

SACHEM CENTRAL SCHOOL DISTRICT

Basic Financial Statements,  
Supplementary Information and  
Independent Auditors' Report

June 30, 2017

# SACHEM CENTRAL SCHOOL DISTRICT

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## INDEPENDENT AUDITORS' REPORT

The Board of Education  
Sachem Central School District  
Lake Ronkonkoma, New York:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the Sachem Central School District (the District), as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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 funds of the Sachem Central School District, as of June 30, 2017, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16, and the additional information on pages 57 through 61 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 District's basic financial statements. The other supplementary information as listed in the table of contents is presented for additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2017, on our consideration of the 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 District's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York  
October 6, 2017

## SACHEM CENTRAL SCHOOL DISTRICT

### Management's Discussion and Analysis

June 30, 2017

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

### **FINANCIAL HIGHLIGHTS**

The Sachem community has approved the 2017-2018 budget at the tax cap, and we are committed to maintaining that level.

The General Fund was able to increase fund balance approximately \$12.4 million due primarily to under spending in salaries and benefits, as well as unanticipated increases in revenue from State Aid and insurance recoveries, and the sale of the Grundy property.

The District closed three schools June 30, 2016; Gatelot, Tecumseh, and Sequoya. In February 2017 the Board of Education signed a ten year lease commencing September 1, 2017 with ES BOCES to lease Sequoya MS. Additionally, the District engaged a Commercial Real Estate Agent to market the two elementary buildings to potential lessees, as well as the former administration building on Union Avenue to prospective buyers.

Beginning with the 2017-2018 budget the District has begun a multi-year commitment to investments in capital improvements to address ADA compliance, as well as health and safety issues. Additionally, monies have been allocated for a planned replacement of the school bus fleet, other District vehicles, as well as instructional equipment. Furthermore, in April 2017 the Board of Education adopted the Smart Schools Investment Plan, which when approved by NYSED will allow the District to invest up to \$11M in district-wide security and wireless infrastructure upgrades, in addition to classroom technology equipment, all of which will be paid for by NYS.

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

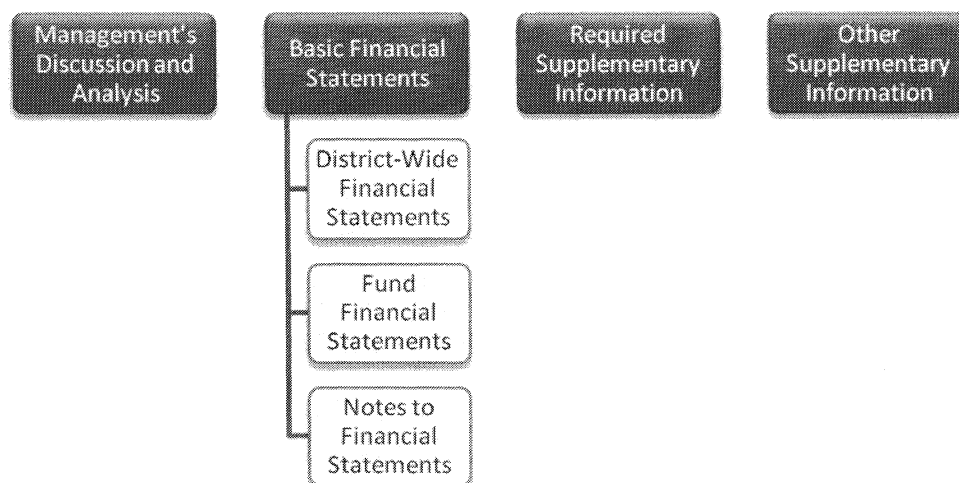
**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements with notes to the 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 funds of the District, reporting the operations in more detail than the District-wide statements.
- 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 relate to one another.

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





SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

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 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 Revenue, Expenditures and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All financial assets and liabilities, short-term and long-term
Type of inflow and outflow information	All revenue and expenses during the year; regardless of when cash is received or paid	Revenue 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

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

(a) District-wide Statements

The District-wide 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 reports the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net position and how it has changed. Net position, which is the residual of the first four items above, is one way to measure the financial health of the District.

- Over time, increases and decreases in net position are an indicator of whether the financial health 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 differs 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 as 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 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

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

(a) District-wide Statements, Continued

- Allocate net position balances as follows:
  - Net investment in capital assets;
  - Restricted net position has 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 such as debt service;
  - Unrestricted net position does not meet any of the above restrictions.

(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 statements, reconciliations are provided that 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 revenue funds, debt service fund and capital projects fund. Required statements are the balance sheet and the statement of revenue, 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 fiduciary net position and changes in fiduciary net position. This report should be used to support the District's own programs and is developed using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans.

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

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

**(a) Net Position**

The District's net position decreased \$5,996,783 in the fiscal year ended June 30, 2017 from \$(84,746,936) to \$(90,743,719) primarily due to GASB 68, as described in note 1(t).

Table A-3 - Condensed Statement of Net Position - Governmental Activities

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Percentage Change
Current assets and other assets	\$ 66,853,147	132,836,226	(65,983,079)	(49.67%)
Capital assets, net	<u>211,077,898</u>	<u>203,139,838</u>	<u>7,938,060</u>	3.91%
Total assets	<u>277,931,045</u>	<u>335,976,064</u>	<u>(58,045,019)</u>	(17.28%)
Deferred outflows of resources	<u>91,424,968</u>	<u>34,580,925</u>	<u>56,844,043</u>	164.38%
Current liabilities	64,600,962	61,930,557	2,670,405	4.31%
Long-term liabilities	<u>386,566,565</u>	<u>357,342,278</u>	<u>29,224,287</u>	8.18%
Total liabilities	<u>451,167,527</u>	<u>419,272,835</u>	<u>31,894,692</u>	7.61%
Deferred inflows of resources	<u>8,932,205</u>	<u>36,031,090</u>	<u>(27,098,885)</u>	(75.21%)
Net investment in capital assets	43,367,965	37,740,124	5,627,841	14.91%
Restricted	12,689,186	3,344,461	9,344,725	279.41%
Unrestricted	<u>(146,800,870)</u>	<u>(125,831,521)</u>	<u>(20,969,349)</u>	(16.66%)
Total net position	\$ <u>(90,743,719)</u>	<u>(84,746,936)</u>	<u>(5,996,783)</u>	(7.08%)

Net investment in capital assets relates to the investment in capital assets at cost such as land, construction in progress, buildings and improvements, and furniture and equipment, net of depreciation and related debt. This amount decreased from the prior year by \$5,627,841 primarily due to principal payments offset by depreciation.

Current assets and other assets decreased \$65,983,079 from 2016 to 2017 primarily due to a change in estimates for the TRS net pension asset, resulting in a net pension liability as of the June 30, 2016 measurement date. Capital assets (net of depreciation) increased by \$7,938,060. This was attributable to additions to construction in progress. Current liabilities increased by \$2,670,405, primarily due to the District paying off the entire due to TRS Accrual smoothing in July 2017. Long-term liabilities increased by \$29,224,287 primarily due to the increase in other postemployment benefits. Net position overall decreased by \$5,996,783.

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

(b) Changes in Net Position

The results of operations as a whole are reported in the statement of activities. A summary of this statement for the years ended June 30, 2017 and 2016 is as follows:

Table A-4: Change in Net Position from Operating Results  
Condensed Statement of Activities - Governmental Activities

	Fiscal Year <u>2017</u>	Fiscal Year <u>2016</u>	Increase (Decrease)	Percentage Change
Revenue:				
Program revenue:				
Charges for services	\$ 5,765,528	5,421,247	344,281	6.35%
Operating grants	6,507,710	9,983,683	(3,475,973)	(34.82%)
General revenue:				
Property taxes and other tax items	172,177,603	171,137,488	1,040,115	0.61%
State sources	131,748,930	119,585,420	12,163,510	10.71%
Other	<u>4,968,724</u>	<u>4,797,639</u>	<u>171,085</u>	3.57%
Total revenue	<u>321,168,495</u>	<u>310,925,477</u>	<u>10,243,018</u>	3.29%
Expenses:				
General support	33,489,335	30,571,109	2,918,226	9.55%
Instruction	252,558,617	228,034,677	24,523,940	10.75%
Pupil transportation	20,711,427	19,629,901	1,081,526	5.51%
Community service	1,446,002	1,529,436	(83,434)	(5.46%)
Debt service - interest	5,637,792	8,392,805	(2,755,013)	(32.83%)
Food service program	5,107,854	5,204,381	(96,527)	(1.85%)
Depreciation (unallocated)	<u>8,214,251</u>	<u>8,560,515</u>	<u>(346,264)</u>	(4.04%)
Total expenses	<u>327,165,278</u>	<u>301,922,824</u>	<u>25,242,454</u>	8.36%
Change in net position	\$ <u>(5,996,783)</u>	<u>9,002,653</u>	<u>(14,999,436)</u>	(166.61%)

The District's fiscal year 2017 revenue totaled \$321,168,495 (See Table A-4). Property taxes and state aid accounted for most of the District's revenue by contributing 54 cents of every dollar raised (See table A-5). The remainder came from fees charged for services, operating grants, investment earnings, and other miscellaneous sources.

The total cost of all programs and services totaled \$327,165,277 for fiscal year 2017. These expenses are predominantly related to general instruction and transporting students, which account for 82% of District expenses (See table A-6). The District's general support activities accounted for 10% of total costs.

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

Table A-5: Revenue for the year ended June 30, 2017. (See Table 4)

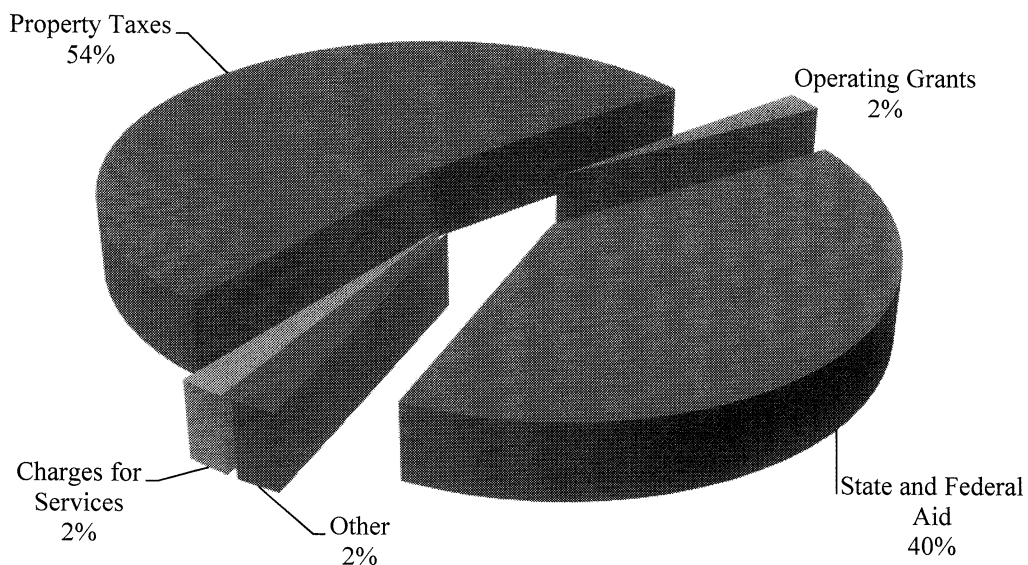
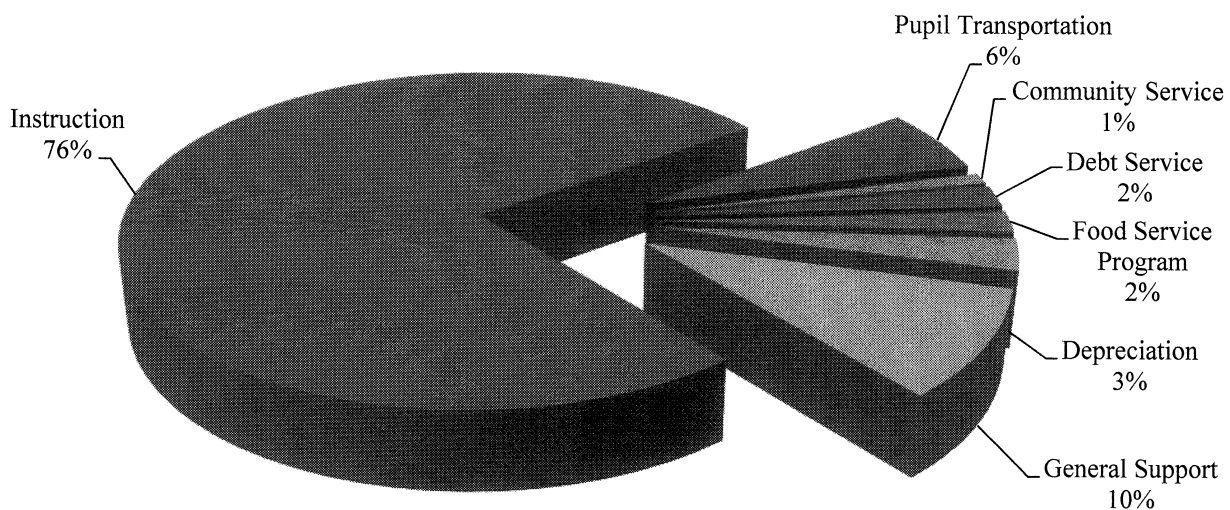


Table A-6: expenditures for the year ended June 30, 2017. (See Tables A-4 and A-7)



SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

(c) Governmental Activities

Revenue for the District's governmental activities totaled \$321,168,495 while total expenses equaled \$327,165,278 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 District Activities

<u>Category</u>	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
General support	\$ 33,489,335	30,571,109	33,245,319	30,372,301
Instruction	252,558,617	228,034,677	245,456,147	218,088,505
Pupil transportation	20,711,427	19,629,901	20,711,427	19,629,901
Community service	1,446,002	1,529,436	1,446,002	1,529,436
Debt service - interest	5,637,792	8,392,805	5,637,792	8,392,805
School food service program	5,107,854	5,204,381	181,102	(55,569)
Depreciation (unallocated)	<u>8,214,251</u>	<u>8,560,515</u>	<u>8,214,251</u>	<u>8,560,515</u>
Total	\$ <u>327,165,278</u>	<u>301,922,824</u>	<u>314,892,040</u>	<u>286,517,894</u>

- The cost of all governmental activities this year was \$327,165,278 (statement of activities and changes in net position, expenses column).
- The users of the District's programs financed \$5,765,528 of the cost (statement of activities and changes in net position, charges for services column).
- The federal and state governments subsidized certain programs with grants of \$6,507,710 (Statement of activities and changes in net position, operating grants column).
- Most of the District's net costs of \$314,892,040 were financed by District taxpayers and state aid (statement of activities and changes in net position, net (expense) revenue and changes in net position column).

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

**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 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, 2017, the District's combined governmental funds reported a total fund balance of \$32,652,930 which is an increase of \$17,997,005 over the prior year.

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

	Fiscal Year <u>2017</u>	Fiscal Year <u>2016</u>	Increase (Decrease)	Total Percentage Change
General Fund:				
Restricted for employee benefit accrued liability	\$ 5,000,000	3,213,019	1,786,981	56%
Restricted for employee's retirement system liability	5,689,186	-	5,689,186	100%
Restricted for workers' compensation liability	2,000,000	-	2,000,000	100%
Assigned-designated for subsequent year's expenditures	304,971	-	304,971	100%
Unassigned	<u>12,567,661</u>	<u>9,887,651</u>	<u>2,680,010</u>	27%
Total fund balance - general fund	\$ <u>25,561,818</u>	<u>13,100,670</u>	<u>12,461,148</u>	95%
School Food Service:				
Nonspendable for inventory	156,459	131,442	25,017	19%
Assigned for school food service fund	<u>1,346,527</u>	<u>1,423,813</u>	<u>(77,286)</u>	(5%)
Total fund balance - school food service fund	\$ <u>1,502,986</u>	<u>1,555,255</u>	<u>(52,269)</u>	(3%)
Capital Projects Fund - assigned for capital projects	\$ <u>5,588,126</u>	<u>-</u>	<u>5,588,126</u>	100%
Total fund balance - all funds	\$ <u>32,652,930</u>	<u>14,655,925</u>	<u>17,997,005</u>	123%



SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

**GENERAL FUND BUDGETARY HIGHLIGHTS**

(a) 2016 - 2017 Budget

The District's original general fund budget for the year ended June 30, 2017 was \$306,407,294. The Board of Education approved a resolution to increase the budget by \$155,000 resulting in a final budget of \$306,562,294. The majority of the funding was property taxes and STAR revenue of \$172,070,969.

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

The general fund's unassigned fund balance is a component of total fund balance that is the residual of prior years' excess revenue over expenditures, net of transfers to reserves and designations to fund subsequent 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	\$ 9,887,651
Revenue over original budget	2,051,409
Expenditures and encumbrances under budget	10,104,768
Increase in reserve for employee benefit accrued liability	(1,770,916)
Increase in reserve for employee's retirement system liability	(5,689,186)
Increase in workers' compensation liability	(2,000,000)
Increase in reserves for employee benefit accrued liability for interest allocation	<u>(16,065)</u>
Closing, Unassigned Fund Balance	\$ <u>12,567,661</u>

The unassigned fund balance represents the fund balance retained by the District that is not reserved or designated for subsequent year's taxes. This amount should not exceed 4% of the 2017 - 2018 budget.

The expenditures and encumbrances under budget in the amount of \$10,104,768 was primarily attributable to instruction, transportation and employee benefits (see supplemental schedule 1 for detail).

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

(a) Capital Assets

During fiscal year 2017, the District paid for equipment and various building additions and renovations. A summary of the District's capital assets net of depreciation is as follows:

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

<u>Category</u>	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Land	\$ 1,210,049	1,210,049	-	0.0%
Construction in progress	16,083,716	-	16,083,716	100.0%
Buildings and improvements	322,656,076	322,656,076	-	0.0%
Furniture and equipment	<u>11,729,102</u>	<u>11,660,507</u>	<u>68,595</u>	0.6%
	351,678,943	335,526,632	16,152,311	5.0%
Less accumulated depreciation	<u>140,601,045</u>	<u>132,386,794</u>	<u>8,214,251</u>	6.0%
Total net capital assets	\$ <u>211,077,898</u>	<u>203,139,838</u>	<u>7,938,060</u>	4.0%

(b) Long-Term Debt

At June 30, 2017, the District had total bonds payable of \$132,310,000. The bonds were issued for District-wide projects. The decrease in outstanding debt is due to principal payments and additional refunding. A summary of outstanding debt at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Advance refunding bonds	\$ 113,685,000	132,595,000	(18,910,000)
Serial bonds	18,625,000	19,750,000	(1,125,000)
Energy performance debt	<u>32,037,933</u>	<u>11,454,714</u>	<u>20,583,219</u>
Total	\$ <u>164,347,933</u>	<u>163,799,714</u>	<u>548,219</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Management's Discussion and Analysis, Continued

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

The District issued \$65,000,000 in tax anticipation notes with an interest rate net of premium of 1.0173% on September 28, 2017 and maturing June 28, 2018.

The general fund budget for the 2017-2018 school year was approved by the voters in the amount of \$314,191,536 on May 16, 2017. This is an increase of \$7,784,242 or 2.5% from the previous year's approved budget. The increase was primarily due to contractual obligations.

**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:

Sachem Central School District  
Mr. John O'Keefe  
Assistant Superintendent for Business and Operations  
51 School Street  
Lake Ronkonkoma, New York 11779  
(631) 471-1321

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Net Position - Governmental Activities  
June 30, 2017

Assets:	
Cash and equivalents:	
Unrestricted	\$ 39,982,296
Restricted	12,689,186
Receivables:	
State and federal aid	12,859,869
Due from other governments	1,065,666
Due from fiduciary funds	7,684
Other	91,987
Inventories	156,459
Capital assets, net	<u>211,077,898</u>
Total assets	<u>277,931,045</u>
Deferred outflows of resources:	
Pensions	74,477,204
Accrued contractual payments - pensions	15,422,552
Deferred loss on refunding	<u>1,525,212</u>
Total deferred outflows of resources	<u>91,424,968</u>
Liabilities:	
Payables:	
Accounts payable	3,207,542
Accrued liabilities	1,631,797
Bond interest payable	1,855,496
Due to other governments	4,513,846
Due to teachers' retirement system	20,601,673
Due to employees' retirement system	1,230,314
Long-term liabilities:	
Due and payable within one year:	
Bonds payable	12,737,544
Energy performance contracts	2,112,521
Due to employee's retirement system	713,197
Compensated absences payable	33,267
Other postemployment benefit obligations	14,797,818
Claims payable	1,165,947
Due and payable after one year:	
Due to employees' retirement system	4,645,523
Bonds payable	129,688,070
Energy performance contracts	29,925,412
Claims payable	6,932,666
Compensated absences payable	8,851,437
Other postemployment benefits obligation	189,409,216
Net pension liability - proportionate share	<u>17,114,241</u>
Total liabilities	<u>451,167,527</u>
Deferred inflows of resources:	
Deferred revenue - grant advances	2,191,778
Deferred amounts on refunding	1,400,000
Pensions	<u>5,340,427</u>
Total deferred inflows of resources	<u>8,932,205</u>
Net position:	
Net investment in capital assets	43,367,965
Restricted	12,689,186
Unrestricted	<u>(146,800,870)</u>
Total net position	<u>\$ (90,743,719)</u>

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Activities - Governmental Activities  
Year ended June 30, 2017

		<u>Program Revenue</u>		<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants</u>	<u>Changes in</u>
				<u>Net Position</u>
Functions and programs:				
General support	\$ 33,489,335	-	244,016	(33,245,319)
Instruction	252,558,617	2,695,799	4,406,671	(245,456,147)
Pupil transportation	20,711,427	-	-	(20,711,427)
Community services	1,446,002	-	-	(1,446,002)
Debt service - interest	5,637,792	-	-	(5,637,792)
Food service program	5,107,854	3,069,729	1,857,023	(181,102)
Depreciation (unallocated)	8,214,251	-	-	(8,214,251)
Total functions and programs	<u>\$ 327,165,278</u>	<u>5,765,528</u>	<u>6,507,710</u>	<u>(314,892,040)</u>
General revenue:				
Real property taxes				150,673,917
Other tax items - including STAR reimbursement				21,503,686
Use of money and property				1,067,074
Sale of property and compensation for loss				1,617,697
State sources				131,748,930
Miscellaneous				2,283,953
Total general revenue				<u>308,895,257</u>
Change in net position				(5,996,783)
Net position at beginning of year				<u>(84,746,936)</u>
Net position at end of year				<u>\$ (90,743,719)</u>

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2017

<u>Assets</u>	<u>General</u>	<u>Special Aid</u>	<u>School Food Service</u>	<u>Debt Service Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Cash and equivalents:						
Unrestricted	\$ 31,403,308	518,683	1,431,904	-	6,628,401	39,982,296
Restricted	12,689,186	-	-	-	-	12,689,186
Receivables:						
State and federal aid	10,096,773	2,763,096	-	-	-	12,859,869
Due from other governments	275,666	-	-	-	-	275,666
Due from other funds	3,221,623	-	93,509	-	-	3,315,132
Accounts receivable	71,630	-	20,357	-	-	91,987
Inventories	-	-	156,459	-	-	156,459
Total assets	<u>\$ 57,758,186</u>	<u>3,281,779</u>	<u>1,702,229</u>	<u>-</u>	<u>6,628,401</u>	<u>69,370,595</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balance</u>						
Liabilities:						
Accounts payable	2,088,482	79,477	13,347	-	1,026,236	3,207,542
Accrued liabilities	1,578,554	21,403	31,840	-	-	1,631,797
Due to other governments	4,510,828	-	3,018	-	-	4,513,846
Due to other funds	93,509	3,180,379	19,521	-	14,039	3,307,448
Due to teachers' retirement system	20,601,673	-	-	-	-	20,601,673
Due to employees' retirement system	1,230,314	-	-	-	-	1,230,314
Compensated absences	33,267	-	-	-	-	33,267
Total liabilities	<u>30,136,627</u>	<u>3,281,259</u>	<u>67,726</u>	<u>-</u>	<u>1,040,275</u>	<u>34,525,887</u>
Deferred inflows of resources	<u>2,059,741</u>	<u>520</u>	<u>131,517</u>	<u>-</u>	<u>-</u>	<u>2,191,778</u>
Fund balance:						
Nonspendable	-	-	156,459	-	-	156,459
Restricted	12,689,186	-	-	-	-	12,689,186
Assigned	304,971	-	1,346,527	-	5,588,126	7,239,624
Unassigned	12,567,661	-	-	-	-	12,567,661
Total fund balance	<u>25,561,818</u>	<u>-</u>	<u>1,502,986</u>	<u>-</u>	<u>5,588,126</u>	<u>32,652,930</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 57,758,186</u>	<u>3,281,779</u>	<u>1,702,229</u>	<u>-</u>	<u>6,628,401</u>	<u>69,370,595</u>

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Reconciliation of Balance Sheet - Governmental  
Funds to the Statement of Net Position  
Year ended June 30, 2017

Total governmental fund balance		\$ 32,652,930
Amounts reported for governmental activities in the statement of net position are different because:		
The costs of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.		
Original cost of capital assets	\$351,678,943	
Accumulated depreciation	<u>(140,601,045)</u>	211,077,898
Due from other governments (library bonds payable) is not included on the fund level balance sheet.		790,000
Long-term liabilities are reported in the statement of net position, but not in the governmental funds, because they are not due and payable in the current period. Balances at year-end consist of:		
Due to employees' retirement system	(5,358,720)	
Bonds payable	(132,310,000)	
Bond premium	(10,115,614)	
Accrued interest on bonds payable	(1,855,496)	
Energy performance contract	(32,037,933)	
Claims payable	(8,098,613)	
Other postemployment benefits obligation	(204,207,034)	
Compensated absences	<u>(8,851,437)</u>	(402,834,847)
Some deferred inflows and outflows are not reported in the funds. These consist of the following:		
Deferred outflows - refunding	1,525,212	
Deferred outflows - accrued contractual payments - pensions	15,422,552	
Deferred outflows - pensions	74,477,204	
Deferred inflows - pensions	(5,340,427)	
Deferred inflows - refunding	<u>(1,400,000)</u>	84,684,541
The proportionate share of net pension liability reported in the Statement of Net position does not provide for or require the use of current financial resources and therefore are not reported as liabilities in the governmental funds.		
		<u>(17,114,241)</u>
Total net position		<u>\$ (90,743,719)</u>
See accompanying notes to financial statements.		

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds  
Year ended June 30, 2017

	<u>General</u>	<u>Special Aid</u>	<u>School Food Service</u>	<u>Debt Service Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenue:						
Real property taxes	\$ 150,673,917	-	-	-	-	150,673,917
Other tax items - including STAR reimbursement	21,503,686	-	-	-	-	21,503,686
Charges for services	3,095,799	-	-	-	-	3,095,799
Use of money and property	1,066,365	-	709	-	-	1,067,074
Sale of property and compensation for loss	1,617,697	-	-	-	-	1,617,697
Interfund revenue	4,044	-	-	-	-	4,044
State sources	128,177,648	3,496,120	75,162	-	-	131,748,930
Federal sources	244,016	4,406,671	1,422,973	-	-	6,073,660
Surplus food	-	-	427,076	-	-	427,076
Sales - food services	-	-	3,069,729	-	-	3,069,729
Miscellaneous	2,230,531	460	52,962	-	-	2,283,953
Total revenue	<u>308,613,703</u>	<u>7,903,251</u>	<u>5,048,611</u>	<u>-</u>	<u>-</u>	<u>321,565,565</u>
Expenditures:						
General support	24,018,494	4,044	-	849,002	16,083,716	40,955,256
Instruction	160,271,200	7,841,810	-	-	-	168,113,010
Pupil transportation	19,081,995	557,397	-	-	-	19,639,392
Community services	914,328	-	-	-	-	914,328
Employee benefits	72,376,937	-	-	-	-	72,376,937
Cost of sales	-	-	5,100,880	-	-	5,100,880
Debt service - principal	12,768,623	-	-	-	-	12,768,623
Debt service - interest	6,220,978	-	-	-	-	6,220,978
Total expenditures	<u>295,652,555</u>	<u>8,403,251</u>	<u>5,100,880</u>	<u>849,002</u>	<u>16,083,716</u>	<u>326,089,404</u>
Excess (deficiency) of revenue over expenditures	<u>12,961,148</u>	<u>(500,000)</u>	<u>(52,269)</u>	<u>(849,002)</u>	<u>(16,083,716)</u>	<u>(4,523,839)</u>
Other financing sources and (uses):						
Proceeds of debt	-	-	-	67,900,000	21,671,842	89,571,842
Premium on obligations	-	-	-	10,838,158	-	10,838,158
Payments to Escrow Agent	-	-	-	(77,889,156)	-	(77,889,156)
Operating transfers in	-	500,000	-	-	-	500,000
Operating transfers out	(500,000)	-	-	-	-	(500,000)
Total other financing sources (uses)	<u>(500,000)</u>	<u>500,000</u>	<u>-</u>	<u>849,002</u>	<u>21,671,842</u>	<u>22,520,844</u>
Net change in fund balances	12,461,148	-	(52,269)	-	5,588,126	17,997,005
Fund balances at beginning of year	13,100,670	-	1,555,255	-	-	14,655,925
Fund balances at end of year	<u>\$ 25,561,818</u>	<u>-</u>	<u>1,502,986</u>	<u>-</u>	<u>5,588,126</u>	<u>32,652,930</u>

See accompanying notes to financial statements.



SACHEM CENTRAL SCHOOL DISTRICT  
Reconciliation of Statement of Revenue, Expenditures and Changes  
in Fund Balances - Governmental Funds to the Statement of Activities  
Year ended June 30, 2017

Net change in fund balance	\$ 17,997,005
Amounts reported for governmental activities in the statement of activities are different because:	
Long-term revenue and expense differences:	
In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	
(Increase) decrease in:	
Employee retirement system liability	689,967
Teachers' retirement system liability	5,535,584
Compensated absences liability	(60,703)
Other postemployment benefits obligation	(25,127,331)
Claims payable	108,599
Long-term debt transactions:	
Repayment of bond principal and energy performance debt principal is an expenditure in the governmental funds, less the library portion, but reduce long-term liabilities in the statement of net position and do not affect the statement of activities.	
Principal paid on bonds	87,935,000
Proceeds from issuance of debt	(67,900,000)
Amortization on bond premium	722,544
Premium on obligations	(10,838,158)
Deferred loss on refunding	1,634,156
Amortization on deferred loss on refunding	(108,944)
Amortization of deferred gain on refunding	200,000
Issuance of energy performance contract	(21,671,842)
Principal paid on energy performance contract	1,088,623
Amounts received from library to pay principal	(400,000)
	(Continued)

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Reconciliation of Statement of Revenue, Expenditures and Changes  
in Fund Balances - Governmental Funds to the Statement of Activities, Continued

Interest on long-term debt in the statement of activities differs from interest is recorded as an expenditure in the funds when it is due and requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2016 to June 30, 2017 increased by			\$ (230,414)
Capital related items:			
When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense as summarized below:			
Capital outlays	\$16,152,311		
Depreciation expense	<u>(8,214,251)</u>	7,938,060	
(Increases) decreases in proportionate share of net pension asset/liability report in the Statement of Activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.			
Employee's Retirement System	7,401,679		
Teachers' Retirement System	<u>(93,045,136)</u>	(85,643,457)	
Some items reported as expenditures in governmental funds are required to be deferred in the statement of net position. In the current period those amounts are:			
Accrued contributions to Employee's Retirement System	(50,911)		
Accrued contributions to Teachers' Retirement System	(4,440,562)		
Deferred inflows - pensions	59,810,304		
Deferred outflows - pensions	<u>26,815,697</u>	<u>82,134,528</u>	
Changes in net position of governmental activities			<u>\$ (5,996,783)</u>

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2017

	Private Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
Assets:		
Cash	\$ 176,268	1,183,640
Due from other funds		19,521
Due from other governments	<u>-</u>	<u>6,332</u>
Total assets	<u>\$ 176,268</u>	<u>1,209,493</u>
Liabilities:		
Extraclassroom activity balance	-	494,965
Due to other funds	-	27,205
Other liabilities	<u>-</u>	<u>687,324</u>
Total liabilities	<u>\$ -</u>	<u>1,209,494</u>
 Fiduciary net position - reserved for scholarships	 <u>\$ 176,268</u>	

See accompanying notes to financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year ended June 30, 2017

	Private Purpose <u>Trust Fund</u>
Additions:	
Gifts and contributions	\$ 18,311
Interest and earnings	<u>210</u>
Total additions	18,521
Deductions - scholarships and awards	<u>11,750</u>
Change in net position	6,771
Fiduciary net position at beginning of year	<u>169,497</u>
Fiduciary net position at end of year	<u><u>\$ 176,268</u></u>

See accompanying notes to financial statements.

# SACHEM CENTRAL SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2017

### (1) Summary of Certain Significant Accounting Policies

The financial statements of Sachem Central School District (the District) have been prepared in accordance 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 (the Board) consisting of 9 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," and by GASB Statement No. 39 - "Determining Whether Certain Organizations are Component Units." 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 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 certain entities included in the District's reporting entity.

#### (i) Extraclassroom Activity Funds

The extraclassroom activity funds of the District represent funds of the students of the District. The Board 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 obtained at the District's business office. The District accounts for assets held as an agent for various student organizations in an agency fund.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(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, that 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.

During the year, the District was billed \$19,788,269 for BOCES administrative and program costs.

The District's share of BOCES aid amounted to \$4,506,868.

Financial statements for the BOCES are available from the BOCES administrative office:

Eastern Suffolk Board of Cooperative Educational Service  
James Hines Administration Center  
201 Sunrise Highway  
Patchogue, New York 11772

(c) Basis of Presentation

(i) District-wide Statements

The statement of net position and the statement of activities 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 revenue, 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.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(c) Basis of Presentation, Continued

(i) District-Wide Statements, Continued

The statement of activities presents a comparison between program expenses and revenue 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 revenue includes 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. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue.

(ii) Fund Financial Statements

The fund 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 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 Food Service Fund: This fund is used to account for the activities of the District's food service operations.

Debt Service Fund: This fund is used for the advanced refunding of a portion of the District's outstanding serial bonds.

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

Fiduciary Funds: This fund is 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:

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(c) Basis of Presentation, Continued

(ii) Fund Financial Statements, Continued

Private Purpose Trust Fund: 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.

(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. Revenue is 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, revenue is recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenue is collected within one year 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) Property Taxes

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 Towns of Brookhaven, Smithtown and Islip beginning November 1. Uncollected taxes become a lien on December 1. Uncollected real property taxes are transmitted to the County of Suffolk for enforcement. Uncollected taxes are paid by the County to the District no later than the forthcoming April 1.



SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(f) Restricted Resources

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

(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. The interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenue to provide financing or other services.

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

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables 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 11 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenue activity.

(h) Estimates

The preparation of financial statements in accordance 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 revenue 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 encumbrances, compensated absences, other postemployment benefits, workers' compensation claims liability, pension systems transactions, potential contingent liabilities and useful lives of long-lived assets.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(j) Cash and Equivalents

The District's cash and cash equivalents consist of cash on hand and demand deposits. 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.

(k) Accounts Receivable

Accounts receivable are reported 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.

(l) Inventories and Prepaid Items

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

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-wide and Governmental 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.

(m) Capital Assets

An appraisal of the District's capital assets was conducted during the fiscal year ended June 30, 2011 by independent third-party professionals. The appraisal included the implementation of the \$5,000 threshold as well as utilizing revised useful life tables. The District's capital assets are reported at cost or estimated historical cost.

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 statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building and improvements	\$ 5,000	Straight-line	20-40 years
Furniture and equipment	5,000	Straight-line	2-20 years
Land improvements	5,000	Straight-line	20 years

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(n) Deferred Outflows and Inflows

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has reported deferred outflows related to GASB 68 for pension systems accounting of \$89,899,756 and a deferred loss on refunding of \$1,525,212.

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported deferred inflows of \$1,400,000 for gains on refunding of debt, \$2,191,778 for payments and grants received in advance of the period they are earned and \$5,340,427 for pension resources. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the deferred inflow of resources is removed and revenue is recorded.

The State of New York notified the District in 2014 that \$2,039,277 in unpaid retroactive Building Aid was due to the District. The District has accordingly recorded this receivable in the General Fund. However, there is no timeline that was conveyed to the District for this payment and payment of this amount is dependant upon future approval of appropriations by the New York State Legislature. As such the District has recorded this balance as a deferred inflow in both the General Fund and in the Government-wide statements.

Statute provides the authority for the District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

(o) Vested Employee Benefits

Compensated Absences

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

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.

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 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.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(o) Vested Employee Benefits, Continued

In the funds 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.

(p) Other Benefits

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

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits for retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become 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 postemployment 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 fund financial statements.

(q) Short-Term Debt

The District may issue Revenue Anticipation Notes (RAN) and Tax Anticipation Notes (TAN), in anticipation of the receipt of revenue. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RAN's and TAN's 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 provision 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 (BANs), 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 are converted to long-term financing within five years after the original issue date.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(r) Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the District-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. 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.

(s) Equity Classifications

District-wide Statements

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

Net investment in capital assets - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets.

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

Fund Statements

There are five classifications of fund balance as detailed below; however, in the Fund Financial Statements there are four classifications of fund balance presented:

- (1) Non-spendable - 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 Food Service Fund of \$156,459.
- (2) Restricted - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Currently, New York State laws still use the terminology "reserves" and Districts are only allowed to use reserves authorized by law. The District has \$12,689,186 in classified reserves as follows:

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(s) Equity Classifications, Continued  
Fund Statements, Continued

Workers' Compensation Reserve

Workers' compensation reserve (GML §6-j) is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. This reserve is accounted for in the General Fund and has a reserve balance of \$2,000,000 as of June 30, 2017.

Employee Benefit Accrued Liability Reserve

Reserve for employee benefit accrued liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefits due to 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 and has a reserve balance of \$5,000,000 as of June 30, 2017.

Employee's Retirement System Liability Reserve

Reserve for employee's retirement system liability (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. The reserve is accounted for in the General Fund, and has a reserve balance of \$5,689,186 as of June 30, 2017.

- (3) Committed - 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, 2017.
- (4) Assigned - Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances are classified as Assigned Fund Balance.

	<u>Total Assigned Fund Balance</u>
General - encumbrances	\$ 304,971
School Food Service	1,346,527
Capital Projects	<u>5,588,126</u>
Total	\$ <u>7,239,624</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(1) Summary of Certain Significant Accounting Policies, Continued

(s) Equity Classifications, Continued

Fund Statements, Continued

- (5) Unassigned - Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the District.

(2) Explanation of Certain Differences Between Fund Statements and District-wide Statements

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

(a) Total Fund Balance 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 sheet.

(b) Statement of Revenue, Expenditures and Changes in Fund Balance vs. Statement of Activities

Differences between the governmental funds' statement of revenue, expenditures and changes in fund balance and the statement of activities fall into one of three broad categories. The amounts shown below represent:

(i) Long-term revenue and expense differences

Long-term revenue differences arise because governmental funds report revenue only when they are considered available, whereas the statement of activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the statement of activities.

(b) Statement of Revenue, Expenditures and Changes in Fund Balance vs. Statement of Activities

(ii) Capital related differences

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

(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 statements, whereas interest expense is recorded in the statement of activities as incurred, and principal payments are recorded as a reduction of liabilities in the statement of net position.

## SACHEM CENTRAL SCHOOL DISTRICT

### Notes to Financial Statements, Continued

#### (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 - General Fund.

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.

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

Budgets are established and used for individual capital project fund's expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

##### (b) Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as assigned fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

#### (4) Cash and Equivalents - Custodial Credit, Concentration of Credit, Interest Rate and Foreign Currency Risks

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. While the District does not have a specific policy for custodial credit risk, New York State statutes govern the District's investment policies, as discussed previously in these notes.



SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(4) Cash and Equivalents - Custodial Credit, Concentration of Credit, Interest Rate and Foreign Currency Risks, Continued

Deposits at year-end were entirely covered by Federal depository insurance; secured by irrevocable stand-by Letters of Credit issued by the Federal Home Loan Bank of New York; or, collateralized with securities held by the pledging financial institution in the District's name.

<u>Fund Type</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Governmental activities	\$ 52,671,482	53,966,300
Fiduciary funds	<u>1,359,908</u>	<u>1,433,625</u>
	<u>\$ 54,031,390</u>	<u>55,399,925</u>

(5) State and Federal Aid Receivable

State and federal aid receivable at June 30, 2017 consists of the following:

General Fund:

Excess cost aid	\$ 3,571,707
BOCES aid	4,506,868
General aid	<u>2,018,198</u>
	<u>10,096,773</u>

Special Aid Fund:

State aid	1,525,286
Federal aid	<u>1,237,810</u>
	<u>2,763,096</u>

Total	\$ <u>12,859,869</u>
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(6) Due From Other Governments

The District provided construction financing to the Sachem Public Library (the Library) in 1998. The District has an understanding that the Library will annually budget and provide funding to the District in an amount equal to the amount required to service this debt. In 2009, the original debt was defeased with the proceeds of a refunding bond to reduce the amount of future debt service. This reduced future debt service also reduced the amount due from the Library.

The amount due from other governments consists of the following at June 30, 2017:

General Fund:

Services to other districts	\$ 275,016
BOCES levied	650
Governmental Activities - Library bond	<u>790,000</u>
Total governmental activities	\$ <u>1,065,666</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(7) Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets that are not being depreciated:				
Land	\$ 1,210,049		-	1,210,049
Construction in progress	<u>-</u>	<u>16,083,716</u>	<u>-</u>	<u>16,083,716</u>
Total capital assets that are not being depreciated	<u>1,210,049</u>	<u>16,083,716</u>	<u>-</u>	<u>17,293,765</u>
Capital assets that are being depreciated:				
Building and improvements	322,656,076	-	-	322,656,076
Furniture and equipment	<u>11,660,507</u>	<u>68,595</u>	<u>-</u>	<u>11,729,102</u>
Total capital assets that are being depreciated	<u>334,316,583</u>	<u>68,595</u>	<u>-</u>	<u>334,385,178</u>
Less accumulated depreciation:				
Building and improvements	\$ 121,582,115	7,803,710	-	129,385,825
Furniture and equipment	<u>10,804,679</u>	<u>410,541</u>	<u>-</u>	<u>11,215,220</u>
Total accumulated depreciation	<u>132,386,794</u>	<u>8,214,251</u>	<u>-</u>	<u>140,601,045</u>
Total capital assets that are being depreciated, net	<u>201,929,789</u>	<u>(8,145,656)</u>	<u>-</u>	<u>193,784,133</u>
Governmental activities - capital assets, net	\$ <u>203,139,838</u>	<u>7,938,060</u>	<u>-</u>	<u>211,077,898</u>
Depreciation expense (unallocated)				\$ <u>8,214,251</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(8) Short-Term Debt

During the year ended June 30, 2017, the District issued and redeemed \$66,000,000 in total short-term debt (TAN), which was used for interim financing of general fund operations. Transactions in short-term debt for the year are summarized below:

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
TAN	6/29/2017	2.15%	\$ <u>          -</u>	<u>66,000,000</u>	<u>66,000,000</u>	<u>          -</u>

Interest on short-term debt was \$920,444 for the year ended June 29, 2017. The District received a premium of \$438,003 upon issuance.

(9) Long-Term Debt Obligations

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government activities:					
Bonds payable:					
General obligation debt:					
Refunding Bonds	\$ 131,405,000	67,900,000	86,410,000	112,895,000	10,465,000
Construction Serial Bonds	19,750,000	-	1,125,000	18,625,000	1,155,000
Library Refunding Bonds	<u>1,190,000</u>	<u>-</u>	<u>400,000</u>	<u>790,000</u>	<u>395,000</u>
Total general obligation debt	<u>152,345,000</u>	<u>67,900,000</u>	<u>87,935,000</u>	<u>132,310,000</u>	<u>12,015,000</u>
Bond premium	<u>-</u>	<u>10,838,158</u>	<u>722,544</u>	<u>10,115,614</u>	<u>722,544</u>
Total bonds payable	<u>152,345,000</u>	<u>78,738,158</u>	<u>88,657,544</u>	<u>142,425,614</u>	<u>12,737,544</u>
Other liabilities:					
Energy Performance Contracts	11,454,714	21,671,842	1,088,623	32,037,933	2,112,521
Due to Employees Retirement System	6,048,687	-	689,967	5,358,720	713,197
Other postemployment benefits obligation	179,079,703	39,411,427	14,284,096	204,207,034	14,797,818
Claims payable	8,207,212	1,010,709	1,119,308	8,098,613	1,165,947
Compensated absences	<u>9,212,998</u>	<u>-</u>	<u>328,294</u>	<u>8,884,704</u>	<u>33,267</u>
Total other liabilities	<u>214,003,314</u>	<u>62,093,978</u>	<u>17,510,288</u>	<u>258,587,004</u>	<u>18,822,750</u>
Deferred gain due to refunding	1,600,000	-	200,000	1,400,000	200,000
Deferred loss due to refunding	<u>-</u>	<u>(1,634,156)</u>	<u>(108,944)</u>	<u>(1,525,212)</u>	<u>(108,944)</u>
Total	<u>\$ 367,948,314</u>	<u>139,197,980</u>	<u>106,258,888</u>	<u>400,887,406</u>	<u>31,651,350</u>

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences.

General obligation bonds - The District issues general obligation bonds to provide funds for construction renovation and improvement of capital facilities. The following is a summary of outstanding bonds as of June 30, 2017.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(9) Long-Term Debt Obligations, Continued

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at Year End</u>
Refunding Bond 2006*	2007	2031	4.50%	\$ 9,035,000
Construction Serial Bond	2009	2019	2.0-4.0%	10,975,000
Library Refunding Bond	2009	2019	2.0-4.0%	790,000
Refunding Bond 2011	2011	2024	2.84%	30,395,000
Construction Serial Bond	2011	2030	3.17%	7,650,000
Refunding Bond 2012	2012	2018	2.0-3.0%	5,695,000
Refunding Bond 2016	2016	2030	3.5-5.0%	<u>67,770,000</u>
				\$ <u>132,310,000</u>

\* Partially defeased with 2016, refunding bond

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

<u>Fiscal Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 12,015,000	4,548,894	16,563,894
2019	12,545,000	4,037,088	16,582,088
2020	9,715,000	3,553,306	13,268,306
2021	7,760,000	4,526,763	12,286,763
2022	8,035,000	4,224,581	12,259,581
2023-2027	45,600,000	14,397,950	59,997,950
2028-2031	<u>36,640,000</u>	<u>2,743,550</u>	<u>39,383,550</u>
	\$ <u>132,310,000</u>	<u>38,032,132</u>	<u>170,342,132</u>

During 2017 fiscal year end, net proceeds of the Refunding Bond 2016 were used to refund the Refunding Bond 2006 and Refunding Bond 2006B bonds of \$67,900,000 plus a premium of \$10,838,158, that is being amortized over the life of the debt specifically reducing the interest to be paid by approximately \$6.2M. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the Board financial statements. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$5.6M. The accounting loss on this refunding of \$1,634,156 will be recognized over the term of the new debt.

Refunding Bond 2016	\$ 67,900,000
Bond premium	<u>10,838,158</u>
Debt proceeds	78,738,158
Refunded debt	(76,255,000)
Bond issuance cost	<u>(849,002)</u>
Deferred loss	\$ <u>1,634,156</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(9) Long-Term Debt Obligations, Continued

Energy performance contracts - The District entered into performance contracts in prior years and one in the current year for energy efficiency improvements. The following is a summary of outstanding contracts as of June 30, 2017:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at Year End</u>
Energy performance contract	2/8/12	10/9/25	2.37%	\$ 10,366,091
Energy performance contract	7/12/16	7/12/31	2.51%	<u>21,671,842</u>
				\$ <u>32,037,933</u>

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

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,112,521	1,057,394	3,169,915
2019	2,444,451	725,464	3,169,915
2020	2,504,713	665,202	3,169,915
2021	2,566,462	603,453	3,169,915
2022	2,629,735	540,180	3,169,915
2023-2032	<u>19,780,051</u>	<u>2,212,017</u>	<u>21,992,068</u>
	\$ <u>32,037,933</u>	<u>5,803,710</u>	<u>37,841,643</u>

In prior years, the District defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and the liability for the defeased bonds are not included in the District's financial statements. All previously defeased bonds have been redeemed as of June 30, 2017.

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

Interest paid	\$ 6,220,978
Less interest accrued in the prior year	(1,625,082)
Plus interest accrued in the current year	1,855,496
Bond premium amortization	(722,544)
Deferred loss amortization	108,944
Deferred gain amortization	<u>(200,000)</u>
Total expense	\$ <u>5,637,792</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(10) Pension Obligations

(a) Plan Descriptions and Benefits Provided

Teachers' Retirement System (TRS)

The District participates in the New York State Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as, death and disability benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System is governed by a 10 member Board of Trustees. System benefits are established under New York State Law. Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in TRS. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the System, may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, New York 12211-2395 or by referring to the NYSSTR Comprehensive Annual Financial report which can be found on the System's website at [www.nystsr.org](http://www.nystsr.org).

Employees' Retirement System (ERS)

The District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provision of the New York State Retirement and Social Security Law (NYSRSSL). 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/inex.php](http://www.osc.state.ny.us/retire/publications/inex.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(10) Pension Obligations, Continued

(a) Plan Descriptions and Benefits Provided, Continued

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0 to 3.5 percent of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems; fiscal year ending March 31. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education law.

Contributions for the current year and two preceding years were as follows:

	<u>ERS</u>	<u>TRS</u>
2017	\$ 4,968,598	20,080,161
2016	4,950,013	21,447,996
2015	4,910,497	18,657,190

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported the following liability for its proportionate share of the net pension liability for each of the Systems. The net pension liability was measured as of March 31, 2017 for ERS and June 30, 2016 for TRS. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The District's proportion of the net pension 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.

	<u>ERS</u>	<u>TRS</u>
Actuarial valuation date	4/1/2016	6/30/2015
Net pension liability	\$ (8,670,585)	(8,443,656)
District's proportion of the Plan's net pension liability	0.092277%	0.788359%

For the year ended June 30, 2017, the District's recognized pension expense of \$5,122,222 for ERS and \$14,107,104 for TRS. At June 30, 2017 the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

# SACHEM CENTRAL SCHOOL DISTRICT

## Notes to Financial Statements, Continued

### (10) Pension Obligations, Continued

#### (b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expected and actual experience	\$ 217,277	-	1,316,677	2,742,973
Changes of assumptions	2,962,189	48,100,440	-	-
Net difference between projected and actual earnings on pension plan investments	1,731,867	18,985,778	-	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	<u>734,995</u>	<u>1,744,658</u>	<u>255,887</u>	<u>1,024,890</u>
Total	\$ <u>5,646,328</u>	<u>68,830,876</u>	<u>1,572,564</u>	<u>3,767,863</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, 2018 and amounted to \$1,230,314 for ERS and \$14,192,238 for TRS. 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>Year ended</u>	<u>ERS</u>	<u>TRS</u>
2018	\$ 1,796,680	6,013,236
2019	1,796,680	6,013,236
2020	1,621,999	20,758,116
2021	(1,141,595)	16,170,555
2022	-	7,492,341
Thereafter	-	8,615,529

#### 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:



SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(10) Pension Obligations, Continued

(d) Pension Assets, Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.0%	7.5%
Salary scale	3.8%	1.90 - 4.72%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience	July 1, 2009 - June 30, 2014 System's Experience
Inflation rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. For TRS, annuitant mortality rates are based on July 1, 2009 - June 30, 2014 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

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

The long term rate of return on ERS 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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized below.

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

# SACHEM CENTRAL SCHOOL DISTRICT

## Notes to Financial Statements, Continued

### (10) Pension Obligations, Continued

#### (d) Pension Assets, Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

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

	ERS		TRS	
	Target	Long-term Expected Rate of Return*	Target	Long-term Expected Rate of Return *
Measurement date	March 31, 2017		June 30, 2016	
Asset type:				
Domestic equity	36.00%	4.55%	37.00%	6.10%
International equity	14.00%	6.35%	18.00%	7.30%
Real estate	10.00%	5.80%	10.00%	5.40%
Domestic fixed income securities	0.00%	0.00%	17.00%	1.00%
Global fixed income securities	0.00%	0.00%	2.00%	0.80%
Bonds and mortgages	17.00%	1.31%	8.00%	3.10%
Short-term	0.00%	0.00%	1.00%	0.10%
Private equities	10.00%	7.75%	7.00%	9.20%
Cash	1.00%	(0.25%)	0.00%	0.00%
Inflation-indexed bonds	4.00%	1.50%	0.00%	0.00%
Absolute return strategies	2.00%	4.00%	0.00%	0.00%
Opportunistic portfolio	3.00%	5.89%	0.00%	0.00%
Real assets	3.00%	5.54%	0.00%	0.00%
	<u>100.00%</u>		<u>100.00%</u>	

\* Real rates of return are net of a long-term inflation assumption of 2.1% for TRS and 2.5% for ERS.

#### Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for ERS and 7.5% for TRS (the discount rate used by the TRS at the prior year's measurement date of March 31, 2016 was 8.0%). The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments for 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.

# SACHEM CENTRAL SCHOOL DISTRICT

## Notes to Financial Statements, Continued

### (10) Pension Obligations, Continued

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

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension asset (liability)	\$ <u>(27,692,131)</u>	<u>(8,670,385)</u>	<u>7,412,096</u>
TRS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension asset (liability)	\$ <u>(110,166,684)</u>	<u>(8,443,656)</u>	<u>76,876,288</u>

#### (f) Pension Plan Fiduciary Net Position

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

	(Dollars in Millions)	
	ERS	TRS
Measurement date	3/31/17	6/30/16
Employers' total pension liability	\$ (177,400)	(108,577)
Plan net position	<u>168,004</u>	<u>107,506</u>
Employers' net pension liability	\$ <u>(9,396)</u>	<u>(1,071)</u>
Ratio of plan net position to the Employers' total pension liability	94.70%	99.01%

#### (g) 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, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$1,230,314. This amount has been recorded as an expenditure in the governmental fund statements and a deferred cost in the government-wide financial statements.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(10) Pension Obligations, Continued

(g) Payables to the Pension Plan, Continued

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017 represent employee and employer contributions for the fiscal year ended June 30, 2017 based on paid TRS 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, 2017 amounted to \$20,601,673, which included the full amortization of previous deferred payments of \$5,981,714, \$14,192,238 for the contracted required payment and \$427,721 for the employee's payroll deduction.

(11) Interfund Transactions - Governmental Funds

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. Interfund receivables, payables and transfers of the District as of and for the year ended June 30, 2017 consisted of the following:

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenues</u>	<u>Expenditures</u>
General Fund	\$ 3,221,623	93,509	-	500,000
Special Aid Fund	-	3,180,379	500,000	-
School Food Service Fund	93,509	19,521	-	-
Capital Projects Fund	<u>-</u>	<u>14,039</u>	<u>-</u>	<u>-</u>
Total Governmental Funds	3,315,132	3,307,448	500,000	500,000
Agency Funds	<u>19,521</u>	<u>27,205</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>3,334,653</u>	<u>3,334,653</u>	<u>500,000</u>	<u>500,000</u>

The District typically transfers from the general fund to the capital projects fund, to finance capital construction projects. The District typically transfers from the general fund to the special aid fund to fund the District's 20% share of summer school handicap expenses required by state law.

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(12) Other Postemployment Benefits (OPEB)

The District provides medical and Medicare Part B benefits to its eligible retirees. These benefits are provided through fully insured plans that are sponsored by a regional health consortium. Most employees are required to reach age 55 and have 5 years of service to qualify for OPEB. The District pays 100% of the retiree's medical benefits and reimburses the employee for the full cost of Medicare Part B. The District contributes towards the cost of eligible spouses during the retiree's lifetime. Spouses pay 20% for coverage and receive 100% reimbursement for Medicare Part B. Surviving spouses continue medical coverage for three months after the retiree's death and receive reimbursement of the Medicare Part B premium for life.

The District implemented GASB Statement 45 - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," during the year ended June 30, 2008. This required the District to calculate and record an other postemployment benefit obligation at year-end. The other postemployment benefit obligation is essentially the cumulative difference between the actuarially required contribution and the actual contributions paid.

Currently, 1,467 retired employees receive health benefits from the District.

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund as payments are made. For the year ended June 30, 2017, the District recognized \$14,284,096 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of July 1, 2015 which indicates that the total liability for other postemployment benefits is \$509,759,698 (\$256,499,345 related to retirees and \$253,255,353 related to employees). The net OPEB obligation at June 30, 2017 is \$204,207,034, which is reflected in the statement of net position.

(a) Plan Description

NYSHIP Empire Plan is a single-employer defined benefit healthcare plan administered by New York State. The Empire Plan provides medical insurance benefits to eligible retirees and their spouses. Article 37 of the Statutes of the state assigns the authority to establish and amend benefit provisions to the school district.

(b) Funding Policy

The contribution requirements of plan members and the Sachem Central School District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District. For fiscal year 2017, the Sachem Central School District contributed \$14,284,096 to the plan all relating to current premiums.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(12) Other Postemployment Benefits (OPEB), Continued

(c) Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit 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 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 annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District net OPEB obligation:

Annual OPEB cost and net OPEB obligation:	
Annual required contribution	\$ 42,403,326
Interest on net OPEB obligation	7,163,188
Adjustment to annual required contribution	<u>(10,155,087)</u>
Annual OPEB cost (expense)	39,411,427
Contributions made	<u>(14,284,096)</u>
Increase in net OPEB obligation	25,127,331
Net OPEB obligation at beginning of year	<u>179,079,703</u>
Net OPEB obligation at end of year	<u>\$ 204,207,034</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017 and the preceding two years was as follows:

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>OPEB</u> <u>Contributions</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
6/30/2015	\$ 40,868,450	40,004,071	13,121,525	43%	154,799,304
6/30/2016	40,544,579	37,958,331	13,677,933	36%	179,079,703
6/30/2017	42,403,326	39,411,427	14,284,096	36%	204,207,034

(d) Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$509,754,698, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$509,754,698. The covered payroll (annual payroll of active employees covered by the plan) was \$152,492,437, and the ratio of the UAAL to the covered payroll was 334%. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(12) Other Postemployment Benefits (OPEB), Continued

(d) Funded Status and Funding Progress, Continued

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

In the July 1, 2015 actuarial valuation prepared by an outside actuarial firm, 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 and for medical inflation an ultimate healthcare cost trend rate of 5% in 2016. The UAAL is being amortized over 30 years using an interest rate equal to the funding rate of 4%. The remaining amortization period at June 30, 2017, was 21 years.

(13) 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.

# SACHEM CENTRAL SCHOOL DISTRICT

## Notes to Financial Statements, Continued

### (13) Risk Management, Continued

#### (b) Self Insured Plans

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unreported claims which were incurred on or before year-end but not reported (IBNR). As of June 30, 2017, the District has recorded potential workers' compensation claims of \$8,098,613. This liability was calculated by an independent actuarial firm and is presented on a discounted basis using an expected investment yield of 2%.

Claims reported for the fiscal year ended June 30:	Balance at Beginning of Year	Claims and Changes in Estimates	Claims Payments	Balance at End of of Year
2017	\$ <u>8,207,212</u>	<u>1,010,709</u>	<u>1,119,308</u>	<u>8,098,613</u>

The District has chosen to establish a self-funded dental benefit program for its employees. The benefit programs administrator, J.J. Stanis, is responsible for the approval, processing and payment of claims, after which they bill the District for reimbursement. The District is also responsible for a monthly administrative fee. The benefit program reports on a fiscal year ending June 30. The program is accounted for in the General Fund of the District.

### (14) Commitments and Contingencies

#### (a) Grants

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

#### (b) Operating Leases

The District is committed under various noncancelable operating leases, primarily for computers and copiers (principally in the general fund). Expenditures were \$427,212 for the year ended June 30, 2017. The following is a summary of obligations of government activities under operating leases:



SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(14) Commitments and Contingencies

(b) Operating Leases, Continued

Fiscal year ended June 30,

2018	\$ 306,150
2019	306,150
2020	<u>229,612</u>
Total	\$ <u>841,912</u>

(c) Litigation

As of June 30, 2017, the District is unaware of any pending or threatened litigation or unasserted claims or assessments against the Sachem Central School District which require disclosure.

(15) Subsequent Events

The District issued \$66,000,000 in a TAN on September 28, 2017 with an interest rate net of premium of 1.0173% and maturing on June 28, 2018.

(16) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement, issued in June 2015, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This Statement is effective for fiscal years beginning after June 15, 2017, which is the fiscal year beginning July 1, 2017 for the District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

GASB Statement No. 81 - "Irrevocable Split-Interest Agreements." This Statement, issued in March 2016, establishes accounting and reporting standards for irrevocable split-interest agreements with characteristics that are equivalent to irrevocable split-interest agreements in which a donor irrevocably transfers resources to an intermediary who administers these resources for the unconditional benefit of a government and at least one other beneficiary. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2016. For the District, this Statement becomes effective for the fiscal year beginning July 1, 2017. This Statement is not expected to have a material effect on the financial statements of the District.

## SACHEM CENTRAL SCHOOL DISTRICT

### Notes to Financial Statements, Continued

#### (16) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 82 - "Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73." This Statement, issued in March 2016, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, which is the fiscal year beginning July 1, 2018 for the District, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, which is the fiscal year beginning July 1, 2018 for the District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

GASB Statement No. 83 - "Certain Asset Retirement Obligations." This Statement, issued in November 2016, addresses accounting and financial reporting for certain asset retirement obligations (AROs). Governments that have legal obligations to perform certain future asset retirement activities related to tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning July 1, 2018 for the District. This Statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 84 - "Fiduciary Activities." This Statement, issued in January 2017, established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning July 1, 2019 for the District. This Statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 85 - "Omnibus 2017." This Statement, issued in March 2017, addresses issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, which is the fiscal year beginning July 1, 2017 for the District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to Financial Statements, Continued

(16) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 86 - "Certain Debt Extinguishment Issues." This Statement, issued in May 2017, addresses issues related to in substance defeasances occurring through repayment of debt from existing resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, which is the fiscal year beginning July 1, 2017 for District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of District.

GASB Statement No. 87 - "Leases." This Statement, issued in June 2017, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019, which is the fiscal year beginning July 1, 2020 for the District. Management is in process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

## REQUIRED SUPPLEMENTARY INFORMATION

SACHEM CENTRAL SCHOOL DISTRICT  
 Required Supplementary Information  
 Schedule of Revenue, Expenditures and Changes in Fund Balance -  
 Budget and Actual - General Fund  
 Year ended June 30, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	Actual (Budgetary Basis)	Final Budget Variance With Budgetary <u>Actual</u>
Revenue:				
Local sources:				
Real property taxes	\$151,070,969	151,070,969	150,673,917	(397,052)
Other real property tax items	21,000,000	21,000,000	21,503,686	503,686
Charges for services	2,569,600	2,569,600	3,095,799	526,199
Use of money and property	737,216	737,216	1,066,365	329,149
Sale of property and compensation for loss	400,000	400,000	1,617,697	1,217,697
Miscellaneous	2,154,555	2,159,555	2,230,531	70,976
Interfund revenue	-	-	4,044	4,044
State sources:				
Basic formula	84,623,800	84,623,800	83,723,655	(900,145)
Excess cost aid	20,600,000	20,600,000	20,759,971	159,971
Lottery aid	16,000,000	16,000,000	16,761,218	761,218
BOCES aid	5,089,154	5,089,154	4,506,868	(582,286)
Tuition disabled students aid	100,000	100,000	267,665	167,665
Textbook aid	830,000	830,000	820,510	(9,490)
Computer software aid	210,000	210,000	208,178	(1,822)
Computer hardware aid	184,000	184,000	182,952	(1,048)
Library A/V loan program aid	88,000	88,000	86,875	(1,125)
Other state aid	500,000	650,000	859,756	209,756
Federal sources - Medicaid reimbursement	<u>250,000</u>	<u>250,000</u>	<u>244,016</u>	<u>(5,984)</u>
Total revenue and other sources	306,407,294	306,562,294	<u>308,613,703</u>	<u>2,051,409</u>
Appropriated fund balance	<u>-</u>	<u>-</u>		
Total revenue and appropriated fund balance	<u>\$306,407,294</u>	<u>306,562,294</u>		

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.

SACHEM CENTRAL SCHOOL DISTRICT  
 Required Supplementary Information  
 Schedule of Revenue, Expenditures and Changes in Fund Balance -  
 Budget and Actual - General Fund  
 Year ended June 30, 2017

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance With Budgetary Actual and Encumbrances
Expenditures:					
General support:					
Board of Education	\$ 131,761	131,761	118,098	-	13,663
Central administration	400,803	403,139	370,205	-	32,934
Finance	2,059,067	2,144,368	1,980,505	56,909	106,954
Staff	1,477,021	1,593,815	1,388,405	-	205,410
Central services	18,074,573	18,479,954	17,084,038	95	1,395,821
Special items	3,212,147	3,302,147	3,077,243	-	224,904
Instructional:					
Instruction, administration	9,925,566	9,484,543	9,015,273	22	469,248
Teaching - regular school	83,358,011	83,790,756	81,391,060	10,960	2,388,736
Programs for children with handicapping conditions	48,272,198	48,923,748	47,930,862	216,329	776,557
Occupational education	1,871,528	1,614,475	1,572,901	-	41,574
Teaching - special schools	193,533	193,533	148,303		45,230
Instructional media	7,729,933	7,446,397	7,182,672	711	263,014
Pupil services	14,079,935	13,548,080	13,030,129	19,945	498,006
Pupil transportation	19,165,441	19,594,596	19,081,995	-	512,601
Community services	1,091,417	1,094,321	914,328	-	179,993
Employee benefits	72,777,434	74,230,265	72,376,937	-	1,853,328
Debt service - principal	12,638,623	12,768,623	12,768,623	-	-
Debt service - interest	9,348,303	7,317,773	6,220,978	-	1,096,795
	305,807,294	306,062,294	295,652,555	304,971	10,104,768
Other financing uses - transfers to other funds	500,000	500,000	500,000	-	-
	<u>\$306,307,294</u>	<u>306,562,294</u>	<u>296,152,555</u>	<u>304,971</u>	<u>10,104,768</u>
Change in fund balance			12,461,148		
Fund balance - beginning			13,100,670		
Fund balance - ending			<u>\$25,561,818</u>		

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.

SACHEM CENTRAL SCHOOL DISTRICT  
 Required Supplementary Information  
 Schedule of Funding Progress - Other Postemployment Benefits  
 Year ended June 30, 2017

Fiscal Year Ended <u>June 30,</u>	<u>Actuarial</u>		<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	Unfunded Liability as a Percentage of Covered <u>Payroll</u>
	<u>Value of Assets</u>	<u>Accrued Liability</u>				
2015 (1)	\$ -	458,414,692	458,414,692	-	129,121,148	355%
2016 (2)	-	484,018,831	484,018,831	-	150,823,833	321%
2017 (3)	-	509,754,698	509,754,698	-	152,492,437	334%

(1) Valuation date was July 1, 2013.

(2) Valuation date was July 1, 2015.

(3) Valuation date was July 1, 2016.

SACHEM CENTRAL SCHOOL DISTRICT  
 Required Supplementary Information  
 Schedule of District's Proportionate Share of the Net Position Asset/Liability  
 Year ended June 30, 2017

<u>TRS System - Liability</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The District's proportion of the net pension liability	0.788359%	0.814509%	0.777261%
The District's proportionate share of the net pension (asset) liability	\$ 8,443,656	\$ (84,601,480)	\$ (86,581,974)
The District's covered employee payroll	\$121,094,680	\$121,651,753	\$109,385,735
The District's proportionate share of the net pension asset as a percentage of covered employee payroll	6.97%	69.54%	79.15%
Plan fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%
<u>ERS System - Liability</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The District's proportion of the net pension liability	0.0922770%	0.1001370%	0.0988918%
The District's proportionate share of the net pension liability	\$ 8,120,385	\$ 16,072,264	\$ 3,340,808
The District's covered employee payroll	\$ 26,576,931	\$ 26,582,926	\$ 26,226,602
The District's proportionate share of the net pension liability as a percentage of covered employee payroll	32.64%	60.46%	12.74%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.70%	97.90%

(1) Data not available prior to fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68 - "Accounting and Financial Reporting for Pensions."



SACHEM CENTRAL SCHOOL DISTRICT  
Required Supplementary Information  
Schedule of District's Pension Contributions  
Year ended June 30, 2017

<u>TRS System</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$20,080,161	21,447,996	18,657,190	16,213,708	15,215,140	12,656,955	8,932,466	10,749,718	12,078,108	12,678,893
Contribution in relation to the contractually required contribution	<u>20,080,161</u>	<u>21,447,996</u>	<u>18,657,190</u>	<u>16,213,708</u>	<u>15,215,140</u>	<u>12,656,955</u>	<u>8,932,466</u>	<u>10,749,718</u>	<u>12,078,108</u>	<u>12,678,893</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution as a percentage of covered employee payroll	16.58%	17.63%	16.25%	11.84%	11.11%	8.62%	6.19%	7.63%	8.73%	8.60%
<u>ERS System</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 4,968,598	4,950,013	4,910,497	6,114,868	5,015,775	4,044,895	3,123,305	1,726,208	1,979,254	2,014,370
Contribution in relation to the contractually required contribution	<u>4,968,598</u>	<u>4,950,013</u>	<u>4,910,497</u>	<u>6,114,868</u>	<u>5,015,775</u>	<u>4,044,895</u>	<u>3,123,305</u>	<u>1,726,208</u>	<u>1,979,254</u>	<u>2,014,370</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution as a percentage of covered employee payroll	18.69%	21.13%	22.15%	18.49%	15.55%	11.72%	6.96%	8.20%	8.81%	10.05%

## OTHER SUPPLEMENTARY INFORMATION

SACHEM CENTRAL SCHOOL DISTRICT  
Other Supplementary Information  
Schedule of Change from Adopted Budget to Final Budget and  
the Real Property Tax Law Limit Calculation  
Year ended June 30, 2017

Change from adopted budget to final budget:	
Adopted budget	\$ 306,407,294
Budget amendment modification	<u>155,000</u>
Final budget	<u>\$ 306,562,294</u>
Next years voter approved budget	<u>\$ 314,191,536</u>
Use of unreserved fund balance - unassigned fund balance at beginning of year	<u>\$ -</u>
 <u>Section 1318 of Real Property Tax Law Limit Calculation</u>	
2018 expenditure budget	<u>\$ 314,191,536</u>
Maximum allowed 4% of 2018 budget	<u>\$ 12,567,661</u>
General fund fund balance subject to Section 1318 of Real Property Tax Law*:	
Unrestricted fund balance:	
Encumbrances	\$ 304,971
Unassigned fund balance	<u>12,567,661</u>
Total unrestricted fund balance	12,872,632
Less:	
Encumbrances	<u>304,971</u>
Total adjustments	<u>304,971</u>
General fund fund balance subject to Section 1318 of Real Property Tax Law	<u>\$ 12,567,661</u>
Actual percentage	4.00%

- \* Per Office of the State Comptroller's "Fund Balance Reporting and Governmental Fund Type Definitions," updated April 2011 (originally issued November 2010), the portion of [general fund] fund balance subject to Section 1318 of the Real Property Tax Law is: unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.

SACHEM CENTRAL SCHOOL DISTRICT  
 Other Supplementary Information  
 Schedule of Project Expenditures - Capital Projects Fund  
 June 30, 2017

Project Title				Expenditures and Obligations to Date			Methods of Financing				Fund	
	Original Appropriation	Transfer	Revised Appropriation	Prior Year's	Current Year	Total	Unexpended Balance	Proceeds of Obligations	State Aid	Local Sources	Total	Balance 6/30/2017
Energy Performance Contract	\$ 21,671,842	-	21,671,842	-	16,083,716	16,083,716	5,588,126	21,671,842	-	-	21,671,842	5,588,126

SACHEM CENTRAL SCHOOL DISTRICT  
 Other Supplementary Information  
 Net Investment in Capital Assets  
 Year ended June 30, 2017

Capital assets, net		\$211,077,899
Add:		
Cash held from debt proceeds	\$ 6,628,401	
Deferred loss amounts on refunding	<u>1,525,212</u>	8,153,613
Deduct:		
Deferred amounts on refunding	1,400,000	
Short-term portion of bonds payable	12,737,544	
Long-term portion of bonds payable	129,688,070	
Short-term portion of energy performance contracts	2,112,521	
Long-term portion of energy performance contracts	<u>29,925,412</u>	<u>175,863,547</u>
Net investment in capital assets		<u>\$ 43,367,965</u>

SACHEM CENTRAL SCHOOL DISTRICT  
Federal Grant Compliance Audit  
June 30, 2017

INDEPENDENT AUDITORS' 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

The Board of Education  
Sachem Central School District  
Lake Ronkonkoma, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the fiduciary funds of Sachem Central School District (the District), as of and for the year ended June 30, 2017, and the related notes to the basic financial statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York  
October 6, 2017



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Education  
Sachem Central School District  
Lake Ronkonkoma, New York:

Report on Compliance for Each Major Federal Program

We have audited Sachem Central School District's (the District) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

## Opinion on Each Major Federal Program

In our opinion, Sachem Central School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York  
October 6, 2017

SACHEM CENTRAL SCHOOL DISTRICT  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2017

<u>Federal Grantor/Pass-through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or pass-through number</u>	<u>Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
<u>U.S. Department of Education</u>				
Passed-through NYS Education Department:				
Special Education Cluster:				
IDEA Part B - Section 611	84.027	0032-16-0880	\$ 38,519	-
IDEA Part B - Section 611	84.027	0032-17-0880	2,865,084	-
IDEA Preschool - Section 619	84.173	0033-16-0880	168	-
IDEA Preschool - Section 619	84.173	0033-17-0880	165,279	-
Total Special Education Cluster			3,069,050	-
ESEA - Title I	84.010	0021-16-2975	22,477	-
ESEA - Title I	84.010	0021-17-2975	801,552	-
ESEA - Education for Homeless Children and Youth	84.196	0212-16-4067	3,476	-
ESEA - III - LEP	84.365	0293-16-2975	18,029	-
ESEA - III - LEP	84.365	0293-17-2975	35,615	-
ESEA - IIIA- Immigrant Education	84.365	0149-16-2975	2,922	-
ESEA - Title III A-Immigrant	84.365	0149-17-2975	30,962	-
ESEA - Title IIIA-Immigrant Supplemental	84.365	0151-16-2975	499	-
ESEA - Title IIIA-Immigrant Supplemental	84.365	0151-17-2975	152	-
ESEA - Title III Supplemental	84.365	0152-17-2975	1,042	-
ESEA - Title III Newcomer	84.365	0153-17-2976	4,863	-
ESEA - Title II A-Improvement	84.367	0147-16-2975	2,272	-
ESEA - Title II A-Improvement	84.367	0147-17-2975	413,760	-
Total U.S. Department of Education			4,406,671	-
<u>U.S. Department of Agriculture</u>				
Child Nutrition Cluster:				
Passed-through NYS Education Department:				
USDA Breakfast	10.553	N/A	181,824	-
USDA School Lunch Program	10.555	N/A	1,241,149	-
Total passed-through NYS Education Department			1,422,973	-
Direct Program - USDA Food Distribution	10.555	N/A	427,076	-
Total U.S. Department of Agriculture			1,850,049	-
Total Expenditures of Federal Awards			\$ 6,256,720	-

See accompanying notes to the schedule of expenditures of federal awards.

SACHEM CENTRAL SCHOOL DISTRICT  
Notes to the Schedule of Expenditures of Federal Awards  
June 30, 2017

(1) Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the District, which is described in note 1 to the District's accompanying financial statements, using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of the Uniform Guidance.

Matching costs (the District's share of certain program costs) are not included in the reported expenditures.

The amounts reported as federal expenditures were obtained from the federal financial reports for the applicable program and periods. The amounts reported in the schedule of expenditures of federal awards are prepared from records maintained for each program, which are reconciled with the District's financial reporting system.

(2) Subrecipients

No amounts were provided to subrecipients.

(3) Nonmonetary Federal Program

The District is the recipient of a federal award program (CFDA No. 10.555) that does not result in cash receipts or disbursements termed a "nonmonetary program." During the year ended June 30, 2017, the District used \$427,076 worth of food commodities as reported in the schedule of expenditures of federal awards.

(4) Indirect Costs

Indirect costs are included in the reported expenditures to the extent that such costs are included in the Federal financial reports used as the source for the data presented. The District does not use the 10% de minimis election.

SACHEM CENTRAL SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2017

Part I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued on whether the basic financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

1. Material weakness(ies) identified? ☐ Yes ☒ No
2. Significant deficiency(ies) identified not considered to be material weakness(es)? ☐ Yes ☒ None reported
3. Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards:

Internal control over major programs:

4. Material weakness(es) identified? ☐ Yes ☒ No
5. Significant deficiency(ies) identified not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)(Uniform Guidance)? ☐ Yes ☒ No

7. The District's major programs audited were:

Name of Federal Program

Title I

Child Nutrition Cluster

CFDA  
Number

84.010  
10.553/10.555

8. Dollar threshold used to distinguish between Type A and Type B programs? \$750,000
9. Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Part II - FINANCIAL STATEMENT FINDINGS SECTION

No reportable findings.

Part III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No reportable findings and questioned costs.

SACHEM CENTRAL SCHOOL DISTRICT  
Status of Prior Audit Findings  
Year ended June 30, 2017

There were no audit findings in the prior year financial statements (June 30, 2016).