



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

June 30, 2017

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Little Flower Union Free School District
Wading River, New York

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedules of funding progress – other postemployment benefits, the District's proportionate share of the net pension asset/liability, and District pension contributions on pages 3 through 13 and 45 through 49, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Little Flower Union Free School District's basic financial statements. The other supplementary information on pages 50 and 51 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information requested by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017 on our consideration of the Little Flower Union Free School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Little Flower Union Free School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

October 23, 2017

**LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

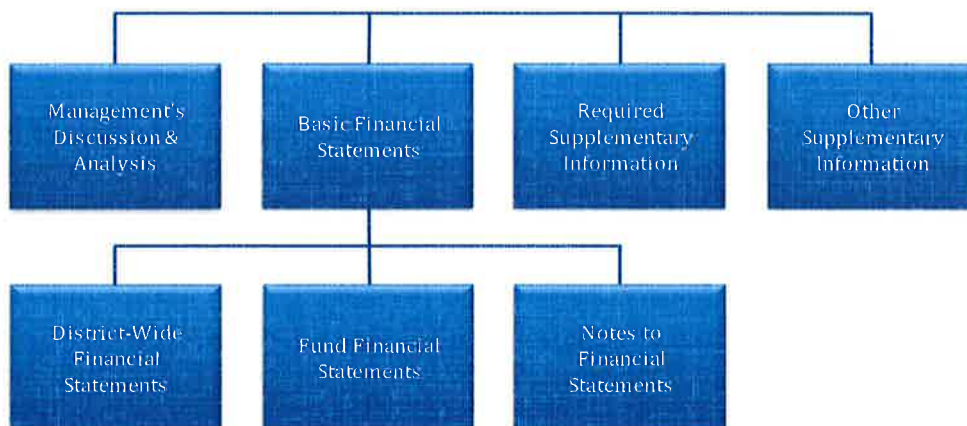
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2017 are as follows:

- The District's total net position deficit, as reflected in the district-wide financial statements, increased by \$1,203,280. This was due to expenses of \$8,499,103 exceeding revenues of \$7,295,823 on the accrual basis of accounting.
- The general fund's total fund balance deficit, as reflected in the fund financial statements, decreased by \$70,451 to \$(233,846). This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- The District received \$191,109 in operating grants to support instructional programs, a decrease of \$2,131 from the prior year.
- The District began a major construction project for renovations and additions to the existing school building. The project is being financed by the issuance of bonds through the Dormitory Authority of the State of New York (DASNY) on July 27, 2016 in the amount of \$5,165,000. The construction costs are estimated to be \$4,599,760, and bond issuance costs were \$544,317. Unspent bond proceeds are held by DASNY.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

A. District-Wide Financial Statements

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

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

The Statement of Net Position

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

The Statement of Activities

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

B. Fund Financial Statements

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

Governmental Funds

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

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

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

Fiduciary Funds

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

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position deficit increased by \$1,203,280 between fiscal year 2017 and 2016. The increase is due to expenses in excess of revenues based on the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Assets				
Current and Other Assets	\$ 4,893,311	\$ 2,001,788	\$ 2,891,523	144.45 %
Capital Assets, Net	3,916,429	1,601,058	2,315,371	144.62 %
Net Pension Asset - Proportionate Share	<u> </u>	<u>2,121,287</u>	<u>(2,121,287)</u>	<u>(100.00)%</u>
Total Assets	<u>8,809,740</u>	<u>5,724,133</u>	<u>3,085,607</u>	<u>53.91 %</u>
Deferred Outflows of Resources	<u>2,236,261</u>	<u>784,338</u>	<u>1,451,923</u>	<u>185.11 %</u>
Liabilities				
Current and Other Liabilities	2,803,529	2,307,641	495,888	21.49 %
Long-Term Liabilities	6,041,379	872,799	5,168,580	592.18 %
Net OPEB Obligation	5,888,358	5,169,090	719,268	13.91 %
Net Pension Liability - Proportionate Share	<u>412,015</u>	<u>386,536</u>	<u>25,479</u>	<u>6.59 %</u>
Total Liabilities	<u>15,145,281</u>	<u>8,736,066</u>	<u>6,409,215</u>	<u>73.37 %</u>
Deferred Inflows of Resources	<u>120,003</u>	<u>788,408</u>	<u>(668,405)</u>	<u>(84.78)%</u>

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Net Pension				
Net Investment in Capital Assets	\$ 1,447,785	\$ 1,601,058	\$ (153,273)	(9.57)%
Restricted	37,437		37,437	0.00 %
Unrestricted (Deficit)	<u>(5,704,505)</u>	<u>(4,617,061)</u>	<u>(1,087,444)</u>	23.55 %
Total Net Position (Deficit)	<u>\$ (4,219,283)</u>	<u>\$ (3,016,003)</u>	<u>\$ (1,203,280)</u>	(39.90)%

Current and other assets increased by \$2,891,523. During the current year the District issued \$5,165,000 in serial bonds through DASNY. Expenditures and bond issuance costs for the current year totaled \$3,012,961 of which \$2,381,075 was paid and \$631,886 is in accounts payable at June 30, 2017. The unspent bond proceeds of \$2,783,925 along with interest earned and tuition charges paid by participating districts at a separate billing rate total \$3,072,652, which is being held by DASNY for future debt service payments and continuing construction costs. The Statement of Net Position reports this balance as restricted cash (\$278,361) and restricted investments (\$2,794,291). These increases were offset by decreases in unrestricted cash and receivables.

Capital assets, net increased by \$2,315,371, as compared to the prior year. This increase is due to capital asset additions in excess of depreciation expense. The accompanying Notes to Financial Statements, Note 11 "Capital Assets" provides additional information.

Net pension asset - proportionate share decreased by \$2,121,287, as compared to the prior year. This asset represents the District's share of the New York State Teachers' Retirement System's collective net pension asset at the measurement date of the respective year. For the District's fiscal year ended June 30, 2017, the TRS pension valuation reported a net pension liability instead of a net pension asset.

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

Current and other liabilities increased by \$495,888. Accounts payable increased \$369,267 mainly due to a liability in the capital projects fund for outstanding payables of \$631,886, offset by a decrease in general fund and special aid fund accounts payable of \$262,619. During the current year, the District paid in full a payable to BOCES of \$286,708, which was for previous years. Additionally, accrued liabilities increased by \$166,241 due to an increase in accrued interest on bonds payable and amounts accrued related to a reconciled billing rate for the 2014-15 fiscal year that was received in the current year; the reconciled rate was lower than the prospective rate used in 2014-15 billings to various districts.

Long-term liabilities increased by \$5,168,580, as compared to the prior year. This increase is mainly the result of the issuance of long-term bonds in the amount of \$5,165,000. The accompanying Notes to the Financial Statements, Note 13, "Long-Term Liabilities" provides additional information.

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Net other postemployment benefits (OPEB) obligation increased by \$719,268, as compared to the prior year. This increase is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 16 "Postemployment Healthcare Benefits", provides additional information.

Net pension liability – proportionate share increased by \$25,479 in the current year. This liability represents the District's share of the New York State Teachers' Retirement System and the New York State and Local Employees' Retirement System's collective net pension liability at the measurement date of the respective year.

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

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

	<u>Increase (Decrease)</u>
Capital asset additions - total	\$ 2,511,653
Additions financed by debt	<u>(2,468,644)</u>
Additions financed by appropriations	43,009
Depreciation expense	<u>(196,282)</u>
	<u>\$ (153,273)</u>

The restricted amount of \$37,437 represents amounts restricted for debt service.

The unrestricted (deficit) amount of \$(5,704,505) relates to the balance of the District's net position. In accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation. This deficit increased over the prior year by \$1,087,444.

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. A summary of this statement for the years ended June 30, 2017 and 2016 is as follows:

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	2017	2016	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 6,918,954	\$ 6,583,567	\$ 335,387	5.09 %
Operating Grants	191,109	193,240	(2,131)	(1.10)%
General Revenues				
State Sources	73,637	30,677	42,960	140.04 %
Other	112,123	76,620	35,503	46.34 %
Total Revenues	<u>7,295,823</u>	<u>6,884,104</u>	<u>411,719</u>	5.98 %
Expenses				
General Support	1,734,206	1,520,223	213,983	14.08 %
Instruction	5,966,791	5,315,601	651,190	12.25 %
Debt Service - Interest	253,789	37,783	216,006	571.70 %
Bond Issuance Costs	544,317		544,317	0.00 %
Total Expenses	<u>8,499,103</u>	<u>6,873,607</u>	<u>1,625,496</u>	23.65 %
Increase / (Decrease) in Net Position	<u>\$ (1,203,280)</u>	<u>\$ 10,497</u>	<u>\$ (1,213,777)</u>	(11563.08)%

The District's net position decreased by \$1,203,280 for the year ended June 30, 2017, and increased by \$10,497 for the year ended June 30, 2016.

The District's revenues increased by \$411,719 or 5.98%. The major factor that contributed to the increase was an increase in charges for services of \$335,387. This was mainly due to tuition amounts that are paid directly to DASNY for the new construction project at a special billing rate and will be used to make debt service payments in future years. The District also received a \$40,000 state grant, secured by State Senator LaValle, towards the purchase of a new van.

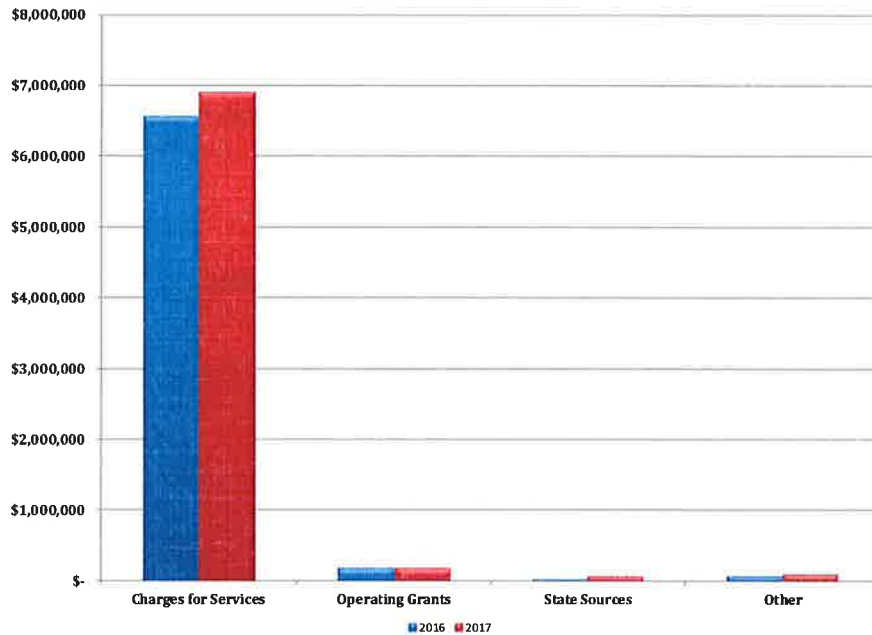
The District's expenses increased by \$1,625,496 or 23.65%. The increase is primarily due to three reasons. The first reason for the increase is benefits that are allocated to general support and instruction increased by \$100,001 and \$475,549, respectively. This includes costs for FICA, health insurance, workers' compensation insurance and state pension contributions. The second reason for the increase is due to the issuance of bonds. The cost of issuing the bonds totaled \$544,317 and is a one-time charge associated with the bonds. The third reason is debt service interest increased by \$216,006 due to interest payments on bonds and accrued interest.

In addition, salaries increased by \$19,930 for general support and \$116,697 for instruction.

As indicated on the graphs that follow, charges for services is the largest component of revenues recognized (i.e., 94.8% and 95.6% of the total for the years 2017 and 2016, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 70.2% and 77.4% of the total for the years 2017 and 2016, respectively).

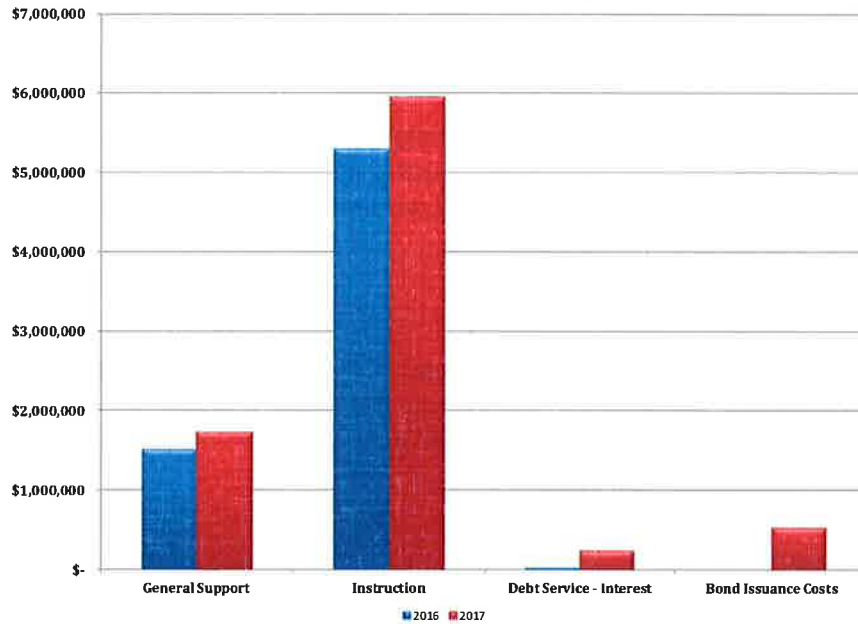
**LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



	Charges for Services	Operating Grants	State Sources	Other
2016	95.6%	2.8%	0.4%	1.2%
2017	94.8%	2.6%	1.0%	1.6%

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



	General Support	Instruction	Debt Service - Interest	Bond Issuance Costs
2016	22.1%	77.4%	0.5%	0.0%
2017	20.4%	70.2%	3.0%	6.4%

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2017, the District's governmental funds reported a combined fund balance deficit of \$1,935,707, which is an increase of \$2,240,004 over the prior year. This increase is due to an excess of revenues over expenditures based upon the modified accrual basis of accounting including the DASNY bonds-related capital projects and debt service transactions in the current fiscal year. A summary of the change in fund balance by fund is as follows:

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
General Fund			
Unassigned: Fund balance (deficit)	\$ (233,846)	\$ (304,297)	\$ 70,451
Debt Service Fund			
Restricted for debt	<u>3,618</u>	<u> </u>	<u>3,618</u>
Capital Projects Fund			
Restricted:			
Capital	33,819		33,819
Unspent bond proceeds	2,131,116		2,131,116
Assigned: Unappropriated fund balance	<u>1,000</u>	<u> </u>	<u>1,000</u>
	<u>2,165,935</u>	<u> </u>	<u>2,165,935</u>
 Total Fund Balance (Deficit)	 <u>\$ 1,935,707</u>	 <u>\$ (304,297)</u>	 <u>\$ 2,240,004</u>

A. General Fund

The net change in the general fund – fund balance is a decrease of its deficit of \$70,451. This resulted from revenues in excess of expenditures.

B. Debt Service Fund

At June 30, 2017, the debt service fund – fund balance was \$3,618. The increase is the net of revenues from charges for services, interest and an interfund transfer-in over interest payments on serial bonds as reported in DASNY's June 30, 2017, financial statements for the District's borrowing related to capital construction.

C. Capital Projects Fund

At June 30, 2017, the capital projects fund – fund balance was \$2,165,935. The increase is the net of proceeds of bonds issued and interest earned less the issuance costs of the bonds, capital construction expenditures, and an interfund transfer to the debt service fund.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2016-17 Budget

The District's general fund adopted budget for the year ended June 30, 2017 was \$6,866,535. This amount was increased by a budget revision in the amount of \$40,000 for a total final budget of \$6,906,535.

The adopted budget was primarily funded through \$6,765,105 in estimated charges for services.

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

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

Opening, Unassigned Fund Balance (Deficit)	\$ (304,297)
Revenues Under Budget	(191,266)
Expenditures Under Budget	<u>261,717</u>
Closing, Unassigned Fund Balance (Deficit)	<u>\$ (233,846)</u>

Opening, Unassigned Fund Balance (Deficit)

The \$(304,297) shown in the table is the portion of the District's June 30, 2016 fund balance that was considered unassigned.

Revenues Under Budget

The 2016-17 final budget for revenues was \$6,906,535. Actual revenues received for the year were \$6,715,269. The deficiency of actual revenue under estimated or budgeted revenue was \$(191,266), primarily in the charges for services area.

Expenditures Under Budget

The 2016-17 final budget for expenditures was \$6,906,535. Actual expenditures as of June 30, 2017 were \$6,644,818. The final budget was under expended by \$261,717, primarily in the teaching regular school and employee benefits areas of the budget. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2016 to June 30, 2017.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the table, the unassigned fund balance deficit at June 30, 2017 was \$(233,846).

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2017, the District had invested in a broad range of capital assets, as indicated in the table below. The net increase in capital assets is due to capital additions of \$2,511,653 in excess of depreciation of \$196,282 recorded for the year ended June 30, 2017. A summary of the District's capital assets, net of depreciation at June 30, 2017 and 2016 is as follows:

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	2017	2016	Increase (Decrease)
Construction in progress	\$ 2,468,644	\$ -	\$ 2,468,644
Buildings	1,307,090	1,470,476	(163,386)
Equipment	140,695	130,582	10,113
Capital assets, net	\$ 3,916,429	\$ 1,601,058	\$ 2,315,371

B. Debt Administration

During the year ended June 30, 2017, the District issued a revenue anticipation note payable in the amount of \$800,000, which is guaranteed by the Agency. This note carries an interest rate of 2.45% per annum and is due in June 2018.

At June 30, 2017, the District had total bonds payable of \$5,165,000, which were issued in 2016-17 through DASNY. The bonds were issued for school building renovations and additions. The other liabilities is the outstanding principal balance of a long-term liability to the Agency for the repayment of repairs to the District's lobby, which were paid for by the Agency. A summary of the outstanding debt at June 30, 2017 and 2016 is as follows:

	Issue Date	Interest Rate	2017	2016	Increase (Decrease)
Bonds Payable					
	7/27/2016	4.500%	\$ 5,165,000	\$ -	\$ 5,165,000
Other Liabilities					
	7/1/2014	2.905%	\$ 321,053	\$ 331,332	\$ (10,279)

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

	2017	2016	Increase (Decrease)
Compensated absences payable	\$ 555,326	\$ 541,467	\$ 13,859
Net other postemployment benefits obligation	5,888,358	5,169,090	719,268
Net pension liability - proportionate share	412,015	386,536	25,479
	\$ 6,855,699	\$ 6,097,093	\$ 758,606

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the Board of Education on June 19, 2017, for the year ending June 30, 2018, is \$7,090,520. This is an increase of \$223,985 or 3.26% over the previous year's budget. The increase is principally in the general government support area of the budget of \$116,460, instructional program of \$84,920, and employee benefits of \$33,005, offset by a decrease in the debt service budget of \$10,400.

The District budgeted revenues at a \$223,985 increase over the prior year's estimate. This increase is in estimated charges for services.

B. Future Budgets

Significant increases in costs of health insurance, changes in enrollment and future tuition rate increases and reconciliations will impact the District's future budgets.

C. Rate Reconciliation

The District's prior years tuition rates are subject to the rate reconciliation process by the New York State Education Department. The final reconciliation tuition rates could result in additional, retroactive billings for the District if they are more than the prospective rates used in billings, or reimbursements due back to the paying school districts and counties if the final tuition rates are lower than the prospective rates. The District may also petition the state to increase their tuition rates beyond the final reconciliation rates through a "waiver" process.

8. CONTACTING THE DISTRICT

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

Ms. Ann O. Romeo
Assistant Superintendent for Business
Little Flower Union Free School District
2460 North Wading River Road
Wading River, NY 11792

LITTLE FLOWER UNION FREE SCHOOL DISTRICT

Statement of Net Position

June 30, 2017

ASSETS

Cash	
Unrestricted	\$ 658,965
Restricted	278,361
Investments: Restricted	2,794,291
Receivables	
Accounts receivable	1,043,460
Due from fiduciary funds	578
Due from state and federal	82,986
Due from other governments	34,670
Capital assets:	
Not being depreciated	2,468,644
Being depreciated, net of accumulated depreciation	<u>1,447,785</u>
 Total Assets	 <u>8,809,740</u>

DEFERRED OUTFLOWS OF RESOURCES

Pensions	<u>2,236,261</u>
----------	------------------

LIABILITIES

Payables	
Accounts payable	749,772
Accrued liabilities	817,976
Due to other governments	29,459
Due to teachers' retirement system	381,591
Due to employees' retirement system	24,731
Notes payable	
Revenue anticipation	800,000
Long-term liabilities	
Due and payable within one year	
Bonds payable	155,000
Compensated absences payable	4,969
Other liabilities	10,582
Due and payable after one year	
Bonds payable	5,010,000
Compensated absences payable	550,357
Other liabilities	310,471
Net other postemployment benefits obligation	5,888,358
Net pension liability - proportionate share	<u>412,015</u>
 Total Liabilities	 <u>15,145,281</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	<u>120,003</u>
----------	----------------

NET POSITION (DEFICIT)

Net investment in capital assets	1,447,785
Restricted:	
Debt service	3,618
Capital	33,819
Unrestricted (deficit)	<u>(5,704,505)</u>
 Total Net Position (Deficit)	 <u>\$ (4,219,283)</u>

LITTLE FLOWER UNION FREE SCHOOL DISTRICT

Statement of Activities

For The Year Ended June 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants</u>	<u>Changes in</u>
				<u>Net Position</u>
FUNCTIONS/PROGRAMS				
General support	\$ 1,734,206	\$	\$	\$ (1,734,206)
Instruction	5,966,791	6,918,954	191,109	1,143,272
Debt service - interest	253,789			(253,789)
Bond issuance costs	544,317			(544,317)
Total Functions and Programs	<u>\$ 8,499,103</u>	<u>\$ 6,918,954</u>	<u>\$ 191,109</u>	<u>(1,389,040)</u>
GENERAL REVENUES				
Use of money and property				18,595
Sale of property and compensation for loss				8,935
Miscellaneous				84,593
State sources				73,637
Total General Revenues				<u>185,760</u>
Change in Net Position (Deficit)				(1,203,280)
Total Net Position (Deficit) - Beginning of Year				<u>(3,016,003)</u>
Total Net Position (Deficit) - End of Year				<u>\$ (4,219,283)</u>

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2017

	General	Special Aid	Debt Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	\$ 626,741	\$ 31,224	\$	\$ 1,000	\$ 658,965
Restricted			274,831	3,530	278,361
Investments: Restricted				2,794,291	2,794,291
Receivables					
Accounts receivable	1,043,460				1,043,460
Due from other funds	102,256				102,256
Due from state and federal	7,519	75,467			82,986
Due from other governments	34,670				34,670
 Total Assets	 <u>\$ 1,814,646</u>	 <u>\$ 106,691</u>	 <u>\$ 274,831</u>	 <u>\$ 2,798,821</u>	 <u>\$ 4,994,989</u>
LIABILITIES					
Payables					
Accounts payable	\$ 111,873	\$ 6,013	\$	\$ 631,886	\$ 749,772
Accrued liabilities	700,838				700,838
Due to other funds		100,678		1,000	101,678
Due to other governments	29,459				29,459
Due to teachers' retirement system	381,591				381,591
Due to employees' retirement system	24,731				24,731
Notes payable					
Revenue anticipation	800,000				800,000
 Total Liabilities	 <u>2,048,492</u>	 <u>106,691</u>	 <u>-</u>	 <u>632,886</u>	 <u>2,788,069</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue			271,213		271,213
FUND BALANCES (DEFICIT)					
Restricted:					
Debt service			3,618		3,618
Capital				33,819	33,819
Unspent bond proceeds				2,131,116	2,131,116
Assigned: Unappropriated fund balance				1,000	1,000
Unassigned: Fund balance (deficit)	(233,846)				(233,846)
 Total Fund Balances (Deficit)	 <u>(233,846)</u>	 <u>-</u>	 <u>3,618</u>	 <u>2,165,935</u>	 <u>1,935,707</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 1,814,646</u>	 <u>\$ 106,691</u>	 <u>\$ 274,831</u>	 <u>\$ 2,798,821</u>	 <u>\$ 4,994,989</u>

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

Total Governmental Fund Balances \$ 1,935,707

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

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

Original cost of capital assets	\$ 6,139,585	
Accumulated depreciation	<u>(2,223,156)</u>	3,916,429

Proportionate share of long-term liability and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.

Deferred outflows of resources	2,236,261	
Net pension liability - teachers' retirement system	(213,522)	
Net pension liability - employees' retirement system	(198,493)	
Deferred inflows of resources	<u>(120,003)</u>	1,704,243

Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds, but are not deferred on the Statement of Net Position. 271,213

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Accrued interest	(117,138)	
Bonds payable	(5,165,000)	
Compensated absences payable	(555,326)	
Other liabilities payable	(321,053)	
Net other postemployment benefits obligation	<u>(5,888,358)</u>	<u>(12,046,875)</u>

Total Net Position (Deficit) \$ (4,219,283)

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

	General	Special Aid	Debt Service	Capital Projects	Total Governmental Funds
REVENUES					
Charges for services	\$ 6,547,669	\$	\$ 100,072	\$	\$ 6,647,741
Use of money and property	435		264	17,896	18,595
Sale of property and compensation for loss	8,935				8,935
Miscellaneous	84,593				84,593
State sources	73,637				73,637
Federal sources		191,109			191,109
Total Revenues	6,715,269	191,109	100,336	17,896	7,024,610
EXPENDITURES					
General support	1,180,297				1,180,297
Instruction	3,473,168	191,109			3,664,277
Employee benefits	1,943,585				1,943,585
Debt Service					
Principal	10,279				10,279
Interest	37,489		100,718		138,207
Bond issuance costs				544,317	544,317
Capital outlay				2,468,644	2,468,644
Total Expenditures	6,644,818	191,109	100,718	3,012,961	9,949,606
Excess (Deficiency) of Revenues Over Expenditures	70,451	-	(382)	(2,995,065)	(2,924,996)
OTHER FINANCING SOURCES (USES)					
Proceeds of obligations				5,165,000	5,165,000
Operating transfers in			4,000		4,000
Operating transfers out				(4,000)	(4,000)
Total Other Financing Sources (Uses)	-	-	4,000	5,161,000	5,165,000
Net Change in Fund Balance	70,451	-	3,618	2,165,935	2,240,004
Fund Balances (Deficit) - Beginning of Year	(304,297)				(304,297)
End of Year	\$ (233,846)	\$ -	\$ 3,618	\$ 2,165,935	\$ 1,935,707

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

Net Change in Fund Balances \$ 2,240,004

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 revenues are measured by the amounts earned during the year. In the governmental funds, however, revenue for these items are measured by the amount of financial resources provided (essentially, the amounts actually received).

\$ 271,213

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

Increase in compensated absences payable

(13,859)

Increase in net other postemployment benefits obligation

(719,268)

(461,914)

Capital Related Differences

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

Capital outlays

2,511,653

Depreciation expense

(196,282)

2,315,371

Long-Term Debt Transactions Differences

The issuance of bonds is an other funding source in the governmental funds, but increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

(5,165,000)

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

Repayment of other long-term debt

10,279

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

(115,582)

(5,270,303)

Pension Differences

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

Teachers' retirement system

639

Employees' retirement system

(27,077)

(26,438)

Change in Net Position (Deficit) of Governmental Activities

\$ (1,203,280)

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2017

	<u>Agency</u>
ASSETS	
Cash	<u>\$ 578</u>
Total Assets	<u><u>\$ 578</u></u>
LIABILITIES	
Due to governmental funds	<u>\$ 578</u>
Total Liabilities	<u><u>\$ 578</u></u>

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District operates in accordance with the provisions of the Education Law of the State of New York. The District is a special act school district created by a special act of the State Legislature. The District serves populations of students referred through the courts and committees on special education, as well as counties' Department of Social Services. The Board of Education is responsible for the overall operation of the District and is comprised of nine members; of those nine, seven are appointed by the Board of Directors of Little Flower Children and Family Services of New York (Agency), the District's sponsoring agency, and two members are appointed by the Commissioner of Education (in accordance with Chapters 628 and 629 of the Laws of 2004 regarding boards of special act school districts). The Superintendent serves as the chief executive officer. The District's primary function is to provide education for its students. Services such as transportation of the students, administration, finance, and plant maintenance support the primary function.

Special act school districts cannot collect property taxes. Instead these districts rely on tuition paid by the student's home district or county. The tuition rates are set by the New York State Education Department (SED) using a complex set of variables including inflation factors. The calculated tuition rate is subject to approval of the State's Division of Budget.

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

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no other entities that would be included in the District's reporting entity.

B. Joint Venture

The District is a component district in the Board of Cooperative Educational Services of Eastern Suffolk (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section §1950 of the Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section §119-n(a) of the General Municipal Law. A BOCES budget is comprised of separate budgets for

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

C. Related Party

The District's operations are located on the premises of its sponsoring agency, the Little Flower Children and Family Services of New York (Agency), who leases the parcel of land to the District for the annual rent of \$1. The District also contracts for various services from the Agency and pays the Agency for its share of utility costs. See Note 18 to the financial statements for detailed information.

D. Basis of Presentation

District-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

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

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 payroll or employee withholding.

E. Measurement Focus and Basis of Accounting

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

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

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Resources

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

G. Interfund Transactions

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

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

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

H. Use of Estimates

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

I. Cash and Cash Equivalents / Investments

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

Investments are recorded at fair value, based on quoted market prices. Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves and debt agreements.

J. Investments - Restricted

Certain proceeds from serial bonds, as well as resources set aside for their repayment are classified as restricted assets in the district-wide and fund financial statements and their use is limited by applicable bond covenants.

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

K. Receivables

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

L. Capital Assets

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

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

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 750	20 years
Furniture, fixtures and equipment	750	5-20 years

M. Deferred Outflows of Resources

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

N. Deferred Inflows of Resources

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

O. Employee Benefits – Compensated Absences

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

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

P. Other Benefits

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

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

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

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

Q. Short-Term Debt

The District may issue revenue anticipation notes (RAN) 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 represent a liability that will be extinguished by the use of expendable, available resources of the fund.

R. Equity Classifications

District-Wide Statements

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

Fund Statements

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

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

Restricted for Debt Service

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

Restricted – Unspent Bond Proceeds / Capital

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

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

Unassigned – Represents the residual classification for the District's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification is used to report a deficit fund balance resulting from overspending of available resources.

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Balance Classification

Any portion of fund balance may be applied or transferred for a specific purpose by law or by formal action of the Board of Education. Amendments or modification to the applied or transferred fund balance must also be approved by formal action of the Board of Education.

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

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned) the Board will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classification will be charged.

S. Charges for Services

The District charges other school districts and counties tuition based on a per diem rate for all students from that district assigned to Little Flower Union Free School District. The preliminary rate charged is set by the New York State Education Department. After the end of the year, the New York State Education Department, based upon actual revenues and expenses for the year, will set an approved rate resulting in adjustments in the tuition rates to participating districts and counties in the ensuing years. This approved rate is subject to review and appeal by the District. Adjustments in tuition revenues for the final rates will be reflected in later years when future rates are adjusted, normally two years after the end of each fiscal year.

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

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

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

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

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

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

Pension Differences

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

Appropriations are established by the adoption of the budget, are recorded at the program line item level, and constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law) and appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. There were supplemental appropriations during the year in the amount of \$40,000 for the purchase of a van. The District received additional state aid to fund this expenditure.

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Budgets are adopted annually on a basis consistent with GAAP.

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

B. Encumbrances

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

C. Unassigned Fund Balance Deficit

The general fund has an unassigned fund balance deficit of \$233,846.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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

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

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

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

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. DEPOSITS WITH TRUSTEES (RESTRICTED ASSETS CAPITAL PROJECTS FUND AND DEBT SERVICE FUND)

Bond proceeds not expended for new construction and used to establish debt service funds and related accumulated investment income are held on deposit with trustees. The District has entered into various financing agreements to finance construction projects and has deposited funds with trustees for such projects. Bond proceeds, including interest income in excess of construction costs, are restricted for future projects or debt service. Additionally, under the financing agreements with the Dormitory Authority of the State of New York (DASNY), deposits with trustees represent required reserves for debt service and building replacement, together with earnings on such funds.

Total deposits with trustees consist of:

Cash	\$ 278,361
Investments:	
U.S. Government obligations	<u>2,794,271</u>
	<u>\$ 3,072,632</u>

The District does not maintain control over these investments. Instead, the investments are governed by the investment policies of the DASNY. Those policies, including interest rate risk, credit risk, and custodial risk, are disclosed within the DASNY's March 31, 2017, financial statement notes.

Financial information is available from the DASNY at 515 Broadway, Albany, New York 12207-2964.

6. PARTICIPATION IN BOCES

During the year ended June 30, 2017, the District was billed \$72,777 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$26,118. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

7. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017, represents amounts due to the District for tuition charges as follows:

General Fund	
Suffolk County DSS	\$ 171,575
Nassau County DSS	70,389
NYC Department of Education	187,144
Other districts	<u>614,352</u>
	<u>\$ 1,043,460</u>

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

8. DUE FROM STATE AND FEDERAL

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

General Fund	
New York State - general aid	\$ 7,519
Special Aid Fund	
Federal and state grants	<u>75,467</u>
	<u>\$ 82,986</u>

9. DUE FROM OTHER GOVERNMENTS

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

General Fund	
BOCES aid	\$ 11,308
Other entities	<u>23,362</u>
	<u>\$ 34,670</u>

10. INTERFUND TRANSACTIONS

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

	Interfund			
	<u>Receivable</u>	<u>Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 102,256	\$	\$	\$
Special Aid Fund		100,678		
Debt Service Fund			4,000	
Capital Projects Fund		<u>1,000</u>		<u>4,000</u>
Total Governmental Funds	<u>102,256</u>	<u>101,678</u>	<u>\$ 4,000</u>	<u>\$ 4,000</u>
Fiduciary Fund		<u>578</u>		
Total	<u>\$ 102,256</u>	<u>\$ 102,256</u>		

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

11. CAPITAL ASSETS

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Governmental activities				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 2,468,644	\$ -	\$ 2,468,644
Total capital assets not being depreciated	<u>-</u>	<u>2,468,644</u>	<u>-</u>	<u>2,468,644</u>
Capital assets being depreciated				
Buildings	3,267,722			3,267,722
Equipment	360,210	43,009		403,219
Total capital assets being depreciated	<u>3,627,932</u>	<u>43,009</u>	<u>-</u>	<u>3,670,941</u>
Less accumulated depreciation for:				
Buildings	1,797,246	163,386		1,960,632
Equipment	229,628	32,896		262,524
Total accumulated depreciation	<u>2,026,874</u>	<u>196,282</u>	<u>-</u>	<u>2,223,156</u>
Capital assets, net	<u>\$ 1,601,058</u>	<u>\$ 2,315,371</u>	<u>\$ -</u>	<u>\$ 3,916,429</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 163,386
Instruction	<u>32,896</u>
Total depreciation expense	<u>\$ 196,282</u>

12. SHORT-TERM DEBT

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

	Maturity	Stated Interest Rate	Balance June 30, 2016	Issued	Redeemed	Balance June 30, 2017
RAN	6/9/2017	3.50%	\$ 800,000	\$ -	\$ (800,000)	\$ -
RAN	6/8/2018	2.45%		800,000		800,000
			<u>\$ 800,000</u>	<u>\$ 800,000</u>	<u>\$ (800,000)</u>	<u>\$ 800,000</u>

A revenue anticipation note (RAN) is a short-term interest bearing note issued by the District in anticipation of revenues to be received at a later date. The RAN which matured on June 9, 2017 was guaranteed by the Agency, a related party. On June 13, 2017, the District issued a new RAN in the amount of \$800,000. The RAN is due in June 2018 with interest payable at the rate of 2.45% per annum. The Agency is not a guarantor on the current RAN.

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Interest paid	\$ 28,000
Less interest accrued in the prior year	(1,556)
Plus interest accrued in the current year	<u>926</u>
Total interest expense on short-term debt	<u>\$ 27,370</u>

13. LONG-TERM LIABILITIES

A. Changes

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Long-term liabilities					
Bonds payable	\$	\$ 5,165,000	\$	\$ 5,165,000	\$ 155,000
Other long-term liabilities					
Compensated absences	541,467	13,859		555,326	4,969
Other liabilities	<u>331,332</u>		<u>(10,279)</u>	<u>321,053</u>	<u>10,582</u>
	<u>\$ 872,799</u>	<u>\$ 5,178,859</u>	<u>\$ (10,279)</u>	<u>\$ 6,041,379</u>	<u>\$ 170,551</u>

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

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2017
DASNY Construction	7/27/2016	7/1/2036	4.50%	<u>\$ 5,165,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 155,000	\$ 228,938	\$ 383,938
2019	170,000	221,625	391,625
2020	180,000	213,750	393,750
2021	190,000	205,425	395,425
2022	195,000	196,762	391,762
2023 - 2027	1,125,000	839,813	1,964,813
2028 - 2032	1,400,000	556,650	1,956,650
2033 - 2037	<u>1,750,000</u>	<u>203,625</u>	<u>1,953,625</u>
Total	<u>\$ 5,165,000</u>	<u>\$ 2,666,588</u>	<u>\$ 7,831,588</u>

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Other Liabilities

Other liabilities consist of amounts due to the Agency for the repairs and renovations to the lobby of the school building required by the New York State Education Department. The renovations totaled \$351,017. The District executed an agreement with the Agency to pay \$1,647 per month commencing on July 1, 2014 through June 30, 2039 at an interest rate of 2.905%. Total interest paid for the year ended June 30, 2017, was \$9,489.

The following is a summary of debt service requirements for other liabilities:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 10,582	\$ 9,186	\$ 19,768
2019	10,894	8,874	19,768
2020	11,214	8,554	19,768
2021	11,544	8,224	19,768
2022	11,884	7,884	19,768
2023 - 2027	64,880	33,962	98,842
2028 - 2032	75,010	23,833	98,843
2033 - 2037	86,720	12,122	98,842
2038 - 2039	38,325	1,213	39,538
Total	<u>\$ 321,053</u>	<u>\$ 113,852</u>	<u>\$ 434,905</u>

D. Interest Expense

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

Interest paid	\$ 110,207
Plus interest accrued in the current year	<u>116,212</u>
Total interest expense on long-term debt	<u>\$ 226,419</u>

14. PENSION PLANS – NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

The TRS is administered by the New York State Teachers' Retirement Board. The TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

BOCES who elected to participate in the TRS. Once a public employer elects to participate in the TRS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the TRS may be found on the TRS website at www.nystrs.org or obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

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

C. Funding Policies

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to ERS or 3.5% of their salary to TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the TRS' fiscal year ended June 30th, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31st, and employer contributions are either paid by the prior December 15th less a 1% discount or by the prior February 1st. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year. The District's contributions rate was 13.26% of covered payroll for the TRS' fiscal year ended June 30, 2016. The District's average contribution rate was 13.7% of covered payroll for the ERS' fiscal year ended March 31, 2017.

The District's share of the required contributions, based on covered payroll paid for the District's year ended June 30, 2017 was \$359,327 for TRS and \$82,438 for ERS.

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported the following liability for its proportionate share of the net pension liability for each of the systems. The net pension liability was measured as of June 30, 2016, for TRS and March 31, 2017 for ERS. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and ERS in reports provided to the District.

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2016	March 31, 2017
District's proportionate share of the net pension liability	\$ (213,522)	\$ (198,493)
District's portion of the Plan's total net pension liability	0.0199360%	0.0021125%
Change in proportion since the prior measurement date	(0.0004870)	(0.0002958)

For the year ended June 30, 2017, the District recognized pension expense of \$358,770 for TRS and \$109,202 for ERS. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>
Differences between expected and actual experience	\$	\$ 4,974	\$ 69,364	\$ 30,142
Changes of assumptions	1,216,356	67,812		
Net difference between projected and actual earnings on pension plan investments	480,109	39,647		
Changes in proportion and differences between the District's contributions and proportionate share of contributions	41,700	1,605	5,205	15,292
District's contributions subsequent to the measurement date	359,327	24,731		
Total	<u>\$ 2,097,492</u>	<u>\$ 138,769</u>	<u>\$ 74,569</u>	<u>\$ 45,434</u>

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ending	TRS	ERS
2018	\$ 154,094	\$ 33,071
2019	154,094	33,071
2020	526,960	31,721
2021	410,950	(29,259)
2022	191,497	
Thereafter	226,001	
	<u>\$ 1,663,596</u>	<u>\$ 68,604</u>

Actuarial Assumptions

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

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

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

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

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Discount Rate

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

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

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

TRS	1% Decrease (6.50)%	Current Assumption (7.50)%	1% Increase (8.50)%
District's proportionate share of the net pension asset (liability)	<u>\$ (2,785,875)</u>	<u>\$ (213,522)</u>	<u>\$ 1,944,033</u>
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	<u>\$ (633,946)</u>	<u>\$ (198,493)</u>	<u>\$ 169,683</u>

Pension Plan Fiduciary Net Position

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

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

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017, are paid to the system in September, October and November 2017. Accrued retirement contributions as of June 30, 2017, represent employer and employee contributions for the fiscal year ended June 30, 2017, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS system. Accrued retirement contributions as of June 30, 2017 amounted to \$359,327 of employer contributions and \$22,264 of employee contributions.

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, 2017, represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$24,731 of employer contributions. Employee contributions are remitted monthly.

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

15. PENSION PLANS - OTHER

A. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain compensated absence payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2017, totaled \$61,238 and \$153,232, respectively.

B. Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. Amounts deferred by eligible employees for the year ended June 30, 2017 totaled \$13,500.

16. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. Plan Description

The District provides medical, Medicare part B reimbursement, and prescription drug benefits (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the New York State Health Insurance Program – Empire Plan. The plan does not issue a stand-alone financial report.

B. Funding Policy

The District assumes its share of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums mature (come due for payment). For the year ended June 30, 2017, the District recognized a general fund expenditure of \$150,158 for insurance premiums for 17 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the “pay as you go” method.

C. Annual OPEB Cost and Net OPEB Obligation

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Annual required contribution (ARC)	\$ 950,059
Interest on net OPEB obligation	206,672
Adjustment to ARC	<u>(287,305)</u>
Annual OPEB cost (expense)	869,426
Contributions made	<u>(150,158)</u>
Increase in net OPEB obligation	719,268
Net OPEB obligation - beginning of year	<u>5,169,090</u>
Net OPEB obligation - end of year	<u>\$ 5,888,358</u>

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

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2017	\$ 869,426	17.3%	\$ 5,888,358
June 30, 2016	817,633	16.8%	5,169,090
June 30, 2015	918,392	14.9%	4,488,582

D. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date (which is an updated valuation), the plan was 0% funded. The actuarial accrued liability for benefits was \$8,027,929 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,027,929. The covered payroll (annual payroll of active employees covered by the plan) was \$3,403,050, and the ratio of the UAAL to the covered payroll was 235.9%.

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

E. Actuarial Methods and Assumptions

The valuation of July 1, 2016, is an update derived from estimates from the previous valuation dated July 1, 2015, based on the fact that there were no material changes to any of the benefit packages, the cost sharing structures or the census.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

In the July 1, 2016, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 5.60% initially, reduced by decrements to an ultimate rate of 5.08% after 30 years and a 2.3% inflation rate. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

17. RISK MANAGEMENT

General Information

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

18. RELATED PARTY TRANSACTIONS

The District contracts with Little Flower Children and Family Services of New York (Agency), a related party, for various services including nursing, maintenance, water charges, etc. Total expenditures related to these services for the year ended June 30, 2017 were \$118,129. The Agency also billed the District for monthly electric costs not included in the contract, which totaled \$30,661 for the year ended June 30, 2017.

The Agency receives Federal and State reimbursement for hot meals prepared by the Agency and served by the District; the District is credited with its share of the monthly state and federal reimbursements by the Agency against the monthly billings for services. For the year ended June 30, 2017, the District recognized revenue in the amount of \$47,309 for its share of the meals-served reimbursements.

The District has an agreement with the Agency for the lease of a parcel of land upon which DASNY - financed capital facilities and improvements are constructed by the District. The lease is for a period of fifty years, ending July 17, 2040, and may continue for five-year extension periods upon mutual agreement between the District and the Agency. The District pays the Agency \$1 per year for basic rent.

On July 14, 2014, an amendment to the agreement was made, whereby the District agreed to repay the Agency for repairs to the school building lobby incurred by the Agency in the amount of \$351,017. This amount is to be repaid monthly over twenty-five years at an interest rate of 2.905% per annum. Total principal and interest repaid by the District was \$19,768 for the year ended June 30, 2017. The principal balance outstanding at June 30, 2017 was \$321,053. See Note 13, Long-Term Liabilities for further details.

At June 30, 2017, \$28,540 was due to the Agency for services provided, which was included in accounts payable.

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

19. COMMITMENTS AND CONTINGENCIES

A. Tuition Rate

During the year, the District charges other school districts and counties tuition at a rate set at the beginning of the fiscal year by the New York State Education Department (SED). The final tuition rate will be determined by the SED at a future date based on actual revenues and expenditures. The effect of this revised rate is not determinable at this time and is not reflected in the financial statements.

B. Grants

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

C. Concentrations

As of June 30, 2017, New York City's Department of Education and Suffolk County's Department of Social Services, comprised approximately 17.9% and 16.4% of accounts receivable, respectively. New York City's Department of Education and Suffolk County's Department of Social Services comprised 14.5% and 11.6% of tuition revenue, respectively.

D. Litigation

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

E. Operating Leases

In addition to the lease agreement with the Little Flower Children and Family Services of New York to lease a parcel of land for the annual rent of \$1 through July 17, 2040, as outlined in Note 18, the District leases various office equipment under non-cancelable operating leases. Rental expense for the year ended June 30, 2017, was \$6,405. The minimum remaining operating lease payments on these equipment leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 6,762
2019	1,722
2020	714
2021	714
2022	357
	<u>\$ 10,269</u>

20. SUBSEQUENT EVENTS

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

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

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Charges for services	\$ 6,765,105	\$ 6,765,105	\$ 6,547,669	\$ (217,436)
Use of money and property	300	300	435	135
Sale of property and compensation for loss			8,935	8,935
Miscellaneous	60,970	60,970	84,593	23,623
Total Local Sources	6,826,375	6,826,375	6,641,632	(184,743)
State Sources	40,160	80,160	73,637	(6,523)
Total Revenues	<u>\$ 6,866,535</u>	<u>\$ 6,906,535</u>	<u>6,715,269</u>	<u>\$ (191,266)</u>

Note to Required Supplementary Information

Budget Basis of Accounting

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

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

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
EXPENDITURES				
General Support				
Board of education	\$ 15,665	\$ 11,716	\$ 10,701	\$ 1,015
Central administration	226,115	226,377	224,825	1,552
Finance	249,615	257,334	255,017	2,317
Staff	11,740	15,740	14,763	977
Central services	554,870	646,864	628,466	18,398
Special items	44,890	46,730	46,525	205
Total General Support	1,102,895	1,204,761	1,180,297	24,464
Instruction				
Administration & improvement	185,185	189,674	188,439	1,235
Teaching - regular school	2,544,610	2,520,039	2,428,723	91,316
Programs for students with disabilities	334,425	295,936	290,932	5,004
Teaching - special schools	73,120	91,620	83,860	7,760
Pupil services	509,275	487,480	481,214	6,266
Total Instruction	3,646,615	3,584,749	3,473,168	111,581
Employee Benefits	2,067,255	2,067,255	1,943,585	123,670
Debt Service				
Principal	10,280	10,280	10,279	1
Interest	39,490	39,490	37,489	2,001
Total Debt Service	49,770	49,770	47,768	2,002
Total Expenditures	\$ 6,866,535	\$ 6,906,535	6,644,818	\$ 261,717
Net Change in Fund Balance			70,451	
Fund Balance (Deficit) - Beginning of Year			(304,297)	
Fund Balance (Deficit) - End of Year			\$ (233,846)	

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.

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

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2015	-	\$ 7,378,343	\$ 7,378,343	0%	\$ 3,537,352	208.6%
July 1, 2012	-	6,933,100	6,933,100	0%	3,314,846	209.2%
July 1, 2009	-	6,195,652	6,195,652	0%	2,963,872	209.0%

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

Teachers' Retirement System

	2017	2016	2015
District's proportion of the net pension asset (liability)	0.0199360%	0.0204230%	0.0209000%
District's proportionate share of the net pension asset (liability)	\$ (213,522)	\$ 2,121,287	\$ 2,328,087
District's covered payroll	\$ 3,083,217	\$ 3,107,525	\$ 3,136,066
District's proportionate share of the net pension asset (liability) as a percentage of its covered payroll	(6.93)%	68.26 %	74.24 %
Plan fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%

Employees' Retirement System

	2017	2016	2015
District's proportion of the net pension liability	0.0021125%	0.0024083%	0.0023086%
District's proportionate share of the net pension liability	\$ (198,493)	\$ (386,536)	\$ (77,990)
District's covered payroll	\$ 536,510	\$ 543,909	\$ 578,682
District's proportionate share of the net pension liability as a percentage of its covered payroll	37.00%	71.07%	13.48%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.68%	97.95%

Note to Required Supplementary Information

Teachers' Retirement System

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

Employees' Retirement System

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

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
Schedule of District Pension Contributions
 Last Ten Fiscal Years

Teachers' Retirement System

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 359,327	\$ 407,919	\$ 537,785	\$ 501,670	\$ 342,515	\$ 338,882	\$ 265,937	\$ 170,508	\$ 216,835	\$ 234,981
Contributions in relation to the contractually required contribution	359,327	407,919	537,785	501,670	342,515	338,882	265,937	170,508	216,835	234,981
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 3,083,217	\$ 3,115,034	\$ 3,107,525	\$ 3,136,066	\$ 2,922,566	\$ 3,076,622	\$ 3,130,387	\$ 2,775,115	\$ 2,858,841	\$ 2,736,389
Contributions as a percentage of covered payroll	12%	13%	17%	16%	12%	11%	8%	6%	8%	9%

Employees' Retirement System

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 82,438	\$ 91,963	\$ 109,630	\$ 101,455	\$ 105,967	\$ 110,872	\$ 66,186	\$ 66,383	\$ 78,730	\$ 84,884
Contributions in relation to the contractually required contribution	82,438	91,963	109,630	101,455	105,967	110,872	66,186	66,383	78,730	84,884
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 540,088	\$ 510,325	\$ 603,333	\$ 539,650	\$ 526,851	\$ 552,456	\$ 519,059	\$ 529,773	\$ 622,332	\$ 637,816
Contributions as a percentage of covered payroll	15%	18%	18%	19%	20%	20%	13%	13%	13%	13%

LITTLE FLOWER UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2017

Capital assets, net	<u>\$ 3,916,429</u>
Deduct:	
Short-term portion of bonds payable	155,000
Long-term portion of bonds payable	5,010,000
Less:	
Unspent bond proceeds	(2,131,116)
Non-capital related bond issuance costs	<u>(565,240)</u>
	<u>2,468,644</u>
Net Investment in Capital Assets	<u>\$ 1,447,785</u>

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

To the Board of Education
Little Flower Union Free School District
Wading River, 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 fund of the Little Flower Union Free School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 23, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Little Flower Union Free School District in a separate letter dated October 23, 2017.

Purpose of this Report

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

Cullen & Danowski, LLP

October 23, 2017

