THREE VILLAGE CENTRAL SCHOOL DISTRICT

Management's Discussion and Analysis,
Financial Statements
and Supplementary Information

June 30, 2016

(With Independent Auditors' Report Thereon)

THREE VILLAGE CENTRAL SCHOOL DISTRICT

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THREE VILLAGE CENTRAL SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Education
Three Village Central School District
Stony Brook, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and fiduciary funds of Three Village Central School District (the District), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 18 and the additional information on pages 60 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 72 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
October 12, 2016

THREE VILLAGE CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The following is a discussion and analysis of the Three Village Central School District's (the "District") financial performance for the fiscal year ended June 30, 2016. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-Wide and Fund Financial Statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2016 are as follows:

- The District preserved the integrity of the core instructional programs and continued to support co-curricular and student support services.

- The District's net other post employment benefits obligation amounted to $98,805,551 as of June 30, 2016, which is an increase of $15,756,887 over the prior year amount.

- In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions –An Amendment of GASB Statement No. 27,* the District recorded a net pension liability of $9,343,017 for the Employees' Retirement System, and a net pension asset of $50,052,509 for the Teachers' Retirement System. The net pension liability or asset is the total cost of future pension benefit payments that have already been earned, minus the value of assets available to make the benefits (the net position of the plan). The District also recorded deferred outflows and inflows related to pensions, which will be recognized in future periods. Please refer to Note 13 for more information.

- On March 17, 2016, the District issued $16,170,000 in general obligation bonds to advance refund $17,715,000 of 2010 outstanding bonds. These bonds are considered defeased and the liability has been removed from the financial statements. The District refunded the bonds to reduce its total debt service payments over the next 14 years by $2,168,693, resulting in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $1,927,852.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *District-Wide Financial Statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.

- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-Wide Statements.

- The *Governmental Fund Statements* tell how basic services such as instruction and support functions were financed in the *short term* as well as what remains for future spending.

- *Fiduciary Funds Financial Statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of District.

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

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

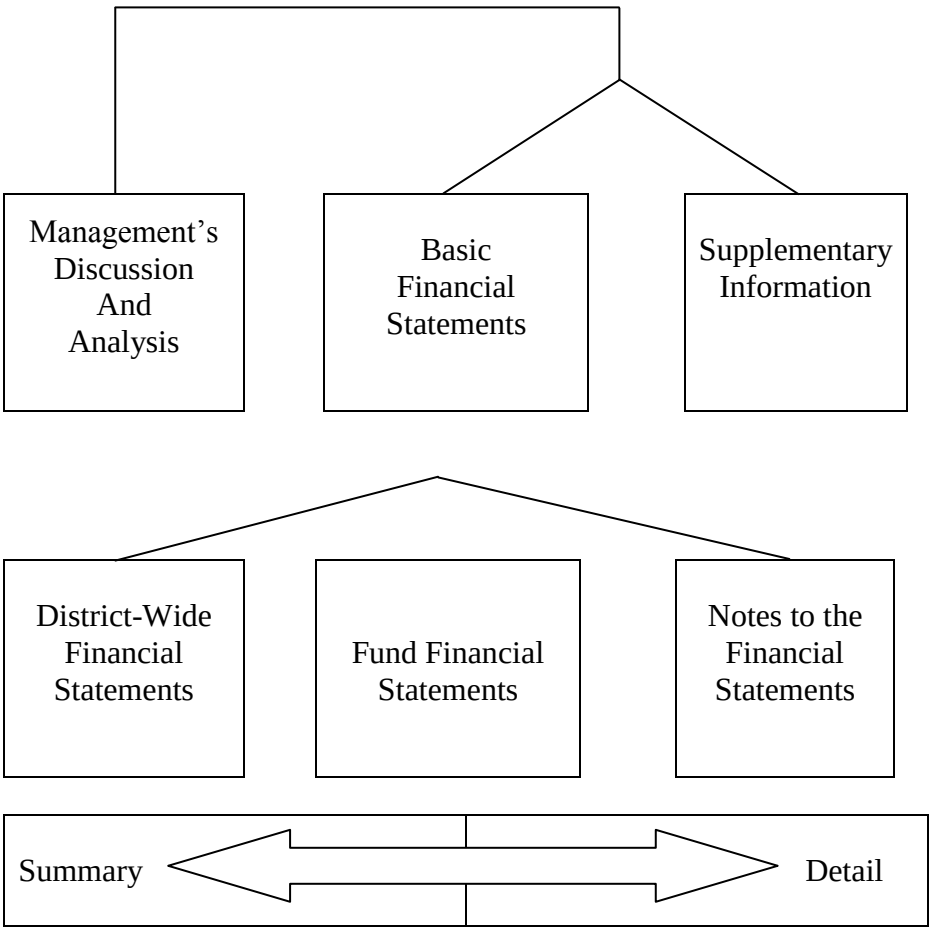


Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and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

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

	District-Wide Financial Statements	Fund Financial Statements	
	District	Governmental	Fiduciary
Scope	Entire District (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/ liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included	All assets deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

A) District-Wide Financial Statements

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

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

- Over time, increases and decreases in net position are an indicator of whether the financial position is improving or deteriorating, respectively.

- For assessment of the overall health of the District, additional non-financial factors such as changes in the District's property tax base and the condition of buildings and other facilities should be considered.

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

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

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

B) Fund Financial Statements

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

The District has two kinds of funds:

i) Governmental funds

Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-Wide Financial Statements, additional information in a separate reconciliation schedule explains the relationship (or differences) between them. In summary, the governmental funds statement focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general fund, school lunch fund, special aid fund, debt service fund and capital projects fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances.

ii) Fiduciary funds

The District is the trustee or *fiduciary* for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position. This report should be used to support the District's own programs and is developed using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A) Net Position

The District's net position increased by $3,772,439 in the fiscal year ended June 30, 2016 as detailed in Table A-3.

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

	Fiscal Year 2016	Fiscal Year 2015	Increase (Decrease)	Total Percentage Change
Current assets and other assets	$64,010,542	51,163,683	12,846,859	25.11%
Capital assets, net	164,295,908	144,591,603	19,704,305	13.63%
Net pension asset - proportionate share	50,052,509	53,637,103	(3,584,594)	-6.68%
Total assets	278,358,959	249,392,389	28,966,570	11.61%
Deferred outflows of resources	19,920,071	14,455,141	5,464,930	37.81%
Other liabilities	$70,679,019	$39,140,452	$31,538,567	80.58%
Long-term liabilities	208,845,485	192,920,898	15,924,587	8.25%
Total liabilities	279,524,504	232,061,350	47,463,154	20.45%
Deferred inflows of resources	20,058,396	36,862,489	(16,804,093)	-45.59%
Net position				
Net investment in capital assets	34,401,517	54,481,276	(20,079,759)	-36.86%
Restricted	19,034,274	10,126,839	8,907,435	87.96%
Unrestricted (deficit)	(54,739,661)	(69,684,424)	14,944,763	21.45%
Total net position	($1,303,870)	(5,076,309)	3,772,439	74.31%

Current assets and other assets increased by $12,846,859 as a result of increased cash due to the increased bond anticipation note (BAN) in the current year, and increased state and federal aid and accounts receivable. Capital assets (net of depreciation) increased by $19,704,305. This was primarily attributable to current year additions from the 2014 bond projects exceeding current year depreciation. The net pension asset of $50,052,509 decreased $3,584,594 as a result of the actuarial valuation provided by the New York State Teachers Retirement System. The change in deferred inflows represent amortization of pension related items as discussed in Note 13, and amortization of the gain on defeasance as discussed in Note 12. The change in deferred outflows represents amortization of pension related information and the change in the District's contributions subsequent to the measurement date for the pension systems.

Other liabilities increased by $31,538,567. This was primarily attributable to the increased amount of the BAN issued, partially offset by decreases in accounts payable and amounts due to the retirement systems. Long-term liabilities increased by $15,924,587 primarily due to the increase in net other post employment benefits payable. This increased by $15,756,887 over the prior year as the actuarial OPEB cost for 2016 exceeded the District's contributions. See Footnote 15 for more information on OPEB.

The net investment in capital assets relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, and machinery & equipment, net of depreciation and related debt. The net investment in capital assets decreased over the prior year by $20,079,759 due to capital improvements and the principal payments on debt being offset by the increase in gain on defeasance and the bond anticipation note.

The restricted net position in the amount of $19,034,274 refers to the District's reserves: workers' compensation, unemployment, retirement contribution and employee benefit accrued liability. This amount increased by $8,907,435 from the prior year. The increase is attributable to allocating interest to the reserves in the amount of $15,401, and funding to the reserves of $8,892,034.

Unrestricted net position relates to the balance of the District's net position. This amount, a deficit of $54,739,661 is a decrease to the deficit of $14,944,763 from the prior year. Net position overall increased by $3,772,439.

B) Changes in Net Position

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

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

	Fiscal Year 2016	Fiscal Year 2015	Increase (Decrease)	Total Percentage Change
Revenues				
Program revenues				
Charges for services	$6,011,086	$5,113,573	$897,513	17.55%
Operating grants	3,856,144	3,915,345	(59,201)	-1.51%
Capital grants	-	256,293	(256,293)	N/A
General revenues				
Property taxes and other tax items	143,871,208	140,135,212	3,735,996	2.67%
State sources	42,377,276	38,099,575	4,277,701	11.23%
Use of money and property	172,815	266,520	(93,705)	-35.16%
Other	2,335,091	887,824	1,447,267	163.01%
Total revenues	198,623,620	188,674,342	9,949,278	5.27%
Expenses				
General support	26,510,966	23,335,670	3,175,296	13.61%
Instruction	149,979,531	140,420,287	9,559,244	6.81%
Pupil transportation	8,846,191	8,683,265	162,926	1.88%
Community services	2,254,609	2,058,578	196,031	9.52%
Debt service - interest	4,514,892	3,893,742	621,150	15.95%
Food service program	2,187,194	2,367,867	(180,673)	-7.63%
Total expenses	194,293,383	180,759,409	13,533,974	7.49%
Other changes in net position	(557,798)	-	(557,798)	N/A
Increase (decrease) in net position	$3,772,439	$7,914,933	($4,142,494)	-52.34%

The District's fiscal year 2016 revenues totaled $198,623,620. (See Table A-4). This is an increase of $9,949,278 or 5.27% over the prior year. Property taxes and other tax items and state sources accounted for most of the District's revenue by contributing approximately 72.42% and 21.34% respectively of total revenue. (See Table A-5). The remainder came from fees charged for services, operating grants, use of money and property, and other miscellaneous sources. State sources increased $4,277,701 over the prior year due to the increase in BOCES state aid received. Other revenues increased $1,447,267 due to receipt of premiums on the BAN and TAN.

The total cost of all programs and services totaled $194,293,383 for fiscal year 2016. This is an increase of $13,533,974 or 7.49% from the prior year. The expenses are predominantly related to general instruction and transporting students, which account for approximately 81.75% of district expenses. (See Table A-6). The District's general support activities accounted for 13.64% of total costs.

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

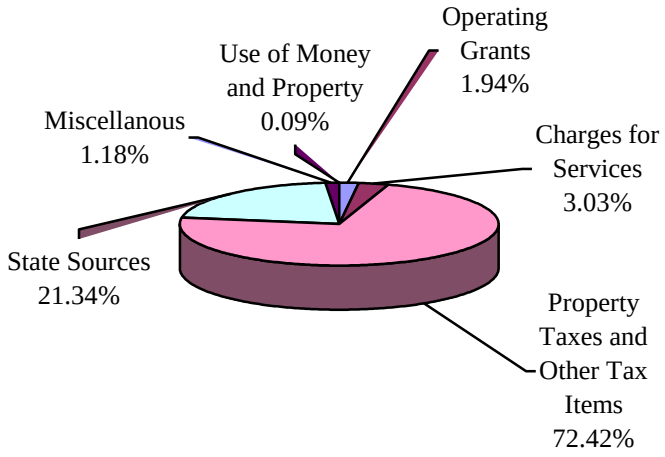
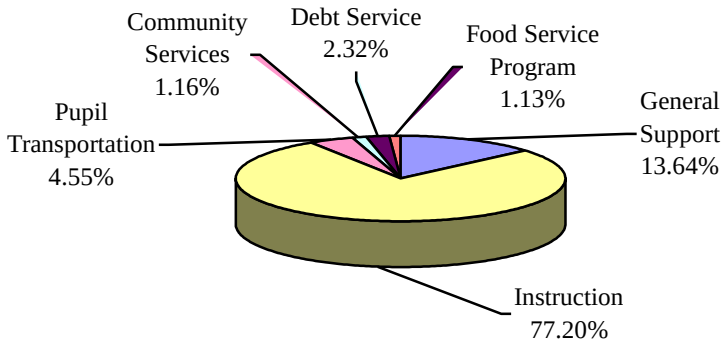


Table A-6: Expenses for Fiscal Year 2016 (See Tables A-4 and A-7)



C) Governmental Activities

Revenues for the District's governmental activities totaled $198,623,620 while total expenses equaled $194,293,383. The overall good financial condition of the District, as a whole, can be credited to:

- Continued leadership of the District's Board and administration;
- Approval of the District's proposed annual budget;
- Strong tax base;
- Strategic use of services from the Eastern Suffolk Board of Cooperative Educational Services (BOCES);
- Community support.

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

Table A-7: Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
Category	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2015
General support	$26,510,966	$23,335,670	$26,510,966	$23,079,377
Instruction	149,979,531	140,420,287	142,609,283	133,897,751
Pupil transportation	8,846,191	8,683,265	8,496,639	8,395,296
Community service	2,254,609	2,058,578	2,254,609	2,058,578
Debt service - interest	4,514,892	3,893,742	4,514,892	3,893,742
Food service program	2,187,194	2,367,867	39,764	149,454
Total	$194,293,383	$180,759,409	$184,426,153	$171,474,198

- The cost of all governmental activities this year was $194,293,383. (Statement of Activities, Expenses column)

- The users of the District's programs financed $6,011,086 of the cost. (Statement of Activities, Charges For Services column)

- The federal and state governments subsidized certain programs with operating grants of $3,856,144. (Statement of Activities, Operating Grants column)

- Most of the District's net costs of $184,426,153 were financed by District taxpayers and state and federal aid. (Statements of Activities, Net (Expense) Revenue and Changes in Net Position column).

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

As of June 30, 2016, the District's combined governmental funds reported a total fund balance of a deficit of $5,498,637 which is a decrease of $18,006,663 from the prior year. This decrease is primarily due to a decrease in fund balance in the capital projects fund due to the ongoing projects that have not received permanent financing sources yet, partially offset by the increase in the general fund due to operations.

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

	Fiscal Year 2016	Fiscal Year 2015	Increase (Decrease)	Total Percentage Change
General Fund				
Restricted for workers' compensation	$3,268,800	$1,961,181	$1,307,619	66.68%
Restricted for unemployement	144,919	144,699	220	0.15%
Restricted for retirement contribution	12,146,026	4,551,707	7,594,319	166.85%
Restricted for employee benefit accrued liability	3,474,529	3,469,252	5,277	0.15%
Assigned- designated for subsequent year's expenditures	1,000,000	2,000,000	(1,000,000)	-50.00%
Assigned for general support	669,166	503,565	165,601	32.89%
Assigned for instruction	440,376	815,459	(375,083)	-46.00%
Assigned for pupil transportation	1,025	7,463	(6,438)	-86.27%
Assigned for community service	1,254	374	880	235.29%
Unassigned	7,957,598	7,276,456	681,142	9.36%
Total fund balance - general fund	29,103,693	20,730,156	8,373,537	40.39%
School Lunch Fund				
Nonspendable	67,321	54,675	12,646	23.13%
Assigned	655,450	601,887	53,563	8.90%
Total fund balance - school lunch fund	722,771	656,562	66,209	10.08%
Capital Projects Fund				
Restricted for unspent debt proceeds	241,879	3,714,428	(3,472,549)	-93.49%
Unassigned	(35,566,980)	(12,593,120)	(22,973,860)	-182.43%
Total fund balance - capital projects fund	(35,325,101)	(8,878,692)	(26,446,409)	-297.86%
Total fund balance - all funds	($5,498,637)	$12,508,026	($18,006,663)	-143.96%

The District can attribute changes to the fund balance in the general fund primarily due to operating results in which revenues and other sources of $194,185,827 exceeded expenditures and other uses of $185,254,492, resulting in an increase in the general fund fund balance of $8,931,335, when combined with the other changes in fund balance of $557,798, resulted in a net increase of $8,373,537.

The change in the restricted fund balance for workers' compensation, unemployment, retirement contributions, and employee benefit accrued liability reserve is due to interest being allocated as well as funding to the reserves, as discussed on the next page.

The net change in the fund balance of the school lunch fund of $66,209 was the operating profit of the school lunch fund for the current year.

The net change in the fund balance of the capital projects fund of a decrease of $26,446,409 can be primarily attributed to the District spending $27,078,192 on capital projects, with current year funding by general fund budgeted transfers in the amount of $1,780,000. The District has not obtained the bond authorized for the 2014 bond projects yet.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A) 2015-2016 Budget

The District's general fund adopted budget for the year ended June 30, 2016 was $189,589,217. This amount was increased by encumbrances carried forward from the prior year in the amount of $1,326,861, which resulted in an original budget of $190,916,078. As there were no budget amendments during the year, the final budget was also $190,916,078. The majority of the funding was from property taxes and other tax items of $143,527,194.

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

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

Opening, unassigned fund balance	$ 7,276,456
Revenues over budget	6,596,610
Expenditures and encumbrances under budget	4,549,765
Other changes in fund balance	(557,798)
Interest transferred to reserves	(15,401)
Funding to reserves	(8,892,034)
Assigned for June 30, 2017 budget	(1,000,000)
Closing, unassigned fund balance	$ 7,957,598

The opening unassigned fund balance of $7,276,456 is the June 30, 2015 unassigned fund balance.

The revenues over budget in the amount of $6,596,610 were primarily in the charges for services, state aid, premiums on short term obligations, and transfers from other funds line. The District received increased BOCES aid during the year, as well as a premium on the BAN for $705,160 and on the TAN of $315,510. The capital projects fund also returned $1,148,217 in unspent bond proceeds from completed capital projects to the general fund to offset current year debt payments. (see Supplemental Schedule #1 for detail).

The expenditures and encumbrances under budget in the amount of $4,549,765 were primarily attributable to the following expenditures: programs for children with handicapping conditions, pupil transportation, and employee benefits (see Supplemental Schedule #1 for detail).

The other changes in fund balance of $557,798 represents a write off of receivables in the special aid fund, and is discussed further in Note 19.

Interest of $15,401 was transferred to the reserves for the following amounts: $2,982 to the workers' compensation reserve, $220 to the unemployment reserve, $6,922 to the retirement contribution reserve, and $5,277 to the employee benefit accrued liability reserve.

The District funded $1,304,637 to the workers' compensation reserve, and $7,587,397 to the retirement contribution reserve.

The assigned, appropriated fund balance of $1,000,000 for the June 30, 2017 budget is the amount the District has chosen to use to partially fund its operating budget for 2016-2017.

The District will close the 2015-2016 fiscal year with $7,957,598 in unassigned fund balance. NYS Real Property Tax Law restricts this number to an amount not greater than 4% of the District's budget for the ensuing fiscal year. The District's unassigned fund balance is within the legal limit.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A) Capital Assets

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

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

Category	Fiscal Year 2016	Fiscal Year 2015	Increase (Decrease)	Percentage Change
Land and land improvements	$2,023,365	2,023,365	-	0.00%
Construction in progress	37,947,561	13,209,543	24,738,018	187.27%
Buildings & building improvements	198,245,174	195,905,001	2,340,173	1.19%
Vehicles	1,047,013	1,047,013	-	0.00%
Furniture, machinery, equipment	8,629,488	8,849,279	(219,791)	-2.48%
Subtotal	247,892,601	221,034,201	26,858,400	12.15%
Less: accumulated depreciation	83,596,693	76,442,598	7,154,095	9.36%
Total net capital assets	$164,295,908	144,591,603	19,704,305	13.63%

The District spent $27,078,192 in the capital projects fund on building improvements, additions and equipment purchases during the year and as a result, has a deficit fund balance of $35,325,101, as the District has not yet obtained permanent financing for the 2014 bond projects. The District also disposed of assets with a net book value of $30,863.

B) Long-Term Debt

At June 30, 2016, the District had total debt payable of $84,406,108. The serial bonds were issued for district-wide projects. The energy performance debt was issued to provide building upgrades, district wide, designed to reduce energy use and expense. The decrease in outstanding serial bond debt represents principal payments, as well as the reduction in outstanding principal due to the bond refunding. The decrease in energy performance debt payable represents principal payments.

More detailed information about the District's long-term debt is presented in Note 11. A summary of outstanding debt at June 30, 2016 and 2015 is as follows:

	2016	2015	Increase (Decrease)
Serial bonds payable	$70,750,000	$79,005,000	($8,255,000)
Energy performance debt payable	13,656,108	14,764,754	(1,108,646)
Total	$84,406,108	$93,769,754	($9,363,646)

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

- The general fund budget for the 2016-2017 school year was approved by the voters in the amount of $198,939,935, which includes a special transportation proposition that was approved to eliminate the minimum mileage eligibility for grades 7 to 12, for $160,000. This is an increase of $9,350,718, or 4.93% over the previous year's adopted budget. The increase was primarily due to increases in instruction, as well as debt service and interfund transfers expenditures.

- The 2016-2017 budget not only preserves all core educational programs, but also provides enhanced learning opportunities, expanding in areas such computer science, American Sign Language, writing instruction, and also supports safety, security and building initiatives district-wide.

- NYS Legislature has introduced and approved a property tax cap beginning in the 2012-2013 school year. This bill limits tax levy growth to the lesser of two percent or the annual increase in the CPI. Limited exemptions to exceed the levy cap are provided for taxes needed to pay for voter-approved capital expenditures, pension rate increases, court orders and torts over five percent of the prior year's levy. If the tax levy proposed to the voters is within the district's tax levy cap, then a majority vote would be required for approval. If the proposed tax levy exceeds the district's tax levy cap, the threshold required for approval

would be 60 percent of the vote. A school district that does not levy an amount up to the cap in any one year would be allowed to carry over unused tax levy capacity into future years.

- The District issued $26,000,000 in tax anticipation notes on August 25, 2016, maturing on June 27, 2017 with a stated interest rate of 2.0%, but an effective interest rate of .6840% due to premiums received.

- The District redeemed $44,000,000 in bond anticipation notes on August 25, 2016 by issuing serial bonds (discussed below) and through District appropriations.

- The District issued $54,155,000 in serial bonds on August 25, 2016 pursuant to the voter approved authorization on February 4, 2014 which was for estimated costs not to exceed $56,156,066.

8. CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Three Village Central School District
Mr. Jeffrey Carlson
Assistant Superintendent for Business
100 Suffolk Avenue
Stony Brook, New York 11790
(631) 730-4020

THREE VILLAGE CENTRAL SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
Current assets	
Cash	
Unrestricted	$39,122,278
Restricted	19,276,153
Receivables	
State and federal aid	4,739,189
Due from other governments	582,111
Due from fiduciary funds	926
Accounts receivable	222,564
Inventories	67,321
Non-current assets	
Capital assets not being depreciated	39,970,926
Capital assets being depreciated, net of accumulated depreciation	124,324,982
Net pension asset - proportionate share	50,052,509
TOTAL ASSETS	278,358,959
DEFERRED OUTFLOWS OF RESOURCES -Pensions	19,920,071
LIABILITIES	
Payables	
Accounts payable	$3,175,273
Accrued liabilities	9,334,050
BAN interest payable	719,475
Bond interest payable	325,529
Energy performance interest payable	124,836
Bond anticipation note payable	44,000,000
Due to other governments	264
Due to fiduciary funds	14,762
Due to teachers' retirement system	11,228,826
Due to employees' retirement system	994,873
Compensated absences payable	44,600
Unearned credits	
Collections in advance	716,531
Long-term liabilities	
Due and payable within one year	
Bonds payable	6,965,000
Energy performance debt payable	1,132,370
Compensated absences payable	30,799
Due and payable after one year	
Bonds payable	63,785,000
Energy performance debt payable	12,523,738
Termination benefits payable	4,605,000
Compensated absences payable	8,386,209
Claims payable	3,268,801
Net other post employment benefits obligation payable	98,805,551
Net pension liability - proportionate share	9,343,017
TOTAL LIABILITIES	279,524,504
DEFERRED INFLOWS OF RESOURCES	
Pensions	18,328,234
Gain on defeasance	1,730,162
TOTAL DEFERRED INFLOWS OF RESOURCES	20,058,396
NET POSITION	
Net investment in capital assets	34,401,517
Restricted	
Workers' compensation	3,268,800
Unemployment insurance	144,919
Retirement contributions	12,146,026
Employee benefit accrued liability	3,474,529
	19,034,274
Unrestricted (deficit)	(54,739,661)
TOTAL NET POSITION	$ (1,303,870)

See Accompanying Notes to Financial Statements

THREE VILLAGE CENTRAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	
FUNCTIONS / PROGRAMS				
General support	$ (26,510,966)	-	-	(26,510,966)
Instruction	(149,979,531)	4,349,453	3,020,795	(142,609,283)
Pupil transportation	(8,846,191)	-	349,552	(8,496,639)
Community services	(2,254,609)	-	-	(2,254,609)
Debt service - interest	(4,514,892)	-	-	(4,514,892)
Food service program	(2,187,194)	1,661,633	485,797	(39,764)
TOTAL FUNCTIONS AND PROGRAMS	$ (194,293,383)	6,011,086	3,856,144	(184,426,153)
GENERAL REVENUES				
Real property taxes				130,141,360
Other tax items - including STAR reimbursement				13,729,848
Use of money & property				172,815
Sale of property & compensation for loss				91,494
Miscellaneous				2,243,597
State sources				42,377,276
TOTAL GENERAL REVENUES				188,756,390
CHANGE IN NET POSITION				4,330,237
OTHER CHANGES IN NET POSITION (SEE FOOTNOTE 19)				(557,798)
TOTAL CHANGE IN NET POSITION				3,772,439
TOTAL NET POSITION - BEGINNING OF YEAR				(5,076,309)
TOTAL NET POSITION - END OF YEAR				$ (1,303,870)

See Accompanying Notes to Financial Statements

THREE VILLAGE CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	$27,750,113	632,891	703,800	-	10,035,474	39,122,278
Restricted	19,034,274	-	-	-	241,879	19,276,153
Receivables						
State and federal aid	2,365,438	2,347,064	26,687	-	-	4,739,189
Due from other governments	582,111	-	-	-	-	582,111
Accounts receivable	186,163	-	36,401	-	-	222,564
Due from other funds	5,819,776	1,692,284	1,071	-	-	7,513,131
Inventories	-	-	67,321	-	-	67,321
TOTAL ASSETS	$55,737,875	4,672,239	835,280	-	10,277,353	71,522,747
LIABILITIES AND FUND BALANCES						
Payables						
Accounts payable	2,724,679	1,996	1,276	-	447,322	3,175,273
Accrued liabilities	9,299,155	6,525	28,370	-	-	9,334,050
Bond anticipation note payable	-	-	-	-	44,000,000	44,000,000
Due to other governments	-	-	264	-	-	264
Due to other funds	1,708,117	4,663,718	-	-	1,155,132	7,526,967
Due to teachers' retirement system	11,228,826	-	-	-	-	11,228,826
Due to employees' retirement system	994,873	-	-	-	-	994,873
Compensated absences payable	44,600	-	-	-	-	44,600
Collections in advance	633,932	-	82,599	-	-	716,531
TOTAL LIABILITIES	26,634,182	4,672,239	112,509	-	45,602,454	77,021,384
FUND BALANCES						
Nonspendable :Inventory	-	-	67,321	-	-	67,321
Restricted						
Workers' compensation	3,268,800	-	-	-	-	3,268,800
Unemployment insurance	144,919	-	-	-	-	144,919
Retirement contributions	12,146,026	-	-	-	-	12,146,026
Employee benefit accrued liability	3,474,529	-	-	-	-	3,474,529
Unspent debt proceeds	-	-	-	-	241,879	241,879
Assigned						
Appropriated fund balance	1,000,000	-	-	-	-	1,000,000
Unappropriated fund balance	1,111,821	-	655,450	-	-	1,767,271
Unassigned	7,957,598	-	-	-	(35,566,980)	(27,609,382)
TOTAL FUND BALANCES	29,103,693	-	722,771	-	(35,325,101)	(5,498,637)
TOTAL LIABILITIES AND FUND BALANCES	$55,737,875	4,672,239	835,280	-	10,277,353	71,522,747

See Accompanying Notes to Financial Statements

THREE VILLAGE CENTRAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2016

Total Governmental Fund Balances		($5,498,637)
Amounts reported for governmental activities in the Statement of Net Position are different because:		
The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are and the assets do not appear on the Balance Sheet. The Statement of Net Position incurred, include those capital assets among the assets of the district as a whole, and their original costs are expensed annually over their useful lives.		
Original cost of capital assets	$247,892,601	
Accumulated depreciation	(83,596,693)	164,295,908
Certain disbursements previously expended in the governmental funds relating to pensions are treated as long-term assets and increase net position. The net pension asset - proportionate share, for TRS, at year-end was:		50,052,509
Deferred outflows of resources related to pensions will be recorded on the Statement of Net Position and amortized as pension expense in future years.		19,920,071
Statement of Net Position and amortized as a reduction of pension expense in future years.		(18,328,234)
Deferred amounts on refunding - The Statement of Net Position will amortize certain long-term debt credits received over the life of the bond. Governmental funds record the long-term credits as revenue.		(1,730,162)
Payables that are associated with long-term liabilities that are not payable in the current period are not reported as liabilities in the funds. Additional payables relating to long-term liabilities at year end consisted of:		
BAN interest payable	(719,475)	
Bond interest payable	(325,529)	
Energy performance interest payable	(124,836)	(1,169,840)
Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consisted of:		
Bonds payable	(70,750,000)	
Energy performance debt payable	(13,656,108)	
Termination benefits payable	(4,605,000)	
Compensated absences payable	(8,417,008)	
Claims payable	(3,268,801)	
Net other post employment benefits obligation payable	(98,805,551)	
Net pension liability - proportionate share - ERS	(9,343,017)	(208,845,485)
Total Net Position		$ (1,303,870)

See Accompanying Notes to Financial Statements

THREE VILLAGE CENTRAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	$130,141,360	-	-	-	-	130,141,360
Other tax items - including STAR reimbursement	13,729,848	-	-	-	-	13,729,848
Charges for services	4,349,453	-	-	-	-	4,349,453
Use of money and property	172,815	-	-	-	-	172,815
Sale of property and compensation for loss	91,494	-	-	-	-	91,494
Miscellaneous	1,118,025	-	104,902	-	-	1,222,927
State sources	42,377,276	1,535,877	28,387	-	-	43,941,540
Federal sources	36,669	1,797,801	309,367	-	-	2,143,837
Surplus food	-	-	148,043	-	-	148,043
Sales	-	-	1,661,633	-	-	1,661,633
TOTAL REVENUES	192,016,940	3,333,678	2,252,332	-	-	197,602,950
EXPENDITURES						
General support	20,593,260	-	-	-	-	20,593,260
Instruction	95,948,828	3,324,932	-	-	-	99,273,760
Pupil transportation	8,379,893	349,552	-	-	-	8,729,445
Community service	1,585,827	-	-	-	-	1,585,827
Employee benefits	44,921,280	-	-	-	-	44,921,280
Debt service - principal	7,818,646	-	-	-	-	7,818,646
Debt service - interest	3,884,881	-	-	-	-	3,884,881
Cost of sales	-	-	2,187,194	-	-	2,187,194
Capital outlay	-	-	-	-	27,078,192	27,078,192
TOTAL EXPENDITURES	183,132,615	3,674,484	2,187,194	-	27,078,192	216,072,485
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8,884,325	(340,806)	65,138	-	(27,078,192)	(18,469,535)
OTHER FINANCING SOURCES AND USES						
Premiums on short term obligations	1,020,670	-	-	-	-	1,020,670
Proceeds from refunded bonds issued	-	-	-	16,170,000	-	16,170,000
Bond premium	-	-	-	2,879,024	-	2,879,024
Payments to escrow agent (advanced refunding)	-	-	-	(18,863,829)	-	(18,863,829)
Bond issuance costs	-	-	-	(185,195)	-	(185,195)
Operating transfers in	1,148,217	340,806	1,071	-	1,780,000	3,270,094
Operating transfers (out)	(2,121,877)	-	-	-	(1,148,217)	(3,270,094)
'TOTAL OTHER FINANCING SOURCES AND (USES)	47,010	340,806	1,071	-	631,783	1,020,670
CHANGE IN FUND BALANCES	8,931,335	-	66,209	-	(26,446,409)	(17,448,865)
OTHER CHANGES IN FUND BALANCES (SEE NOTE 19)	(557,798)	-	-	-	-	(557,798)
TOTAL CHANGE IN FUND BALANCES	8,373,537	-	66,209	-	(26,446,409)	(18,006,663)
FUND BALANCES - BEGINNING OF YEAR	20,730,156	-	656,562	-	(8,878,692)	12,508,026
FUND BALANCES - END OF YEAR	$29,103,693	-	722,771	-	(35,325,101)	(5,498,637)

See Accompanying Notes to Financial Statements

THREE VILLAGE CENTRAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances		$ (18,006,663)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Long-Term Revenue and Expense Differences		
In the Statement of Activities, certain operating expenses are measured by amounts earned or incurred during the year. In the governmental funds, expenditures for these items are measured by the amount of financial resources used.		
Increase in compensated absences payable		(662,384)
Increase in termination benefits payable		(1,575,000)
Increase in net other post employment benefits obligation payable		(15,756,887)
Decrease in claims payable		144,286
Increases / decreases in the proportionate share of net pension asset/liability and related deferred inflows and outflows reported in the Statement of Activities do not provide for or require use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.		
Teachers' retirement system	$13,362,153	
Employees' retirement system	(440,811)	12,921,342
Long-Term Debt Transactions		
Bond issuance costs related to the refunding of debt are expensed in the current year. The amount of bond issuance costs related to the refunding that occurred during the June 30, 2016 fiscal year was:		(185,195)
Repayment of bond principal and energy performance 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.		7,818,646
Governmental funds report the premiums, discounts, and similar items on the refunded bonds. These amounts are deferred and amortized in the Statement of Activities. The amount of amortization for the 2012 and 2016 gain on defeasance is:		55,034
Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest from June 30, 2015 to June 30, 2016 changed by:		(685,045)
Capital Related Items		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expense in the Statement of Activities.		
Capital outlays	$27,387,358	
Depreciation/loss on disposal expense	(7,683,053)	19,704,305
Change in Net Position of Governmental Activities		$3,772,439

See Accompanying Notes to Financial Statements

THREE VILLAGE CENTRAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Restricted Cash	$67,378	710,948
Due from governmental funds	-	14,762
TOTAL ASSETS	$67,378	725,710
LIABILITIES		
Due to governmental funds	-	926
Extraclassroom activity balance	-	581,227
Other liabilities	-	143,557
TOTAL LIABILITIES	-	725,710
NET POSITION		
Restricted for scholarships	67,378	
TOTAL NET POSITION	$67,378	

See Accompanying Notes to Financial Statements

THREE VILLAGE CENTRAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Private Purpose Trust Fund
ADDITIONS	
Gifts and contributions	$8,750
Interest and earnings	53
TOTAL ADDITIONS	8,803
DEDUCTIONS	
Scholarships and awards	12,350
TOTAL DEDUCTIONS	12,350
CHANGE IN NET POSITION	(3,547)
NET POSITION - BEGINNING OF YEAR	70,925
NET POSITION - END OF YEAR	$67,378

See Accompanying Notes to Financial Statements

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Three Village Central School District (the "District") have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Certain significant accounting principles and policies utilized by the District are described below:

A) Reporting Entity:

The laws of New York govern the District. The District is an independent entity governed by an elected Board of Education consisting of 7 members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District and its component unit and other organizational entities determined to be includable in the District's financial reporting entity. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District's reporting entity.

i) Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District's business office. The District reports these assets held as an agent for the Extraclassroom organizations in the Statement of Fiduciary Net Position – Fiduciary Funds.

B) Joint Venture:

The District is a component district in the Eastern Suffolk Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs, which provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

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

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

C) Basis of Presentation:

i) District-Wide Financial Statements:

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

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

ii) Fund Financial Statements:

The Fund Financial Statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of Fund Financial Statements is on major governmental funds, each displayed in a separate column.

The District reports the following major governmental funds:

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

Special Aid Fund: This fund accounts for the proceeds of specific revenue sources, such as Federal and State grants, that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

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

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

Debt Service Fund: This fund is used to account for current payments of principal and interest on general obligation long-term debt and for financial resources accumulated in a reserve for payment of future principal and interest on long-term indebtedness to being financed by governmental funds.

Fiduciary Fund: These funds are used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the District-Wide Financial Statements, because their resources do not belong to the District, and are not available to be used. There are two classes of fiduciary funds:

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

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

D) Measurement Focus and Basis of Accounting:

The District-Wide Financial Statements 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 property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within six months after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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.

E) Real Property Taxes:

i) Calendar

Real property taxes are levied annually by the Board of Education no later than October 1, and become a lien on December 1. Taxes are collected by the Town of Brookhaven and Town of Smithtown during 2015-2016.

ii) Enforcement

Uncollected real property taxes are subsequently enforced by Suffolk County (the "County"). The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following July 1.

F) Restricted Resources:

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

G) Interfund Transactions:

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

In the District-Wide Financial Statements, the amounts reported on the Statement of Net Assets for inter-fund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all inter-fund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all inter-fund transactions as originally recorded. Inter-fund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

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

H) Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, other postemployment benefits, workers' compensation claims liability, pension activity, potential contingent liabilities and useful lives of long-lived assets.

I) Cash and Cash Equivalents:

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

J) Receivables:

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

K) Inventories and Prepaid Items:

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

Nonspendable fund balance for these non-liquid assets (inventories) has been recognized in the school lunch fund to signify that a portion of fund balance is not available for other subsequent expenditures.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-Wide and Fund Financial Statements. These items are reported as assets on the Statement of Net Position or Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed. The District had no prepaid items as of June 30, 2016.

L) Capital Assets:

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Building & building improvements	$1,500	Straight-line	30-50 years
Land improvements	$1,500	Straight-line	20 years
Furniture & equipment	$1,500	Straight-line	5-20 years

M) Collections in Advance:

Collections in advance arise when the District receives resources before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenues is removed and revenues are recorded. Collections in advance as of June 30, 2016 consisted of funds received for summer programs in the general fund, and prepaid balances for meals in the school lunch fund.

N) Deferred Outflows and Inflows of Resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. This amount is related to pensions reported in the District-Wide Statement of Net Position. This represents the difference between expected and actual experience (ERS), the net difference between projected and actual investment earnings on pension plan investments (ERS), changes of assumptions (ERS), changes in proportion and differences between employer contributions and proportionate share of contributions (ERS and TRS), and the District's contributions to the pension systems (ERS and TRS) subsequent to the measurement date.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The District has two items that qualifies for reporting in this category. The first item is a deferred gain on refunding which resulted from the difference in carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item amount is related to pensions reported in the District-Wide Statement of Net Position. This represents the differences between expected and actual experience (ERS and TRS), the net difference between projected and actual earnings on pension plan investments (TRS), and changes in proportion (TRS).

O) Vested Employee Benefits:

Compensated absences:

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

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

collective bargained agreements require these compensated absences to be paid in the form of non-elective contributions to the employee's 403(b) plan.

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

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting termination 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.

Termination benefits:

Retirement incentive consist of first year eligible retirement incentive payments as specific in collective bargaining agreements. The liability is calculated in accordance with GASB Statement No. 47 *Accounting for Termination Benefits*. The liability is calculated on years of service plus rates in effect at year end.

In the Fund Financial Statements only, the amount of matured liabilities for compensated absences and termination benefits is accrued within the general fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis. A liability is included only for those employees who have obligated themselves to separate from service with the District by June 30th.

P) Other Benefits:

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

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

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits for retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure as the liability for premiums mature (come due for payments). In the District-Wide Financial Statements, the cost of postemployment health insurance coverage is recognized on the accrual basis of accounting in accordance with GASB Statement No. 45.

Q) Short-term Debt:

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

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

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

R) Accrued Liabilities and Long-term Obligations:

Payables, accrued liabilities and long-term obligations are reported in the District-Wide Financial Statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the Fund Financial Statements when due.

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

S) Equity Classifications:

i) District-Wide Financial Statements:

In the District-Wide Financial Statements, there are three classes of net position:

Net investment in capital assets - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets, net of any unspent proceeds and including any unamortized items (discounts, premiums, gain on refunding).

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

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

ii) Fund Financial Statements:

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

(1) **Non-spendable** fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the school lunch fund of $67,321.

(2) **Restricted** fund balance – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Workers' Compensation Reserve

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

Unemployment Insurance Reserve

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

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

Retirement Contribution Reserve

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

Employee Benefit Accrued Liability Reserve

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

Unspent debt proceeds

Unspent debt (bonds and energy performance) 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.

Scholarships

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

(3) **Committed** fund balance – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority (i.e., Board of Education). The District has no committed fund balances as of June 30, 2016.

(4) **Assigned** fund balance – Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District management through Board policies. This classification also includes the remaining positive fund balance for all governmental funds except for the general fund.

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

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

Order of Use of Fund Balance

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balances shall be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

T) Future Changes in Accounting Standards:

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

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

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

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

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

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

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

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

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

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

i) Long-term revenue and expense differences:

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

ii) Capital related differences:

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

iii) Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

A) Budgets:

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

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. There were no supplemental appropriations that occurred during the fiscal year.

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

B) Encumbrances:

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

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A) Cash:

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and districts.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB 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 with securities held by the pledging financial institution in the District's name; or
C) Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

All of the District's aggregate bank balances were covered by depository insurance or collateralized with securities held by the pledging financial institution in the District's name at year end.

B) Restricted Cash:

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash at June 30, 2016 included $19,276,153 within in the governmental funds for capital projects and general reserve purposes and $778,326 within the fiduciary funds.

C) Investments:

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

NOTE 5 – PARTICIPATION IN BOCES:

During the year, the District was billed $8,630,798 for BOCES administrative and program costs. The District's share of BOCES aid amounted to $2,352,028. Financial statements for the BOCES are available from the BOCES administrative office at 201 Sunrise Highway, Patchogue, New York 11772.

NOTE 6 – STATE AND FEDERAL AID RECEIVABLE:

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

General fund	
Excess cost aid	$782,470
BOCES aid	1,576,635
Medicaid	6,333
Total	2,365,438
Special aid fund	
Federal aid	1,409,380
State and local aid	937,684
Total	2,347,064
School lunch fund	
Breakfast - federal aid	620
Lunch - federal aid	20,838
Breakfast - state aid	101
Lunch - state aid	5,128
Total	26,687
Total state and federal aid receivable	$ 4,739,189

District management has deemed these amounts to be fully collectible.

NOTE 7 – DUE FROM OTHER GOVERNMENTS:

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

Foster tuition	$496,939
Health and welfare services	4,095
Special education services	81,077
Total Due from other governments	$582,111

District management has deemed these amounts to be fully collectible.

NOTE 8 - CAPITAL ASSETS:

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

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	$2,023,365	-	-	$2,023,365
Construction in progress	13,209,543	$25,598,229	($860,211)	37,947,561
Total capital assets not being depreciated	15,232,908	25,598,229	(860,211)	39,970,926
Capital assets that are depreciated:				
Building & building improvements	195,905,001	1,479,962	860,211	198,245,174
Vehicles	1,047,013	-	-	1,047,013
Furniture and equipment	8,849,279	309,167	(528,958)	8,629,488
Total capital assets being depreciated	205,801,293	1,789,129	331,253	207,921,675
Less accumulated depreciation:				
Building & building improvements	69,699,152	6,902,683	-	76,601,835
Vehicles	783,107	58,014	-	841,121
Furniture and equipment	5,960,339	691,493	(498,095)	6,153,737
Total accumulated depreciation	76,442,598	7,652,190	(498,095)	83,596,693
Total capital assets being depreciated, net	129,358,695	(5,863,061)	829,348	124,324,982
Total capital assets, net	$144,591,603	$19,735,168	($30,863)	$164,295,908

Depreciation expense and the loss on disposal have been allocated to the following functions:

General Support	$87,538
Instruction	7,595,515
	$7,683,053

NOTE 9 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General fund	$5,819,776	$1,708,117	$1,148,217	$2,121,877
Special aid fund	1,692,284	4,663,718	340,806	-
School lunch fund	1,071	-	1,071	-
Capital projects fund	-	1,155,132	1,780,000	1,148,217
Total government activities	7,513,131	7,526,967	3,270,094	3,270,094
Fiduciary agency fund	14,762	926	-	-
Totals	$7,527,893	$7,527,893	$3,270,094	$3,270,094

The District typically transfers from the general fund to the special aid fund to fund the District's 20% share of summer school handicap expenses required by New York State law and to fund the State Supported Section 4201 schools. The District transferred from the general fund to the school lunch fund to cover the negative balances on students who owe money to the District for lunches. The District transferred from the general fund to the capital projects fund to fund capital projects. The District also transferred unused funds on capital projects back to the general fund.

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

All interfund payables are expected to be repaid within one year.

NOTE 10 - SHORT-TERM DEBT:

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

	Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	6/27/2016	1.75%		$ 26,000,000	$ 26,000,000	
BAN	8/28/2015	1.25%	$ 8,000,000		8,000,000	
BAN	8/26/2016	1.75% - 2.00%		44,000,000		$ 44,000,000
Total			$ 8,000,000	$ 70,000,000	$ 34,000,000	$ 44,000,000

The Tax Anticipation Note (TAN) was issued for interim financing of general fund operations, and the Bond Anticipation Notes (BAN) were issued for interim financing of the capital projects fund.

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

	Total
Interest paid	$479,167
Plus interest accrued in the current year	719,475
Total expense	$1,198,642

There was no interest accrued in the prior year.

NOTE 11 – LONG-TERM LIABILITIES:

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

	Beginning Balance	Reclassed/ Issued	Reclassed/ Redeemed	Ending Balance	Due Within One Year
General obligation debt:					
Construction serial bonds	$79,005,000	$16,170,000	$24,425,000	$70,750,000	$6,965,000
Energy performance debt payable	14,764,754	-	1,108,646	13,656,108	1,132,370
Other liabilities:					
Termination benefits payable	3,030,000	$1,575,000	-	4,605,000	-
Compensated absences payable	7,754,624	$785,630	123,246	8,417,008	30,799
Claims payable	3,413,087	606,476	750,762	3,268,801	-
Net other post employment benefits obligation	83,048,664	25,130,364	9,373,477	98,805,551	-
Net pension liability -proportionate share	1,904,769	10,598,712	3,160,464	9,343,017	-
Total long-term liabilities	$192,920,898	$54,866,182	$38,941,595	$208,845,485	$8,128,169

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

A) Bonds Payable:

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Serial Bonds -Refunding 2012	6/27/2012	4/15/2018	2 - 4%	$885,000
Serial Bonds	8/4/2005	6/1/2020	3.25 - 5.0%	8,085,000
Serial Bonds	5/15/2008	5/15/2023	3.0-4.125%	2,685,000
Serial Bonds	12/1/2008	6/1/2024	4.0-4.50%	9,450,000
Serial Bonds	5/1/2009	5/1/2030	3.25-4.75%	26,330,000
Serial Bonds	1/27/2010	12/15/2029	3.0-4.0%	2,310,000
Serial Bonds	11/30/2010	5/15/2026	2.75-4.25%	4,835,000
Serial Bonds - Refunding 2016	3/17/2016	12/15/2029	4%	16,170,000
	Total Bonds payable			$70,750,000

On March 17, 2016, $16,170,000 in general obligation bonds with an average interest rate of 4.0% were issued to advance refund $17,715,000 of 2010 outstanding bonds with an average interest rate of 3.50%. The net proceeds of $18,863,829 (after premium received of $2,879,024 and payment of $185,195 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 2010 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The 2010 bonds are callable in December 2017. The District advance refunded the 2010 bonds to reduce its total debt service payments over the next 14 years by $2,168,393

resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,927,852.

Unissued Debt

On February 4, 2014, voters approved a bond authorization for a total estimated cost not to exceed $56,156,066 for district-wide repairs, replacement and/or reconstruction projects. The District has not issued this debt as of June 30, 2016, leaving authorized but unissued debt in the amount of $56,156,066. The District, however, has issued a Bond Anticipation Note for $44,000,000 for interim financing of these projects during the year.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	$6,965,000	2,946,006	9,911,006
2018	7,145,000	2,662,731	9,807,731
2019	6,785,000	2,365,556	9,150,556
2020	6,400,000	2,074,106	8,474,106
2021	4,985,000	1,802,406	6,787,406
2022-2026	23,485,000	5,879,525	29,364,525
2027-2030	14,985,000	1,546,863	16,531,863
Total	$70,750,000	$19,277,193	$90,027,193

B) Energy Performance Debt:

Energy performance debt payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Energy performance debt	3/8/2012	3/1/2025	2.43%	$7,477,135
Energy performance debt	1/27/2015	1/15/2030	2.27%	6,178,973
	Total energy performance debt payable			$13,656,108

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	$1,132,370	315,270	1,447,640
2018	1,159,440	288,200	1,447,640
2019	1,187,157	260,483	1,447,640
2020	1,215,537	232,103	1,447,640
2021	1,244,597	203,043	1,447,640
2022-2026	5,748,192	560,041	6,308,233
2027-2030	1,968,815	101,881	2,070,696
Total	$13,656,108	$1,961,021	$15,617,129

C) Long-term Interest:

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

	Total
Interest paid	$3,405,714
Less interest accrued in the prior year	(484,795)
Plus interest accrued in the current year	450,365
Less amortization of deferred amounts on refunding	(55,034)
Total expense	$3,316,250

NOTE 12 – DEFERRED INFLOWS OF RESOURCES- GAIN ON DEFEASANCE:

The gain on defeasance pertaining to the 2003 bond refunded in 2012, and the 2010 bond refunded in 2016, as recorded in the District-Wide Financial Statements as deferred inflows of resources at June 30, 2016 consisted of the following:

	2003 Bond	2010 Bond	Total
Gain on defeasance	$110,000	1,730,195	$1,840,195
Accumulated amortization	(73,332)	(36,701)	(110,033)
Balance of gain on defeasance	$36,668	1,693,494	$1,730,162

The gain on defeasance on the advanced refundings are being amortized on the District-Wide Financial Statements using the straight-line method over 6 years for the 2003 bond, and 15 years for the 2010 bond, the time to maturity of the refunded bonds, at the point of refunding, and is recorded as a reduction to interest expense.

NOTE 13 – PENSION PLANS:

A) Plan Description and Benefits Provided:

i) Teachers' Retirement System

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

ii) Employees' Retirement System

The District participates in the New York State and Local Employees' Retirement System (ERS) (the System). This is a cost-sharing multiple –employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all new assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP) which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany NY 12244.

B) Funding Policies:

The Systems are noncontributory, except as follows:

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

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

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

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

	NYSERS	NYSTRS
2015-2016	$3,091,745	$10,057,742
2014-2015	$3,208,082	$12,689,336
2013-2014	$3,344,752	$11,558,037

C) Pension Assets, Liabilities, Pension Expense, and Deferred Outlflows and Inflows of Resources Related to Pensions:

At June 30, 2016, the District reported the following asset/(liability) for its proportionate share of the net pension asset /(liability) for each of the Systems. The net pension asset/(liability) was measured as of March 31, 2016 for ERS and June 30, 2015 for TRS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The District's proportion of the net pension asset/(liability) was based on a projection of the District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS and TRS Systems in reports provided to the District.

Measurement date	March 31, 2016	June 30, 2015
Net pension asset/(liability)	$ (9,343,017)	$ 50,052,509
District's portion of the Plan's total net pension asset/(liability)	0.0582109%	0.481885%
Change in proportionate share since prior measurement date	0.0018275%	0.000376%

For the year ended June 30, 2016, the District recognized a reduction in pension expense of ($3,304,411) for TRS and pension expense of $3,533,289 for ERS. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources		Deferred Inflow of Resources	
	ERS	TRS	ERS	TRS
Differences between expected and actual experience	$ 47,213	-	1,107,459	1,387,169
Net difference between projected and actual earnings on pension plan investments	5,542,790	-	-	15,821,858
Changes of assumptions	2,491,501	-	-	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	722,324	63,628	-	11,748
District's contributions subsequent to the measurement date	994,873	10,057,742	-	-
	$9,798,701	10,121,370	1,107,459	17,220,775

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

	ERS	TRS
Fiscal Year ended:		
2017	$ 1,961,145	$ (6,375,528)
2018	$ 1,961,145	$ (6,375,528)
2019	$ 1,961,145	$ (6,375,528)
2020	$ 1,803,409	$ 2,637,293
2021	$ 1,812,934	$ (166,858)
Thereafter		$ (500,998)

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:

	ERS	TRS
Measurement date	March 31, 2016	June 30, 2015
Actuarial valuation date	April 1, 2015	June 30, 2014
Interest rate	7.00%	8.00%
Salary scale	3.80%	4.01% - 10.91%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience	July 1, 2005 - June 30, 2010 System's Experience
Inflation rate	2.50%	3.0%

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

For ERS, the actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015. For TRS, the actuarial assumptions used in the June 30, 2014 valuation are based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010.

The long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return

by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

	ERS	TRS
Measurement date	March 31, 2016	June 30, 2015
Asset type		
Domestic equity	7.30%	6.50%
International equity	8.55%	7.70%
Private equity	11.00%	
Real estate	8.25%	4.60%
Absolute return strategies	6.75%	
Opportunistic portfolio	8.60%	
Real assets	8.65%	
Bonds and mortgages	4.00%	
Cash	2.25%	
Inflation-indexed bonds	4.00%	
Alternative investments		9.90%
Domestic fixed income securities		2.10%
Global fixed income securities		1.90%
Mortgages		3.40%
Short-term		1.20%

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for ERS and 8.0% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension asset/(liability) calculated using the discount rate of 7.0% for ERS and 8.0% for TRS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1-percentagepoint lower (6.0 % for ERS and 7.0% for TRS) or 1-percentagepoint higher (8.0% for ERS and 9.0% for TRS) than the current rate:

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension asset (liability)	($21,067,825)	($9,343,017)	$563,944

TRS	1% Decrease (7.0%)	Current Assumption (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension asset (liability)	($3,414,227)	$50,052,509	$95,648,407

Pension Plan Fiduciary Net Position

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

	(Dollars in Thousands)	
	ERS	TRS
Valuation date	April 1, 2015	June 30, 2014
Employers' total pension liability	$ (172,303,544)	$ (99,332,104)
Plan fiduciary net position	156,253,265	109,718,917
Employers' net pension asset/(liability)	$ (16,050,279)	$ 10,386,813
Ratio of plan fiduciary net position to the employers' total pension asset/(liability)	90.7%	110.46%

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2016 represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2016 amounted to $994,873.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2016 are paid to the System in September, October and November 2016 through a state aid intercept, with a balance to be paid by the District, if necessary. Accrued retirement contributions as of June 30, 2016 represent employee and employer contributions for the fiscal year ended June 30, 2016 based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2016 amounted to $11,228,826.

NOTE 14 – OTHER RETIREMENT PLANS:

A) Tax Sheltered Annuities:

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions expensed by the District and the employees for the year ended June 30, 2016, totaled $375,000 and $4,579,415 respectively.

B) Deferred Compensation Plan:

The District has established a deferred compensation plan in accordance with Internal Revenue Code section 457 for all employees. The District makes no contributions into this plan. The amount deferred by eligible employees for the year ended June 30, 2016 totaled $563,044.

NOTE 15 – POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS:

A) Plan Description:

The District primarily provides post employment hospital, medical and prescription drug benefit coverage to retired employees and their spouses and eligible dependents in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District's contractual agreements.

On January 1, 1992, the District joined together with other districts to form an employee health insurance consortium, the Suffolk School Employees Health Plan (the "Plan"). The Plan is a public entity risk pool currently operating as a common risk management and health insurance program and is considered an agent multiple-employer health plan. The District pays an annual premium to the pool for its health insurance coverage. The Plan has obtained stop-loss insurance to reduce its exposure to excessive losses resulting from large covered claims. Although stop-loss insurance permits recovery of a portion of such losses from the insurance carrier, it does not discharge the Plan's responsibility for payment of the claim. The Plan also permits the assessment of additional contributions from the participating District employers in the form of supplemental assessments in the event of a plan shortfall in any fiscal year. The plan issues a publicly available financial report. The report may be obtained by writing to the New York State Insurance Department Life Insurance Companies Bureau, 160 West Broadway, New York, NY 10013.

The Plan established a liability for both reported and unreported insured events, which includes estimates of both future payments or losses and related claim adjustment expenses. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment

expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The Plan has obtained an actuarial valuation report as of December 31, 2015 which indicates that the District's allocated liability for other postemployment benefits is $277,224,312. The District's net OPEB obligation at June 30, 2016 is $98,805,551 which is reflected in the Statement of Net Position.

B) Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District. For fiscal year 2016, the District contributed $9,373,477 to the plan, including $9,373,477 for current premiums and Medicare reimbursement and an additional $0 to prefund benefits. Retiree plan members contributed between 0% to 16.5% of the premium costs per month, while surviving spouses and young adults contributed 100%, depending on the type of coverage selected and the District's different bargaining unit agreements. As of the December 31, 2015 valuation, the Plan had 5,155 members comprised of 3,066 retirees, beneficiaries and dependents, and 2,089 active members, of which 1,197 and 709 respectively are District members.

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 the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's prorated annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District net OPEB obligation to the plan based on the Districts number of active and retired participants. The plan's actuary calculated the following information based on the separate determinations of each district in the Plan.

Annual required contribution	$27,500,454
Interest on net OPEB obligation	3,321,946
Adjustment to Annual Required Contribution	(5,692,036)
Annual OPEB cost (expense)	25,130,364
Contributions made	(9,373,477)
Increase in net OPEB obligation	15,756,887
Net OPEB obligation-beginning of year	83,048,664
Net OPEB obligation-end of year	$98,805,551

The District calculated the current year's interest on the net OPEB obligation and the adjustment to the ARC based on the actuarial assumptions contained in the valuation. These calculations were based on the interest rate of return assumptions and the amortization factor and were performed by the District since an actuarial valuation did not contain these figures.

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

Fiscal Year Ending	Annual OPEB Cost	OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/14	$18,887,716	$10,077,969	53%	$74,164,844
6/30/15	$18,535,174	$9,651,354	52%	$83,048,664
6/30/16	$25,130,364	$9,373,477	37%	$98,805,551

D) Funded Status and Funding Progress:

As of December 31, 2015, the actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was $277.2 million and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $277.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $91.7 million, and the ratio of the UAAL to the covered payroll was 302%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

E) Actuarial Methods and Assumptions:

In the December 31, 2015 actuarial valuation prepared by an outside actuarial firm, the projected unit credit cost method is used. Since costs are pooled, the actuarial valuation was developed on a pooled basis. Each participating district's share of the actuarial valuation was allocated based on a separate determination of the individual districts. The actuarial assumptions included a 4% investment rate of return, mortality rates, retirement rates and turnover rates. The UAAL uses level dollar amortization over 30 years. The remaining amortization period at June 30, 2016 was 21 years.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to

that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 16 – TERMINATION BENEFITS PAYABLE:

The District offers a retirement incentive to certain administrators and teachers outlined in their employment contract. In general, administrators having served at least 10 years employed by the District and 20 years in the New York State Teachers' Retirement System or Employees' Retirement System are entitled to a retirement incentive of $30,000. Teachers having been employed by the District for at least 15 years and have 20 years in the New York State Teachers' Retirement System are entitled to an incentive in the amount of $22,500. The current value of incentive payments earned is $4,605,000 and is recorded as a long-term liability on the Statement of Net Position.

NOTE 17 – RISK MANAGEMENT:

A) General:

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

B) Nonpool Risk Retained:

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 claims which were incurred on or before year-end but not paid. As of June 30, 2016, the District has incurred but unpaid claims liability in the amount of $3,268,801 and has a workers' compensation reserve balance of $3,268,800. Claims activity for the current and preceding year is summarized below:

	2016	2015
Unpaid claims, beginning of year	$3,413,087	$4,523,959
Incurred claims and claim adjustment expenses	606,476	22,379
Claim payments	(750,762)	(1,133,251)
Unpaid claims, end of year	$3,268,801	$3,413,087

NOTE 18 – COMMITMENTS AND CONTINGENCIES:

A) Grants:

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

B) Litigation:

The District is involved in lawsuits arising from the normal conduct of its affairs. Some of these lawsuits seek damages which may be in excess of the District's insurance coverage. However, it is not possible to determine the district's potential exposure, if any, at this time.

C) Encumbrances:

All encumbrances are classified as assigned or restricted fund balance. At June 30, 2016, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance	
General fund	
General support	$440,376
Instruction	669,166
Pupil transportation	1,025
Community service	1,254
	$1,111,821
Assigned and Restricted:	
Capital projects fund	
Capital projects	$2,896,951
Assigned:	
School lunch fund	
Equipment and services	$5,985

NOTE 19 - OTHER CHANGES IN FUND BALANCE AND NET POSITION:

Other changes in fund balance and net position represent a write off of receivables for the Summer School Handicapped program in the federal fund from the 08/09 through 10/11 year, and a historic artifacts grant receivable, that the District has determined are no longer collectible

	Fund balance general fund	Net position
Summer school receivable write off	($507,798)	(507,798)
Historic artifacts grant write off	(50,000)	(50,000)
Total other changes	($557,798)	(557,798)

NOTE 20 – SUBSEQUENT EVENTS:

A) The District issued $26,000,000 in tax anticipation notes on August 25, 2016, maturing on June 27, 2017 with a stated interest rate of 2.0%, but an effective interest rate of .6840% due to premiums received.

B) The District redeemed $44,000,000 in bond anticipation notes on August 25, 2016 by issuing serial bonds (discussed below) and through District appropriations.

C) The District issued $54,155,000 in serial bonds on August 25, 2016 pursuant to the voter approved authorization on February 4, 2014 which was for estimated costs not to exceed $56,156,066.

THREE VILLAGE CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Variance with Budgetary Actual
REVENUES				
Local sources				
Real property taxes	$130,527,194	130,527,194	130,141,360	(385,834)
Other real property tax items	13,000,000	13,000,000	13,729,848	729,848
Charges for services	3,295,000	3,295,000	4,349,453	1,054,453
Use of money and property	315,000	315,000	172,815	(142,185)
Sale of property and compensation for loss	-	-	91,494	91,494
Miscellaneous	850,000	850,000	1,118,025	268,025
State sources				
Basic formula	39,602,023	39,602,023	28,224,994	(11,377,029)
Excess cost aid	-	-	4,514,216	4,514,216
Lottery aid	-	-	5,603,268	5,603,268
BOCES aid	-	-	2,352,028	2,352,028
Textbook Aid	-	-	411,420	411,420
Computer software aid	-	-	179,742	179,742
Library A/V loan program aid	-	-	46,006	46,006
Tuition aid	-	-	957,096	957,096
Other State Aid	-	-	88,506	88,506
Federal sources	-	-	36,669	36,669
TOTAL REVENUES	187,589,217	187,589,217	192,016,940	$4,427,723
Other financing sources				
Premiums on short term obligations			1,020,670	1,020,670
Transfers from other funds	-	-	1,148,217	1,148,217
TOTAL REVENUE AND OTHER SOURCES	187,589,217	187,589,217	194,185,827	6,596,610
Appropriated fund balance	2,000,000	2,000,000		
Appropriated reserves	1,326,861	1,326,861		
TOTAL REVENUES & APPROPRIATED FUND BALANCE	190,916,078	190,916,078		

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.

THREE VILLAGE CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance with Budgetary Actual and Encumbrances
EXPENDITURES					
General support					
Board of education	$164,249	174,884	146,382	-	28,502
Central administration	377,664	377,664	381,661	-	(3,997)
Finance	2,035,900	2,051,600	1,991,381	26,779	33,440
Staff	1,358,896	1,367,396	1,248,622	5,598	113,176
Central services	14,900,154	14,903,554	15,022,794	407,999	(527,239)
Special items	1,899,006	1,905,306	1,802,420	-	102,886
Instruction					
Instruction, adm. & imp.	6,793,336	6,774,865	6,991,298	2,660	(219,093)
Teaching - regular schools	53,668,454	53,609,521	53,128,182	270,081	211,258
Programs for children with handicapping conditions	27,575,302	27,435,594	24,593,715	260,012	2,581,867
Occupational education	723,975	723,975	695,874	-	28,101
Teaching special schools	545,737	542,755	485,449	-	57,306
Instructional media	2,543,607	2,544,632	2,275,027	118,708	150,897
Pupil services	8,072,879	8,091,393	7,779,283	17,705	294,405
Pupil transportation	9,208,340	9,349,944	8,379,893	1,025	969,026
Community services	1,628,644	1,653,060	1,585,827	1,254	65,979
Employee benefits	45,542,722	45,542,722	44,921,280	-	621,442
Debt service					
Debt service - principal	7,820,642	7,820,642	7,818,646	-	1,996
Debt service - interest	3,650,071	3,650,071	3,884,881	-	(234,810)
TOTAL EXPENDITURES	188,509,578	188,519,578	183,132,615	1,111,821	4,275,142
Other financing uses					
Transfers to other funds	2,406,500	2,396,500	2,121,877	-	274,623
TOTAL EXPENDITURES AND OTHER USES	$ 190,916,078	190,916,078	185,254,492	1,111,821	4,549,765
NET CHANGE IN FUND BALANCES			8,931,335		
OTHER CHANGES IN FUND BALANCES (SEE NOTE 19)			(557,798)		
FUND BALANCES - BEGINNING OF YEAR			20,730,156		
FUND BALANCES - END OF YEAR			$29,103,693		

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.

THREE VILLAGE CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
JUNE 30, 2016

Actuarial						
Valuation Date	Value of Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
January 1, 2007	$ -	$162,462,523	$162,462,523	0%	$84,853,884	191%
December 31, 2009	$ -	$240,207,386	$240,207,386	0%	$89,329,426	269%
December 31, 2011	$ -	$238,364,540	$238,364,540	0%	$89,475,005	266%
December 31, 2013	$ -	$217,819,769	$217,819,769	0%	$85,148,617	256%
December 31, 2015	$ -	$277,224,312	$277,224,312	0%	$91,770,585	302%

THREE VILLAGE CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
FOR THE FISCAL YEARS ENDED JUNE 30, *

NYSERS Pension Plan

	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0582109%	0.0563834%	0.0563834%
District's proportionate share of the net pension liability (asset)	$ 9,343,017	$ 1,904,769	$ 2,547,886
District's covered payroll	$ 17,795,350	$ 17,289,597	$ 16,807,381
District's proportionate share of the net pension liability (asset) as a percentage of its covered -employee payroll	52.50%	11.02%	15.16%
Plan fiduciary net position as a percentage of the total pension liability (asset)	90.70%	97.95%	97.20%

NYSTRS Pension Plan

	2016	2015	2014
District's proportion of the net pension liability (asset)	0.481885%	0.481509%	0.493719%
District's proportionate share of the net pension liability (asset)	$ (50,052,509)	$ (53,637,103)	$ (3,249,922)
District's covered payroll	$ 77,702,682	$ 74,499,071	$ 73,171,265
District's proportionate share of the net pension liability (asset) as a percentage of its covered -employee payroll	64.42%	72.00%	4.44%
Plan fiduciary net position as a percentage of the total pension liability (asset)	110.46%	111.48%	100.70%

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

THREE VILLAGE CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
FOR THE FISCAL YEARS ENDED JUNE 30,

NYSERS Pension Plan

	2016	2015	2014	2013	2012	2011
Contractually required contribution	$ 3,091,745	3,208,082	3,344,752	3,052,667	2,671,340	1,976,998
Contributions in relation to the contractually required contribution	3,091,745	3,208,082	3,344,752	3,052,667	2,671,340	1,976,998
Contribution deficiency (excess)	$ -	-	-	-	-	-
District's covered employee payroll	$17,795,350	17,289,597	16,807,381	16,372,235	16,479,292	16,243,544
Contributions as a percentage of covered employee payroll	17.37%	18.55%	19.90%	18.65%	16.21%	12.17%

NYSTRS Pension Plan

	2016	2015	2014	2013	2012	2011
Contractually required contribution	$10,057,742	12,689,336	11,588,037	8,562,584	8,043,989	6,236,528
Contributions in relation to the contractually required contribution	10,057,742	12,689,336	11,588,037	8,562,584	8,043,989	6,236,528
Contribution deficiency (excess)	$ -	-	-	-	-	-
District's covered employee payroll	$77,702,662	74,499,071	73,171,265	74,406,002	74,328,019	74,509,330
Contributions as a percentage of covered employee payroll	12.94%	17.03%	15.84%	11.51%	10.82%	8.37%

THREE VILLAGE CENTRAL SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET AND THE REAL PROPERTY TAX LIMIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	$189,589,217
Add: Prior year's encumbrances	1,326,861
Original Budget	190,916,078
Budget revisions:	-
Final Budget	$190,916,078

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2016-2017 voter approved expenditure budget		$198,939,935
Maximum allowed (4% of the 2016-2017 budget)		$7,957,598
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	$2,111,821	
Unassigned fund balance	7,957,598	
Total unrestricted fund balance		10,069,419
Less:		
Appropriated fund balance	1,000,000	
Encumbrances included in assigned fund balance	1,111,821	
Total adjustments		2,111,821
*General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law		$7,957,598
Actual percentage		4.00%

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

THREE VILLAGE CENTRAL SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
AS OF JUNE 30, 2016

				Expenditures to Date				Methods of Financing				Fund
Project Title	Project #	Original Appropriation	Revised Appropriation	Prior Year's	Current Year	Total	Unexpended Balance	Proceeds of Obligations	State Aid	Local Sources	Total	Balance June 30, 2016
2014 Bond Projects												
2014 Bond Setauket Phase 3	001-035	$ -	3,297,000	37,448	77,657	115,105	3,181,895	-	-	-	-	(115,105) *
2014 Bond Nassakeag (auditorium)	002-028	500,000	512,000	227,324	6,685	234,009	277,991	-	-	-	-	(234,009) *
2014 Bond Nassakeag Phase 3	002-029	-	3,581,000	45,231	94,497	139,728	3,441,272	-	-	-	-	(139,728) *
2014 Bond Mount Phase 3	006-028	-	3,401,500	43,351	93,248	136,599	3,264,901	-	-	-	-	(136,599) *
2014 Bond Phase 2 Arrowhead	007-028	-	5,004,100	1,347,399	3,811,833	5,159,232	(155,132)	-	-	-	-	(5,159,232) *
2014 Gelinas (lockers, curtains)	008-035	-	1,318,261	926,151	8,780	934,931	383,330	-	-	-	-	(934,931) *
2014 Bond Phase 2 Gelinas	008-036	-	7,512,100	2,079,316	5,263,839	7,343,155	168,945	-	-	-	-	(7,343,155) *
2014 Bond Ward Melville (stairs, lockers)	009-038	2,093,640	2,093,639	2,096,871	158,562	2,255,433	(161,794)	-	-	-	-	(2,255,433) *
2014 Bond Melville Phase 2	009-039	-	10,817,101	2,744,666	7,847,120	10,591,786	225,315	-	-	-	-	(10,591,786) *
2014 Bond Melville	009-040	-	208,800	0	56,381	56,381	152,419	-	-	-	-	(56,381) *
2014 Bond Minnesauke (auditorium)	014-027	500,000	186,000	144,894	6,684	151,578	34,422	-	-	-	-	(151,578) *
2014 Bond Minni Phase 3	014-028	-	4,304,500	36,411	89,243	125,654	4,178,846	-	-	-	-	(125,654) *
2014 Bond Murphy (lockers, curtains)	015-032	-	1,065,953	655,718	6,684	662,402	403,551	-	-	-	-	(662,402) *
2014 Bond Phase 2 Murphy	015-034	-	7,512,100	1,906,136	5,423,187	7,329,323	182,777	-	-	-	-	(7,329,323) *
2014 Bond North Country (exterior lighting)	018-016	-	173,000	158,963	0	158,963	14,037	-	-	-	-	(158,963) *
2014 Bond -North Country Lrng Cnt.	018-020	-	337,000	2,505	108,786	111,291	225,709	-	-	-	-	(111,291) *
2014 Bond Ward Melville Field House	064-001	198,900	198,900	207,031	6,684	213,715	(14,815)	-	-	-	-	(213,715) *
2014 Bond North Country - Maint. Bldg	3071-001	-	2,450,000	701,172	1,200,269	1,901,441	548,559	-	-	-	-	(1,901,441) *
2014 Bond to be allocated		25,216,246	2,183,046	387,092	0	387,092	1,795,954	-	-	-	-	(387,092) *
Subtotal 2014 bond projects		28,508,786	56,156,000	13,747,679	24,260,139	38,007,818	18,148,182	-	-	-	-	(38,007,818)
2015 Energy performance contract		6,554,959	6,554,959	3,683,572	2,680,709	6,364,281	190,678	6,554,959			6,554,959	190,678
2014 Minni Site Development	014-026	-	149,854	138,862	-	138,862	10,992	-	-	149,854	149,854	10,992
2014 Arrow Masonry	007-027	-	21,128	13,862	-	13,862	7,266	-	-	21,128	21,128	7,266
2014 Gelinas	008-034	-	61,278	53,668	-	53,668	7,610	61,278	-	-	61,278	7,610
2014 Gelinas (electric)	008-033	-	32,170	25,110	-	25,110	7,060	32,170	-	-	32,170	7,060
2014 Murphy (electric)	015-031	-	26,278	26,278	-	26,278	-	26,278	-	-	26,278	-
2014 Melville (electric)	009-037	-	72,738	36,207	-	36,207	36,531	72,738	-	-	72,738	36,531
14/15 North Country	018-021	600,000	685,000	-	11,441	11,441	673,559	-	-	685,000	685,000	673,559
14/15 PJG Elevator Repair	008-037	-	95,000	76	94,395	94,471	529	-	-	95,000	95,000	529
15/16 Mount	006-030	300,000	300,000	-	6,072	6,072	293,928	-	-	300,000	300,000	293,928
15/16 Ward Melville	009-042	1,480,000	1,480,000	-	25,436	25,436	1,454,564	-	-	1,480,000	1,480,000	1,454,564
Transfer of surplus funds back to general fund		1,148,217	1,148,217	-	1,148,217	1,148,217	-	791,840	-	356,377	1,148,217	-
TOTAL		$ 38,591,962	$ 66,782,622	$ 17,725,314	$ 28,226,409	$ 45,951,723	$ 20,830,899	$ 7,539,263	$ -	$ 3,087,359	$ 10,626,622	$ (35,325,101)

***** The deficit fund balance will be eliminated once permanent financing is obtained.

THREE VILLAGE CENTRAL SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2016

Capital assets, net		$164,295,908
Deduct:		
Short-term portion of bonds payable	$6,965,000	
Long-term portion of bonds payable	63,785,000	
Less: Unspent bond proceeds	(51,201)	
Short-term portion of energy performance debt	1,132,370	
Long-term portion of energy performance debt	12,523,738	
Less: Unspent energy performance debt proceeds	(190,678)	
Bond anticipation note payable	44,000,000	
Gain on defeasance	1,730,162	129,894,391
Net investment in capital assets		$34,401,517

THREE VILLAGE CENTRAL SCHOOL DISTRICT

Federal Grant Compliance Audit

June 30, 2016

EFPR GROUP, CPAs PLLC

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

The Board of Education
Three Village Central School District
Stony Brook, 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 Three Village Central School District (the District), as of and for the year ended June 30, 2016, and the related notes to the District's basic financial statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 12, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

EFPR Group, CPAs, PLLC

Williamsville, New York
October 12, 2016

EFPR GROUP, CPAs PLLC

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

The Board of Education
Three Village Central School District
Stony Brook, New York

Report on Compliance for Each Major Federal Program

We have audited Three Village Central School District's (the District) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

EFPR Group, CPAs, PLLC

Williamsville, New York
October 12, 2016

THREE VILLAGE CENTRAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-through Grantor Program Title	CFDA Number	Agency or Pass-through Number	Program Expenditures	Expenditures by CFDA Number	Expenditures to Subrecipients
U.S. Department of Education					
Passed-through NYS Education Department:					
Special Education Grants to States (IDEA, Part B)	84.027	0032-15-0878	$1,424		
Special Education Grants to States (IDEA, Part B)	84.027	0032-16-0878	1,346,400	$1,347,824	-
Special Education Preschool Grants (IDEA Preschool)	84.173	0033-16-0878	93,794	93,794	-
Total Special Education Cluster			1,441,618		
Title I Grants to Local Educational Agencies	84.010	0021-15-2960	1,491		
Title I Grants to Local Educational Agencies	84.010	0021-16-2960	145,813	147,304	-
English Language Acquisition Grants	84.365	0149-16-2960	13,774	13,774	-
Improving Teacher Quality State Grants	84.367	0147-15-2960	17,146		
Improving Teacher Quality State Grants	84.367	0147-16-2960	177,959	195,105	-
Total U.S Department of Education				1,797,801	-
U.S. Department of Agriculture					
Passed-through NYS Education Department:					
National School Lunch Program (cash assistance)	10.555	N/A	300,723		
National School Lunch Program (non-cash food distribution)	10.555	N/A	148,043	448,766	-
School Breakfast Program (cash assistance)	10.553	N/A	8,644	8,644	-
Total Child Nutrition Cluster			457,410		
Total U.S. Department of Agriculture				457,410	-
Total Federal Awards Expended				$2,255,211	-

See Accompanying Notes to Schedule of Expenditures of Federal Awards

THREE VILLAGE CENTRAL SCHOOL DISTRICT

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2016

(1) Summary of Significant Accounting Policies

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

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented.

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

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

(2) Subrecipients

No amounts were provided to subrecipients.

THREE VILLAGE CENTRAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
1. Material weakness(es) identified?	_____Yes _x__No
2. Significant deficiency(ies) identified not considered to be material weakness(es)?	_____Yes _x__None reported
3. Noncompliance material to financial statements noted?	_____Yes _x__No

Federal Awards:

Internal control over major programs:	
4. Material weakness(es) identified?	_____Yes _x__No
5. Significant deficiency(ies) identified not considered to be material weakness(es)?	_____Yes _x__None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)(Uniform Guidance)?	_____Yes _x__No
7. The District's major programs audited were:	

Name of Federal Programs	CFDA Number
Special Education Cluster	84.027/84.173
Child Nutrition Cluster	10.553/10.555

8. Dollar threshold used to distinguish between Type A and Type B programs?	$750,000
9. Auditee qualified as low-risk auditee?	_x__Yes _____No

Part II - FINANCIAL STATEMENT FINDINGS SECTION

No reportable findings.

Part III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No reportable finding and questioned costs.

THREE VILLAGE CENTRAL SCHOOL DISTRICT

Status of Prior Year Audit Findings

Year ended June 30, 2016

There were no audit findings in the prior year financial statements (June 30, 2015).