



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

**June 30, 2017**

**COMMACK UNION FREE SCHOOL DISTRICT  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Commack Union Free School District  
Commack, 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 Commack Union Free School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

## ***Changes in Accounting Principles***

As described in Note 2 to the financial statements, "Changes in Accounting Principles", the District has adopted the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*, as of June 30, 2017. Our opinion is not modified with respect to this matter.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedules of funding progress – other postemployment benefits, the District's proportionate share of the net pension asset/liability, and District pension contributions on pages 3 through 15 and 51 through 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commack Union Free School District's basic financial statements. The other supplementary information on pages 56 through 58 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information requested by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of the Commack Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commack Union Free School District's internal control over financial reporting and compliance.

*Cullen & Danowski, LLP*  
September 29, 2017

## COMMACK UNION FREE SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

The Commack Union Free School District's discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 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.

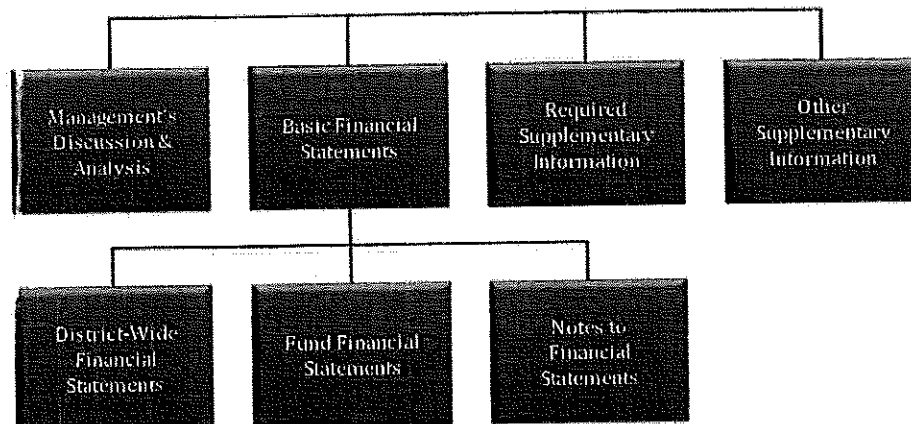
### 1. FINANCIAL HIGHLIGHTS

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 \$7,619,944. This was due to an excess of expenses over revenues based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$192,038,186. Of this amount, \$6,826,707 was offset by program charges for services and operating grants. General revenues of \$177,591,535 amount to 96.3% of total revenues, and were not adequate to cover the balance of program expenses.
- The general fund's total fund balance, as reflected in the fund financial statements, decreased by \$361,017. This was due to an excess of expenditures over revenues based on the modified accrual basis of accounting.
- The general fund's unassigned fund balance is \$5,185,587, which is 2.73% of the 2017-18 voter approved budget of \$190,163,464. New York State Real Property Tax Law allows the District to retain up to 4% of the ensuing year's budget as unassigned fund balance.
- The District's maximum tax cap increase for 2016-17, as calculated in accordance with the provisions of NYS law was 0.38%, which was the actual tax levy increase for the District. Since the inception of the property tax cap limit in 2012-13, this was the first year that the District increased taxes by the maximum tax cap allowed.

### 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:



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

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**A. District-Wide Financial Statements**

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

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

The Statement of Net Position

The Statement of Net Position presents information on all of the District's assets 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, 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.

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

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

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

**Fiduciary Funds**

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

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

**A. Net Position**

The District's total net position decreased by \$7,619,944 between fiscal year 2017 and 2016. The decrease is due to expenses in excess of revenues based on the accrual basis of accounting. The prior period has been restated to reflect the effect of a prior period adjustment affecting receivables due from state and federal related to the District's Section 4408 summer placement program, and accounts payable for health insurance benefits. The accompanying Notes to Financial Statements, Note 21 "Prior Period Adjustment", provides additional information. A summary of the District's Statements of Net Position follows:

	<u>2017</u>	<u>As Restated 2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>Assets</b>				
Current and Other Assets	\$ 50,612,157	\$ 52,130,966	\$ (1,518,809)	(2.91)%
Capital Assets, Net	95,632,281	99,959,229	(4,326,948)	(4.33)%
Net Pension Asset - Proportionate Share		<u>53,967,057</u>	<u>(53,967,057)</u>	(100.00)%
Total Assets	<u>146,244,438</u>	<u>206,057,252</u>	<u>(59,812,814)</u>	(29.03)%
<b>Deferred Outflows of Resources</b>	<u>60,267,626</u>	<u>21,667,544</u>	<u>38,600,082</u>	178.15 %

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

	2017	As Restated 2016	Increase (Decrease)	Percentage Change
<b>Liabilities</b>				
Current and Other Liabilities	13,854,451	16,221,563	(2,367,112)	(14.59)%
Long-Term Liabilities	80,255,480	87,784,983	(7,529,503)	(8.58)%
Net Other Postemployment Benefits Obligation	75,696,378	65,008,909	10,687,469	16.44 %
Net Pension Liability - Proportionate Share	10,444,457	8,176,509	2,267,948	27.74 %
<b>Total Liabilities</b>	<u>180,250,766</u>	<u>177,191,964</u>	<u>3,058,802</u>	1.73 %
<b>Deferred Inflows of Resources</b>	<u>3,191,764</u>	<u>19,843,354</u>	<u>(16,651,590)</u>	(83.92)%
<b>Net Position</b>				
Net investment in capital assets	35,994,861	33,956,940	2,037,921	6.00 %
Restricted	11,932,795	10,814,094	1,118,701	10.34 %
Unrestricted (Deficit)	<u>(24,858,122)</u>	<u>(14,081,556)</u>	<u>(10,776,566)</u>	(76.53)%
<b>Total Net Position</b>	<u>\$ 23,069,534</u>	<u>\$ 30,689,478</u>	<u>\$ (7,619,944)</u>	(24.83)%

Current and other assets decreased by \$1,518,809 to \$50,612,157. The District's cash balance at June 30, 2017 decreased from the prior year by \$1,297,095 and receivables and other assets decreased in the net amount of \$221,714.

Capital assets, net decreased by \$4,326,948, as compared to the prior year. Capital outlays during the year of \$572,877 was offset by depreciation expense in the amount of \$4,899,825.

Net pension asset – proportionate share was eliminated in the current year as the New York State Teachers' Retirement System experienced an actuarially calculated loss, principally due to a decrease in the discount rate from 8.0% to 7.5%, which resulted in an ending balance that was a liability; therefore, the District's proportionate share is a liability.

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 and deferred charges from prior year bond refundings that are being amortized over the remaining term of the bonds.

Current and other liabilities decreased by \$2,367,112. Accounts payable decreased by \$678,493 and amounts due to the teachers' retirement system decreased \$1,265,508, as the employer contribution rate was reduced from 13.26% of covered salaries in 2016 to 11.72% in 2017.

Long-term liabilities decreased by \$7,529,503, as compared to the prior year. This decrease was primarily a result of the payment of principal on the District's existing debt and the amortization of deferred premiums on advanced refunding totaling \$7,779,582.



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

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Net other postemployment benefits (OPEB) obligation increased by \$10,687,469, as compared to the prior year. This increase is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 16 "Postemployment Healthcare Benefits", provides additional information.

Net pension liability - proportionate share increased by \$2,267,948 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 liability at the measurement date of the respective year.

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

The net investment in capital assets in the amount of \$35,994,861 is the investment in capital assets at cost, including land, construction in progress, buildings and improvements, site improvements, furniture and equipment, and licensed vehicles, net of depreciation and related outstanding debt. This number increased over the prior year by \$2,037,921.

The restricted amount of \$11,932,795 relates to the District's reserves, which increased over the prior year by \$1,118,701 as follows:

Increases:		
Funding of reserves	\$ 1,866,777	
Interest earnings	<u>21,878</u>	
Total Increases		\$ 1,888,655
Decreases:		
Reserves used to pay current expenses:		
Sick day payouts to retirees upon termination	(469,954)	
Contribution to the employees' retirement system	(150,000)	
Principal and interest on serial bonds	<u>(150,000)</u>	
Total Decreases		<u>(769,954)</u>
		<u>\$ 1,118,701</u>

The unrestricted deficit amount of \$(24,858,122) 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 \$10,776,566

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

**B. Changes in Net Position**

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

	2017	2016	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 3,135,731	\$ 3,645,228	\$ (509,497)	(13.98)%
Operating Grants	3,690,976	3,583,076	107,900	3.01 %
General Revenues				
Property Taxes and STAR	132,440,097	131,931,495	508,602	0.39 %
State Sources	40,366,753	37,608,710	2,758,043	7.33 %
Other	4,784,685	14,411,929	(9,627,244)	(66.80)%
Total Revenues	<u>184,418,242</u>	<u>191,180,438</u>	<u>(6,762,196)</u>	<u>(3.54)%</u>
<b>Expenses</b>				
General Support	23,786,069	22,612,618	1,173,451	5.19 %
Instruction	152,127,019	143,257,733	8,869,286	6.19 %
Pupil Transportation	12,471,433	12,707,569	(236,136)	(1.86)%
Debt Service - Interest	2,342,099	2,370,667	(28,568)	(1.21)%
Food Service Program	1,311,566	1,234,114	77,452	6.28 %
Total Expenses	<u>192,038,186</u>	<u>182,182,701</u>	<u>9,855,485</u>	<u>5.41 %</u>
Increase / (Decrease) in Net Position	<u>\$ (7,619,944)</u>	<u>\$ 8,997,737</u>	<u>\$ (16,617,681)</u>	<u>(184.69)%</u>

The District's net position decreased by \$7,619,944 and increased by \$8,997,737 for the years ended June 30, 2017 and 2016, respectively.

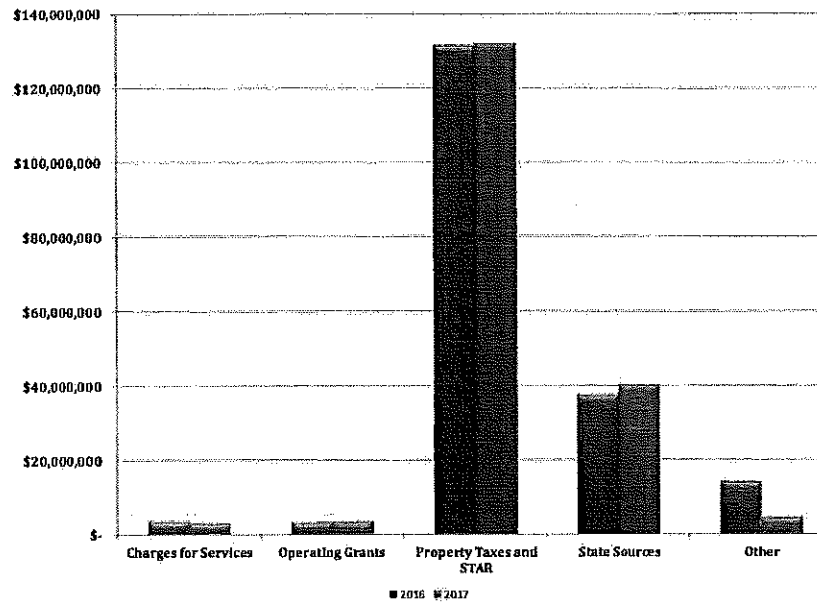
Revenues decreased \$6,762,196 from the prior year as the District recognized a one-time revenue in 2016 of \$11,736,000 from the surrendering of certain life insurance policies and the recording of the cash surrender value of policies still in force that were purchased as part of a retirement incentive. Excluding that one-time revenue, total revenues in 2017 would have increased \$4,973,804.

Expenses increased by \$9,855,485 over the prior year. Employee benefits increased \$7,687,490 as the teachers' retirement system expense, actuarially calculated in accordance with GASB 68, increased by \$12,763,659. This increase was offset by a decrease in life insurance expense of \$5,521,581, which was paid to an insurance company in the prior year to assume the liability to employees retiring under the local retirement incentive.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 71.8% and 68.9% of the total for the years 2017 and 2016, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 79.2% and 78.6% of the total for the years 2017 and 2016, respectively).

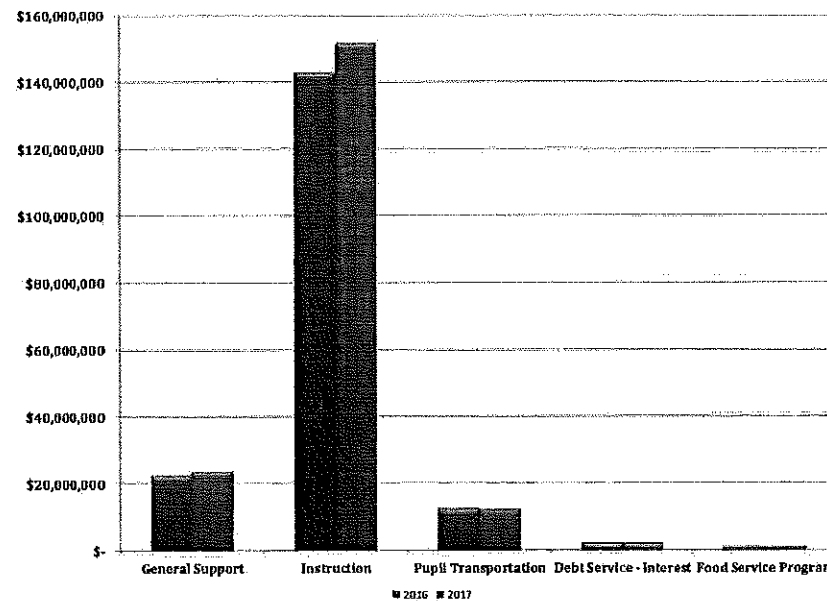
**COMMACK UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)**

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



	Charges for Services	Operating Grants	Property Taxes and STAR	State Sources	Other
2016	1.9%	1.9%	68.9%	19.6%	7.7%
2017	1.7%	2.0%	71.8%	21.9%	2.6%

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	12.4%	78.6%	7.0%	1.3%	0.7%
2017	12.4%	79.2%	6.5%	1.2%	0.7%

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

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

At June 30, 2017, the District's governmental funds reported a combined fund balance of \$32,322,661, which is a decrease of \$243,679 from the prior year. This decrease is due to an excess of expenditures over revenues based upon the modified accrual basis of accounting. The prior period has been restated to reflect the effect of a prior period adjustment affecting receivables due from state and federal related to the District's Section 4408 summer placement program, and accounts payable for health insurance benefits. The accompanying Notes to Financial Statements, Note 21 "Prior Period Adjustment", provides additional information. A summary of the change in fund balance by fund is as follows:

	2017	As Restated 2016	Increase (Decrease)
<b>General Fund</b>			
Restricted			
Workers' compensation	\$ 1,798,073	\$ 1,795,793	\$ 2,280
Unemployment insurance	319,891	319,438	453
Retirement contribution	906,771	406,759	500,012
Insurance	188,879	188,612	267
Employee benefit accrued liability	7,486,342	6,745,278	741,064
Repairs	17,234	2,210	15,024
Assigned:			
Appropriated fund balance	7,609,753	8,908,924	(1,299,171)
Unappropriated fund balance	787,115	236,468	550,647
Unassigned: Fund balance	5,185,587	6,057,180	(871,593)
	<u>24,299,645</u>	<u>24,660,662</u>	<u>(361,017)</u>
<b>School Food Service Fund</b>			
Nonspendable: Inventory	3,400	3,793	(393)
Assigned: Unappropriated fund balance	476,326	438,452	37,874
	<u>479,726</u>	<u>442,245</u>	<u>37,481</u>
<b>Debt Service Fund</b>			
Restricted: Debt service	<u>1,215,605</u>	<u>1,356,004</u>	<u>(140,399)</u>
<b>Capital Projects Fund</b>			
Restricted: Unspent debt proceeds	5,528,267	6,129,144	(600,877)
Assigned: Unappropriated fund balance	799,418		799,418
Unassigned: Fund balance (Deficit)		(21,715)	21,715
	<u>6,327,685</u>	<u>6,107,429</u>	<u>220,256</u>
Total Fund Balance	<u>\$ 32,322,661</u>	<u>\$ 32,566,340</u>	<u>\$ (243,679)</u>

**A. General Fund**

Total revenues, adjusted for a one-time receipt in the prior year of \$7,801,477 from the surrendering of life insurance policies, increased by \$3,460,315. This increase is attributed to increases in state source revenue of \$2,025,001 and property taxes and STAR of \$508,602. Total expenditures and other financing sources, adjusted for the one-time payment of \$5,521,581 made in the prior year, increased by \$391,193. Increases in general support and instruction totaling \$1,018,995 and the transfer to the special aid fund to cover the local share of the summer placement program of \$276,181 were offset by a \$ 1,032,143 reduction in employee benefits.

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

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**B. School Food Service Fund**

The net change in the school food service fund – fund balance is an increase of \$37,481, which was the operating profit of the food service program. In the prior year, the District operated at a \$10,907 profit. Increases in sales revenue and federal reimbursements totaling \$52,073 was offset by an increase in expenditures of \$24,001.

**C. Debt Service Fund**

The net change in the debt service fund – fund balance is a decrease of \$140,399, which represents expenditures in excess of revenues in the current year. The fund earned \$9,601 of interest, which was offset by a budgeted transfer to the general fund of \$150,000.

**D. Capital Projects Fund**

The net change in the capital projects fund – fund balance is an increase of \$220,256. A budgeted interfund transfer from the general fund for \$1,190,000 was offset by capital expenditures in the amount of \$369,744 and a \$600,000 transfer to the general fund of unspent bond proceeds.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2016-17 Budget**

The District's general fund adopted budget for the year ended June 30, 2017 was \$187,532,817. This amount was increased by encumbrances carried forward from the prior year in the amount of \$236,468 and budget revisions in the amount of \$817,574, for a total final budget of \$188,586,859.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$132,432,249 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, as Restated	\$ 6,057,180
Revenues Over Budget	594,046
Expenditures and Encumbrances Under Budget	8,023,168
Allocation to Reserves	(1,866,777)
Interest Allocated to Reserves	(12,277)
Appropriated for the June 30, 2018 Budget	<u>(7,609,753)</u>
Closing, Unassigned Fund Balance	<u>\$ 5,185,587</u>

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

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Opening Unassigned Fund Balance, as Restated

The \$6,057,180 shown in the table is the portion of the District's June 30, 2016 fund balance that was retained as unassigned. This was 3.2% of the District's 2016-17 approved operating budget of \$187,532,817.

Revenues Over Budget

The 2016-17 final budget for revenues was \$178,821,513. Actual revenues received for the year were \$179,415,559, resulting in actual revenues exceeding estimated revenues by \$594,046. Positive revenue variances in other tax items (PILOT), use of money and property, and miscellaneous revenues totaling \$1,133,549 were offset by charges for services, which were \$512,715 less than estimated.

Expenditures and Encumbrances Under Budget

The 2016-17 final budget for expenditures was \$188,586,859. Actual expenditures and encumbrances as of June 30, 2017 were \$180,563,691 resulting in the final budget being under expended by \$8,023,168.

Factors contributing to this positive budget variance include:

Central Services – Careful monitoring of overtime and use of custodial staff.

Instruction – Expenditures less than budgeted in the following areas: state testing, district-of-location/district-of-residence costs, BOCES services and supply purchases.

Pupil Transportation – Efficiencies in routing and scheduling along with lower than anticipated CPI increases for contracts.

Employee Benefits – Lower mid-year health insurance premium increases than anticipated.

Allocation to Reserves

The District transferred \$1,866,777 to the following reserves during the year:

Employee benefit accrued liability	\$ 1,202,129
Retirement contribution	649,648
Repair	<u>15,000</u>
	<u>\$ 1,866,777</u>

Appropriated Fund Balance

The District has chosen to use \$7,609,753 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 summary table, the unassigned fund balance at June 30, 2017 was \$5,185,587. This amount equals 2.7% of the 2017-18 budget, which is within the 4% statutory limit.

**COMMACK 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 decrease in capital assets is due to depreciation of \$4,899,825 in excess of capital additions of \$572,877 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	\$ 3,260,677	\$ 3,260,677	\$ -
Construction in progress	1,234,779	1,781,041	(546,262)
Buildings and improvements	87,929,114	92,166,466	(4,237,352)
Site improvements	2,340,652	2,285,392	55,260
Furniture and equipment	687,088	387,817	299,271
Licensed vehicles	179,971	77,836	102,135
Capital assets, net	<u>\$ 95,632,281</u>	<u>\$ 99,959,229</u>	<u>\$ (4,326,948)</u>

**B. Debt Administration**

At June 30, 2017, the District had total bonds payable (par value) of \$49,455,000. The bonds were issued for school building improvements or the refunding of bonds originally issued for school building improvements. The decrease in outstanding debt represents current year principal payments of \$5,725,000. A summary of the outstanding bonds at June 30, 2017 and 2016 is as follows:

Issue Date	Interest Rate	2017	2016	Increase (Decrease)
2007	4.00-5.00%	\$ 975,000	\$ 1,465,000	\$ (490,000)
2013	2.00-4.00%	40,180,000	44,740,000	(4,560,000)
2013	1.00-4.00%	8,300,000	8,975,000	(675,000)
		<u>\$ 49,455,000</u>	<u>\$ 55,180,000</u>	<u>\$ (5,725,000)</u>

At June 30, 2017, the District had \$15,710,687 of energy performance contract debt outstanding. The debt was issued to perform district-wide energy efficient capital improvements. The decrease in outstanding energy performance contract debt represents the current year principal payments made during the year of \$1,240,746. A summary of outstanding energy performance contract debt at June 30, 2017 and 2016 is as follows:

Issue Date	Interest Rate	2017	2016	Increase (Decrease)
2012	2.14%	\$ 13,780,526	\$ 14,880,780	\$ (1,100,254)
2015	3.63%	1,930,161	2,070,653	(140,492)
		<u>\$ 15,710,687</u>	<u>\$ 16,951,433</u>	<u>\$ (1,240,746)</u>

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

Included in the District's long-term liabilities are the estimated amounts due for compensated absences, workers' compensation liability, net other postemployment benefits obligation and net pension liability - proportionate share. The compensated absences liability is based on employment contracts. The workers' compensation liability is based on open claims reported by the third-party administrator. The net other postemployment benefits obligation, and the net pension liability - proportionate share are based on actuarial valuations.

	2017	2016	Increase (Decrease)
Compensated absences payable	\$ 11,294,264	\$ 10,928,542	\$ 365,722
Workers' compensation liabilities	781,500	897,143	(115,643)
Net OPEB obligation	75,696,378	65,008,909	10,687,469
Net pension liability - proportionate share	10,444,457	8,176,509	2,267,948
	<u>\$ 98,216,599</u>	<u>\$ 85,011,103</u>	<u>\$ 13,205,496</u>

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's outstanding serial bonds at June 30, 2017 are approximately 3% of the District's debt limit.

## **7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

### **A. Subsequent Year's Budget**

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 16, 2017, for the year ending June 30, 2018, is \$190,163,464. This is an increase of \$2,630,646 or 1.4% over the previous year's budget. The increase is principally in the instruction program area of the budget.

The District budgeted revenues other than property taxes at a \$1,294,415 increase over the prior year's estimate. This increase is principally due to an estimated increase in miscellaneous revenue. The assigned, appropriated fund balance applied to the June 30, 2018 budget in the amount of \$7,609,753 is \$1,299,171 less than the previous year. Additionally, the District expects to appropriate \$450,000 from reserves to fund the budget and reduce taxes for the year ending June 30, 2018. A property tax increase of 1.99% was needed to meet the revenue shortfall and cover the increase in 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 1.99% increase in the 2017-18 levy is compliant with the tax cap.



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

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**D. Property Tax Relief Credit**

New York State law provides a "Property Tax Relief Credit" to eligible taxpayers for the 2016-17 through 2019-20 school years. To be eligible, a taxpayer, based on income tax return filings for the taxable two years prior, must be a New York State resident, who owned and primarily resided in real property receiving the STAR exemption, and had adjusted gross income no greater than \$275,000. A taxpayer is ineligible for the tax credit if the real property is located in a school district that adopted a budget in excess of the tax levy limit. Eligible District taxpayers will receive a tax credit in the form of a check in the amount of \$130 in the first year. In subsequent years, the amount of the credit is a function of the basic STAR savings and the taxpayer's income. This program provides an incentive for the District to be tax cap compliant.

**8. CONTACTING THE DISTRICT**

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

Ms. Laura A. Newman  
Assistant Superintendent for Business  
Commack Union Free School District  
P.O. Box 150  
Commack, NY 11725

**COMMACK UNION FREE SCHOOL DISTRICT**  
**Statement of Net Position**  
June 30, 2017

**ASSETS**

Cash	
Unrestricted	\$ 22,501,796
Restricted	17,461,062
Receivables	
Accounts receivable	4,186,988
Due from fiduciary funds	356,758
Due from state and federal	4,471,044
Due from other governments	1,631,109
Inventories	3,400
Capital assets:	
Not being depreciated	4,495,456
Being depreciated, net of accumulated depreciation	<u>91,136,825</u>
 Total Assets	 <u>146,244,438</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred charges on bond refunding	2,124,551
Pensions	<u>58,143,075</u>
 Total Deferred Outflows of Resources	 <u>60,267,626</u>

**LIABILITIES**

Payables	
Accounts payable	1,798,893
Accrued liabilities	1,116,355
Due to other governments	34
Due to teachers' retirement system	9,842,000
Due to employees' retirement system	608,096
Compensated absences payable	310,446
Unearned credits	
Collections in advance	178,627
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	6,634,661
Energy performance contract payable	1,269,535
Compensated absences payable	450,000
Due and payable after one year	
Bonds payable, net	45,834,368
Energy performance contract payable	14,441,152
Compensated absences payable	10,844,264
Workers' compensation liabilities	781,500
Net other postemployment benefits obligation	75,696,378
Net pension liability - proportionate share	<u>10,444,457</u>
 Total Liabilities	 <u>180,250,766</u>

**DEFERRED INFLOWS OF RESOURCES**

Pensions	<u>3,191,764</u>
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**NET POSITION**

Net investment in capital assets	<u>35,994,861</u>
 Restricted	 
Workers' compensation	1,798,073
Unemployment insurance	319,891
Retirement contribution	906,771
Insurance	188,879
Employee benefit accrued liability	7,486,342
Repairs	17,234
Debt service	<u>1,215,605</u>
	<u>11,932,795</u>
 Unrestricted (deficit)	 <u>(24,858,122)</u>
 Total Net Position	 <u>\$ 23,069,534</u>

**COMMACK UNION FREE SCHOOL DISTRICT**  
**Statement of Activities**  
For The Year Ended June 30, 2017

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Position
<b>FUNCTIONS/PROGRAMS</b>				
General support	\$ 23,786,069	\$	\$	\$ (23,786,069)
Instruction	152,127,019	2,148,002	3,294,862	(146,684,155)
Pupil transportation	12,471,433			(12,471,433)
Debt service - interest	2,342,099			(2,342,099)
Food service program	1,311,566	987,729	396,114	72,277
Total Functions and Programs	<u>\$ 192,038,186</u>	<u>\$ 3,135,731</u>	<u>\$ 3,690,976</u>	<u>(185,211,479)</u>
<b>GENERAL REVENUES</b>				
Real property taxes				118,469,964
Other tax items				15,164,429
Use of money and property				1,790,623
Sale of property and compensation for loss				227,089
Miscellaneous				1,444,689
State sources				40,366,753
Medicaid reimbursement				127,988
Total General Revenues				<u>177,591,535</u>
Change in Net Position				(7,619,944)
Total Net Position - Beginning of Year, as Restated				<u>30,689,478</u>
Total Net Position - End of Year				<u>\$ 23,069,534</u>

**COMMACK UNION FREE SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2017

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash						
Unrestricted	\$ 21,889,441	\$ 12,009	\$ 600,346	\$	\$ 5,145,546	\$ 22,501,796
Restricted	11,107,771			1,207,745		17,461,062
Receivables						
Accounts receivable	4,153,716	23,976	9,296			4,186,988
Due from other funds	3,154,077	1,212,630		7,860	1,190,000	5,564,567
Due from state and federal	2,456,678	1,662,600	18,704		333,062	4,471,044
Due from other governments	1,631,109					1,631,109
Inventories			3,400			3,400
Total Assets	<u>\$ 44,392,792</u>	<u>\$ 2,911,215</u>	<u>\$ 631,746</u>	<u>\$ 1,215,605</u>	<u>\$ 6,668,608</u>	<u>\$ 55,819,966</u>
<b>LIABILITIES</b>						
Payables						
Accounts payable	\$ 1,591,796	\$ 118,254	\$ 88,843	\$	\$	\$ 1,798,893
Accrued liabilities	205,016					205,016
Due to other funds	2,407,542	2,792,407			7,860	5,207,809
Due to other governments			34			34
Due to teachers' retirement system	9,842,000					9,842,000
Due to employees' retirement system	608,096					608,096
Compensated absences payable	310,446					310,446
Unearned credits						
Collections in advance	114,930	554	63,143			178,627
Total Liabilities	<u>15,079,826</u>	<u>2,911,215</u>	<u>152,020</u>	<u>-</u>	<u>7,860</u>	<u>18,150,921</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenues	<u>5,013,321</u>				<u>333,063</u>	<u>5,346,384</u>
<b>FUND BALANCES</b>						
Nonspendable: Inventories			3,400			3,400
Restricted:						
Workers' compensation	1,798,073					1,798,073
Unemployment insurance	319,891					319,891
Retirement contribution	906,771					906,771
Insurance	188,879					188,879
Employee benefit accrued liability	7,486,342					7,486,342
Repairs	17,234					17,234
Debt service				1,215,605		1,215,605
Unspent bond proceeds					5,528,267	5,528,267
Assigned:						
Appropriated fund balance	7,609,753					7,609,753
Unappropriated fund balance	787,115		476,326		799,418	2,062,859
Unassigned: Fund balance	<u>5,185,587</u>					<u>5,185,587</u>
Total Fund Balances	<u>24,299,645</u>	<u>-</u>	<u>479,726</u>	<u>1,215,605</u>	<u>6,327,685</u>	<u>32,322,661</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 44,392,792</u>	<u>\$ 2,911,215</u>	<u>\$ 631,746</u>	<u>\$ 1,215,605</u>	<u>\$ 6,668,608</u>	<u>\$ 55,819,966</u>

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

Total Governmental Fund Balances \$ 32,322,661

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

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

Original cost of capital assets	\$ 179,127,566	
Accumulated depreciation	<u>(83,495,285)</u>	
		95,632,281

Deferred charges on advance refunding of bonds are not reported on the Balance Sheet, but are reflected on the Statement of Net Position and amortized over the life of the related bonds.

Deferred charges on advance refunding	4,711,870	
Less: accumulated amortization	<u>(2,587,319)</u>	
		2,124,551

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	58,143,075	
Net pension liability - teachers' retirement system	(5,629,000)	
Net pension liability - employees' retirement system	(4,815,457)	
Deferred inflows of resources	<u>(3,191,764)</u>	
		44,506,854

Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures, and, therefore, are deferred in the governmental funds, but are not deferred on the Statement of Net Position.

5,346,384

Long-term liabilities, including bonds payable, 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	(911,339)	
Bonds payable, net	(52,469,029)	
Energy performance contract payable	(15,710,687)	
Compensated absences payable	(11,294,264)	
Workers' compensation liabilities	(781,500)	
Net other postemployment benefits obligation	<u>(75,696,378)</u>	
		<u>(156,863,197)</u>

Total Net Position		<u>\$ 23,069,534</u>
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**COMMACK 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	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$ 118,469,964	\$	\$	\$	\$	\$ 118,469,964
Other tax items	15,164,429					15,164,429
Charges for services	1,962,430					1,962,430
Use of money and property	1,780,122		900	9,601		1,790,623
Sale of property and compensation for loss	227,089					227,089
Miscellaneous	1,281,021	962	4,952			1,286,935
Interfund revenue	18,805					18,805
State sources	39,633,711	1,524,970	21,751			41,180,432
Medicaid reimbursement	127,988					127,988
Federal sources		1,768,930	374,363			2,143,293
Sales			982,777			982,777
<b>Total Revenues</b>	<b>178,665,559</b>	<b>3,294,862</b>	<b>1,384,743</b>	<b>9,601</b>	<b>-</b>	<b>183,354,765</b>
<b>EXPENDITURES</b>						
General support	18,392,031					18,392,031
Instruction	101,136,524	3,535,987				104,672,511
Pupil transportation	12,052,429	344,089				12,396,518
Employee benefits	36,862,660					36,862,660
Debt service						
Principal	1,240,746			5,725,000		6,965,746
Interest	573,747			2,018,225		2,591,972
Food service program			1,347,262			1,347,262
Capital outlay					369,744	369,744
<b>Total Expenditures</b>	<b>170,258,137</b>	<b>3,880,076</b>	<b>1,347,262</b>	<b>7,743,225</b>	<b>369,744</b>	<b>183,598,444</b>
Excess (Deficiency) of Revenues Over Expenditures	8,407,422	(585,214)	37,481	(7,733,624)	(369,744)	(243,679)
<b>OTHER FINANCING SOURCES AND (USES)</b>						
Operating transfers in	750,000	585,214		7,743,225	1,190,000	10,268,439
Operating transfers (out)	(9,518,439)			(150,000)	(600,000)	(10,268,439)
<b>Total Other Financing Sources and (Uses)</b>	<b>(8,768,439)</b>	<b>585,214</b>	<b>-</b>	<b>7,593,225</b>	<b>590,000</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(361,017)</b>	<b>-</b>	<b>37,481</b>	<b>(140,399)</b>	<b>220,256</b>	<b>(243,679)</b>
<b>Fund Balances - Beginning of Year, as Restated</b>	<b>24,660,662</b>		<b>442,245</b>	<b>1,356,004</b>	<b>6,107,429</b>	<b>32,566,340</b>
<b>End of Year</b>	<b>\$ 24,299,645</b>	<b>\$ -</b>	<b>\$ 479,726</b>	<b>\$ 1,215,605</b>	<b>\$ 6,327,685</b>	<b>\$ 32,322,661</b>

**COMMACK 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 Balances \$ (243,679)

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) may exceed the amounts incurred during the year, resulting in a reduction of the long-term liability and an increase in the net position.

Decrease in workers' compensation claims liability \$ 115,643

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 (365,722)  
Increase in net other postemployment benefits obligation (10,687,469)

In the Statement of Activities, long-term receivables are reported as revenue; however, revenue is reported in the governmental funds when it provides current financial resources. 1,082,282  
(9,855,266)

Capital Related Differences

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

Capital outlays 572,877  
Depreciation expense (4,899,825)  
(4,326,948)

Long-Term Debt Transactions Differences

Amortization of bond premiums and deferred charges on bond refundings do not affect the governmental funds, but are recorded in the Statement of Activities.

Amortization of bond premiums 813,836  
Amortization of deferred charges (573,663)

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 5,725,000  
Repayment of energy performance contract 1,240,746

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. 9,700

7,215,619

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 319,994  
Employees' retirement system (729,664)  
(409,670)

Change in Net Position of Governmental Activities \$ (7,619,944)

**COMMACK UNION FREE SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position -**  
**Fiduciary Funds**  
**June 30, 2017**

	<u>Agency</u>	<u>Private Purpose Trust</u>
<b>ASSETS</b>		
Cash		
Unrestricted	\$ 1,076,067	\$
Restricted		17,027
Accounts receivable	62,406	
Due from other funds	<u>6,076</u>	<u></u>
Total Assets	<u>\$ 1,144,549</u>	<u>17,027</u>
 <b>LIABILITIES</b>		
Extraclassroom activity balances	\$ 431,532	
Due to other funds	356,758	6,076
Other liabilities	<u>356,259</u>	<u></u>
Total Liabilities	<u>\$ 1,144,549</u>	<u>6,076</u>
 <b>NET POSITION</b>		
Restricted for scholarships		<u>\$ 10,951</u>



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

	Private Purpose Trust
<b>ADDITIONS</b>	
Contributions	\$ 5,583
Investment earnings	
Interest	<u>28</u>
Total Additions	5,611
 <b>DEDUCTIONS</b>	
Scholarships and awards	<u>13,127</u>
Change in Net Position	(7,516)
Net Position - Beginning of Year	<u>18,467</u>
Net Position - End of Year	<u><u>\$ 10,951</u></u>

**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Commack 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 five 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 Western 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

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

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

**C. Basis of Presentation**

District-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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

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

**Capital Projects Fund** - is used to account for the financial resources used for acquisition, construction, 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, other postemployment benefits and pension costs, 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 and acquisitions under capital leases are reported as other financing sources.

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

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**E. Real Property Taxes**

Calendar

Real property taxes are levied annually by the Board no later than October 15<sup>th</sup> and become a lien on December 1<sup>st</sup>. Taxes are collected by the towns of Smithtown and Huntington 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, other postemployment benefits, workers' compensation liabilities, potential contingent liabilities and useful lives of long-lived assets.

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

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**I. Cash and Cash Equivalents**

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

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

**J. Receivables**

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

**K. Inventories**

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. Under the consumption method, 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. 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	\$ 5,000	20-50 years
Site improvements	5,000	20-30 years
Furniture and equipment	5,000	5-10 years
Licensed vehicles	5,000	5-10 years

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

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**M. Deferred Outflows of Resources**

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and will not be recognized as an outflow of resources (expense) until that time. The District has three items that qualify for reporting in this category. First is the unamortized amount of deferred charges from a prior year's refunding of bonds that is being amortized as a component of interest expense on a weighted average basis through June 30, 2025. The second 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 third item is the District's contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

**N. Collections in Advance**

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

**O. Deferred Inflows of Resources**

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. First is unavailable revenues reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. This includes receivables of certain state aid allocations. In subsequent periods, when the availability criterion is met, unavailable revenues are reclassified as revenues. In the District-wide financial statements, unavailable revenues are treated as revenues. The second item is related to pensions reported in the district-wide Statement of Net Position and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense.

**P. Employee Benefits – Compensated Absences**

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

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

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.

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

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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 30<sup>th</sup>.

**Q. Other Benefits**

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

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

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

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

**R. Short-Term Debt**

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

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

**S. Equity Classifications**

District-Wide Statements

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

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



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

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*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 inventory, 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:

*Workers' Compensation Reserve*

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

*Unemployment Insurance Reserve*

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

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

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*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.

*Insurance Reserve*

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

*Employee Benefit Accrued Liability Reserve*

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

*Repairs Reserve*

Repairs Reserve (GML §6-d) is used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. The Board of Education, without voter approval, must establish a repair reserve fund by a majority vote of its members. Voter approval is required to fund this reserve (opinion of the New York State Comptroller 84-401). Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years. The reserve is accounted for in the general fund.

*Restricted for Debt Service*

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

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

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*Restricted – Unspent Bond Proceeds*

Unspent long-term bond 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 of awards. These restricted funds are accounted for in the private purpose trust fund.

*Assigned* – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the District's Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance 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 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.

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 Board will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classification will be charged.

**2. CHANGES IN ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2017, the District implemented GASB Statement No. 77, *Tax Abatement Disclosures*, which requires the District to disclose information about tax abatement agreements impacting real property tax revenue.

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

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

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

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

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

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).

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

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**4. 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:

General support and instruction appropriation increases	
funded by gifts and donations	\$ 646,013
Additional sick day payout funded by the employee	
benefit accrued liability reserve	169,954
Transportation appropriation increase funded by	
insurance recoveries	<u>1,607</u>
	<u>\$ 817,574</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.

**5. 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.

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

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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.

**6. PARTICIPATION IN BOCES**

During the year ended June 30, 2017, the District was billed \$7,538,560 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$2,016,679. Financial statements for the BOCES are available from the BOCES administrative offices at 507 Deer Park Road, P.O. Box 8007, Huntington Station, New York 11746-9007.

**7. ACCOUNTS RECEIVABLE**

Accounts receivable of \$4,186,988 at June 30, 2017 primarily consists of the cash surrender value of life insurance policies totaling \$4,044,041.

**8. DUE FROM STATE AND FEDERAL**

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

General Fund	
New York State - general aid	\$ 16,988
New York State - excess cost aid	749,296
Federal share Medicaid	20,447
BOCES aid	933,122
BOCES refunds	7,267
New York State supplemental building aid	729,558
	<u>2,456,678</u>
Special Aid Fund	
Federal and state grants	1,662,600
School Food Service Fund	
Federal and state food service program reimbursements	18,704
Capital Projects Fund	
New York State EXCEL and SSBA aid	<u>333,062</u>
	<u>\$ 4,471,044</u>

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

**9. DUE FROM OTHER GOVERNMENTS**

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

General Fund	
Other districts - health services	\$ 55,530
Other districts - tuition	796,425
Other districts - foster tuition	185,572
Town of Smithtown - PILOT	<u>593,582</u>
	<u>\$ 1,631,109</u>

**10. 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	\$ 3,260,677	\$	\$	\$ 3,260,677
Construction in progress	<u>1,781,041</u>	<u>365,382</u>	<u>(911,644)</u>	<u>1,234,779</u>
Total capital assets not being depreciated	<u>5,041,718</u>	<u>365,382</u>	<u>(911,644)</u>	<u>4,495,456</u>
Capital assets being depreciated				
Buildings and improvements	165,167,558	392,977	(1,795,601)	163,764,934
Site improvements	6,240,680	221,249		6,461,929
Furniture and equipment	3,070,318	374,744	(42,787)	3,402,275
Licensed vehicles	<u>911,303</u>	<u>130,169</u>	<u>(38,500)</u>	<u>1,002,972</u>
Total capital assets being depreciated	<u>175,389,859</u>	<u>1,119,139</u>	<u>(1,876,888)</u>	<u>174,632,110</u>
Less accumulated depreciation for:				
Buildings and improvements	73,001,092	4,630,329	(1,795,601)	75,835,820
Site improvements	3,955,288	165,989		4,121,277
Furniture and equipment	2,682,501	75,473	(42,787)	2,715,187
Licensed vehicles	<u>833,467</u>	<u>28,034</u>	<u>(38,500)</u>	<u>823,001</u>
Total accumulated depreciation	<u>80,472,348</u>	<u>4,899,825</u>	<u>(1,876,888)</u>	<u>83,495,285</u>
Total capital assets, being depreciated, net	<u>94,917,511</u>	<u>(3,780,686)</u>	<u>-</u>	<u>91,136,825</u>
Capital assets, net	<u>\$ 99,959,229</u>	<u>\$ (3,415,304)</u>	<u>\$ (911,644)</u>	<u>\$ 95,632,281</u>

**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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Depreciation expense was charged to governmental functions as follows:

General support	\$ 334,608
Instruction	4,544,105
Food service program	<u>21,112</u>
Total depreciation expense	<u>\$ 4,899,825</u>

**11. INTERFUND TRANSACTIONS**

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

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 3,154,077	\$ 2,407,542	\$ 750,000	\$ 9,518,439
Special Aid Fund	1,212,630	2,792,407	585,214	
Debt Service Fund	7,860		7,743,225	150,000
Capital Projects Fund	<u>1,190,000</u>	<u>7,860</u>	<u>1,190,000</u>	<u>600,000</u>
Total Governmental Funds	5,564,567	5,207,809	<u>\$ 10,268,439</u>	<u>\$ 10,268,439</u>
Fiduciary Funds	<u>6,076</u>	<u>362,834</u>		
Total	<u>\$ 5,570,643</u>	<u>\$ 5,570,643</u>		

The District typically transfers from the general fund to the special aid fund and the debt service fund. The transfer to the special aid fund was for the District's share of the costs for the section 4408 summer placement program and the state-supported section 4201 schools. The transfer to the debt service fund was for the payment of principal and interest on long-term outstanding bonds. The transfer from the debt service fund to the general fund was in accordance with the general fund budget.

The transfer to the capital projects fund was a voter approved appropriation included in the original budget. The transfer from the capital projects fund to the general fund was a budgeted transfer of unspent bond proceeds to offset current period principal and interest payments on long-term debt.

**12. SHORT-TERM DEBT**

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

	Maturity	Effective Interest Rate	Balance June 30, 2016	Issued	Redeemed	Balance June 30, 2017
TAN	6/27/2017	0.95%	<u>\$</u>	<u>\$ 26,000,000</u>	<u>\$ (26,000,000)</u>	<u>\$</u>

Interest on short-term debt for the year was \$187,637.



**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**13. LONG-TERM LIABILITIES**

**A. Changes**

Long-term liability balances and activity, excluding pension 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	\$ 55,180,000	\$	\$ (5,725,000)	\$ 49,455,000	\$ 5,910,000
Add: Deferred amounts on refunding	3,827,865		(813,836)	3,014,029	724,661
	59,007,865	-	(6,538,836)	52,469,029	6,634,661
Energy performance contract	16,951,433		(1,240,746)	15,710,687	1,269,535
	75,959,298	-	(7,779,582)	68,179,716	7,904,196
Other long-term liabilities					
Compensated absences	10,928,542	835,676	(469,954)	11,294,264	450,000
Workers' compensation	897,143	535,439	(651,082)	781,500	
	11,825,685	1,371,115	(1,121,036)	12,075,764	450,000
	<u>\$ 87,784,983</u>	<u>\$ 1,371,115</u>	<u>\$ (8,900,618)</u>	<u>\$ 80,255,480</u>	<u>\$ 8,354,196</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
Serial bonds - advanced refunding	2007	2019	4.00-5.00%	\$ 975,000
Serial bonds - advanced refunding	2013	2025	2.00-4.00%	40,180,000
Serial bonds	2013	2029	1.00-4.00%	8,300,000
				<u>\$ 49,455,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 5,910,000	\$ 1,816,875	\$ 7,726,875
2019	6,115,000	1,584,825	7,699,825
2020	5,865,000	1,342,275	7,207,275
2021	6,105,000	1,109,625	7,214,625
2022	6,350,000	867,275	7,217,275
2023 - 2027	17,660,000	1,363,850	19,023,850
2028 - 2029	1,450,000	58,000	1,508,000
Total	<u>\$ 49,455,000</u>	<u>\$ 8,142,725</u>	<u>\$ 57,597,725</u>

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

In the district-wide statements, the District is amortizing deferred charges on the advance refunding and a refunding bond premium as a component of interest expense on a weighted average basis as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Premium</u>	<u>Deferred Charge</u>	<u>Net Decrease in Interest Expense</u>
2018	\$ 724,661	\$ (510,804)	\$ 213,857
2019	631,700	(445,278)	186,422
2020	534,475	(376,745)	157,730
2021	432,698	(305,003)	127,695
2022	326,272	(229,985)	96,287
2023 - 2025	364,223	(256,736)	107,487
Total	<u>\$ 3,014,029</u>	<u>\$ (2,124,551)</u>	<u>\$ 889,478</u>

**D. Energy Performance Contract**

Energy performance contract debt is comprised of the following:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2017</u>
Energy performance contract	8/15/2012	2/15/2028	2.14%	\$ 13,780,526
Energy performance contract	1/21/2015	2/21/2028	3.63%	1,930,161
				<u>\$ 15,710,687</u>

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,269,535	\$ 357,321	\$ 1,626,856
2019	1,299,019	327,837	1,626,856
2020	1,329,218	297,638	1,626,856
2021	1,360,150	266,706	1,626,856
2022	1,391,833	235,023	1,626,856
2023 - 2027	7,462,098	672,181	8,134,279
2028	1,598,834	28,021	1,626,855
Total	<u>\$ 15,710,687</u>	<u>\$ 2,184,727</u>	<u>\$ 17,895,414</u>

**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**E. Interest Expense**

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

Interest paid	\$ 2,404,335
Less interest accrued in the prior year	(340,039)
Plus interest accrued in the current year	330,339
Plus amortization of deferred charges	573,663
Less amortization of deferred bond premium	<u>(813,836)</u>
Total interest expense on long-term debt	<u>\$ 2,154,462</u>

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

Employees' Retirement System

Obligations of employers and employees to contribute and benefits to employees are governed by the 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 at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**C. Funding Policies**

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to ERS or 3.5% of their salary to TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the TRS' fiscal year ended June 30<sup>th</sup>, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31<sup>st</sup>, and employer contributions are either paid by the prior December 15<sup>th</sup> less a 1% discount or by the prior February 1<sup>st</sup>. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year. 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 15% 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 \$9,533,321 for TRS and \$2,238,582 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	\$ (5,629,000)	\$ (4,815,457)
District's portion of the Plan's total net pension liability	0.5255630%	0.0512489%
Change in proportion since the prior measurement date	0.0059900	0.0003058

**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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For the year ended June 30, 2017, the District recognized pension expense of \$9,154,680 for TRS and \$2,927,851 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:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	TRS	ERS	TRS	ERS
Differences between expected and actual experience	\$	\$ 120,671	\$ 1,828,615	\$ 731,253
Changes of assumptions	32,066,367	1,645,137		
Net difference between projected and actual earnings on pension plan investments	12,656,951	961,842		
Changes in proportion and differences between the District's contributions and proportionate share of contributions		550,690	631,896	
District's contributions subsequent to the measurement date	9,533,321	608,096		
Total	<u>\$ 54,256,639</u>	<u>\$ 3,886,436</u>	<u>\$ 2,460,511</u>	<u>\$ 731,253</u>

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 Ended	TRS	ERS
2018	\$ 3,819,244	\$ 1,093,053
2019	3,819,244	1,093,053
2020	13,648,983	962,187
2021	10,590,665	(601,206)
2022	4,805,296	
Thereafter	5,579,375	
	<u>\$ 42,262,807</u>	<u>\$ 2,547,087</u>

**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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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%
Cost of living adjustments	1.5%	1.3%

For TRS, annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on 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 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%	

**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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Discount Rate

The discount rate used to measure the total pension liability was 7.5% for TRS and 7.0% for ERS (the discount rate used by the TRS at the prior year's measurement date at 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.

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 TRS and 7.0% for ERS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (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:

	1% Decrease (6.50)%	Current Assumption (7.50)%	1% Increase (8.50)%
<u>TRS</u>			
District's proportionate share of the net pension asset (liability)	<u>\$ (73,443,096)</u>	<u>\$ (5,629,000)</u>	<u>\$ 51,249,910</u>
	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
<u>ERS</u>			
District's proportionate share of the net pension asset (liability)	<u>\$ (15,379,617)</u>	<u>\$ (4,815,457)</u>	<u>\$ 4,116,520</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:

	<u>TRS</u>	<u>ERS</u>
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2016	March 31, 2017
Employers' total pension liability	\$ (108,577,184)	\$ (177,400,586)
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%

**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Payables to the Pension Plan**

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017, are paid to the system in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017, represent 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 \$9,533,321 of employer contributions and \$308,679 of employee contributions.

For ERS, employer contributions are paid annually based on the system's fiscal year, which ends on March 31<sup>st</sup>. Accrued retirement contributions as of June 30, 2017, represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$608,096 of employer contributions. Employee contributions are remitted monthly.

**15. 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 based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2017, totaled \$562,193 and \$4,309,981, 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 \$696,383.

**16. POSTEMPLOYMENT HEALTHCARE BENEFITS**

**A. Plan Description**

The District provides postemployment health insurance coverage, Medicare Part B, and excess major medical/vision benefits (the healthcare plan) to retired employees and their eligible dependents in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the New York State Health Insurance Program - Empire Plan. The plan does not issue a stand-alone financial report.

**B. Funding Policy**

The District assumes the full cost of the individual coverage premiums for retirees until they reach age 65, and then 50% thereafter. Future retirees and dependents and spouses of retirees contribute 65% towards to coverage regardless of age. The District recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums mature (come due for payment). For the year ended June 30, 2017, the District recognized a general fund expenditure of \$3,208,884 for insurance premiums for 553 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.



**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**C. Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution (ARC)	\$ 14,911,620
Interest on net OPEB obligation	2,600,356
Adjustment to ARC	<u>(3,615,623)</u>
Annual OPEB cost (expense)	13,896,353
Contributions made	<u>(3,208,884)</u>
 Increase in net OPEB obligation	 10,687,469
Net OPEB obligation - beginning of year	<u>65,008,909</u>
 Net OPEB obligation - end of year	 <u>\$ 75,696,378</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:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$ 13,896,353	23.1%	\$ 75,696,378
June 30, 2016	13,790,816	28.8%	65,008,909
June 30, 2015	13,696,967	27.7%	55,186,692

**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 \$180,044,271 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$180,044,271. The covered payroll (annual payroll of active employees covered by the plan) was \$97,417,689, and the ratio of the UAAL to the covered payroll was 185%.

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.

**COMMACK UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**E. Actuarial Methods and Assumptions**

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

In the July 1, 2016, actuarial valuation, the entry age normal (level percentage of salary) method was used. The actuarial assumptions included a 3% discount rate and an annual healthcare cost trend rate of 7.5% in 2016, decreasing 0.5% per year to an ultimate rate of 4.5% in 2022. The UAAL is being amortized each year over 30 years on an open basis.

**17. RISK MANAGEMENT**

**A. General Information**

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

**B. Risk Retention**

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unreported claims which were incurred on or before year end but not reported (IBNR). Claims activity is summarized below:

	<u>2016</u>	<u>2017</u>
Unpaid claims at beginning of year	\$ 1,142,249	\$ 897,143
Incurred claims and claim adjustment expenses	231,591	535,439
Claim payments	<u>(476,697)</u>	<u>(651,082)</u>
Unpaid claims at year end	<u>\$ 897,143</u>	<u>\$ 781,500</u>

**18. RESTRICTED FUND BALANCE - APPROPRIATED RESERVES**

The District expects to appropriate \$300,000 from the employee benefit accrued liability reserve and \$150,000 from the retirement contribution reserve, which are reported in the June 30, 2017 restricted fund balances, to fund the budget for the year ending June 30, 2018.

**19. ASSIGNED: APPROPRIATED FUND BALANCE**

The amount of \$7,609,753 has been appropriated to reduce taxes for the year ending June 30, 2018.

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

**20. TAX ABATEMENTS**

The Suffolk County Industrial Development Agency enters into various property tax abatement programs for the purpose of economic development. The District's property tax revenue was reduced \$1,459,883. The District received payment in lieu of taxes (PILOT) payments totaling \$1,186,854.

**21. PRIOR PERIOD ADJUSTMENT**

During the current year it was determined that receivables due from state and federal, and accounts payable were misstated in prior periods. A net adjustment was made for \$1,914,244 to restate the fund balance in the general fund and the net position in the district-wide financial statements at June 30, 2016.

The following summarizes the prior period adjustment referred to above:

	<u>Fund Balance</u>	<u>Net Position</u>
Balance at June 30, 2016, as previously reported	\$ 22,746,418	\$ 28,775,234
Prior period adjustment:		
Accounts payable related to health insurance	3,095,396	3,095,396
Section 4408 Summer Placement receivables	<u>(1,181,152)</u>	<u>(1,181,152)</u>
Balance at June 30, 2016, as restated	<u>\$ 24,660,662</u>	<u>\$ 30,689,478</u>

**22. 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:

    Capital Projects Fund

        Capital projects

\$ 291,623

Assigned: Unappropriated Fund Balance:

    General Fund

        General Support

        Instruction

        Pupil Transportation

549,659

237,400

56

787,115

\$ 1,078,738

**B. Grants**

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

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

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**C. Litigation**

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

**D. Operating Leases**

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$89,985. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	<u>\$ 77,593</u>

**23. 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.

**COMMACK 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
<b>REVENUES</b>				
Local Sources				
Real property taxes	\$ 132,432,249	\$ 118,462,116	\$ 118,469,964	\$ 7,848
Other tax items	618,269	14,588,402	15,164,429	576,027
Charges for services	2,475,145	2,475,145	1,962,430	(512,715)
Use of money and property	1,551,000	1,551,001	1,780,122	229,121
Sale of property and compensation for loss	300,000	300,000	227,089	(72,911)
Miscellaneous	304,999	952,620	1,281,021	328,401
Interfund revenues			18,805	18,805
Total Local Sources	137,681,662	138,329,284	138,903,860	574,576
State Sources	39,702,231	39,702,229	39,633,711	(68,518)
Medicaid Reimbursement	40,000	40,000	127,988	87,988
Total Revenues	177,423,893	178,071,513	178,665,559	594,046
<b>OTHER FINANCING SOURCES</b>				
Operating Transfers In	750,000	750,000	750,000	-
Total Revenues and Other Sources	178,173,893	178,821,513	179,415,559	\$ 594,046
<b>APPROPRIATED FUND BALANCE</b>				
Prior Years' Surplus	8,908,924	8,908,924		
Prior Year's Encumbrances	236,468	236,468		
Appropriated Reserves	450,000	619,954		
Total Appropriated Fund Balance	9,595,392	9,765,346		
Total Revenues, Other Sources and Appropriated Fund Balance	\$ 187,769,285	\$ 188,586,859		

**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.

**COMMACK 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
<b>EXPENDITURES</b>					
General Support					
Board of education	\$ 185,930	\$ 207,529	\$ 183,068	\$	\$ 24,461
Central administration	431,479	444,586	416,669	20	27,897
Finance	1,451,905	1,560,235	1,499,901	7,755	52,579
Staff	1,344,373	1,363,992	1,293,824	230	69,938
Central services	14,116,372	14,551,613	13,328,559	541,654	681,400
Special items	1,640,468	1,672,030	1,670,010		2,020
Total General Support	19,170,527	19,799,985	18,392,031	549,659	858,295
Instruction					
Administration & improvement	8,459,892	8,511,304	8,265,744	2,108	243,452
Teaching - regular school	56,861,791	56,811,422	55,670,633	46,102	1,094,687
Programs for students with disabilities	27,037,130	26,766,715	25,138,099	184,728	1,443,888
Occupational education	930,000	930,000	895,183		34,817
Teaching - special schools	478,639	478,639	361,779	835	116,025
Instructional media	2,440,783	2,484,326	2,230,157	3,627	250,542
Pupil services	8,643,638	8,857,361	8,574,929		282,432
Total Instruction	104,851,873	104,839,767	101,136,524	237,400	3,465,843
Pupil Transportation	12,642,742	12,644,350	12,052,429	56	591,865
Employee Benefits	39,978,847	39,907,461	36,862,660		3,044,801
Debt Service					
Principal	1,240,747	1,240,747	1,240,746		1
Interest	636,110	636,110	573,747		62,363
Total Debt Service	1,876,857	1,876,857	1,814,493	-	62,364
Total Expenditures	178,520,846	179,068,420	170,258,137	787,115	8,023,168
<b>OTHER USES</b>					
Operating Transfers Out	9,248,439	9,518,439	9,518,439		-
Total Expenditures and Other Uses	\$ 187,769,285	\$ 188,586,859	179,776,576	\$ 787,115	\$ 8,023,168
Net Change in Fund Balance			(361,017)		
Fund Balance - Beginning of Year, as Restated			24,660,662		
Fund Balance - End of Year			\$ 24,299,645		

**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.

**COMMACK 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, 2012	\$ -	\$ 126,038,019	\$ 126,038,019	0%	\$ 84,475,122	149%
July 1, 2014	-	144,210,536	144,210,536	0%	95,848,754	150%
July 1, 2016	-	180,044,271	180,044,271	0%	97,417,689	185%

**COMMACK 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)	0.5255630%	0.5195730%	0.5116560%
District's proportionate share of the net pension asset (liability)	\$ (5,629,000)	\$ 53,967,057	\$ 56,995,250
District's covered payroll	\$ 81,613,815	\$ 78,054,841	\$ 75,515,127
District's proportionate share of the net pension asset (liability) as a percentage of its covered payroll	6.90 %	69.14 %	75.48 %
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	0.0512489%	0.0509431%	0.0486856%
District's proportionate share of the net pension liability	\$ (4,815,457)	\$ (8,176,509)	\$ (1,644,720)
District's covered employee payroll	\$ 14,577,589	\$ 14,706,324	\$ 14,051,278
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	33.03 %	55.60 %	11.71 %
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.



COMMACK 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	\$ 9,553,321	\$ 10,754,243	\$ 13,858,727	\$ 12,233,880	\$ 8,647,710	\$ 8,009,054	\$ 6,053,482	\$ 4,277,808	\$ 5,350,968	\$ 5,421,855
Contributions in relation to the contractually required contribution	9,553,321	10,754,243	13,858,727	12,233,880	8,647,710	8,009,054	6,053,482	4,277,808	5,350,968	5,421,855
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 81,342,329	\$ 81,613,815	\$ 78,054,841	\$ 75,515,127	\$ 72,836,865	\$ 72,028,947	\$ 70,495,554	\$ 71,238,003	\$ 68,405,415	\$ 64,150,874
Contributions as a percentage of covered payroll	12%	13%	18%	16%	12%	11%	9%	6%	8%	8%

*Employees' Retirement System*

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 2,238,582	\$ 2,552,442	\$ 2,591,286	\$ 2,695,496	\$ 2,694,751	\$ 2,490,846	\$ 1,554,085	\$ 1,239,335	\$ 1,090,549	\$ 1,142,400
Contributions in relation to the contractually required contribution	2,238,582	2,552,442	2,591,286	2,695,496	2,694,751	2,490,846	1,554,085	1,239,335	1,090,549	1,142,400
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 14,460,392	\$ 14,984,807	\$ 14,523,774	\$ 13,739,595	\$ 14,196,179	\$ 14,419,007	\$ 14,888,927	\$ 14,365,068	\$ 13,996,925	\$ 13,145,541
Contributions as a percentage of covered payroll	15%	17%	18%	20%	19%	17%	10%	9%	8%	9%

**COMMACK 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	\$ 187,532,817
Additions:	
Prior year's encumbrances	<u>236,468</u>
Original Budget	187,769,285
Budget revision	<u>817,574</u>
Final Budget	<u><u>\$ 188,586,859</u></u>

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

2017-18 voter-approved expenditure budget	<u><u>\$ 190,163,464</u></u>
Maximum allowed (4% of 2017-18 budget)	<u><u>\$ 7,606,539</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	
Unrestricted fund balance:	
Assigned fund balance	\$ 8,396,868
Unassigned fund balance	<u>5,185,587</u>
	\$ 13,582,455
Less:	
Appropriated fund balance	7,609,753
Encumbrances	<u>787,115</u>
Total adjustments	<u>8,396,868</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:	<u><u>\$ 5,185,587</u></u>
Actual Percentage	2.73%

**PROJECT TITLE**  
**Bond Projects**

## Smart Schools Bond Act

**COMMACK UNION FREE SCHOOL DISTRICT**  
**Net Investment in Capital Assets**  
June 30, 2017

Capital assets, net	<u>\$ 95,632,281</u>
Deduct:	
Short-term portion of bonds payable	5,910,000
Long-term portion of bonds payable	43,545,000
Short-term portion of energy performance contract payable	1,269,535
Long-term portion of energy performance contract payable	14,441,152
Less:	
Unspent bond proceeds	<u>(5,528,267)</u>
	<u>59,637,420</u>
Net investment in capital assets	<u><u>\$ 35,994,861</u></u>

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

To the Board of Education  
Commack Union Free School District  
Commack, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the Commack Union Free School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 29, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commack Union Free School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commack Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commack Union Free School District's internal control.

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

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

## **Compliance and Other Matters**

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

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Commack Union Free School District in a separate letter dated September 29, 2017.

## **Purpose of this Report**

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

*Cullen & Danowski, LLP*

September 29, 2017

