



**SHELTER ISLAND
UNION FREE SCHOOL DISTRICT**

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

June 30, 2017

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
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NawrockiSmith

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Shelter Island Union Free School District
Town of Shelter Island, 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 Shelter Island Union Free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

NawrockiSmith

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, on pages 3-14, and 49-53 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the New York State Education Department.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 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.

Melville, New York
October 19, 2017

A handwritten signature in black ink that reads "Nawrocki Smith" followed by the initials "UP".

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Shelter Island Union Free School District's (District) discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017 in comparison with the year ended June 30, 2016, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2017 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, decreased by \$661,321 or 14.73% to \$3,828,854.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$232,727 or 10.91% to \$2,366,100.
- The District's 2017 property tax levy of \$10,000,816 was a 5.92% increase over the 2016 tax levy, which exceeded the District's property tax cap of 3.75% and was approved by 60% of the voters.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (MD&A), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of district-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements follows:



A. District-Wide Financial Statements

The district-wide financial statements present the governmental activities of the District and are organized to provide an understanding of the fiscal performance of the District as a whole in a manner similar to a private sector business. There are two district-wide financial statements - the Statement of Net Position and the Statement of Activities. These statements provide both an aggregate and long-term view of the District's finances.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

These statements utilize the accrual basis of accounting. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Position

The Statement of Net Position presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities

The Statement of Activities presents information showing the change in net position during the fiscal year. All changes in net position are recorded at the time the underlying financial event occurs. Revenues are recognized in the period when they are earned and expenses are recognized in the period when the liability is incurred. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the District are reported in the governmental funds and the fiduciary funds.

Governmental Funds

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

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

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District in its capacity as agent or trustee and utilize the accrual basis of accounting. All of the District's fiduciary activities are reported in separate statements. The fiduciary activities have been excluded from the District's district-wide financial statements because the District cannot use these assets to finance its operations.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position decreased by \$661,321 between fiscal year 2017 and 2016. The decrease is due to expenses in excess of revenues based on the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	2017	2016	Increase (Decrease)	Percentage Change
Assets				
Current and Other Assets	\$ 3,378,420	\$ 5,224,220	\$ (1,845,800)	(35.33)%
Capital Assets, Net	9,969,984	8,468,695	1,501,289	17.73 %
Net Pension Asset - Proportionate Share		2,934,447	(2,934,447)	(100.00)%
Total Assets	13,348,404	16,627,362	(3,278,958)	(19.72)%
Deferred Outflows of Resources	3,174,197	1,150,635	2,023,562	175.86 %
Liabilities				
Current and Other Liabilities	806,541	1,053,085	(246,544)	(23.41)%
Long-Term Liabilities	5,399,661	5,595,788	(196,127)	(3.50)%
Net Other Postemployment Benefits Obligation	5,607,925	4,871,649	736,276	15.11 %
Net Pension Liability - Proportionate Share	625,088	604,297	20,791	3.44 %
Total Liabilities	12,439,215	12,124,819	314,396	2.59 %
Deferred Inflows of Resources	254,532	1,163,003	(908,471)	(78.11)%
Net Position				
Net Investment in Capital Assets	5,548,240	5,528,488	19,752	0.36 %
Restricted	664,579	657,519	7,060	1.07 %
Unrestricted (Deficit)	(2,383,965)	(1,695,832)	(688,133)	(40.58)%
Total Net Position	\$ 3,828,854	\$ 4,490,175	\$ (661,321)	(14.73)%

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Current and other assets decreased by \$1,845,800 as compared to the prior year. This decrease is primarily evidenced by a decrease in cash.

Capital assets, net increased by \$1,501,289, as compared to the prior year. This increase is due to capital outlays for construction in progress, and furniture and equipment purchases in excess of depreciation. The accompanying Notes to Financial Statements, Note 9 "Capital Assets" provides additional information.

Net pension asset – proportionate share decreased by \$2,934,447, as compared to the prior year. This asset represents the District's share of the New York State Teachers' Retirement System's collective net pension asset at the measurement date of the respective year. This decrease is primarily due to the effect of the change in the discount rate used and, as a result, the District's share of the pension plan shifted from an asset to a liability. The accompanying Notes to Financial Statements, Note 12 "Pension Plans – New York State", provides additional information.

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

Current and other liabilities decreased by \$246,544, as compared to the prior year. This decrease is primarily due to decreases in the amounts due to the retirement systems as a result of decreases in the contribution rates and a decrease in accounts payable.

Long-term liabilities decreased by \$196,127, as compared to the prior year. This decrease is due to the repayment of the current maturity of indebtedness, offset by increases in compensated absences payable, workers' compensation liabilities and termination benefits payable.

Net other postemployment benefits (OPEB) obligation increased by \$736,276, as compared to the prior year. This increase was the result of the current year unfunded OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 14 "Postemployment Healthcare Benefits", provides additional information.

Net pension liability – proportionate share increased by \$20,791 in the current year. This liability represents the District's share of the New York State Teachers' Retirement System and the New York State and Local Employees' Retirement System's collective net pension liabilities at the measurement date of the respective year. The increase is due to the shift of the pension asset to a liability for the TRS and a decrease in the pension liability for the ERS.

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

The net investment in capital assets is the investment in capital assets at cost such as land; construction in progress; buildings and improvements; site improvements; and, furniture and equipment, net of depreciation and related outstanding debt. This number increased over the prior year as follows:

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	Increase (Decrease)
Capital asset additions	\$ 1,917,972
Additions financed by debt	(1,815,947)
Principal debt reduction of construction bonds, net	279,500
Principal debt reduction of energy performance contract	54,910
Depreciation expense	(416,683)
	\$ 19,752

The restricted amount of \$664,579 relates to the District's reserves. This number increased over the prior year by \$7,060 due to interest allocated to reserves of \$2,060 and funding of capital for the FIT center in the amount of \$5,000.

The unrestricted deficit amount of \$(2,383,965) relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation. This deficit increased over the prior year by \$688,133.

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of these statements for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 60,194	\$ 65,228	\$ (5,034)	(7.72)%
Operating Grants	138,086	141,801	(3,715)	(2.62)%
Capital Grants	57,753		57,753	100 %
General Revenues				
Property Taxes and STAR	10,000,816	9,441,689	559,127	5.92 %
State Sources	622,717	596,977	25,740	4.31 %
Other	95,442	75,328	20,114	26.70 %
Total Revenues	10,975,008	10,321,023	653,985	6.34 %
Expenses				
General Support	2,314,440	2,100,373	214,067	10.19 %
Instruction	8,723,223	8,096,143	627,080	7.75 %
Pupil Transportation	293,396	304,512	(11,116)	(3.65)%
Debt Service - Interest	125,816	80,818	44,998	55.68 %
Food Service Program	179,454	185,862	(6,408)	(3.45)%
Total Expenses	11,636,329	10,767,708	868,621	8.07 %
Decrease in Net Position	\$ (661,321)	\$ (446,685)	\$ (214,636)	(48.05)%

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

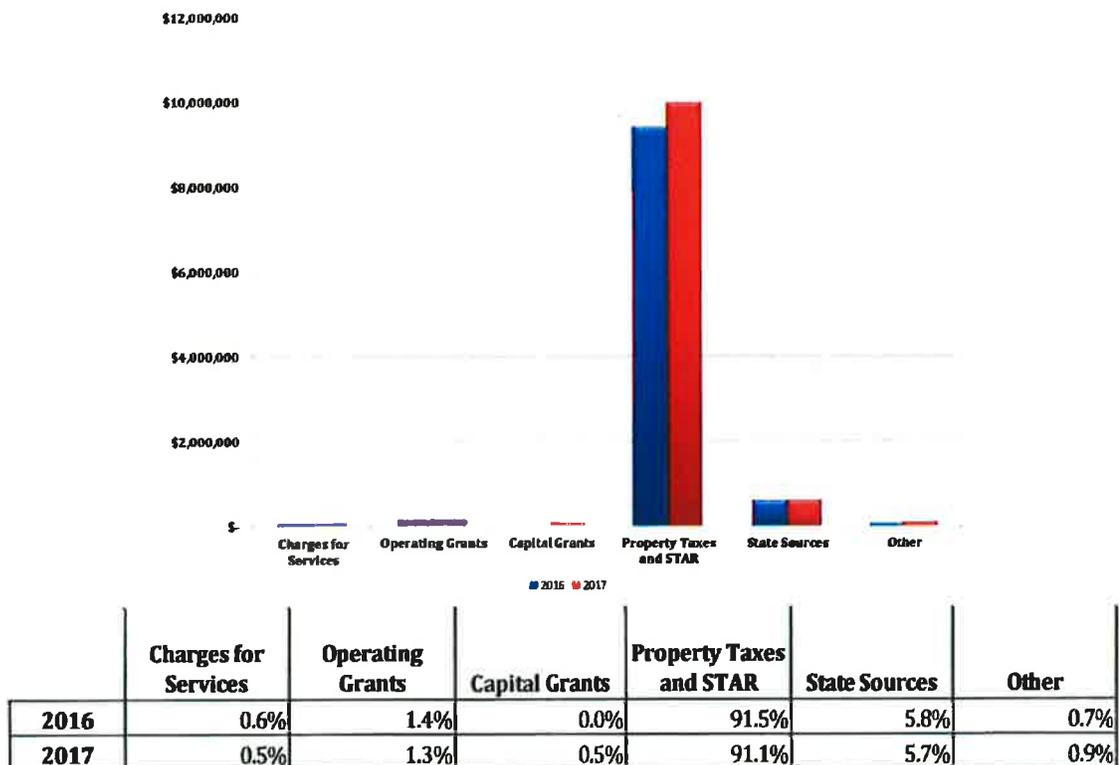
The District's net position decreased by \$661,321 and \$446,685 for the years ended June 30, 2017 and 2016, respectively.

The District's revenues increased by \$653,985 or 6.34%, as compared to 2016. This increase is attributable to increases in property taxes and STAR and capital grants. Property taxes and STAR were increased in 2017 to fund increases in appropriations in the 2016-17 budget. The increase in capital grants is related to the Smart Schools Bond Act. The District did not receive a similar grant in the prior year.

The District's expenses for the year increased by \$868,621 or 8.07%, as compared to 2016. This increase is primarily within general support and instruction. This increase was primarily the result of the impact of the net change in pension costs as a results of a change in the TRS discount rate.

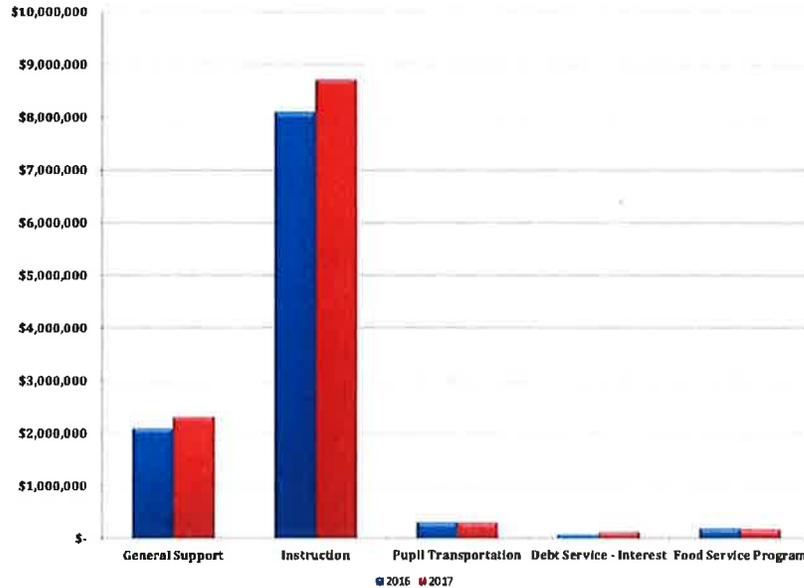
As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 91.1% and 91.5% of the total for the years 2017 and 2016, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 75.0% and 75.2% of the total for the years 2017 and 2016, respectively).

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



**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
2016	19.5%	75.2%	2.8%	0.8%	1.7%
2017	19.9%	75.0%	2.5%	1.1%	1.5%

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2017, the District's governmental funds reported a combined fund balance of \$2,402,892, which is a decrease of \$1,594,377 from the prior year. A summary of the change in fund balance by fund is as follows:

	2017	2016	Increase (Decrease)
General Fund			
Restricted			
Unemployment insurance	\$ 143,674	\$ 143,222	\$ 452
Retirement contribution	66,785	66,575	210
Employee benefit accrued liability	286,893	285,991	902
Capital	167,227	151,971	15,256
Assigned:			
Appropriated fund balance	605,440	350,000	255,440
Unappropriated fund balance	33,670	39,407	(5,737)
Unassigned: Fund balance	<u>1,062,411</u>	<u>1,096,207</u>	<u>(33,796)</u>
	<u>2,366,100</u>	<u>2,133,373</u>	<u>232,727</u>
School Food Service Fund			
Nonspendable: Inventory	<u>1,087</u>	<u>2,484</u>	<u>(1,397)</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	2017	2016	Increase (Decrease)
Capital Projects Fund			
Restricted:			
Capital	\$	\$ 9,760	\$ (9,760)
Unspent debt proceeds	35,705	1,851,652	(1,815,947)
	35,705	1,861,412	(1,825,707)
 Total Fund Balance	\$ 2,402,892	\$ 3,997,269	\$ (1,594,377)

A. General Fund

The net change in the general fund – fund balance was an increase of \$232,727 (compared to a decrease of \$358,647 in fiscal 2016), as revenues and other financing sources of \$10,729,186 exceeded expenditures and other financing uses of \$10,496,459.

Revenues and other financing sources increased by \$614,667 (6.08%) over fiscal 2016 totals primarily due to increases in real property taxes and STAR. Property taxes and STAR increased in 2017 to fund increases in appropriations in the 2016-17 budget.

Expenditures and other financing uses increased by \$23,293 or 0.22% over fiscal 2016 totals. This increase was primarily due to an increase in general support and debt service costs, which were offset by decreases in instruction and employee benefits. The increase in general support is due to the District having a business official for the full year in the current year. In the prior year, the position was vacant for part of the year. The increase in debt service is due to the District issuing serial bonds in the prior year, as well as an energy performance contract. These increases were offset by a decrease in employee benefits. In the prior year, employee benefits included amounts for retiree payouts of \$178,655. The current year payouts amounted to \$46,717. In addition, contributions to the retirement systems decreased by \$68,019 as a result of decreases in the contribution rates. These decreases were offset by an increase in health insurance costs.

In May 2006, the voters of the District authorized the creation of a capital reserve for \$2,000,000 to be funded for a period of five years. The funding term ended June 30, 2012. The total amount paid into the reserve was \$1,767,000. During the 2016-17 fiscal year, \$9,761 of unspent capital reserve monies were returned from completed projects in the capital projects fund and the reserve earned interest of \$472. As of June 30, 2017, the reserve has \$159,826 available for future capital projects.

In May 2011, the voters of the District authorized the creation of a capital reserve for \$10,000,000 to be funded over a period of 20 years. The reserve is to be used for renovations to the portion of the school known as the F.I.T. Center. Funding of the reserve is from surplus monies remaining in the general fund each year as received by the District from the Town of Shelter Island (revenues net of expenditures to operate the Center). During 2016-17 fiscal year, \$5,000 was transferred into the reserve and the reserve earned \$23 in interest. At June 30, 2017 the reserve has a balance of \$7,401.

B. School Food Service Fund

The school food service fund - fund balance decreased \$1,397. The fund is dependent on a transfer from the general fund, which in 2017 was \$85,240.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$1,825,707, primarily due to expenditures incurred during the year on capital projects.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2016-17 Budget

The District's general fund adopted budget for the year ended June 30, 2017 was \$10,966,854. This amount was increased by encumbrances carried forward from the prior year in the amount of \$39,407 and budget revisions in the amount of \$53,895 for a total final budget of \$11,060,156.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$10,000,816 in estimated property taxes and STAR.

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

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

Opening, Unassigned Fund Balance	\$ 1,096,207
Revenues Over Budget	58,437
Expenditures and Encumbrances Under Budget	530,027
Unused Appropriated Reserves	(9,761)
Allocation to Reserves	(7,059)
Appropriated for the June 30, 2018 Budget	<u>(605,440)</u>
Closing, Unassigned Fund Balance	<u>\$ 1,062,411</u>

Opening, Unassigned Fund Balance

The \$1,096,207 shown in the table is the portion of the District's June 30, 2016 fund balance that was retained as unassigned fund balance.

Revenues Over Budget

The 2016-17 final budget for revenues was \$10,670,749. Actual revenues received for the year were \$10,729,186. The excess of actual revenues over estimated revenues was \$58,437, which is primarily due to the District receiving more than anticipated in state aid. This change contributes directly to the change to the general fund unassigned fund balance from June 30, 2016 to June 30, 2017.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Expenditures and Encumbrances Under Budget

The 2016-17 final budget for expenditures was \$11,060,156. Actual expenditures as of June 30, 2017 were \$10,496,459 and outstanding encumbrances were \$33,670. Combined, the expenditures plus encumbrances for 2016-17 were \$10,530,129. The final budget was under expended by \$530,027. This under expenditure is primarily within the general support, instruction, pupil transportation and employee benefit codes of the budget. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2016 to June 30, 2017.

Unused Appropriated Reserves

In prior years, funds from the capital reserve were appropriated to fund capital projects costs. Due to lower than anticipated expenditures, \$9,761 of this funding was not needed and, therefore, it was returned to the reserves via an interfund transfer for future use.

Allocation to Reserves

Monies transferred into authorized reserves do not affect the total fund balance unless, and until these monies are actually expended. The transfer do, however, reduce the District's discretion regarding the use of these transferred monies, and thus, reduce the unassigned fund balance by the amount of the transfers.

The \$(7,059) shown in the previous table represents interest earned on restricted reserves and a transfer of \$5,000 to the capital reserve for the FIT center. The reserves earned interest as follows:

Reserve for:		
Unemployment insurance	\$	452
Retirement contribution		210
Employee benefit accrued liability		902
Capital		495
		<hr/>
	\$	2,059
		<hr/>

Appropriated Fund Balance

The District has chosen to use \$605,440 of the available June 30, 2017 unassigned fund balance to partially fund the 2017-18 approved operating budget. As such, the June 30, 2017 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2017 was \$1,062,411. This is a decrease of \$33,796 from the unassigned fund balance as of June 30, 2016. This unassigned fund balance portion is in excess of the New York State Real Property Tax Law §1318 permissible 4.0% statutory maximum.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2017, the District had invested in a broad range of capital assets, as indicated in the table below. The net increase in capital assets is due to capital additions of \$1,917,972 in excess of depreciation of \$416,683 recorded for the year ended June 30, 2017. A summary of the District's capital assets, net of depreciation at June 30, 2017 and 2016 is as follows:

	2017	2016	Increase (Decrease)
Land	\$ 25,200	\$ 25,200	\$ -
Construction in progress	3,002,736	1,183,907	1,818,829
Buildings and improvements	5,711,206	5,999,433	(288,227)
Site improvements	492,063	528,886	(36,823)
Furniture and equipment	738,779	731,269	7,510
Capital assets, net	<u>\$ 9,969,984</u>	<u>\$ 8,468,695</u>	<u>\$ 1,501,289</u>

B. Debt Administration

At June 30, 2017, the District had total bonded debt outstanding of \$3,505,000. The bonds were issued to finance various building improvements and the installation of a new generator and related lighting system improvements. The District also had outstanding debt of \$952,449 from an energy performance contract. A summary of outstanding debt at June 30, 2017 and 2016 is as follows:

	Issue Date	Interest Rate	2017	2016	Increase (Decrease)
Bonds Payable					
	7/26/2012	2.0-2.5%	\$ 1,975,000	\$ 2,155,000	\$ (180,000)
	12/1/2015	2.0-3.0%	1,530,000	1,629,500	(99,500)
			<u>\$ 3,505,000</u>	<u>\$ 3,784,500</u>	<u>\$ (279,500)</u>
Energy Performance Contract					
	3/21/2016	2.85%	\$ 952,449	\$ 1,007,359	\$ (54,910)

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's outstanding serial bonds at June 30, 2017 are approximately 1.0% of the District's debt limit.

Included in the District's long-term liabilities are the estimated amounts due for compensated absences, workers' compensation, termination benefits, net other postemployment benefits, and net pension liability-proportionate share obligations. The compensated absences and termination benefits liabilities are based on employment contracts. The workers' compensation liability, net other postemployment benefits obligation and net pension liability-proportionate share are based on actuarial valuations.

**SHELTER ISLAND UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

	2017	2016	Increase (Decrease)
Compensated absences payable	\$ 558,708	\$ 499,323	\$ 59,385
Workers' compensation liabilities	43,187	36,905	6,282
Termination benefits	340,317	267,701	72,616
Net OPEB obligation	5,607,925	4,871,649	736,276
Net pension liability - proportionate share	625,088	604,297	20,791
	<u>\$ 7,175,225</u>	<u>\$ 6,279,875</u>	<u>\$ 895,350</u>

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 16, 2017, for the year ending June 30, 2018, is \$11,327,228. This is an increase of \$360,374 or 3.29% over the previous years adopted budget.

The District budgeted revenues other than property tax at a \$26,038 decrease from the prior year's estimate. This decrease is principally due to a decrease in state aid. The assigned, appropriated fund balance applied to the June 30, 2017 budget in the amount of \$605,440 is a \$255,440 increase over the previous year. A property tax increase of \$130,972 or 1.31% was needed to meet the revenue shortfall and cover the projected expenditures.

B. Future Budgets

Significant increases in costs of health insurance, the property tax cap, and uncertainty in state aid and federal funds will greatly impact the District's future budgets.

C. Tax Cap

New York State law limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation to June 15, 2020. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. Based on the law, the District's tax levy cap for 2017-18 is 1.31%. The District's 2017-18 property tax increase of 1.31% was equal to the tax cap and did not require an override vote.

8. CONTACTING THE DISTRICT

This financial report is designed to provide the reader with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Requests for additional information can be directed to:

Dr. Christine Finn
Superintendent of Schools / Principal
Shelter Island Union Free School District
33 North Ferry Road
Box 2015
Shelter Island, New York 11964

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

ASSETS

Cash		
Unrestricted	\$	2,335,361
Restricted		700,284
Receivables		
Accounts receivable		2,980
Taxes receivable		53,420
Due from fiduciary funds		7,969
Due from state and federal		63,008
Due from other governments		40,534
Other assets		173,777
Inventories		1,087
Capital assets:		
Not being depreciated		3,027,936
Being depreciated, net of accumulated depreciation		6,942,048
Total Assets		<u>13,348,404</u>

DEFERRED OUTFLOWS OF RESOURCES

Pensions		<u>3,174,197</u>
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LIABILITIES

Payables		
Accounts payable		153,298
Accrued liabilities		9,538
Due to other governments		35,548
Due to teachers' retirement system		565,741
Due to employees' retirement system		39,903
Unearned credits		
Collections in advance		2,513
Long-term liabilities		
Due and payable within one year		
Bonds payable		285,000
Energy performance contract payable		56,235
Compensated absences payable		107,650
Due and payable after one year		
Bonds payable		3,220,000
Energy performance contract payable		896,214
Compensated absences payable		451,058
Workers' compensation liabilities		43,187
Termination benefits		340,317
Net other postemployment benefits obligation		5,607,925
Net pension liability - proportionate share		625,088
Total Liabilities		<u>12,439,215</u>

DEFERRED INFLOWS OF RESOURCES

Pensions		<u>254,532</u>
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NET POSITION

Net investment in capital assets		<u>5,548,240</u>
Restricted		
Unemployment insurance		143,674
Retirement contribution		66,785
Employee benefit accrued liability		286,893
Capital		167,227
		<u>664,579</u>
Unrestricted (deficit)		<u>(2,383,965)</u>
Total Net Position	\$	<u>3,828,854</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2017

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants		Capital Grants
FUNCTIONS/PROGRAMS					
General support	\$ 2,314,440	\$	\$	\$	\$ (2,314,440)
Instruction	8,723,223	450	106,536	57,753	(8,558,484)
Pupil transportation	293,396				(293,396)
Debt service - interest	125,816				(125,816)
Food service program	179,454	59,744	31,550		(88,160)
Total Functions and Programs	\$ 11,636,329	\$ 60,194	\$ 138,086	\$ 57,753	(11,380,296)
GENERAL REVENUES					
Real property taxes					9,864,162
Other tax items					136,734
Use of money and property					11,732
Sale of property and compensation for loss					31,470
Miscellaneous					52,160
State sources					622,717
Total General Revenues					10,718,975
Change in Net Position					(661,321)
Total Net Position - Beginning of Year					4,490,175
Total Net Position - End of Year					\$ 3,828,854

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2017

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 2,237,578	\$ 8,697	\$ 26,157	\$ 62,929	\$ 2,335,361
Restricted	664,579			35,705	700,284
Receivables					
Accounts receivable	1,368		1,612		2,980
Taxes receivable	53,420				53,420
Due from other funds	139,407				139,407
Due from state and federal	17,905	45,021	82		63,008
Due from other governments	40,534				40,534
Inventories			1,087		1,087
Total Assets	<u>\$ 3,154,791</u>	<u>\$ 53,718</u>	<u>\$ 28,938</u>	<u>\$ 98,634</u>	<u>\$ 3,336,081</u>
LIABILITIES					
Payables					
Accounts payable	\$ 142,633	\$ 5,510	\$ 1,713	\$ 3,442	\$ 153,298
Accrued liabilities	4,748				4,748
Due to other funds		48,208	23,743	59,487	131,438
Due to other governments	35,186		362		35,548
Due to teachers' retirement system	565,741				565,741
Due to employees' retirement system	39,903				39,903
Unearned credits					
Collections in advance	480		2,033		2,513
Total Liabilities	<u>788,691</u>	<u>53,718</u>	<u>27,851</u>	<u>62,929</u>	<u>933,189</u>
FUND BALANCES					
Nonspendable: Inventories			1,087		1,087
Restricted:					
Unemployment insurance	143,674				143,674
Retirement contribution	66,785				66,785
Employee benefit accrued liability	286,893				286,893
Capital	167,227				167,227
Unspent debt proceeds				35,705	35,705
Assigned:					
Appropriated fund balance	605,440				605,440
Unappropriated fund balance	33,670				33,670
Unassigned: Fund balance	<u>1,062,411</u>				<u>1,062,411</u>
Total Fund Balances	<u>2,366,100</u>	<u>-</u>	<u>1,087</u>	<u>35,705</u>	<u>2,402,892</u>
Total Liabilities and Fund Balances	<u>\$ 3,154,791</u>	<u>\$ 53,718</u>	<u>\$ 28,938</u>	<u>\$ 98,634</u>	<u>\$ 3,336,081</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017

Total Governmental Funds Balance		\$ 2,402,892
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Cash held by third-party administrator is treated as a long-term asset and included in net position.		
		173,777
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	\$ 16,117,777	
Accumulated depreciation	<u>(6,147,793)</u>	9,969,984
Proportionate share of long-term liability and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.		
Deferred outflows of resources	3,174,197	
Net pension liability - teachers' retirement system	(306,412)	
Net pension liability - employees' retirement system	(318,676)	
Deferred inflows of resources	<u>(254,532)</u>	2,294,577
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Accrued interest on bonds payable	(4,790)	
Bonds payable	(3,505,000)	
Energy performance contract payable	(952,449)	
Compensated absences payable	(558,708)	
Workers' compensation liabilities	(43,187)	
Termination benefits	(340,317)	
Net other postemployment benefits obligation	<u>(5,607,925)</u>	(11,012,376)
Total Net Position		<u>\$ 3,828,854</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2017

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
REVENUES					
Real property taxes	\$ 9,864,162	\$	\$	\$	\$ 9,864,162
Other tax items	136,734				136,734
Charges for services	450				450
Use of money and property	11,732				11,732
Sale of property and compensation for loss	31,470				31,470
Miscellaneous	52,160				52,160
State sources	622,717	29,846	1,322	57,753	711,638
Federal sources		76,690	30,228		106,918
Sales			59,744		59,744
Total Revenues	10,719,425	106,536	91,294	57,753	10,975,008
EXPENDITURES					
General support	1,591,648				1,591,648
Instruction	5,062,588	108,639			5,171,227
Pupil transportation	288,038	5,358			293,396
Employee benefits	2,998,059		47,198		3,045,257
Debt service					
Principal	334,410				334,410
Interest	126,132				126,132
Food service program			130,733		130,733
Capital outlay				1,876,582	1,876,582
Total Expenditures	10,400,875	113,997	177,931	1,876,582	12,569,385
Excess of Revenues Over (Under) Expenditures	318,550	(7,461)	(86,637)	(1,818,829)	(1,594,377)
OTHER FINANCING SOURCES AND (USES)					
Operating transfers in	9,761	7,461	85,240	2,883	105,345
Operating transfers (out)	(95,584)			(9,761)	(105,345)
Total Other Financing Sources and (Uses)	(85,823)	7,461	85,240	(6,878)	-
Net Change in Fund Balances	232,727	-	(1,397)	(1,825,707)	(1,594,377)
Fund Balances - Beginning of Year	2,133,373		2,484	1,861,412	3,997,269
End of Year	\$ 2,366,100	\$ -	\$ 1,087	\$ 35,705	\$ 2,402,892

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2017

Net Change in Fund Balance \$ (1,594,377)

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

Long-Term Revenue and Expense Differences

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) are being held by a third-party administrator. This is the amount by which other assets - cash held by third-party administrator decreased in the period.

\$ (5,195)

Certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, but are expensed in the Statement of Activities.

Increase in compensated absences payable	(59,385)
Increase in workers' compensation liabilities	(6,282)
Increase in termination benefits	(72,616)
Increase in net other postemployment benefits obligation	<u>(736,276)</u>

(879,754)

Capital Related Differences

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

Capital outlays	1,917,972
Depreciation expense	<u>(416,683)</u>

1,501,289

Long-Term Debt Transactions Differences

Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

Repayment of bond principal	279,500
Repayment of energy performance contract	54,910

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2016 to June 30, 2017.

316

334,726

Pension Differences

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

Teachers' retirement system	22,194
Employees' retirement system	<u>(45,399)</u>

(23,205)

Change in Net Position of Governmental Activities

\$ (661,321)

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2017

	Agency	Private Purpose Trust
ASSETS		
Cash		
Unrestricted	\$ 58,527	\$
Restricted		28,623
Total Assets	\$ 58,527	28,623
 LIABILITIES		
Extraclassroom activity balances	\$ 40,626	
Due to governmental funds	7,969	
Other liabilities	9,932	
Total Liabilities	\$ 58,527	-
 NET POSITION		
Restricted for scholarships		\$ 28,623

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For The Year Ended June 30, 2017

	<u>Private Purpose Trust</u>
ADDITIONS	
Contributions	\$ 13,950
Investment earnings	
Interest	<u>11</u>
Total Additions	13,961
 DEDUCTIONS	
Scholarships and awards	<u>12,050</u>
Change in Net Position	1,911
Net Position - Beginning of Year	<u>26,712</u>
Net Position - End of Year	<u><u>\$ 28,623</u></u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of seven members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

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

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

Extraclassroom Activity Funds

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management. The District reports these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Position - Fiduciary Funds. Separate audited financial statements of the extraclassroom activity funds can be found at the District's Business Office.

B. Joint Venture

The District is a component district in the Board of Cooperative Educational Services of Eastern Suffolk (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section §1950 of the Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

§119-n(a) of the General Municipal Law. A BOCES budget is comprised of separate budgets for administrative, program, and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment as defined in Education Law, Section §1950(4)(b)(7). There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate.

C. Basis of Presentation

District-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

School Food Service Fund - is used to account for the activities of the food service program.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capital Projects Fund - is used to account for the financial resources used for acquisition, construction, renovation or major repair of capital facilities and other capital assets, such as equipment.

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Real Property Taxes

Calendar

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

Enforcement

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

F. Restricted Resources

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

G. Interfund Transactions

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

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

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

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

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingencies at the date of the financial statements and the reported revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including compensated absences, termination benefits, pension costs, other postemployment benefits, workers' compensation liabilities, potential contingent liabilities and useful lives of long-lived assets.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and investments with a maturity date of three months or less from date of acquisition.

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

J. Receivables

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

K. Inventories

Inventories of food in the school food service fund are recorded at cost on a first-in, first-out basis or in the case of surplus food donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. These inventories are accounted for on the consumption method, whereby a current asset for the inventories is recorded at the time of receipt and/or purchase and an expense/expenditure is reported in the year the goods are consumed.

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

A portion of fund balance has been classified as nonspendable to indicate that inventories do not constitute available spendable resources.

L. Other Assets

Other assets represent amounts on deposit that are being held by a third-party administrator for workers' compensation claims.

M. Capital Assets

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

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

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 10,000	50 years
Site improvements	10,000	50 years
Furniture and equipment	500	5-20 years

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

N. Deferred Outflows of Resources

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has two items that qualify for reporting in this category. The first item is related to pensions and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense. The second item is the District's contributions to the pension systems (TRS and ERS) subsequent to the measurement date.

O. Collections in Advance

Collections in advance arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures or when charges for services monies are received in advance from payers prior to the services being rendered by the District. These amounts are recorded as liabilities in the financial statements. The liabilities are removed and revenues are recognized in subsequent periods when the District has legal claim to the resources.

P. Deferred Inflows of Resources

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 deferred inflows of resources reported in the Statement of Net Position represents the effect of the net change in the District's proportion of the collective net pension asset or liability not included in the collective pension expense.

Q. Termination Benefits

Termination benefits consists of retirement incentives as specified in collective bargaining agreements. Upon retirement, resignation or death, employees may contractually receive a payment based on this retirement incentive. The liability is calculated in accordance with GASB Statement No. 47 *Accounting for Termination Benefits*. In the fund financial statements only, the amount of matured liabilities is accrued within the general fund based upon expendable and available resources.

R. Employee Benefits – Compensated Absences

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within varying time periods. Employees are compensated for unused accumulated vacation leave through paid time off or cash payment upon retirement, termination or death.

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

S. Other Benefits

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

District employees may choose to participate in the District's elective deferred compensation plans established under Internal Revenue Code Sections 403(b) and 457.

The District provides health insurance coverage for active employees pursuant to collective bargaining agreements and individual employment contracts.

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

T. Short-Term Debt

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

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

U. Equity Classifications

District-Wide Statements

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Net investment in capital assets – Consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisitions, construction and improvements of those assets.

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

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

Fund Statements

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

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of inventories, which is recorded in the school food service fund.

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

Unemployment Insurance Reserve

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

Retirement Contribution Reserve

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Employee Benefit Accrued Liability Reserve

Employee Benefit Accrued Liability Reserve (GML §6-p) is used to reserve funds for the payment of accrued employee benefit primarily based on unused and unpaid sick leave, personal leave, holiday leave or vacation time due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the general fund.

Capital Reserve

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

Restricted – Unspent Debt Proceeds

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

Restricted for Scholarships

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

Assigned – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the District's Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance includes an amount appropriated to partially fund the subsequent year's budget as well as encumbrances not classified as restricted at the end of the fiscal year.

Unassigned – Represents the residual classification for the District's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification is used to report a deficit fund balance resulting from the overspending of available resources. NYS Real Property Tax Law §1318 restricts the unassigned fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.

Fund Balance Classification

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

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

A. Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities

Total fund balances of the District's governmental funds differ from net position of governmental activities reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the governmental funds Balance Sheet, as applied to the reporting of capital assets and long-term assets and liabilities, including pensions.

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

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities fall into any of four broad categories.

Long-Term Revenue and Expense Differences

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities, thereby affecting expenses such as compensated absences and other postemployment benefits.

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Pension Differences

Pension differences occur as a result of recognizing pension costs under the modified accrual basis of accounting (whereby an expenditure is recognized based on the contractually required contribution as calculated by the plan) versus the accrual basis of accounting (whereby an expense is recognized related to the District's proportionate share of the collective pension expense of the plan).

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

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

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

Contingent expenditures funded by:

Donations - field trips and various programs	\$ 22,425
Insurance recovery	<u>31,470</u>
	<u>\$ 53,895</u>

Budgets are adopted annually on a basis consistent with GAAP.

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

B. Encumbrances

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Unassigned Fund Balance

The District's general fund unassigned fund balance was in excess of the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year. The District is in the process of formulating a plan to reduce the unassigned fund balance to be within the permissible limit. This plan will address funding its reserves to a fiscally prudent level and addressing the capital needs of the District.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

Custodial credit risk is the risk that in the event of a bank failure, the District may be unable to recover deposits or collateral securities that are in possession of an outside agency. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

- A. Uncollateralized,
- B. Collateralized by securities held by the pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the District's name.

The District's aggregate bank balances were covered by FDIC insurance or fully collateralized by securities pledged on the District's behalf at year end.

The District did not have any investments at year-end or during the year. Consequently, the District was not exposed to any material interest rate risk or foreign currency risk.

Investment pool:

The District participates in the Cooperative Liquid Assets Securities System – New York (NYCLASS) a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article 3-A and 5-G, whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents. All NYCLASS investment and collateral policies are in accordance with general municipal law sections 10 and 11.

Total investments of the cooperative at June 30, 2017 are \$670,541,676, which consisted of \$166,914,400 in repurchase agreements, \$322,759,602 in U.S. Treasury Securities, and \$180,867,674 in collateralized bank deposits, with various interest rates and due dates.

The amount of \$3,176 is included as cash in the general fund.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The above amount represents the fair value of the investment pool shares. The lead participant of NYCLASS is the Village of Potsdam. Additional information concerning NYCLASS, including the annual report, can be found on its website at www.newyorkclass.org.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2017, the District was billed \$195,103 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$40,534. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

6. DUE FROM STATE AND FEDERAL

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

General Fund	
New York State - excess cost aid	\$ 17,307
New York State - general aid	598
	<u>17,905</u>
Special Aid Fund	
Federal and state grants	45,021
School Food Service Fund	
Federal and state food service program reimbursements	82
	<u>\$ 63,008</u>

7. DUE FROM OTHER GOVERNMENTS

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

General Fund	
BOCES aid	<u>\$ 40,534</u>

8. INTERFUND TRANSACTIONS

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 139,407	\$	\$ 9,761	\$ 95,584
Special Aid Fund		48,208	7,461	
School Food Service Fund		23,743	85,240	
Capital Projects Fund		59,487	2,883	9,761
Total Governmental Funds	<u>139,407</u>	<u>131,438</u>	<u>\$ 105,345</u>	<u>\$ 105,345</u>
Fiduciary Funds		<u>7,969</u>		
Total	<u>\$ 139,407</u>	<u>\$ 139,407</u>		

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The District typically transfers from the general fund to the special aid fund in accordance with the general fund budget. The transfer is to provide the District's 20% share of the summer program for students with disabilities. The District transferred from the general fund to the school lunch fund to subsidize the lunch program. The transfer from the general fund to the capital projects fund in the amount of \$2,883 was to cover unanticipated additional cost in the 2015 bond issuance project. The District transferred \$9,761 from the capital projects fund to the general fund, which represents unspent capital reserve funds in the district-wide improvements project. These funds were returned to the general fund's restricted capital reserve.

9. CAPITAL ASSETS

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Governmental activities				
Capital assets not being depreciated				
Land	\$ 25,200	\$	\$	\$ 25,200
Construction in progress	1,183,907	1,818,829		3,002,736
Total capital assets not being depreciated	<u>1,209,107</u>	<u>1,818,829</u>	<u>-</u>	<u>3,027,936</u>
Capital assets being depreciated				
Buildings and improvements	10,751,923			10,751,923
Site improvements	752,026			752,026
Furniture and equipment	1,506,732	99,143	(19,983)	1,585,892
Total capital assets being depreciated	<u>13,010,681</u>	<u>99,143</u>	<u>(19,983)</u>	<u>13,089,841</u>
Less accumulated depreciation for:				
Buildings and improvements	4,752,490	288,227		5,040,717
Site improvements	223,140	36,823		259,963
Furniture and equipment	775,463	91,633	(19,983)	847,113
Total accumulated depreciation	<u>5,751,093</u>	<u>416,683</u>	<u>(19,983)</u>	<u>6,147,793</u>
Total capital assets, being depreciated, net	<u>7,259,588</u>	<u>(317,540)</u>	<u>-</u>	<u>6,942,048</u>
Capital assets, net	<u>\$ 8,468,695</u>	<u>\$ 1,501,289</u>	<u>\$ -</u>	<u>\$ 9,969,984</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 76,840
Instruction	338,320
Food service program	<u>1,523</u>
Total depreciation expense	<u>\$ 416,683</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

10. SHORT-TERM DEBT

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

	Maturity	Stated Interest Rate	Balance June 30, 2016	Issued	Redeemed	Balance June 30, 2017
TAN	6/27/2017	1.16%	\$	\$ 1,700,000	\$ (1,700,000)	\$

Interest on short-term debt for the year was \$13,914.

11. LONG-TERM LIABILITIES

A. Changes

Long-term liability balances and activity, excluding pensions and other postemployment benefits obligations, for the year are summarized below:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 3,784,500	\$	\$ (279,500)	\$ 3,505,000	\$ 285,000
Energy performance contract	1,007,359		(54,910)	952,449	56,235
Other long-term liabilities:					
Compensated absences	499,323	59,385		558,708	107,650
Workers' compensation	36,905	19,426	(13,144)	43,187	
Termination benefits	267,701	72,616		340,317	
	<u>\$ 5,595,788</u>	<u>\$ 151,427</u>	<u>\$ (347,554)</u>	<u>\$ 5,399,661</u>	<u>\$ 448,885</u>

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

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2017
2012 Serial Bonds				
- Construction	7/26/2012	6/15/2029	2.0-2.5%	\$ 1,975,000
2015 Serial Bonds				
- Building improvements	12/1/2015	6/1/2030	2.0-3.0%	<u>1,530,000</u>
				<u>\$ 3,505,000</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 285,000	\$ 78,556	\$ 363,556
2019	290,000	72,856	362,856
2020	295,000	67,056	362,056
2021	305,000	61,157	366,157
2022	310,000	55,056	365,056
2023 - 2027	1,315,000	190,507	1,505,507
2028 - 2030	705,000	35,475	740,475
Total	<u>\$ 3,505,000</u>	<u>\$ 560,663</u>	<u>\$ 4,065,663</u>

C. Energy Performance Contract

Energy performance contract is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2017
Energy performance contract	3/21/2016	3/15/2031	2.85%	<u>\$ 952,449</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 56,235	\$ 26,747	\$ 82,982
2019	57,849	25,133	82,982
2020	59,510	23,472	82,982
2021	61,218	21,764	82,982
2022	62,975	20,007	82,982
2023 - 2027	343,047	71,862	414,909
2028 - 2031	311,615	20,313	331,928
Total	<u>\$ 952,449</u>	<u>\$ 209,298</u>	<u>\$ 1,161,747</u>

D. Interest Expense

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

Interest paid	\$ 112,218
Less interest accrued in the prior year	(5,106)
Plus interest accrued in the current year	<u>4,790</u>
Total interest expense on long-term debt	<u>\$ 111,902</u>

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

12. PENSION PLANS – NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

The TRS is administered by the New York State Teachers' Retirement Board. The TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in the TRS. Once a public employer elects to participate in the TRS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the TRS may be found on the TRS website at www.nystrs.org or obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

Obligations of employers and employees to contribute and benefits to employees are governed by the NYSRSSL. The net position of the ERS is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the ERS. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as the trustee of the Fund and is the administrative head of the ERS. Once a public employer elects to participate in the ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found on the NYS Comptroller's website www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

C. Funding Policies

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to ERS or 3.5% of their salary to TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

for the TRS' fiscal year ended June 30th, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31st, and employer contributions are either paid by the prior December 15th less a 1% discount or by the prior February 1st. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year. The District's contribution rate was 13.26% of covered payroll for the TRS' fiscal year ended June 30, 2016. The District's average contribution rate was 14.04% of covered payroll for the ERS, fiscal year ended March 31, 2017.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2017, was \$519,292 for TRS and \$123,632 for ERS.

D. Pension Liabilities, Pension Expense, 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 June 30, 2016, for TRS and March 31, 2017 for ERS. 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 TRS and the ERS in reports provided to the District.

	TRS	ERS
Measurement date	June 30, 2016	March 31, 2017
District's proportionate share of the net pension liability	\$ (306,412)	\$ (318,676)
District's portion of the Plan's total net pension liability	0.0286090%	0.0033915%
Change in proportion since the prior measurement date	0.0003570	(0.0003735)

For the year ended June 30, 2017, the District recognized pension expense of \$497,098 for TRS and \$157,107 for ERS. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	TRS	ERS	TRS	ERS
Differences between expected and actual experience	\$	\$ 7,986	\$ 99,540	\$ 48,393
Changes of assumptions	1,745,518	108,870		
Net difference between projected and actual earnings on pension plan investments	688,975	63,653		
Changes in proportion and differences between the District's contributions and proportionate share of contributions			66,059	40,540
District's contributions subsequent to the measurement date	519,292	39,903		
Total	\$ 2,953,785	\$ 220,412	\$ 165,599	\$ 88,933

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

Year Ending	TRS	ERS
2018	\$ 203,496	\$ 46,804
2019	203,496	46,804
2020	738,573	45,332
2021	572,095	(47,364)
2022	257,171	
Thereafter	294,063	
	\$ 2,268,894	\$ 91,576

Actuarial Assumptions

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

	TRS	ERS
Measurement date	June 30, 2016	March 31, 2017
Actuarial valuation date	June 30, 2015	April 1, 2016
Inflation	2.5%	2.5%
Salary increases	1.90-4.72%	3.8%
Investment rate of return (net of investment expense, including inflation)	7.5%	7.0%
Inflation rate	1.5%	1.3%

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

For TRS, annuitant mortality rates are based on plan member experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014, applied on a generational basis. Active member mortality rates are based on plan member experience. For ERS, annuitant mortality rates are based on system experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

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

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for the TRS and 7.0% for the ERS (the discount rate used by the TRS at the prior year's measurement date of June 30, 2015 was 8.0%). The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

TRS	1% Decrease (6.50)%	Current Assumption (7.50)%	1% Increase (8.50)%
District's proportionate share of the net pension asset (liability)	<u>\$ (3,997,841)</u>	<u>\$ (306,412)</u>	<u>\$ 2,789,765</u>
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	<u>\$ (1,017,789)</u>	<u>\$ (318,676)</u>	<u>\$ 272,422</u>

Pension Plan Fiduciary Net Position

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

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

Payables to the Pension Plan

For the 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 employer and employee contributions for the fiscal year ended June 30, 2017, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS system. Accrued retirement contributions as of June 30, 2017 amounted to \$519,292 of employer contributions and \$46,449 of employee contributions.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

For the ERS, employer contributions are paid annually based on the system's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2017, represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$39,903 of employer contributions. Employee contributions are remitted monthly.

13. PENSION PLANS - OTHER

A. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain compensated absence payments and supplemental payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2017, totaled \$6,000 and \$31,560, respectively.

B. Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2017 totaled \$157,421.

14. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. Plan Description

The District provides medical, Medicare part B reimbursement, and dental and vision coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through United Healthcare. The plan does not issue a stand-alone financial report.

B. Funding Policy

The District assumes up to 50% of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements the liabilities for premiums mature (come due for payment) based on the terms of employment contracts. For the year ended June 30, 2017, the District recognized a general fund expenditure of \$724,748 for insurance premiums for 40 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the "pay as you go" method.

C. Annual OPEB Cost and Net OPEB Obligation

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Annual required contribution (ARC)	\$ 1,537,106
Interest on net OPEB obligation	194,866
Adjustment to ARC	<u>(270,948)</u>
Annual OPEB cost (expense)	1,461,024
Contributions made	<u>(724,748)</u>
Increase in net OPEB obligation	736,276
Net OPEB obligation - beginning of year	<u>4,871,649</u>
Net OPEB obligation - end of year	<u>\$ 5,607,925</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 1,461,024	49.6%	\$ 5,607,925
June 30, 2016	1,424,238	46.0%	4,871,649
June 30, 2015	1,452,626	44.7%	4,102,282

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 \$24,277,525 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$24,277,525. The covered payroll (annual payroll of active employees covered by the plan) was \$5,497,537, and the ratio of the UAAL to the covered payroll was 442%.

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

E. Actuarial Methods and Assumptions

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

In the July 1, 2016, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3% discount rate and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 4.5% in 2022 and a 2.6% inflation rate. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

In the prior actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after 6 years and a 4% inflation rate. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

15. RISK MANAGEMENT

A. General Information

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

B. Public Entity Risk Pool – Risk Retained

The District participates in a risk pool, the East End Workers' Compensation Consortium (EEWCC), to insure workers' compensation claims. This public entity risk pool was created under Article 5 of Workers' Compensation Law, to evaluate, process, administer, and pay workers' compensation claims. The District retains the risk of loss.

The District pays an annual assessment to the pool for its workers' compensation claims coverage and related expenses. The EEWCC has obtained an excess compensation insurance policy to buffer the effect that a single large claim may have on the District's loss experience. The EEWCC established a non-discounted liability for both reported and unreported insured events, which includes estimates of both future payments or losses and related claim adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported.

The District's liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2017, as processed by the EEWCC, is \$43,187. Claims activity is summarized as follows:

	2016	2017
Claims at beginning of year	\$ 29,972	\$ 36,905
Incurred claims and claim adjustment expenses	16,685	19,426
Claims payments and expenses	(9,752)	(13,144)
Claims liabilities at end of year	\$ 36,905	\$ 43,187

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The EEWCC is holding \$173,777 of cash on account for the District to satisfy these liabilities at June 30, 2017.

The EEWCC has issued financial statements for the year ended June 30, 2017. Copies of these statements can be obtained from the District's Business Office.

C. Public Entity Risk Pool - Risk Sharing

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

16. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$605,440 has been appropriated to reduce taxes for the year ending June 30, 2018.

17. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2017, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance:

General Fund	
General Support	\$ 29,510
Instruction	4,160
	<hr/> 33,670
Capital Projects Fund	
Capital projects	<hr/> 41,250
	<hr/> \$ 74,920

B. Grants

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

C. Litigation

The District is involved in lawsuits arising from the normal conduct of its affairs. The District believes that the outcome of any matters will not have a material effect on these financial statements.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

18. SUBSEQUENT EVENTS

The District has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued. No significant events were identified that would require adjustment of or disclosure in the financial statements, except for the following:

On October 11, 2017, the District issued tax anticipation notes in the amount of \$1,900,000, which are due June 27, 2018 and bear interest at stated rates of 2.00%. The District received premiums of \$8,837 with the borrowing to yield an effective interest rate of 1.35%.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 9,868,877	\$ 9,864,162	\$ 9,864,162	\$ -
Other tax items	131,939	136,654	136,734	80
Charges for services			450	450
Use of money and property	9,000	9,000	11,732	2,732
Sale of property and compensation for loss		31,470	31,470	-
Miscellaneous	21,000	43,425	52,160	8,735
Total Local Sources	10,030,816	10,084,711	10,096,708	11,997
State Sources	586,038	586,038	622,717	36,679
Total Revenues	10,616,854	10,670,749	10,719,425	48,676
OTHER FINANCING SOURCES				
Operating Transfers In			9,761	9,761
Total Revenues and Other Sources	10,616,854	10,670,749	10,729,186	\$ 58,437
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	350,000	350,000		
Prior Year's Encumbrances	39,407	39,407		
Total Appropriated Fund Balance	389,407	389,407		
Total Revenues, Other Sources and Appropriated Fund Balance	\$ 11,006,261	\$ 11,060,156		

Note to Required Supplementary Information

Budget Basis of Accounting

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 96,517	\$ 103,571	\$ 100,032	\$	\$ 3,539
Central administration	190,128	189,503	184,645	1,010	3,848
Finance	402,524	401,918	366,894	28,500	6,524
Staff	59,874	58,436	42,300		16,136
Central services	781,500	775,577	745,678		29,899
Special items	151,426	154,040	152,099		1,941
Total General Support	1,681,969	1,683,045	1,591,648	29,510	61,887
Instruction					
Administration and improvement	280,426	296,131	293,626		2,505
Teaching - regular school	2,884,393	2,996,523	2,942,146	4,160	50,217
Programs for students with disabilities	1,026,824	956,453	933,625		22,828
Occupational education	39,287	13,401	12,425		976
Teaching - special schools	15,080	10,958	9,319		1,639
Instructional media	246,927	247,517	239,456		8,061
Pupil services	652,090	669,348	631,991		37,357
Total Instruction	5,145,027	5,190,331	5,062,588	4,160	123,583
Pupil Transportation	354,458	359,713	288,038		71,675
Employee Benefits	3,279,167	3,268,303	2,998,059		270,244
Debt Service					
Principal	334,263	334,410	334,410		-
Interest	126,377	126,231	126,132		99
Total Debt Service	460,640	460,641	460,542	-	99
Total Expenditures	10,921,261	10,962,033	10,400,875	33,670	527,488
OTHER USES					
Operating Transfers Out	85,000	98,123	95,584		2,539
Total Expenditures and Other Uses	\$ 11,006,261	\$ 11,060,156	10,496,459	\$ 33,670	\$ 530,027
Net Change in Fund Balance			232,727		
Fund Balance - Beginning of Year			2,133,373		
Fund Balance - End of Year			\$ 2,366,100		

Note to Required Supplementary Information

Budget Basis of Accounting

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Funding Progress - Other Postemployment Benefits
 June 30, 2017

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016*	\$ -	\$ 24,277,525	\$ 24,277,525	0%	\$ 5,497,537	441.6%
June 30, 2015	-	16,120,584	16,120,584	0%	5,309,616	303.6%
December 31, 2012	-	14,814,424	14,814,424	0%	5,481,108	270.3%

* See note 14 "Postemployment Healthcare Benefits" for changes in actuarial methods and assumptions.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability
 Last Three Fiscal Years *

Teachers' Retirement System

	2017	2016	2015
District's proportion of the net pension asset (liability)	0.0286090%	0.0282520%	0.0269050%
District's proportionate share of the net pension asset (liability)	\$ (306,412)	\$ 2,934,447	\$ 2,997,094
District's covered payroll	\$ 4,696,482	\$ 4,607,840	\$ 4,189,349
District's proportionate share of the net pension asset (liability) as a percentage of its covered payroll	6.52 %	63.68 %	71.54 %
Plan fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%

Employees' Retirement System

	2017	2016	2015
District's proportion of the net pension liability	0.0033915%	0.0037650%	0.0038356%
District's proportionate share of the net pension liability	\$ (318,676)	\$ (604,297)	\$ (129,575)
District's covered payroll	\$ 983,404	\$ 915,415	\$ 955,099
District's proportionate share of the net pension liability as a percentage of its covered payroll	32.41 %	66.01 %	(13.57)%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.68%	97.95%

Note to Required Supplementary Information

Teachers' Retirement system

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

Employees' Retirement system

The discount rate decreased from 7.5% to 7.0% as reflected in 2015 and 2016 above.

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

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of District Pension Contributions
 Last Ten Fiscal Years

Teachers' Retirement System

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 519,292	\$ 578,850	\$ 742,237	\$ 628,160	\$ 453,655	\$ 424,613	\$ 453,158	\$ 248,991	\$ 288,689	\$ 310,625
Contributions in relation to the contractually required contribution	519,292	578,850	742,237	628,160	453,655	424,613	453,158	248,991	288,689	310,625
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 4,596,387	\$ 4,696,482	\$ 4,607,840	\$ 4,189,349	\$ 3,658,507	~ Information Not Readily Available ~				
Contributions as a percentage of covered payroll	11%	12%	16%	15%	12%					

Employees' Retirement System

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 123,632	\$ 127,108	\$ 147,146	\$ 161,815	\$ 142,102	\$ 150,033	\$ 119,678	\$ 84,950	\$ 54,883	\$ 79,431
Contributions in relation to the contractually required contribution	123,632	127,108	147,146	161,815	142,102	150,033	119,678	84,950	54,883	79,431
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 985,529	\$ 933,859	\$ 940,335	\$ 1,052,416	\$ 1,045,115	~ Information Not Readily Available ~				
Contributions as a percentage of covered payroll	13%	14%	16%	15%	14%					

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
and the Real Property Tax Limit - General Fund
For The Year Ended June 30, 2017

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 10,966,854
Additions:		
Prior year's encumbrances		<u>39,407</u>
Original Budget		11,006,261
Budget revisions		<u>53,895</u>
Final Budget		<u><u>\$ 11,060,156</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2017-18 voter-approved expenditure budget		<u>\$ 11,327,228</u>
Maximum allowed (4% of 2017-18 budget)		<u><u>\$ 453,089</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 639,110	
Unassigned fund balance	<u>1,062,411</u>	
		\$ 1,701,521
Less:		
Appropriated fund balance	605,440	
Encumbrances	<u>33,670</u>	
Total adjustments		<u>639,110</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		<u><u>\$ 1,062,411</u></u>
Actual Percentage		9.38%

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures and Financing Resources - Capital Projects Fund
For The Year Ended June 30, 2017

PROJECT TITLE	Budget June 30, 2016	Budget June 30, 2017	Expenditures			Unexpended Balance	Methods of Financing			Fund Balance June 30, 2017		
			Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources		Total	
District-wide renovations	\$ 381,000	\$ 381,000	\$ 371,239	\$	\$ 371,239	\$ 9,761	\$	\$	\$ 381,000	\$ 381,000	\$ 9,761	
2015 Bond issuance	1,629,500	1,632,382	638,479	958,198	1,596,677	35,705	1,629,500		2,882	1,632,382	35,705	
Energy performance (soft cost)	27,461	27,461	27,461		27,461	-			27,461	27,461	-	
Energy performance lease	1,007,359	1,007,359	146,728	860,631	1,007,359	-	1,007,359			1,007,359	-	
Smart Schools Bond Act		57,753		57,753	57,753	-		57,753		57,753	-	
Totals	\$ 3,045,320	\$ 3,105,955	\$ 1,183,907	\$ 1,876,582	\$ 3,060,489	\$ 45,466	\$ 2,636,859	\$ 57,753	\$ 411,343	\$ 3,105,955	45,466	
											Less: Transfer of unspent capital reserve monies to general fund	(9,761)
												\$ 35,705

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2017

Capital assets, net	<u>\$ 9,969,984</u>
Deduct:	
Short-term portion of bonds payable	285,000
Long-term portion of bonds payable	3,220,000
Less: Unspent debt proceeds	(35,705)
Short-term portion of energy performance contract payable	56,235
Long-term portion of energy performance contract payable	<u>896,214</u>
	<u>4,421,744</u>
Net Investment in Capital Assets	<u><u>\$ 5,548,240</u></u>



NawrockiSmith

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Education of the
Shelter Island Union Free School District
Town of Shelter Island, 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 fiduciary funds of the Shelter Island Union Free 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, and have issued our report thereon dated October 19, 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 opinions 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

NawrockiSmith

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items 17-01 and 17-02.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Melville, New York
October 19, 2017



SHELTER ISLAND UNION FREE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Findings - Financial Statement Audit

17-01 The District's unassigned fund balance in the General Fund exceeded the limitation as promulgated by New York State statute.

Condition: The District did not comply with the limitations on unassigned fund balance.

Criteria: New York State law limits the unassigned fund balance of the General Fund to 4% of the following year's expenditure budget.

Effect: The District did not comply with the New York State accounting requirements as of June 30, 2017.

Cause: The District was not able to make a proper disposition of excess fund balance.

Recommendation: The District should implement procedures to monitor fund balance throughout the year to comply with New York State requirements.

Response: The District is in agreement with this finding and will ensure policies and procedures are in effect to comply with such accounting requirements in the future.

17-02 The submission of the Annual Financial Report on Form ST-3 to the New York State Education Department did not occur until subsequent to the filing deadline.

Condition: The District did not fulfill its annual reporting requirement to the New York State Education Department in accordance with the requisite due date.

Criteria: The New York State Education Department required that the District submit its Annual Financial Report on Form ST-3 by September 4, 2017.

Effect: The District did not fulfill its New York State Education Department report requirement as of the required submission date.

Cause: Information necessary to complete the submission was not readily available, therefore, the Annual Financial Report on Form ST-3 was not prepared on a timely basis.

Recommendation: The District should implement procedures to ensure sufficient time to comply with New York State Education Department reporting requirements.

Response: The District is in agreement with this finding and will ensure procedures are in effect to comply with such requirements in the future.

SHELTER ISLAND UNION FREE SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

Findings - Financial Statement Audit

16-01 Recommendation - The District should implement procedures to monitor fund balance throughout the year to comply with New York State requirements.

Status - We noted this recommendation was not implemented.

16-02 Recommendation - The District should implement procedures to ensure sufficient time to comply with New York State Education Department reporting requirements.

Status - We noted this recommendation was not implemented.