for prior state aid revenue (see note 19).

The increase in the school lunch fund balance is due to an operating surplus and a transfer from the general fund.

The increase in the restricted fund balance in the debt service fund is attributed to interest earnings.

The decrease in the total fund balance in the capital projects fund is attributed to the EXCEL phase II project expenditures.

## **5. GENERAL FUND BUDGETARY HIGHLIGHTS**

### **A) 2015-2016 Budget:**

The District's general fund original budget for the year ended June 30, 2016 was \$173,068,899. This amount was increased by encumbrances carried forward from the prior year in the amount of \$268,615 which resulted in a final budget of \$173,337,514. The majority of the funding was from property taxes and STAR revenue in the amount of \$103,563,276, and state aid in the amount of \$61,720,756.



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**B) Change in the General Fund Unassigned Fund Balance (Budget to Actual):**

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

Opening, unassigned fund balance (as restated - see note 19)	\$9,484,284
Revenues over budget	1,520,293
Expenditures and encumbrances under budget	3,552,786
Assigned for subsequent year's expenditures	(2,055,179)
Funding to Reserves	(5,400,000)
Interest allocated to Reserves	<u>(25,778)</u>
Closing, unassigned fund balance	<u><u>\$7,076,406</u></u>

The revenues over budget in the amount of \$1,520,293 was primarily due to state sources offset by charges for services under budget.

The expenditures and encumbrances under budget in the amount of \$3,552,786 were primarily attributable to the following expenditures: central services, teaching regular school, programs for children with handicapping conditions, and employee benefits (see Supplemental Schedule #1 for detail).

The closing unassigned fund balance represents the fund balance retained by the District that is not restricted or assigned for subsequent year's taxes. This amount is limited to 4% of the 2016/2017 budget.

The change in fund balance is discussed further in Management Discussion and Analysis Section 4, Financial Analysis of the District's Funds.

**6. CAPITAL ASSET AND DEBT ADMINISTRATION**

**A) Capital Assets:**

The District paid for equipment and various building additions and renovations during fiscal year 2016. A summary of the District's capital assets, net of depreciation is as follows:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Table A-8: Capital Assets (Net of Depreciation)

Category	Fiscal Year 2016	Fiscal Year 2015	Percentage Change
Land	\$2,827,925	\$2,827,925	0.00%
Land improvements	5,861,888	5,861,888	0.00%
Construction in progress	10,520,264	10,603,170	(0.78%)
Buildings & building improvements	173,594,159	172,162,543	0.83%
Furniture & equipment	3,401,923	3,288,797	3.44%
Subtotal	196,206,159	194,744,323	0.75%
Less: Accumulated depreciation	69,253,621	64,480,642	7.40%
Total Net Capital Assets	<u>\$126,952,538</u>	<u>\$130,263,681</u>	(2.54%)

The increase in capital assets is mainly attributable to amounts spent on the purchase of a bus and other equipment in the general fund, along with the building improvements related to the EXCEL phase II projects.

**B) Long-Term Obligation**

At June 30, 2016 the District had total long term debt payable of \$108,186,693. The debt was issued for District-wide projects and deficit financing. The decrease in outstanding debt represents principal payments made during the fiscal year. A summary of outstanding debt at June 30, 2016 and 2015 is as follows:

	2016	2015	Increase (Decrease)
Construction serial bonds payable	\$97,330,000	\$103,830,000	(\$6,500,000)
Energy performance debt	10,136,693	10,602,531	(465,838)
Deficit financing bonds payable	720,000	1,410,000	(690,000)
Total	<u>\$108,186,693</u>	<u>\$115,842,531</u>	<u>(\$7,655,838)</u>

Refer to Footnote 12 for further detail on long-term obligation disclosures.

**7. FACTORS BEARING ON THE DISTRICT'S FUTURE**

- A) The District issued \$30,000,000 in tax anticipation notes on September 22, 2016, with a stated interest rate of 1.50% maturing on June 23, 2017. In addition, the District received a premium of \$132,000 on the note, which resulted in a net interest rate of 0.9155%.
- B) The general fund budget for the 2016/2017 fiscal year was approved by the voters on May 17, 2016 in the amount of \$177,333,831. This is an increase of \$4,264,932 or 2.46% over the previous year's budget. The increase was primarily due to increases in personnel costs and employee benefits.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

- C) New York State recently enacted a law that requires school districts to test all potable water outlets for lead contamination and to take necessary actions to address any identified concerns. In anticipation of the bill being passed into law, the District took the proactive measure to test potable water outlets within the District over the summer. The District has already purchased over 100 water filling stations to replace old water fountains district wide. The new stations are in the process of being installed. The District will continue to test water and take any necessary steps at potable outlets containing lead beyond the allowable thresholds.

**8. CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the finances of the District and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, contact:

Patchogue-Medford Union Free School District  
Dr. Michael J. Hynes, Superintendent of Schools  
241 South Ocean Avenue  
Patchogue, New York 11772  
(631) 687-6380



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

<b>ASSETS</b>	
Current assets	
Cash	
Unrestricted	\$20,454,420
Restricted	15,754,429
Receivables	
State and federal aid	7,510,874
Due from other governments	87,417
Accounts receivable	325,637
Inventories	66,275
Non-current assets	
Capital assets not being depreciated	13,348,183
Capital assets being depreciated, net of accumulated depreciation	113,604,355
Net pension asset - proportionate share	44,587,735
<b>TOTAL ASSETS</b>	<b>215,739,325</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	15,726,050
Loss on defeasance	445,456
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$231,910,831</b>
<b>LIABILITIES</b>	
Payables	
Accounts payable	\$1,772,640
Accrued liabilities	1,248,303
Accrued interest payable	1,303,669
Compensated absences payable	712,820
Due to other governments	3,951,721
Due to fiduciary funds	1,675
Due to teachers' retirement system	8,973,876
Due to employees' retirement system	588,137
Unearned credits	
Collections in advance	277,244
Long-term liabilities	
Due and payable within one year	
Bonds payable	7,645,000
Energy performance debt	613,170
Claims payable	948,242
Compensated absences payable	959,306
Due and payable after one year	
Bonds payable	90,405,000
Energy performance debt	9,523,523
Claims payable	127,361
Compensated absences payable	7,960,084
Net other post employment benefits obligation	38,681,650
Net pension liability - proportionate share	6,874,102
<b>TOTAL LIABILITIES</b>	<b>182,567,523</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions	16,144,942
Gain on defeasance	3,320,375
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>202,032,840</b>
<b>NET POSITION</b>	
Net investment in capital assets	16,701,943
Restricted	
Employee benefit accrued liability	6,286,986
Capital reserve 2015	5,000,000
Retirement contribution	3,164,106
Unemployment insurance	132,501
Insurance	202,308
Workers' compensation	873,448
Debt service	4,063
	15,663,412
Unrestricted (deficit)	(2,487,364)
<b>TOTAL NET POSITION</b>	<b>29,877,991</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$231,910,831</b>

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

		<b>Program Revenues</b>		<b>Net (Expense)</b>
	<b>Expenses</b>	<b>Charges for</b>	<b>Operating</b>	<b>Revenue and</b>
		<b>Services</b>	<b>Grants</b>	<b>Changes in</b>
				<b>Net Position</b>
<b>FUNCTIONS / PROGRAMS</b>				
General support	(\$20,785,098)			(\$20,785,098)
Instruction	(128,572,055)	\$1,742,829	\$5,385,125	(121,444,101)
Pupil transportation	(8,828,717)		294,526	(8,534,191)
Community services	(1,184,150)			(1,184,150)
Debt service - interest	(3,663,640)			(3,663,640)
Food service program	(2,982,596)	1,066,997	1,979,930	64,331
<b>TOTAL FUNCTIONS AND PROGRAMS</b>	<b>(\$166,016,256)</b>	<b>\$2,809,826</b>	<b>\$7,659,581</b>	<b>(155,546,849)</b>
 <b>GENERAL REVENUES</b>				
Real property taxes				88,706,729
Other tax items - including STAR reimbursement				14,304,012
Use of money and property				391,856
Sale of property and compensation for loss				61,420
Miscellaneous				1,499,328
State sources				63,905,737
Medicaid reimbursement				308,594
<b>TOTAL GENERAL REVENUES</b>				<b>169,177,676</b>
 <b>CHANGE IN NET POSITION</b>				<b>13,630,827</b>
 <b>TOTAL NET POSITION- BEGINNING OF YEAR AS RESTATED (SEE NOTE 19)</b>				<b>16,247,164</b>
 <b>TOTAL NET POSITION - END OF YEAR</b>				<b>\$29,877,991</b>

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash						
Unrestricted	\$17,234,285	\$9,391	\$140,470	\$2,931,004	\$139,270	\$20,454,420
Restricted	15,659,349			4,063	91,017	15,754,429
Receivables						
State and federal aid	5,411,501	1,960,156	139,217			7,510,874
Due from other governments	87,417					87,417
Due from other funds	4,867,649			5		4,867,654
Accounts receivables	48,658	6,875	270,104			325,637
Inventories			66,275			66,275
<b>TOTAL ASSETS</b>	<u>\$43,308,859</u>	<u>\$1,976,422</u>	<u>\$616,066</u>	<u>\$2,935,072</u>	<u>\$230,287</u>	<u>\$49,066,706</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>						
Payables						
Accounts payable	\$1,585,787	\$77,494	\$12,728		\$96,631	\$1,772,640
Accrued liabilities	1,226,734	760	20,809			1,248,303
Due to other governments	3,944,115	7,365	241			3,951,721
Due to other funds	1,675	1,818,968	117,520	\$2,931,009	157	4,869,329
Due to teachers' retirement system	8,973,876					8,973,876
Due to employees' retirement system	547,666		40,471			588,137
Compensated absences	712,820					712,820
Unearned credits						
Collections in advance	183,625	71,835	21,784			277,244
<b>TOTAL LIABILITIES</b>	<u>17,176,298</u>	<u>1,976,422</u>	<u>213,553</u>	<u>2,931,009</u>	<u>96,788</u>	<u>22,394,070</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
State aid	63,284					63,284
<b>TOTAL DEFERRED INFLOWS OR RESOURCES</b>	<u>63,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,284</u>
<b>FUND BALANCES</b>						
Nonspendable: inventory			66,275			66,275
Restricted:						
Employee benefit accrued liability	6,286,986					6,286,986
Capital reserve 2015	5,000,000					5,000,000
Retirement contribution	3,164,106					3,164,106
Unemployment insurance	132,501					132,501
Insurance	202,308					202,308
Workers' compensation	873,448					873,448
Debt service				4,063		4,063
Unspent energy performance debt					91,017	91,017
Assigned:						
Appropriated fund balance	2,055,179					2,055,179
Unappropriated fund balance	1,278,343		336,238		42,482	1,657,063
Unassigned: fund balance	7,076,406					7,076,406
<b>TOTAL FUND BALANCES</b>	<u>26,069,277</u>	<u>-</u>	<u>402,513</u>	<u>4,063</u>	<u>133,499</u>	<u>26,609,352</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$43,308,859</u>	<u>\$1,976,422</u>	<u>\$616,066</u>	<u>\$2,935,072</u>	<u>\$230,287</u>	<u>\$49,066,706</u>



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET POSITION  
JUNE 30, 2016**

Total Governmental Fund Balances \$26,609,352

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

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

Original cost of capital assets	\$196,206,159	
Accumulated depreciation	<u>(69,253,621)</u>	126,952,538

Certain disbursements previously expended in the governmental funds relating to pensions are treated as long term assets and increase net position. The net pension asset - proportionate share at year-end for TRS was: 44,587,735

Deferred outflows of resources - The Statement of Net Position recognizes expenditures incurred under the full accrual method. Governmental funds recognize expenditures under the modified accrual method. Deferred outflows related to pensions that will be recognized as expenditures in future periods amounted to 15,726,050

Deferred outflows of resources - loss on defeasance on the advanced refunding. The Statement of Net Position will amortize the loss on defeasance on the advanced refunding over the life of the bond. Governmental funds recorded the loss on defeasance on the advanced refunding as an expenditure in the current year. 445,456

Deferred inflow of resources - state aid - The Statement of Net Position recognized revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual. 63,284

Deferred inflows of resources - The Statement of Net Position recognized revenues and expenditures under the full accrual method. Governmental funds recognize revenues and expenditures under the modified accrual method. Deferred inflows related to pensions that will be recognized as a reduction in pension expense in future periods amounted to (16,144,942)

Deferred inflows of resources - gain on defeasance on the advanced refunding. The Statement of Net Position will amortize the gain on defeasance on the advanced refunding over the life of the bond. Governmental funds recorded the gain on defeasance on the advanced refunding as an expenditure in the current year. (3,320,375)

Payables that are not payable in the current period are not reported as liabilities in the funds. Additional payables relating to long-term liabilities at year end consisted of:

Accrued interest on bonds payable	(1,303,669)
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consisted of:

Bonds payable	(\$98,050,000)	
Energy performance debt	(10,136,693)	
Claims payable	(1,075,603)	
Compensated absences payable	(8,919,390)	
Net other post employment benefits obligation	(38,681,650)	
Net pension liability - proportionate share (ERS)	<u>(6,874,102)</u>	(163,737,438)

Total Net Position	<u>\$29,877,991</u>
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**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$88,706,729					\$88,706,729
Other tax items - including STAR reimbursement	14,304,012					14,304,012
Charges for services	1,742,829					1,742,829
Use of money and property	390,775			\$1,081		391,856
Sale of property and compensation for loss	61,420					61,420
Miscellaneous	1,461,786		\$37,542			1,499,328
Interfund revenues	43,668					43,668
Local sources		\$85,139				85,139
State sources	63,905,737	2,247,679	62,096			66,215,512
Federal sources	308,594	3,346,833	1,733,213			5,388,640
Surplus food			184,621			184,621
Sales - school lunch			1,066,997			1,066,997
<b>TOTAL REVENUES</b>	<b>170,925,550</b>	<b>5,679,651</b>	<b>3,084,469</b>	<b>1,081</b>	<b>-</b>	<b>179,690,751</b>
<b>EXPENDITURES</b>						
General support	17,224,161					17,224,161
Instruction	90,542,878	5,731,174				96,274,052
Pupil transportation	8,152,286	294,526				8,446,812
Community service	879,500					879,500
Employee benefits	39,253,982					39,253,982
Debt service principal				7,655,838		7,655,838
Debt service interest	71,562			3,805,281		3,876,843
Cost of sales			2,987,736			2,987,736
Capital outlay					1,371,024	1,371,024
<b>TOTAL EXPENDITURES</b>	<b>156,124,369</b>	<b>6,025,700</b>	<b>2,987,736</b>	<b>11,461,119</b>	<b>1,371,024</b>	<b>177,969,948</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>14,801,181</b>	<b>(346,049)</b>	<b>96,733</b>	<b>(11,460,038)</b>	<b>(1,371,024)</b>	<b>1,720,803</b>
<b>OTHER FINANCING SOURCES AND (USES)</b>						
Operating transfers in	-	346,049	75,000	11,461,118	499,849	12,382,016
Operating transfers (out)	(12,382,016)					(12,382,016)
<b>TOTAL OTHER FINANCING SOURCES AND (USES)</b>	<b>(12,382,016)</b>	<b>346,049</b>	<b>75,000</b>	<b>11,461,118</b>	<b>499,849</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>2,419,165</b>	<b>-</b>	<b>171,733</b>	<b>1,080</b>	<b>(871,175)</b>	<b>1,720,803</b>
<b>FUND BALANCE - BEGINNING OF YEAR AS RESTATED (SEE NOTE 19)</b>	<b>23,650,112</b>	<b>-</b>	<b>230,780</b>	<b>2,983</b>	<b>1,004,674</b>	<b>24,888,549</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$26,069,277</b>	<b>\$ -</b>	<b>\$402,513</b>	<b>\$4,063</b>	<b>\$133,499</b>	<b>\$26,609,352</b>

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balance		\$1,720,803
Amounts reported for governmental activities in the Statement of Activities are different because:		
Long-Term Revenue and Expense Differences		
Worker's compensation claims payable in the Statement of Activities differs from the amounts reported in the governmental funds because the expense is recorded as an expenditure in the funds when it is due. In the Statement of Activities, the payable is recognized as it accrues regardless of when it is due. Workers' compensation claims payable for the year ended June 30, 2016 changed by		(324,589)
In the Statement of Activities, compensated absences are measured by the amounts earned or incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. Compensated absences payable for the year ended June 30, 2016 changed by		603,431
Net other post-employment benefits obligation payable in the Statement of Activities differs from the amount reported in the governmental funds because the expense is recorded as an expenditure in the funds when it is due. In the Statement of Activities, the payable is recognized as it accrues regardless of when it is due. Net other post-employment benefits obligation payable for the year ended June 30, 2016 changed by		(4,025,310)
Increases/decreases in the proportionate share of net pension asset/liability and related deferred inflows and outflows reported in the Statement of Activities do not provide for or require use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.		
Teachers' retirement system	\$11,603,268	
Employees' retirement system	<u>(504,674)</u>	11,098,594
Capital Related Differences		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expense in the Statement of Activities.		
Capital outlays	\$1,514,337	
Depreciation expense	<u>(4,825,480)</u>	(3,311,143)
Long-Term Debt Differences		
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		7,190,000
Repayment of energy performance debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		465,838
Defeasance loss on advanced refunding- The Statement of Activities recognizes expenses over the life of the bond. Governmental funds recognize the defeasance loss in the year of issue. The amount of loss amortized for the fiscal year ended June 30, 2016 was		(39,305)
Defeasance gain on advanced refunding- The Statement of Activities recognizes expenses over the life of the bond. Governmental funds recognize the defeasance gain in the year of issue. The amount of gain amortized for the fiscal year ended June 30, 2016 was		314,144
Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and this requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2015 to June 30, 2016 changed by		<u>(61,636)</u>
Change in Net Position		<u>\$13,630,827</u>



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2016**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash - Restricted	\$402,625	\$790,228
Investment in securities	672,706	
Due from governmental funds		1,675
<b>TOTAL ASSETS</b>	<u>\$1,075,331</u>	<u>\$791,903</u>
<b>LIABILITIES</b>		
Extraclassroom activity balance		\$224,179
Other liabilities		567,724
<b>TOTAL LIABILITIES</b>	<u>\$ -</u>	<u>\$791,903</u>
<b>NET POSITION</b>		
Restricted for scholarships	\$1,075,331	
<b>TOTAL NET POSITION</b>	<u>\$1,075,331</u>	

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<b>Private Purpose Trust Fund</b>
<b>ADDITIONS</b>	
Gifts and contributions	\$33,984
Interest and earnings	4,462
<b>TOTAL ADDITIONS</b>	<u>38,446</u>
<b>DEDUCTIONS</b>	
Scholarships and awards	60,695
<b>TOTAL DEDUCTIONS</b>	<u>60,695</u>
<b>CHANGE IN NET POSITION</b>	(22,249)
<b>NET POSITION - BEGINNING OF THE YEAR</b>	<u>1,097,580</u>
<b>NET POSITION - END OF THE YEAR</b>	<u><u>\$1,075,331</u></u>

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of Patchogue-Medford Union Free School District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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 utilized by the District are 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 reporting entity of the District is based upon criteria set forth by GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*. 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 and its component unit and other organizational entities determined to be includable in the District’s financial reporting entity. 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 is a brief description of an entity that is included in the District’s reporting entity.

**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. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District’s business office. The District reports these assets held as an agent for the Extraclassroom organizations in the Statement of Fiduciary Net Position – Fiduciary Funds.



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**B) Joint venture:**

The District is a component district in the Eastern Suffolk Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares 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 component.

BOCES are organized under §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 component member boards in accordance with provisions of §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (§1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §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 component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

**C) Basis of presentation:**

**i) District-Wide Financial Statements:**

The Statement of Net Position and the Statement of Activities and Changes in Net Position present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital specific grants, if applicable.

The Statement of Activities and Changes in Net Position 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. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

ii) 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 governmental funds, each displayed in a separate column.

The District reports the following major governmental funds:

**General Fund:** This fund 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 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 either by governments that provide the funds, or by outside parties.

**School Lunch Fund:** This fund is used to account for the activities of the District's food service operations.

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

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

The District reports the following fiduciary funds:

**Fiduciary Funds:** These funds are used to account for fiduciary activities. Fiduciary activities are those 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. There are two classes of fiduciary funds:

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

**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.



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**D) Measurement focus and basis of accounting:**

The District-Wide and Fiduciary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 six months 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, and compensated absences, 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) Real Property taxes:**

- i) Calendar:  
Real property taxes are levied annually by the Board of Education no later than November 1, and become a lien on December 1. Taxes are collected by the Town of Brookhaven and remitted to the District from January to June.
- ii) Enforcement:  
Uncollected real property taxes are subsequently enforced by Suffolk County (the "County") in which the District is located. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the Town of Brookhaven no later than the following July 1.

**F) 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.



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**G) Interfund transactions:**

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditure and revenues to provide financing or other services.

In the District-Wide Financial 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 may be 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.

**H) 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 and liabilities 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 compensated absences, net other post-employment benefits, workers' compensation claims, net pension asset/liability, potential contingent liabilities and useful lives of capital assets.

**I) Cash and investments:**

The District's cash and investments 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 and debt agreements.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**J) Receivables:**

Receivables are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

**K) Inventories and prepaid items:**

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market. Purchases of inventorable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

A reserve for these non-liquid assets (inventories) has been recognized in the school lunch fund as non-spendable under GASB Statement No. 54 to signify that a portion of fund balance is not available for other subsequent expenditures.

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 amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed. The District had no prepaid items at June 30, 2016.

**L) Capital assets:**

Capital assets are reported at actual cost for acquisitions made within the last 20 years. For assets acquired prior to 20 years, estimated historical costs, based on appraisals conducted by independent third-party professionals are used. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-Wide Financial Statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building & Building Improvements	\$15,000	Straight-line	30 years
Land Improvements	\$15,000	Straight-line	20 years
Furniture & Equipment	\$5,000	Straight-line	5 years

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**M) Unearned credits:**

The District reports unearned credits on its Statement of Net Position and its Balance Sheet. Unearned credits consist of collections in advance. Unearned credits arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to incurrence of qualifying expenditures. In subsequent periods, when the District has legal claim to resources, the liability for unearned credits is removed and revenue is recognized.

Collections in advance consist of amounts received in advance for summer programs in the general fund; for amounts received in advance for meals that have not yet been purchased in the school lunch fund and for amounts received in advance for grants in the special aid fund.

**N) Deferred inflows of resources – state aid:**

In addition to liabilities, the Governmental Funds Balance Sheet will sometimes report deferred inflow of resources when potential revenues do not meet the availability criterion for recognition in the current period. These amounts are recorded as deferred inflows of resources. In subsequent periods, when the availability criterion is met, deferred inflows of resources are classified as revenues. The District-Wide Financial Statements, however, report these deferred inflows or resources as revenues in accordance with the accrual basis of accounting and economic resources measurement focus. The District has one item that qualifies for reporting in this category. This amount is related to state aid reported as deferred revenue in the Governmental Funds Balance Sheet.

**O) Deferred outflows and inflows of resources – pensions:**

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 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. This amount is related to pensions reported in the District-Wide Statement of Net Position. This represents the difference between expected and actual experience (ERS), changes of assumptions (ERS), the net difference between projected and actual investment earnings on pension plan investments (ERS), changes in proportion (TRS and ERS) and differences between employer contributions and proportionate share of contributions, and the District's contributions to the pension systems (TRS and ERS systems) subsequent to the measurement date.

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 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. This amount is related to pensions reported in the District-Wide Statement of Net Position. This represents the



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

difference between expected and actual experience (TRS and ERS), and the net difference between projected and actual earnings on pension plan investments (TRS)

**P) Deferred inflows of resources – gain on defeasance:**

A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. The District reported \$3,320,375 of deferred inflows of resources at June 30, 2016, representing the financial effect of a deferred revenue on the advance refunding of general obligation serial bonds. A deferred inflow of resources results from the difference in the net carrying value of refunded debt over its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**Q) Deferred outflows of resources – loss on defeasance:**

A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. The District reported \$445,456 of deferred outflows of resources at June 30, 2016, representing the financial effect of deferred charge on the advance refunding of general obligation serial bonds. A deferred outflow of resources results from the difference in the net carrying value of refunded debt over its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**R) Vested employee benefits:**

Compensated absences:

Compensated absences consist of unpaid accumulated annual sick leave, vacation, and sabbatical time:

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave. Certain collectively bargained agreements require these termination payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

The District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, 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.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.

**S) Other benefits:**

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

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

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if District employees are eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the governmental funds as the liabilities for premiums mature (come due for payment). In the District-Wide Statements, the cost of postemployment health insurance coverage is recognized on the accrual basis of accounting in accordance with GASB Statement No. 45.

**T) Short-term debt:**

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

The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which there is an insufficient or no provision made in the annual budget. The budget note must be repaid no later than the close of second fiscal year succeeding the year in which the note was issued.

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

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**U) 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. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. 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 in one year or due within more than one year in the Statement of Net Position.

**V) Equity classifications:**

**i) District-Wide Financial Statements:**

In the District-Wide Financial 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, construction or improvement of those assets, net of any unexpended proceeds and including any unamortized items (discounts, premiums, loss and gain on refunding).

Restricted net position - reports net position when constraints placed on the assets 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 are deemed to be available for general use by the District.

**ii) Fund Financial Statements:**

There are five classifications of fund balance as detailed below:

(1) **Nonspendable fund balance** – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the school lunch fund of \$66,275.

(2) **Restricted fund balance** – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws



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**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Currently, New York State laws still use the terminology “reserves” and Districts are only allowed to use reserves authorized by law. The District has classified the following reserves as restricted:

Employee Benefit Accrued Liability Reserve

Employee benefit accrued liability (GML §6-p), must be used for the payment of accrued employee benefit due an employee upon termination of the employee’s service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the general fund under restricted fund balance.

Capital Reserve

Capital reserve (EL§3651), must be 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. Expenditures 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 under restricted fund balance.

Retirement Contribution Reserve

Retirement contribution reserve (GML §6-r), must be used for financing retirement contributions. The reserve must be accounted for separate and apart from all other funds, and a detailed report of the operation and condition of the fund must be provided to the Board. This reserve is accounted for in the general fund under the restricted fund balance.

Unemployment Insurance Reserve

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

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
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**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

pending claims may be transferred to any other reserve fund. This reserve is accounted for in the general fund under the restricted fund balance.

Insurance Reserve

Insurance reserve (GML §6-n), must be 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, e.g., 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 the restricted fund balance.

Workers' Compensation Reserve

Workers' compensation reserve (GML §6-j), must be 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 appropriations of the next succeeding fiscal year's budget.

Debt Service

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

Unspent Energy Performance Debt Proceeds

Unspent long-term energy performance 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.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Scholarships

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

- (3) **Committed fund balance** – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority (i.e., Board of Education). The District has no committed fund balances as of June 30, 2016.
- (4) **Assigned fund balance** – Includes amounts that are subject to a purpose constraint that represents an intended use established by the District's Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance includes an amount appropriated to partially fund the subsequent year's budget. Assigned fund balance also includes Board designations and encumbrances not classified as restricted or committed at the end of the fiscal year..

The District has adopted policy 3480, *Fund Balance*, which authorizes the Board of Education, or its designee, to assign amounts for a specific purpose.

- (5) **Unassigned fund balance** –Includes the residual fund balance for the general fund and includes residual fund balance deficits of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. Assignments of fund balance cannot cause a negative unassigned fund balance.

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a District can retain to no more than 4% of the 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 included in assigned fund balance are also excluded from the 4% limitation.

Order of Use of Fund Balance

The order by which the District will spend restricted and unrestricted (unassigned) fund balance will be evaluated on an annual basis based on the current financial conditions by the Assistant Superintendent for Business. After evaluation, if adjustments are required, a recommendation will be made to the Board of Education for consideration.



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**Minimum Fund Balance Amount**

The fund balance of the District's general fund has been accumulated to provide stability and flexibility and to respond to unexpected adversity and/or opportunities.

The target is to maintain an unassigned fund balance of 4% of the estimated annual operating expenditures for the ensuing fiscal year.

The District's basic goal is to maintain annual expenditure increases at a growth rate, and to limit expenditures to anticipated revenue in order to maintain a balanced budget. The decision to retain an unrestricted fund balance of 4% of the expected expenditures stems from the need to support normal operating costs for the District and provide fiscal stability.

**W) Future changes in accounting standards:**

GASB has issued Statement No. 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 Statement 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.

GASB has issued Statement No. 77, *Tax Abatement Disclosures*, effective for the year ending June 30, 2017. This statement defines tax abatements and provides for increased disclosures including authority, eligibility criteria, dollar amount of taxes abated, and other information.

GASB has issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which is effective for the year ended June 30, 2017. This statement addresses issues in the previously issued pension statements regarding payroll related measures in the required supplementary information, the selection of assumptions and deviations from other guidance, and the treatment of employee (plan member) contributions made by employers.

These are the statements that the District feels may have an impact on these financial statements and are not an all inclusive list of GASB statements issued. The District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

**NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND FINANCIAL STATEMENTS AND DISTRICT-WIDE FINANCIAL STATEMENTS:**

Due to the differences in the measurement focus and basis of accounting used in the Fund Financial Statements and the District-Wide Financial Statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

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The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

**A) Total fund balances of governmental funds vs. net position of governmental activities:**

Total fund balances of the District's governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. The difference primarily results from additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund Balance Sheets.

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

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of the four broad categories. The amounts shown below represent:

i) 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 accruals basis, whereas the accrual basis of accounting is used on the Statement of Activities.

ii) Capital related differences:

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

iii) Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the Fund Financial 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.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
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iv) Employee benefits allocations:

Expenditures for employee benefits are not allocated to a specific function on the Statement of Revenues, Expenditures, and Changes in Fund Balance based on the requirements of New York State. These costs have been allocated based on total salary for each function in the Statement of Activities.

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**A) Budgets:**

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted. The voters of the District approved the proposed appropriation budget for the general fund. Appropriations are adopted at the program line item level.

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

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), which 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.

There were no supplemental appropriations during the year ending June 30, 2016.

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



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commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as restrictions or assignments of fund balance 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.

**NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:**

**A) Cash:**

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. 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.

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 Statement No. 40, *Deposit and Investment Risk Disclosures*, 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 with securities held by the pledging financial institution in the District's name; or
- C) Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year end.

**Restricted Cash:**

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash at June 30, 2016 included \$15,754,429 within the governmental funds for capital projects and general reserve purposes, and \$1,192,853 in the fiduciary funds.

**B) Investments:**

The District has few investments (primarily donated scholarship funds), and chooses to disclose its investments by specifically identifying each. The District's investment policy for these investments is also governed by New York State statutes. Investments are stated at fair value and are accounted for within the private purpose trust fund.

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<u>Type of Investment</u>	<u>Value</u>
United States Treasury Bills	\$662,192
United States Treasury Notes	10,514
Total investments	<u>\$672,706</u>

The District does not typically purchase investments for long enough duration to cause it to believe that it is exposed to any material interest rate risk. The District also does not purchase investments denominated in a foreign currency, and is not exposed to foreign currency risk.

**NOTE 5 – PARTICIPATION IN BOCES:**

During the fiscal year ended June 30, 2016 the District was billed \$17,423,729 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,898,790. Financial statements for the BOCES are available from the Eastern Suffolk BOCES administrative office at James Hines Administration Center, 201 Sunrise Highway, Patchogue, New York 11772.

**NOTE 6 – STATE AND FEDERAL AID RECEIVABLES:**

State and federal aid receivables at June 30, 2016 consisted of the following:

<b>General Fund</b>	
Excess cost aid	\$2,058,008
Foundation Aid	366,293
BOCES aid	1,898,790
Medicaid	42,236
Building Aid	980,257
Other	65,917
Total - General Fund	<u>5,411,501</u>
<b>Special Aid Fund</b>	
Federal aid	1,240,646
State aid	719,510
Total - Special Aid Fund	<u>1,960,156</u>
<b>School Lunch Fund</b>	
Breakfast - federal aid	29,575
Lunch - federal aid	104,928
Breakfast - state aid	1,557
Lunch - state aid	3,157
Total - School Lunch Fund	<u>139,217</u>
<b>Total - All Funds</b>	<u><u>\$7,510,874</u></u>

District management has deemed the amounts to be fully collectible.

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**NOTE 7 – DUE FROM OTHER GOVERNMENTS:**

Due from other governments in the general fund at June 30, 2016 consisted of the following:

Foster care tuition	\$77,423
Health services	780
Other	9,214
Total	<u>\$87,417</u>

District management has deemed the amounts to be fully collectible.

**NOTE 8 - CAPITAL ASSETS:**

Capital asset balances and activity for the fiscal year ended June 30, 2016 were as follows:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$2,827,925			\$2,827,925
Construction in progress	10,603,170	\$8,750	(\$91,656)	10,520,264
Total capital assets not being depreciated	<u>13,431,095</u>	<u>8,750</u>	<u>(91,656)</u>	<u>13,348,189</u>
Capital assets being depreciated:				
Land improvements	5,861,888			5,861,888
Building & building improvements	172,162,543	1,339,960	91,656	173,594,159
Furniture and equipment	3,288,797	165,627	(52,501)	3,401,923
Total capital assets being depreciated	<u>181,313,228</u>	<u>1,505,587</u>	<u>39,155</u>	<u>182,857,970</u>
Less accumulated depreciation:				
Land improvements	2,729,853	142,093		2,871,946
Building & building improvements	59,439,989	4,460,642		63,900,631
Furniture and equipment	2,310,800	222,745	(52,501)	2,481,044
Total accumulated depreciation	<u>64,480,642</u>	<u>4,825,480</u>	<u>(52,501)</u>	<u>69,253,621</u>
Total capital assets being depreciated, net	<u>116,832,586</u>	<u>(3,319,893)</u>	<u>91,656</u>	<u>113,604,349</u>
Capital assets, net	<u>\$130,263,681</u>	<u>(\$3,311,143)</u>	<u>\$ -</u>	<u>\$126,952,538</u>



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Depreciation expense was charged to governmental functions as follows:

General support	\$36,473
Instruction	4,641,720
Pupil transportation	147,287
	<u>\$4,825,480</u>

**NOTE 9 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS:**

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General fund	\$4,867,649	\$1,675		\$12,382,016
Special aid fund		1,818,968	\$346,049	
School lunch fund		117,520	75,000	
Debt service fund	5	2,931,009	11,461,118	
Capital projects fund		157	499,849	
Total government activities	4,867,654	4,869,329	12,382,016	12,382,016
Fiduciary agency fund	1,675			
Totals	<u>\$4,869,329</u>	<u>\$4,869,329</u>	<u>\$12,382,016</u>	<u>\$12,382,016</u>

The District typically transfers from the general fund to the debt service fund to finance debt service requirements. The District typically transfers from the general fund to the special aid fund to fund the District's share of summer school handicap expenses required by New York State law and to fund the State Supported Section 4201 schools. The District transferred from the general fund to the school lunch fund to help support the program. The District transferred from the general fund to the capital projects fund to fund ongoing projects.

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.

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**NOTE 10 – UNEARNED CREDITS - COLLECTIONS IN ADVANCE:**

Collections in advance at June 30, 2016 consisted of the following:

General Fund	
Summer programs 2016-2017	\$183,625
Total General Fund	<u>183,625</u>
Special Aid Fund	
Local grant	893 *
Other local grants	70,942
Total Special Aid Fund	<u>71,835</u>
School Lunch Fund	
Prepaid account balances	21,784
Total School Lunch Fund	<u>21,784</u>
Total All Funds	<u><u>\$277,244</u></u>

\*The Town of Brookhaven and the Long Island Power Authority (LIPA) entered into a Host Community Benefits agreement dated March 13, 2007. As part of such agreement LIPA agreed to contribute \$1,500,000 to the District to be placed in a special projects fund. The amount deferred as of June 30, 2016 is the remaining amount to be spent on the technology initiative project designated by the Board of Education on January 11, 2010.

**NOTE 11 - SHORT-TERM DEBT:**

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

	Maturity	Stated Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	6/24/16	1.75 - 2.00%	\$ -	\$30,000,000	\$30,000,000	\$ -
Total			<u>\$ -</u>	<u>\$30,000,000</u>	<u>\$30,000,000</u>	<u>\$ -</u>

Interest expense on short-term debt for the year was \$71,562.

The TAN was issued for interim financing of general fund operations.

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**NOTE 12 – LONG-TERM LIABILITIES:**

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

	Beginning Balance	Issued	Reclassified and Redeemed	Ending Balance	Due Within One Year
Long-term debt:					
Serial bonds	\$105,240,000		\$7,190,000	\$98,050,000	\$7,645,000
Energy performance debt	10,602,531		465,838	10,136,693	613,170
Other long-term liabilities:					
Claims payable	751,014	1,047,947	723,358	1,075,603	948,242
Compensated absences payable	9,522,821	334,339	937,770	8,919,390	959,306
Net OPEB obligation	34,656,340	13,115,473	9,090,163	38,681,650	
Net pension liability - proportionate share	1,446,523	6,644,613	1,217,034	6,874,102	
Total long-term liabilities	<u>\$162,219,229</u>	<u>\$21,142,372</u>	<u>\$19,624,163</u>	<u>\$163,737,438</u>	<u>\$10,165,718</u>

The general fund has typically been used to liquidate long-term liabilities such as bonds payable, energy performance debt, claims payable, compensated absences, net other post-employment benefits and net pension liability.

**A) Bonds Payable**

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Deficit financing bond	4/1/2007	4/1/2017	3.625-3.875%	\$720,000
Refunding serial bond	1/5/2012	10/1/2025	2.00-5.00%	31,775,000
Refunding serial bond	9/12/2012	7/1/2027	3.50 - 4.25%	29,920,000
Construction serial bond	9/27/2012	9/15/2025	1.50 - 2.50%	4,190,000
Refunding serial bond	6/17/2015	10/1/2026	2.00% - 5.00%	29,245,000
Construction serial bond	6/17/2015	7/15/2020	1.00 - 2.00%	2,200,000
				<u>\$98,050,000</u>



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

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$7,645,000	\$3,412,900	\$11,057,900
2018	7,165,000	3,167,556	10,332,556
2019	7,460,000	2,903,412	10,363,412
2020	7,790,000	2,596,388	10,386,388
2021	8,160,000	2,252,912	10,412,912
2022-2026	44,125,000	6,215,991	50,340,991
2027-2028	15,705,000	464,666	16,169,666
	<u>\$98,050,000</u>	<u>\$21,013,825</u>	<u>\$119,063,825</u>

**B) Energy Performance Debt:**

Energy performance debt is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Energy performance debt	7/3/2014	1/3/2030	2.496%	\$10,136,693
				<u>\$10,136,693</u>

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$613,170	\$249,192	\$862,362
2018	628,569	233,792	862,361
2019	644,355	218,007	862,362
2020	660,536	201,824	862,360
2021	677,125	185,235	862,360
2022-2026	3,649,411	662,394	4,311,805
2027-2030	3,263,527	185,917	3,449,444
	<u>\$10,136,693</u>	<u>\$1,936,361</u>	<u>\$12,073,054</u>

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**C) Long-Term Interest**

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

	<u>Total</u>
Interest paid	\$3,805,281
Less interest accrued in the prior year	(1,242,033)
Plus interest accrued in the current year	1,303,669
Plus amortized prepaid bond refunding costs	39,305
Less amortized deferred amounts on refunding	(314,144)
Total expense	<u>\$3,592,078</u>

**NOTE 13 – DEFERRED OUTFLOWS OF RESOURCES – LOSS ON DEFEASANCE:**

The loss on defeasance pertaining to the 2002 refunding is recorded in the District-Wide Financial Statements, as deferred outflow of resources. The loss on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 16 years, the time to maturity on the refunded bonds, at the point of refunding. Amortization on the defeasance loss recorded on the District-Wide financials amounted to \$39,305 for the year ending June 30, 2016, and is recorded as a component for interest expense.

The loss on defeasance pertaining to the 2002 refunding at June 30, 2016 consisted of the following:

	<u>Total</u>
Deferred amount on refunding	1,130,357
Bond premium	(684,901)
Total loss on defeasance	<u>\$445,456</u>

**NOTE 14 – DEFERRED INFLOWS OF RESOURCES – GAIN ON DEFEASANCE:**

The gain on defeasance pertaining to the 2003 refunding is recorded in the District-Wide Financial Statements, as deferred inflow of resources. The gain on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 16 years, the time to maturity on the refunded bonds, at the point of refunding. Amortization of the defeasance gain recorded on the District-Wide financials amounted to \$120,464 for the year ending June 30, 2016.

The gain on defeasance pertaining to the 2005 refunding is recorded in the District-Wide Financial Statements, as deferred inflow of resources. The gain on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 12 years, the time to maturity on the refunded bonds, at the point of refunding. Amortization of the defeasance gain recorded on the District-Wide financials amounted to \$193,680 for the year ending June 30, 2016.

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Amortization on the District-Wide Financials is being recorded as a component of interest expense.

The gain on defeasance pertaining to the 2003 and 2005 refunding at June 30, 2016 consisted of the following:

	Total
Deferred amount on refunding - 2003	\$1,025,438
Bond premium - 2003	(2,360,583)
Deferred amount on refunding - 2005	219,539
Bond premium - 2005	(2,204,769)
Total gain on defeasance	<u>(\$3,320,375)</u>

**NOTE 15 – PENSION PLANS:**

**A) Plan description and benefits provided:**

i) Teachers' Retirement System

The District participates in the New York State Teachers' Retirement System (TRS) (the System). 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.nystrs.org](http://www.nystrs.org).

ii) Employees' Retirement System

The District participates in the New York State and Local Employees' Retirement System (ERS) (the System). 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 new 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



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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.

**B) Funding policies:**

The Systems are noncontributory, except as follows:

1. New York State Teachers' Retirement System:
  - a. Employees who joined the system after July 27, 1976
    - i. Employees contribute 3% of their salary, except that employees in the system more than ten years are no longer required to contribute.
  - b. Employees who joined the system on or after January 1, 2010 before April 1, 2012
    - i. Employees contribute 3.5% of their salary throughout active membership.
  - c. Employees who joined the system on or after April 1, 2012
    - i. Employees contribute between 3% and 6% dependent upon their salary throughout active membership.
2. New York State Employees' Retirement System
  - a. Employees who joined the system after July 27, 1976
    - i. Employees contribute 3% of their salary, except that employees in the system more than ten years are no longer required to contribute.
  - b. Employees who joined the system on or after January 1, 2010 before April 1, 2012
    - i. Employees contribute 3% of their salary throughout active membership.
  - c. Employees who joined the system on or after April 1, 2012
    - i. Employees contribute between 3% and 6% dependent upon their salary throughout active membership.

For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually, which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

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The District is required to contribute at an actuarially determined rate. The District contributions made to the Systems were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

	<u>NYSTRS</u>	<u>NYSERS</u>
2016	\$8,666,777	\$2,071,934
2015	\$11,303,793	\$3,308,634
2014	\$10,341,609	\$2,813,250

**C) Pension assets, liabilities, pension expense, and deferred outflows and inflows of resources related to pensions:**

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

Measurement date	March 31, 2016	June 30, 2015
Net pension asset/(liability)	\$ (6,874,102)	\$44,587,735
District's portion of the Plan's total net pension asset/(liability)	0.0428285%	0.429273%
Change in proportion since the prior measurement date	0.0000097%	-0.0015600%

For the year ended June 30, 2016, the District recognized pension expense of \$2,576,608 for ERS and (\$2,935,239) for TRS. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Deferred Outflow of Resources</u>		<u>Deferred Inflow of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expected and actual experience	\$ 34,737		\$ 814,810	\$ 1,235,717
Changes of assumptions	1,833,116			
Net difference between projected and actual earnings on pension plan investments	4,078,094			14,094,415
Changes in proportion and differences between the District's contributions and proportionate share of contributions	420,665	\$ 104,524		
District's contributions subsequent to the measurement date	588,137	8,666,777		
	<u>\$ 6,954,749</u>	<u>\$ 8,771,301</u>	<u>\$ 814,810</u>	<u>\$ 15,330,132</u>

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>ERS</u>	<u>TRS</u>
Plan Year ended:		
2016		\$ (5,672,512)
2017	\$ 1,422,239	\$ (5,672,512)
2018	\$ 1,422,239	\$ (5,672,512)
2019	\$ 1,422,239	\$ 2,356,281
2020	\$ 1,285,085	\$ (141,710)
Thereafter		\$ (422,643)

Actuarial Assumptions

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



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2016	June 30, 2015
Actuarial valuation date	April 1, 2015	June 30, 2014
Interest rate	7.0%	8%
Salary scale	3.80%	4.01% - 10.91%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience	July 1, 2005 - June 30, 2010 System's Experience
Inflation rate	2.50%	3.0%

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

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

The long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected 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 are summarized below:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

<u>Measurement date</u>	<u>ERS</u> March 31, 2016	<u>TRS</u> June 30, 2015
<u>Asset type</u>		
Domestic equity	7.30%	6.50%
International equity	8.55%	7.70%
Private equity	11.00%	
Real estate	8.25%	4.60%
Absolute return strategies	6.75%	
Opportunistic portfolio	8.60%	
Real assets	8.65%	
Bonds and mortgages	4.00%	
Cash	2.25%	
Inflation-indexed bonds	4.00%	
Alternative investments		9.00%
Domestic fixed income securities		2.10%
Global fixed income securities		1.90%
Mortgages		3.40%
Short-term		1.20%

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for ERS and 8.0% for TRS. 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.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the District's proportionate share of the net pension asset/(liability) calculated using the discount rate of 7.0% for ERS and 8.0% 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-percentagepoint lower (6.0 % for ERS and 7.0% for TRS ) or 1-percentagepoint higher (8.0% for ERS and 9.0% for TRS) than the current rate:

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension asset (liability)	(\$15,500,600)	(\$6,874,102)	\$414,921
TRS	1% Decrease (7.0%)	Current Assumption (8.0%)	1% Increase (9.0%)
Employer's proportionate share of the net pension asset (liability)	(\$3,041,458)	\$44,587,735	\$85,205,435

Pension Plan Fiduciary Net Position

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

	(Dollars in Thousands)	
	<u>ERS</u>	<u>TRS</u>
Valuation date	April 1, 2014	June 30, 2015
Employers' total pension liability	\$ (172,303,544)	\$ (99,332,103)
Plan Fiduciary Net Position	156,253,265	109,718,916
Employers' net pension asset/(liability)	<u>\$ (16,050,279)</u>	<u>\$ 10,386,813</u>
Ratio of plan fiduciary net position to the Employers' total pension asset/(liability)	90.68%	110.46%

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31<sup>st</sup>. Accrued retirement contributions as of June 30, 2016 represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2016 amounted to \$588,137.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2016 are paid to the System in September, October and November 2016 through a state aid intercept, with a balance to be paid by the District, if necessary. Accrued retirement contributions as of June 30, 2016 represent employee and employer contributions for the fiscal year ended June 30, 2016 based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2016 amounted to \$8,973,876.



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 16 – PENSION PLANS: OTHER:**

**A) Tax Sheltered Annuities:**

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2016, totaled \$795,356 and \$3,720,455 respectively.

**NOTE 17 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS:**

**A) Plan Description:**

The District primarily provides post-employment health insurance coverage to retired employees and their spouses in accordance with provisions of various employment contracts. Benefits are provided through the New York State Health Insurance Program Empire Plan, (Plan) which is a single-employer defined benefit healthcare plan.

The Plan does not issue a stand alone, publicly available report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

**B) Funding Policy:**

The District shares of the cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the Fund Financial Statements as payments are made. For the year ended June 30, 2016, the District recognized a general fund expenditure of \$9,090,163 for insurance premiums for currently enrolled retirees. Plan members receiving benefits contributed approximately 0% to 16% of the health insurance premium. Currently, there is no provision in the law to permit the District to fund other post-employment benefits by any means other than the “pay as you go” method. Therefore, there are no plan assets and no report is issued.

**C) Annual OPEB Cost and Net OPEB Obligation:**

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

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Annual required contribution	\$12,680,695
Interest on net OPEB obligation	1,732,817
Adjustment to Annual Required Contribution	<u>(1,298,039)</u>
Annual OPEB cost (expense)	13,115,473
Contributions made	<u>(9,090,163)</u>
Increase in net OPEB obligation	4,025,310
Net OPEB obligation-beginning of year	<u>34,656,340</u>
Net OPEB obligation-end of year	<u><u>\$38,681,650</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributes to the plan and the net OPEB obligation for 2016 and the preceding two years was as follows:

Fiscal Year Ending	Annual Required Contribution	Annual OPEB Cost	OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/14	\$12,031,564	\$12,370,387	\$8,463,703	68%	\$30,914,404
6/30/15	\$12,271,110	\$12,658,944	\$8,917,008	70%	\$34,656,340
6/30/16	\$12,680,695	\$13,115,473	\$9,090,163	69%	\$38,681,650

**D) Funded Status and Funding Progress:**

As of July 1, 2014, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability for benefits was \$194,842,353 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$194,842,353. The covered payroll (annual payroll of active employees covered by the Plan) was \$71,983,681 and the ratio of the UAAL to the covered payroll was 270.7%.

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality, and the health care trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress following the notes to the financial statements provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**E) Actuarial Methods and Assumptions:**

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The July 1, 2014, actuarial valuation prepared by the Board of Cooperative Education Services Albany-Schoharie-Schenectady-Saratoga Counties, the projected unit credit actuarial cost method was used to value the actuarial accrued liability and normal cost. The actuarial assumptions included a discount rate of 5% and an annual healthcare cost trend rate of 4.7% initially reduced to an ultimate rate of 3.84% after one year. The UAAL is being amortized using the level percentage of payroll method over an open period of 30 years.

**NOTE 18 – RISK MANAGEMENT:**

**A) General:**

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

**B) Risk Retention:**

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

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unpaid claims which were incurred on or before year-end. Liabilities do not include an amount for reported claims which were incurred on or before year-end but not reported (IBNR). Had an actuary valuation been performed, the liability amount may significantly change. As of June 30, 2016, the District has recorded a workers' compensation claims liability of \$1,075,603 and has a workers' compensation reserve balance of \$873,448.

Claims activity is as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Unpaid Claims at</u> <u>the Beginning of the</u> <u>Year</u>	<u>Incurred Claims</u>	<u>Paid Claims and</u> <u>Adjustments</u>	<u>Unpaid Claims at</u> <u>the End of the Year</u>
6/30/15	\$1,140,750	\$783,390	(\$1,173,126)	\$751,014
6/30/16	\$751,014	\$1,047,947	(\$723,358)	\$1,075,603

The program is accounted for in the general fund of the District.



**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 19 – PRIOR PERIOD ADJUSTMENT:**

Fund Balance and net position have been restated as of July 1, 2015, to give effect as follows:

	General Fund Fund Balance	School Lunch Fund Fund Balance	Net Position
Balance as of July 1, 2015, as reported	\$ 21,083,709	\$ 277,855	\$ 13,727,836
Prior Years State Aid Revenue	2,566,403		2,566,403
Correction of Estimate Used to Calculate Meals Provided	<u>                    </u>	<u>(47,075)</u>	<u>(47,075)</u>
Balance as of July 1, 2015, as restated	<u>\$ 23,650,112</u>	<u>\$ 230,780</u>	<u>\$ 16,247,164</u>

Due to a change in the formula for calculating final cost reports for building aid in prior years, the District received additional state aid revenue in the amount of \$2,566,403 for the fiscal years 2002-2003 through 2011-2012.

Due to the settlement of litigation between the Bayport-Blue Point School District for meals provided during the 2010-2011 school year, an adjustment in the amount of \$47,075 has been made to fund balance in the school lunch fund.

**NOTE 20 – COMMITMENTS AND CONTINGENCIES:**

**A) Encumbrances:**

Significant encumbrances included in governmental fund balances have been classified as restricted or assigned fund balance and are as follows:

- i) **General Fund** - Total encumbrances of the general fund as of June 30, 2016 were \$1,278,343. Significant encumbrances were assigned as follows; \$550,167 for professional services, \$37,000 for BOCES asbestos monitoring fees, \$277,953 for textbooks, and \$393,965 for supplies and materials.
- ii) **Capital Projects Fund** - Total encumbrances of the capital projects fund as of June 30, 2016 were \$625,485. Encumbrances totaling \$616,400 were for the Districts' Smart Schools Bond Act project and 2015-2016 interfund transfers.
- iii) **Special Aid Fund** - Total encumbrances of the special aid fund as of June 30, 2016 were \$759,096. Encumbrances totaling \$720,000 were for the Districts' Smart Schools Bond Act projects.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**B) Grants:**

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

**C) Leases:**

The District leases copy equipment under the terms of various non-cancelable leases. Rental expense for the year was \$406,885. Minimum annual rentals for each of the remaining years of the lease are:

<u>Fiscal Year Ending June 30,</u>	<u>Annual Lease Cost</u>
2017	\$189,437
2018	182,705
2019	172,576
2020	91,453
2021	6,304
Total	<u>\$642,475</u>

**D) Litigation:**

As of June 30, 2016, the District was involved in a lawsuit arising from the normal conduct of its affairs, the outcome of which cannot be determined as of the date of this report.

**NOTE 21 – SUBSEQUENT EVENTS:**

- A) The District issued \$30,000,000 in tax anticipation notes on September 22, 2016, with a stated interest rate of 1.50% maturing on June 23, 2017. In addition, the District received a premium of \$132,000 on the note, which resulted in a net interest rate of 0.9155%.

## SUPPLEMENTARY INFORMATION

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**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL- GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Final Budget Variance with Budgetary Actual</u>
<b>REVENUES</b>				
<b>Local Sources</b>				
Real property taxes	\$103,563,276	\$103,563,276	\$88,706,729	(\$14,856,547)
Other real property tax items	5,000	5,000	14,304,012	14,299,012
Charges for services	1,866,332	1,866,332	1,742,829	(123,503)
Use of money & property	410,583	410,583	390,775	(19,808)
Sale of property				
& compensation for loss	60,000	60,000	61,420	1,420
Miscellaneous	1,479,310	1,479,310	1,461,786	(17,524)
Interfund revenues	75,000	75,000	43,668	(31,332)
<b>State Sources</b>				
Basic formula	53,752,671	53,752,671	39,553,556	(14,199,115)
Excess cost aid	4,480,406	4,480,406	12,000,934	7,520,528
Lottery Aid			9,393,073	9,393,073
BOCES aid	2,004,180	2,004,180	1,898,790	(105,390)
Tuition for students with disabilities aid	175,000	175,000	108,073	(66,927)
Textbook aid	487,320	487,320	474,214	(13,106)
Computer software and hardware aid	243,617	243,617	236,492	(7,125)
Library A/V loan program aid	52,562	52,562	51,025	(1,537)
Other state aid	525,000	525,000	189,580	(335,420)
Medicaid reimbursement	225,000	225,000	308,594	83,594
<b>TOTAL REVENUES AND OTHER SOURCES</b>	<u>169,405,257</u>	<u>169,405,257</u>	<u>\$170,925,550</u>	<u>\$1,520,293</u>
Appropriated fund balance	3,323,794	3,323,794		
Appropriated reserves	608,463	608,463		
<b>TOTAL REVENUES &amp; APPROPRIATED FUND BALANCE</b>	<u>\$173,337,514</u>	<u>\$173,337,514</u>		

**Note to Required Supplementary Information**

**Budget Basis of Accounting**

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

PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL-GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance with Budgetary Actual and Encumbrances
<b>EXPENDITURES</b>					
General Support					
Board of education	\$157,007	\$161,545	\$131,457	\$170	\$29,918
Central administration	371,088	383,618	382,926		692
Finance	1,268,415	1,264,298	1,215,303	4,323	44,672
Staff	777,450	809,550	718,023		91,527
Central services	12,949,847	14,694,749	12,705,308	969,198	1,020,243
Special items	2,183,495	2,077,459	2,071,144		6,315
Instructional					
Instruction, adm. & imp	5,748,388	5,756,507	5,581,206		175,301
Teaching - regular school	49,247,691	49,322,530	48,564,804	284,418	473,308
Programs for children with handicapping conditions	26,274,279	25,217,332	24,706,958		510,374
Occupational education	1,283,900	1,250,000	1,249,952		48
Teaching special schools	863,679	884,554	774,650		109,904
Instructional media	2,585,711	2,715,231	2,592,071	1,024	122,136
Pupil services	7,148,676	7,279,476	7,073,237	17,710	188,529
Pupil transportation	8,055,954	8,298,516	8,152,286	1,325	144,905
Community services	967,543	972,148	879,500	175	92,473
Employee benefits	40,636,816	39,636,464	39,253,982		382,482
Debt service					
Debt service interest	108,278	71,578	71,562		16
	160,628,217	160,795,555	156,124,369	1,278,343	3,392,843
Other Financing Uses					
Interfund transfers	12,709,297	12,541,959	12,382,016		159,943
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<b>\$173,337,514</b>	<b>\$173,337,514</b>	<b>168,506,385</b>	<b>\$1,278,343</b>	<b>\$3,552,786</b>
<b>NET CHANGE IN FUND BALANCE</b>			2,419,165		
<b>FUND BALANCE - BEGINNING OF YEAR, AS RESTATED (SEE NOTE 19)</b>			23,650,112		
<b>FUND BALANCE - END OF YEAR</b>			<b>\$26,069,277</b>		

Note to Required Supplementary Information

Budget Basis of Accounting

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

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
JUNE 30, 2016**

Valuation Date	Actuarial		Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
	Value of Assets	Accrued Liability				
July 1, 2010	\$0	\$178,323,509	\$178,323,509	0%	\$73,534,877	243%
July 1, 2012	\$0	\$174,441,979	\$174,441,979	0%	\$72,076,073	242%
July 1, 2014	\$0	\$194,842,353	\$194,842,353	0%	\$71,983,681	271%



**Supplemental Schedule #3**  
**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION (LIABILITY) ASSET**  
**FOR THE FISCAL YEARS ENDED JUNE 30, \***

<b>NYSERS Pension Plan</b>			
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
District's proportion of the net pension (liability) asset	0.0428285%	0.0428188%	0.0428188%
District's proportionate share of the net pension (liability) asset	\$ (6,874,102)	\$ (1,446,523)	\$ (1,934,921)
District's covered payroll	\$ 13,995,350	\$ 13,032,483	\$ 12,836,071
District's proportionate share of the net pension (liability) asset as a percentage of its covered -employee payroll	49.12%	11.10%	15.07%
Plan fiduciary net position as a percentage of the total pension (liability) asset	90.68%	97.95%	97.20%
<b>NYSTRS Pension Plan</b>			
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
District's proportion of the net pension (liability) asset	0.429273%	0.430833%	0.441540%
District's proportionate share of the net pension (liability) asset	\$ 44,587,735	\$ 47,992,057	\$ 2,906,453
District's covered payroll	\$ 65,447,539	\$ 64,783,002	\$ 65,811,589
District's proportionate share of the net pension (liability) asset as a percentage of its covered -employee payroll	68.13%	74.08%	4.42%
Plan fiduciary net position as a percentage of the total pension (liability) asset	110.46%	111.48%	100.70%

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

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
FOR THE FISCAL YEARS ENDED JUNE 30,**

<b>NYSERS Pension Plan</b>										
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 2,071,934	\$ 3,308,634	\$ 2,813,250	\$ 1,605,109	\$ 1,934,788	\$ 1,228,923	\$ 893,292	\$ 859,359	\$ 942,282	\$ 1,096,891
Contributions in relation to the contractually required contribution	<u>2,071,934</u>	<u>3,308,634</u>	<u>2,813,250</u>	<u>1,605,109</u>	<u>1,934,788</u>	<u>1,228,923</u>	<u>893,292</u>	<u>859,359</u>	<u>942,282</u>	<u>1,096,891</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 14,127,816	\$ 13,378,662	\$ 12,779,733	\$ 12,817,802	\$ 12,417,842	\$ 12,308,884	\$ 12,177,950	\$ 11,465,431	\$ 11,042,071	\$ 10,871,413
Contributions as a percentage of covered employee payroll	14.67%	24.73%	22.01%	12.52%	15.58%	9.98%	7.34%	7.50%	8.53%	10.09%

<b>NYSTRS Pension Plan</b>										
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 8,666,777	\$ 11,303,793	\$ 10,341,609	\$ 7,657,645	\$ 6,970,100	\$ 5,716,906	\$ 3,910,355	\$ 4,763,487	\$ 5,159,483	\$ 4,962,733
Contributions in relation to the contractually required contribution	<u>8,666,777</u>	<u>11,303,793</u>	<u>10,341,609</u>	<u>7,657,645</u>	<u>6,970,100</u>	<u>5,716,906</u>	<u>3,910,355</u>	<u>4,763,487</u>	<u>5,159,483</u>	<u>4,962,733</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 66,282,405	\$ 65,447,539	\$ 64,783,002	\$ 65,811,589	\$ 63,777,204	\$ 67,506,782	\$ 64,602,057	\$ 64,026,389	\$ 60,435,645	\$ 59,016,962
Contributions as a percentage of covered employee payroll	13.08%	17.27%	15.96%	11.64%	10.93%	8.47%	6.05%	7.44%	8.54%	8.41%

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET  
AND SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

Adopted Budget	\$173,068,899
Add: Prior year's encumbrances	<u>268,615</u>
Final Budget	<u><u>\$173,337,514</u></u>

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

2016-2017 voter approved expenditure budget	<u><u>\$177,333,831</u></u>
Maximum allowed (4% of 2016-2017 budget)	<u><u>\$7,093,353</u></u>
General fund fund balance subject to Section 1318 of Real Property Tax Law	
Assigned fund balance	\$3,333,522
Unassigned fund balance	<u>7,076,406</u>
Total unrestricted fund balance	10,409,928
Less:	
Appropriated fund balance	2,055,179
Encumbrances	<u>1,278,343</u>
Total adjustments	<u><u>3,333,522</u></u>
General fund fund balance subject to Section 1318 of Real Property Tax Law	<u><u>\$7,076,406</u></u>
Actual percentage	3.99%



PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND  
 JUNE 30, 2016

Project Title	Original Appropriation	Revised Appropriation	Expenditures to Date			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2016
			Prior Year's	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total	
2007 EXCEL Bond Referendum	\$10,334,240	\$10,334,240	\$8,857,247	\$1,136,882	\$9,994,129	\$340,111	\$7,460,000	\$2,310,904		\$9,770,904	(\$223,225) *
2013-14 High School Track and Field	1,600,000	1,335,989	1,335,989		1,335,989	-			\$1,335,989	1,335,989	-
Energy Performance Contract	10,602,531	10,602,531	10,511,514		10,511,514	91,017	10,602,531			10,602,531	91,017
Smart Schools Bond Act	373,942	373,942		8,750	8,750	365,192				-	(8,750) *
2015-16 Interfund Transfer	550,000	549,951		225,392	225,392	324,559			\$499,849	499,849	274,457
<b>TOTAL</b>	<b>\$23,460,713</b>	<b>\$23,196,653</b>	<b>\$20,704,750</b>	<b>\$1,371,024</b>	<b>\$22,075,774</b>	<b>\$1,120,879</b>	<b>\$18,062,531</b>	<b>\$2,310,904</b>	<b>\$1,335,989</b>	<b>\$21,709,424</b>	<b>\$ 133,499</b>

\* The current deficit fund balance will be eliminated once permanent funding is obtained.

**PATCHOGUE-MEDFORD UNION FREE SCHOOL DISTRICT  
SUPPLEMENTARY INFORMATION  
NET INVESTMENT IN CAPITAL ASSETS  
JUNE 30, 2016**

<b>Capital assets, net</b>		<b>\$126,952,538</b>
<b>Add:</b>		
Loss on defeasance	<u>\$445,456</u>	445,456
<b>Deduct:</b>		
Gain on defeasance	<u>3,320,375</u>	3,320,375
Short-term portion of bonds payable	6,925,000	
Long-term portion of bonds payable	<u>90,405,000</u>	97,330,000
Short-term portion of energy performance debt	613,170	
Long-term portion of energy performance debt	9,523,523	
Less: Unspent energy performance contract proceeds	<u>(91,017)</u>	<u>10,045,676</u>
<b>Net investment in capital assets</b>		<b><u><u>\$16,701,943</u></u></b>



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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  
Patchogue-Medford Union Free School District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the fiduciary funds of the Patchogue-Medford Union Free School District, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Patchogue-Medford Union Free School District's basic financial statements, and have issued our report thereon dated October 7, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Patchogue-Medford 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 Patchogue-Medford Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Patchogue-Medford Union Free School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. According, this communication is not suitable for any other purpose.

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

R.S. Abrams & Co., LLP  
Islandia, NY  
October 7, 2016