

JERICO UNION FREE SCHOOL DISTRICT

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

June 30, 2016

JERICO UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

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 contributions on pages 3 through 15 and 48 through 52, 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 Jericho Union Free School District's basic financial statements. The other supplementary information on pages 53 through 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information requested by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016 on our consideration of the Jericho 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 Jericho Union Free School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

September 20, 2016

**JERICO UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Jericho 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, 2016 in comparison with the year ended June 30, 2015, 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 2016 are as follows:

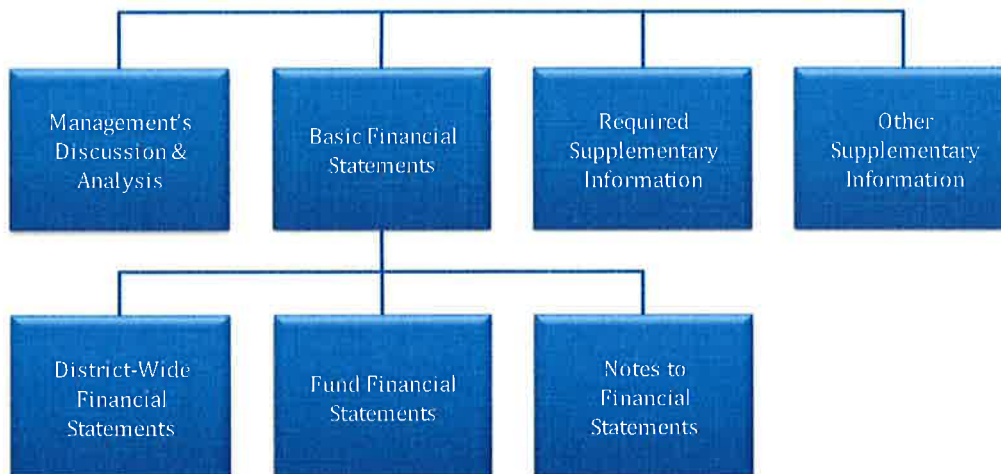
- The District's total net position, as reflected in the district-wide financial statements, increased by \$14,646,478. This was due to an excess of revenues over expenses based on the accrual basis of accounting.
- The District received \$1,108,386 in operating grants to support instructional programs.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$105,992,064. Of this amount, \$4,338,506 was offset by program charges for services and operating grants. General revenues of \$116,300,036 amount to 96.4% of total revenues, and were adequate to cover the balance of program expenses.
- The general fund's total fund balance, as reflected in the fund financial statements, decreased by \$7,441,111, which was due to an excess of expenditures over revenues based on the modified accrual basis of accounting. This decrease is primarily the result of a voter approved proposition on May 17, 2016, to transfer \$10,086,488 from the capital reserve established on May 21, 2013, and an additional \$6,219,637 from fund balance for the purpose of completing capital improvements throughout the District.
- On September 30, 2015, the Nassau County Legislature voted to remove properties owned by the Long Island Power Authority (LIPA) from the 2015-16 assessment and tax rolls, after school districts' 2015-16 tax levies have already been certified; LIPA would instead make payments-in-lieu-of-taxes ("PILOTS") with annual increases of no more than 2%. This change from tax levies to PILOTS resulted in a \$2,294,748 reduction in the District's actual property tax levy compared to the certified tax levy amount which was authorized by the voters, but only \$2,267,039 in PILOT from LIPA, a net revenue shortfall of approximately \$27,709 to the District for the 2015-2016 school year.
- On January 28, 2016, the District along with approximately 54 other school districts located in Nassau County, filed a lawsuit against Nassau County, the Long Island Power Authority and PSEG LI challenging the method by which the PILOTS amounts were calculated and implemented pursuant to New York State Public Authorities Law Section 1020-q (the "LIPA Reform Act"). As of September 1, 2016, all parties to the lawsuit have ratified a settlement agreement, whereby the participating school districts in Nassau County would be "made whole" for the 2015-2016 LIPA PILOTS, including the shortfall, or disputed amounts. LIPA will be claiming the disputed amounts it will pay under the settlement agreement as a credit against its November 2016 PILOT payments, which will be the first half of the school districts' 2016-17 fiscal year PILOT revenue.
- The District's adjusted 2015-16 property tax levy of \$106,236,917 was a 0.54% decrease from the 2014-15 tax levy. The District's 2016-17 property tax levy of \$106,236,917 is the same as the 2015-16 tax levy.
- On May 17, 2016, the proposed 2016-17 budget in the amount of \$121,024,051, was authorized by the District's voters.

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

- On May 19, 2015, the residents of the District voted on and authorized the Board of Education, pursuant to Education Law Section 3651, to establish a capital reserve known as the "Facilities Improvement Program – Jericho Public Schools II" for the purpose of specified improvements and upgrades throughout the District. The maximum amount of the capital reserve is \$10,000,000, plus investment income, for a term of 10 years. The funds are to be transferred from surplus monies remaining in the general fund and/or from existing reserves as allowed by General Municipal and Education Law, including a sum not to exceed an annual amount of \$10,000,000 beginning with the 2014-15 year. The District has funded \$10,000,000 into the capital reserve as of June 30, 2016.
- On May 17, 2016, the residents of the District voted on and authorized the Board of Education, to expend a sum not to exceed \$16,306,125 as follows: (1) \$10,000,000 plus interest from the capital reserve established on May 21, 2013 and (2) \$6,306,125 from the fund balance for the purpose of completing capital improvements throughout the District. The District liquidated the capital reserve with interest in the amount of \$10,086,488, and, in conjunction with \$6,219,637 from fund balance, transferred the total amount of \$16,306,125 to the capital projects fund.
- With numerous National Merit awards, Advanced Placement Scholars, School of Distinction awards, Intel/Siemens finalists and semi-finalists, Jericho High School has consistently ranked as one of the top public high schools in the United States of America. The District continued to offer all programs, without reducing services.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



A. District-Wide Financial Statements

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

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

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

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

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

B. Fund Financial Statements

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

Governmental Funds

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period in which the District incurs the liability, except for certain expenditures such as debt service on general long-term indebtedness, 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.

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

The District maintains five individual governmental funds: general fund, special aid fund, school lunch 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.

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

Fiduciary Funds

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

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position increased by \$14,646,478 between fiscal year 2016 and 2015. The increase is due to revenues in excess of expenses based on the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Current and Other Assets	\$ 88,457,401	\$ 82,286,690	\$ 6,170,711	7.50 %
Capital Assets, Net	34,786,833	31,653,149	3,133,684	9.90 %
Net Pension Asset -				
Proportionate Share	<u>33,069,962</u>	<u>34,898,485</u>	<u>(1,828,523)</u>	(5.24)%
Total Assets	<u>156,314,196</u>	<u>148,838,324</u>	<u>7,475,872</u>	5.02 %
Deferred Outflows of Resources	<u>13,461,244</u>	<u>9,565,086</u>	<u>3,896,158</u>	40.73 %
Current and Other Liabilities	10,399,264	12,043,214	(1,643,950)	(13.65)%
Long-Term Liabilities	24,647,843	25,077,327	(429,484)	(1.71)%
Net Other Postemployment				
Benefits Obligation	41,356,095	36,548,933	4,807,162	13.15 %
Net Pension Liability -				
Proportionate Share	<u>7,068,327</u>	<u>1,507,956</u>	<u>5,560,371</u>	368.74 %
Total Liabilities	<u>83,471,529</u>	<u>75,177,430</u>	<u>8,294,099</u>	11.03 %
Deferred Inflows of Resources	<u>12,379,905</u>	<u>23,948,452</u>	<u>(11,568,547)</u>	(48.31)%
Net investment in capital assets	29,796,833	25,243,149	4,553,684	18.04 %
Restricted	56,578,966	52,203,809	4,375,157	8.38 %
Unrestricted (Deficit)	<u>(12,451,793)</u>	<u>(18,169,430)</u>	<u>5,717,637</u>	(31.47)%
Total Net Position	<u>\$ 73,924,006</u>	<u>\$ 59,277,528</u>	<u>\$ 14,646,478</u>	24.71 %

Current and other assets increased by \$6,170,711, as compared to the prior year. The increase is primarily related to an increase in cash.

Capital assets, net increased by \$3,133,684, 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 8 "Capital Assets" provides additional information.

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

Net pension asset – proportionate share decreased by \$1,828,523, 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.

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

Current and other liabilities decreased by \$1,643,950, as compared to the prior year. This decrease is primarily in connection with the District's liability to the teachers' retirement system for the current year's contribution at a decreased contribution rate.

Long-term liabilities decreased by \$429,484, as compared to the prior year. This decrease is the result of the repayment of the current maturity of the bond indebtedness, partially offset by an increase in compensated absences liability.

Net other postemployment benefits (OPEB) obligation increased by \$4,807,162, 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 14 "Postemployment Healthcare Benefits", provides additional information.

Net pension liability – proportionate share increased by \$5,560,371 in the current year. This liability represents the District's share of 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 land; construction in progress; buildings and improvements; site improvements; and, furniture and equipment, net of depreciation and related outstanding debt. This number increased over the prior year as follows:

	Increase (Decrease)
Capital asset additions - total	\$ 4,310,936
Principal debt reduction of construction bonds	1,420,000
Depreciation expense	(1,177,252)
	\$ 4,553,684

The restricted amount of \$56,578,966 relates to the District's reserves. This number increased over the prior year by \$4,375,157 principally due to the funding of existing reserves in the amount of \$5,503,951. The District appropriated \$1,300,034 from the reserves to fund current year expenditures.

The unrestricted (deficit) amount of \$(12,451,793) relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation. This deficit decreased from the prior year by \$5,717,637, primarily as a result of the inclusion of the proportionate share of the state

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

retirement plans' collective assets, deferred outflows, liabilities and deferred inflows offset by an unfunded addition to the OPEB liability.

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 3,000,945	\$ 3,496,918	\$ (495,973)	(14.18)%
Operating Grants	1,337,561	1,156,954	180,607	15.61 %
General Revenues				
Property Taxes and STAR	106,236,917	106,811,992	(575,075)	(0.54)%
State Sources	5,706,149	4,936,355	769,794	15.59 %
Other	4,356,970	1,966,371	2,390,599	121.57 %
Total Revenues	<u>120,638,542</u>	<u>118,368,590</u>	<u>2,269,952</u>	1.92 %
Expenses				
General Support	13,793,856	11,394,496	2,399,360	21.06 %
Instruction	84,304,704	84,071,458	233,246	0.28 %
Pupil Transportation	5,657,185	5,378,594	278,591	5.18 %
Community Service	92,666	94,618	(1,952)	(2.06)%
Debt Service - Interest	383,860	378,888	4,972	1.31 %
Food Service Program	1,759,793	1,636,177	123,616	7.56 %
Total Expenses	<u>105,992,064</u>	<u>102,954,231</u>	<u>3,037,833</u>	2.95 %
Increase in Net Position	<u>\$ 14,646,478</u>	<u>\$ 15,414,359</u>	<u>\$ (767,881)</u>	(4.98)%

The District's net position increased by \$14,646,478 and \$15,414,359 for the years ended June 30, 2016 and 2015, respectively.

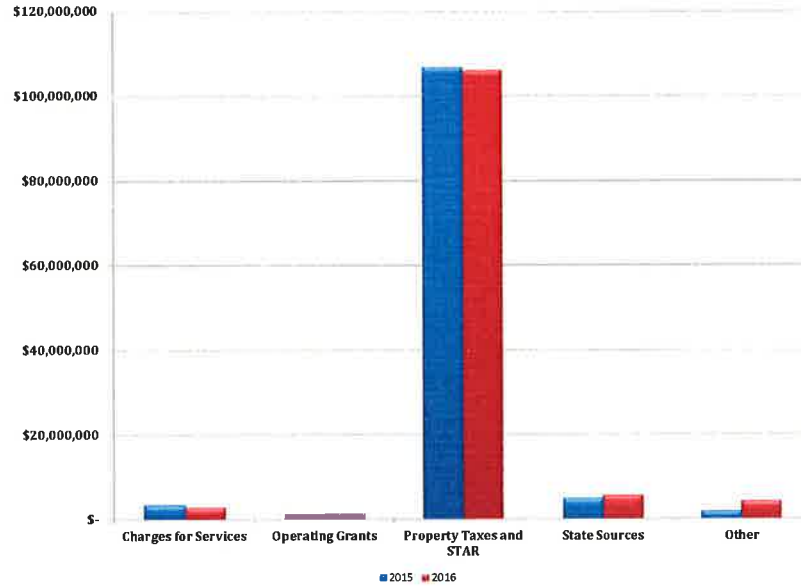
The District's revenues increased by \$2,269,952 or 1.92%. The major factors that contributed to the increase were that the District received more PILOT (payments in lieu of taxes) and state aid in the current year than during the prior year.

The District's expenses for the year increased by \$3,037,833 or 2.95%, primarily in employee benefits, including compensated absences liability and the amortization of pensions-related deferred inflows and outflows of resources as required by GASB #68. The allocation of employee benefits to general support is higher than to instruction, primarily because the amortization of the TRS deferred inflows of resources reduces TRS pension expenses, primarily in the instruction area, while amortizing the ERS deferred outflows of resources increases ERS pension expenses, primarily in the general support area.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 88.1% and 90.2% of the total for the years 2016 and 2015, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 79.5% and 81.6% of the total for the years 2016 and 2015, respectively).

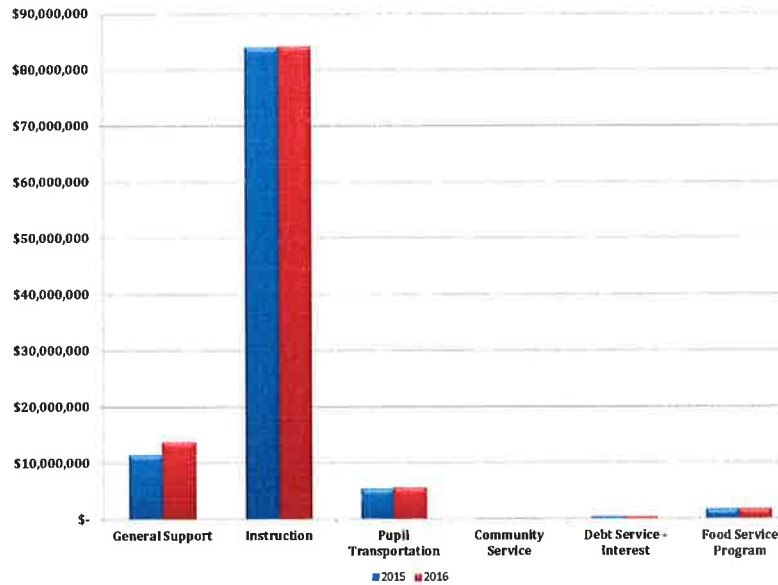
**JERICO UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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



	Charges for Services	Operating Grants	Property Taxes and STAR	State Sources	Other
2015	3.0%	1.0%	90.2%	4.2%	1.6%
2016	2.5%	1.1%	88.1%	4.7%	3.6%

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



	General Support	Instruction	Pupil Transportation	Community Service	Debt Service - Interest	Food Service Program
2015	11.1%	81.6%	5.2%	0.1%	0.4%	1.6%
2016	13.0%	79.5%	5.3%	0.1%	0.4%	1.7%

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

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2016, the District's governmental funds reported a combined fund balance of \$76,587,024, which is an increase of \$7,545,455 over the prior year. This increase is due to an excess of revenues over expenditures based upon the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
General Fund			
Restricted			
Unemployment insurance	\$ 251,355	\$ 251,172	\$ 183
Retirement contribution	16,938,734	17,423,728	(484,994)
Employee benefit accrued liability	18,223,026	17,430,379	792,647
Capital	10,023,455	16,042,622	(6,019,167)
Assigned:			
Appropriated fund balance	4,200,000	5,200,000	(1,000,000)
Unappropriated fund balance	499,889	1,223,221	(723,332)
Unassigned: Fund balance	<u>4,840,962</u>	<u>4,847,410</u>	<u>(6,448)</u>
	<u>54,977,421</u>	<u>62,418,532</u>	<u>(7,441,111)</u>
School Lunch Fund			
Nonspendable: Inventory	43,878	48,707	(4,829)
Assigned: Unappropriated fund balance	<u>385,189</u>	<u>279,368</u>	<u>105,821</u>
	<u>429,067</u>	<u>328,075</u>	<u>100,992</u>
Debt Service Fund			
Restricted: Debt service	<u>1,055,908</u>	<u>1,055,908</u>	<u>-</u>
Capital Projects Fund			
Restricted: Capital	10,086,488		10,086,488
Assigned: Unappropriated fund balance	<u>10,038,140</u>	<u>5,239,054</u>	<u>4,799,086</u>
	<u>20,124,628</u>	<u>5,239,054</u>	<u>14,885,574</u>
 Total Fund Balance	 <u>\$ 76,587,024</u>	 <u>\$ 69,041,569</u>	 <u>\$ 7,545,455</u>

A. General Fund

The net change in the general fund – fund balance is a decrease of \$7,441,111. This resulted from expenditures in excess of revenues. During 2015-16, the District appropriated \$10,086,488 from the capital reserve, and an additional \$6,219,637 from unassigned fund balance, as authorized by the voters in Proposition #2 of the May 17, 2016 budget vote, to transfer funds to the capital projects fund for the purpose of completing capital projects throughout the District. The District also appropriated funds from the retirement contribution reserve and the employee benefit accrued liability reserve for expenditures. The District replenished the employee benefit accrued liability reserve, and funded the 2015 capital reserves.

The District expects to appropriate \$550,386 from the retirement contribution reserve to help fund the 2016-17 budget.

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

B. School Lunch Fund

The school lunch fund - fund balance increased by \$100,992, as compared to the prior year. This increase is primarily attributable to an increase in sales.

C. Debt Service Fund

The debt service fund – fund balance has no change from the prior year.

D. Capital Projects Fund

The net change in the capital projects fund – fund balance is an increase of \$14,885,574, due to voter approved transfers from the general fund.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2015-16 Budget

The District's general fund adopted budget for the year ended June 30, 2016 was \$121,185,238. This amount was increased by encumbrances carried forward from the prior year in the amount of \$1,223,221 and budget revisions totaling of \$17,137,761 for a total final budget of \$139,546,220.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$106,236,917 in estimated property taxes and STAR.

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

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

Opening, Unassigned Fund Balance	\$ 4,847,410
Revenues Over Budget	2,512,203
Expenditures and Encumbrances Under Budget	13,576,176
Allocation to Reserves	(5,675,190)
Appropriation for voter-authorized additional Transfer from fund balance to Capital Projects Fund	(6,219,637)
Appropriated for the 2016-17 Budget	<u>(4,200,000)</u>
Closing, Unassigned Fund Balance	<u>\$ 4,840,962</u>

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

Opening, Unassigned Fund Balance

The \$4,847,410 shown in the table is the portion of the District's June 30, 2015 fund balance that was retained as unassigned. This was 4% of the District's 2015-16 approved operating budget of \$121,185,238. It is the maximum unassigned fund balance permitted by law.

Revenues Over Budget

The 2015-16 final budget for revenues was \$115,516,841. Actual revenues received for the year were \$118,029,044. The excess of actual revenue over estimated or budgeted revenue was \$2,512,203. This positive variance contributes directly to the District's ability to fund needed capital projects as indicated in the May 2016 voter authorized proposition of \$16,306,125.

Expenditures and Encumbrances Under Budget

The 2015-16 final budget for expenditures was \$139,546,220. Actual expenditures as of June 30, 2016 were \$125,470,155 and outstanding encumbrances were \$499,889. Combined, the expenditures plus encumbrances for 2015-16 were \$125,970,044. The final budget was under expended by \$13,576,176. The under expenditure of the budget contributes directly to the District's ability to fund needed capital projects as indicated in the voter authorized proposition of \$16,306,125.

Allocation to Reserves

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

The \$(5,675,190) shown in the above table is made up of the following transfers: \$1,503,951 to the employee benefit accrued liability reserve; and \$4,000,000 to the existing capital reserve. Additionally, interest earnings of \$171,239 were allocated to the reserves.

Appropriation for Transfer to Capital

On May 17, 2016, the residents of the District voted on and authorized the Board of Education, to expend \$6,219,637 from fund balance for the purpose of completing capital improvements throughout the District.

Appropriated Fund Balance

The District has chosen to use \$4,200,000 of the available June 30, 2016 unassigned fund balance to partially fund the 2016-17 approved operating budget. As such, the June 30, 2016 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2016 was \$4,840,962. This amount equals 4.0% of the 2016-17 budget and is at the statutory limit.

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

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2016, 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 \$4,310,936 in excess of depreciation of \$1,177,252 recorded for the year ended June 30, 2016. A summary of the District's capital assets, net of depreciation at June 30, 2016 and 2015 is as follows:

	2016	2015	Increase (Decrease)
Land	\$ 357,356	\$ 357,356	\$ -
Construction in progress	5,845,149	2,198,795	3,646,354
Buildings and improvements	27,456,422	28,228,690	(772,268)
Furniture and equipment	1,127,906	868,308	259,598
Capital assets, net	<u>\$ 34,786,833</u>	<u>\$ 31,653,149</u>	<u>\$ 3,133,684</u>

The District will continue to make significant capital expenditures funded by voter approved capital reserves for capital improvements to District facilities.

B. Debt Administration

At June 30, 2016, the District had total bonds payable of \$4,990,000. The bonds were issued in 2007 to advance refund bonds that were originally issued for school building improvements. The decrease in outstanding debt represents principal payments. There were no new issuances of long-term debt during the year ended June 30, 2016. A summary of the outstanding debt at June 30, 2016 and 2015 is as follows:

Issue Date	Interest Rate	2016	2015	Increase (Decrease)
3/2007	3.48-5.00%	<u>\$ 4,990,000</u>	<u>\$ 6,410,000</u>	<u>\$ (1,420,000)</u>

Included in the District's long-term liabilities are the estimated amounts due for compensated absences and net other postemployment benefits obligation. The compensated absences liability of \$19,657,843 is based on employment contracts. The net other postemployment benefits obligation is based on an actuarially determined amount in accordance with GASB Statement No. 45 in the amount of \$41,356,095.

The District's latest underlying, long-term credit rating from Moody's Investors Service, Inc. is Aa1. The District's outstanding serial bonds at June 30, 2016 are approximately 0.98% of the District's debt limit.

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 17, 2016, for the year ending June 30, 2017, is \$121,024,051. This is a decrease of \$161,187 or (0.13)% from the previous year's budget. The Teachers' Retirement System adopted an employer contribution rate of 11.72% applicable to the 2016-17 fiscal year salaries. This is an 11.6% decrease from the employer contribution rate of 13.26% applicable to 2015-16 fiscal year salaries. The Employees'

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

Retirement System adopted employer contribution rates applicable to covered salaries for the plan year ending March 31, 2017 that reflect a decrease of approximately 2.7% from the prior year, depending on an employee's tier.

The District budgeted revenues other than property taxes at a \$792,000 increase over the prior year's estimate. This increase is principally due to estimated increases in state aid and miscellaneous revenues. The District has elected to appropriate \$550,386 from the retirement contribution reserve towards the next year's budget, an increase of \$46,813 over the prior year. Additionally, the assigned, appropriated fund balance applied to the June 30, 2017 budget in the amount of \$4,200,000 is a \$1,000,000 decrease from the previous year. There was no increase in the total property tax levy from 2015-16.

B. Future Budgets

Future budgets will be affected by rising costs of operations such as an increase in the health insurance premiums and potential future costs with the Affordable Care Act.

The property tax cap (with a potential near zero cap for 2016-17 due to extremely low CPI), and uncertainty in state aid and federal funds may impact the District's future budgets. Unanticipated enrollment spikes could also impact future budgets.

On May 21, 2013, the residents of the District voted on and authorized the Board of Education, pursuant to Education Law Section 3651, to establish a capital reserve fund known as the "Facilities Improvement Program – Jericho Public Schools" for the purpose of specified improvements and upgrades throughout the District. The maximum funding amount of the capital reserve fund was \$10,000,000, plus investment income, for a term of 10 years. The funds were to be transferred from surplus monies remaining in the general fund and/or from existing reserves as allowed by law. The District has fully funded \$10 million into the Capital Reserve as of June 30, 2015 and accrued \$86,488 in interest through 2015-16. On May 17, 2016, the residents of the District voted on and authorized the Board of Education to expend the entire balance of \$10,000,000, plus interest of \$86,488 from this capital reserve fund and \$6,219,637 from available fund balance to complete capital projects.

On May 19, 2015, the residents of the District voted on and authorized the Board of Education, to establish a capital reserve known as the "Facilities Improvement Program – Jericho Public Schools II" for the purpose of specified improvements and upgrades throughout the District. The maximum amount of the capital reserve is \$10,000,000, plus investment income, for a term of 10 years. The funds are to be transferred from surplus monies remaining in the general fund and/or from existing reserves as allowed by General Municipal and Education Law including a sum not to exceed an annual amount of \$10,000,000 beginning with the 2014-15 year. The District has funded \$10,000,000 into the capital reserve as of June 30, 2016.

The funding and utilization of these capital reserves allow the District to address much-needed capital needs without having to significantly increase annual budgets, and therefore tax levies, in the near future.

C. Tax Cap

New York State law limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation to June 15, 2020. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. Based on

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

the law, the District's tax levy cap for 2016-17 is 0.44%. The District's 2016-17 property tax was a 0% increase and did not require an override vote.

D. Property Tax Freeze Credit and Property Tax Relief Credit

New York State law provides a "Property Tax Freeze Credit" that effectively "freezes" property taxes for two years on the primary residences of homeowners with annual incomes at or below \$500,000 in school districts and local governments that stay within the tax cap. Qualifying homeowners receive a credit, which is distributed in the form of a check from New York State, up to the calculated amount of the tax cap. The program also requires the school districts and local governments, in the second year, to develop or participate in the development of a state approved government efficiency plan that will achieve savings for taxpayers. The program ends for school districts with the 2015-16 school year.

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

These property tax credit programs provide an incentive for the District to be tax cap compliant.

8. CONTACTING THE DISTRICT

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

Mr. Victor Manuel
Assistant Superintendent for Business Affairs
Jericho Union Free School District
99 Cedar Swamp Road
Jericho, New York 11753-1202

JERICHO UNION FREE SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

ASSETS	
Cash	
Unrestricted	\$ 25,012,095
Restricted	56,578,966
Receivables	
Accounts receivable	15,253
Taxes receivable	2,802,060
Due from fiduciary funds	535,497
Due from state and federal	2,637,041
Due from other governments	832,611
Inventory	43,878
Capital assets:	
Not being depreciated	6,202,505
Being depreciated, net of accumulated depreciation	28,584,328
Net pension asset - proportionate share	<u>33,069,962</u>
Total Assets	<u>156,314,196</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	<u>13,461,244</u>
LIABILITIES	
Payables	
Accounts payable	2,152,170
Accrued liabilities	845,218
Due to other governments	28,415
Due to teachers' retirement system	6,596,706
Due to employees' retirement system	679,184
Unearned credits	
Collections in advance	97,571
Long-term liabilities	
Due and payable within one year	
Bonds payable	1,430,000
Compensated absences payable	700,000
Due and payable after one year	
Bonds payable	3,560,000
Compensated absences payable	18,957,843
Net other postemployment benefits obligation	41,356,095
Net pension liability - proportionate share	<u>7,068,327</u>
Total Liabilities	<u>83,471,529</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions	<u>12,379,905</u>
NET POSITION	
Net investment in capital assets	<u>29,796,833</u>
Restricted:	
Unemployment insurance	251,355
Retirement contribution	16,938,734
Employee benefit accrued liability	18,223,026
Capital	20,109,943
Debt service	<u>1,055,908</u>
	<u>56,578,966</u>
Unrestricted (deficit)	<u>(12,451,793)</u>
Total Net Position	<u>\$ 73,924,006</u>

JERICHO UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS/PROGRAMS				
General support	\$ 13,793,856	\$	\$	\$ (13,793,856)
Instruction	84,304,704	1,952,007	1,108,386	(81,244,311)
Pupil transportation	5,657,185			(5,657,185)
Community service	92,666			(92,666)
Debt service - interest	383,860			(383,860)
Food service program	1,759,793	1,048,938	229,175	(481,680)
	<u>\$ 105,992,064</u>	<u>\$ 3,000,945</u>	<u>\$ 1,337,561</u>	<u>(101,653,558)</u>
GENERAL REVENUES				
Real property taxes				102,459,209
Other tax items				6,707,234
Use of money and property				778,172
Forfeitures				16,439
Sale of property and compensation for loss				34,237
Miscellaneous				543,355
State sources				5,706,149
Medicaid reimbursement				55,241
				<u>116,300,036</u>
Total General Revenues				
Change in Net Position				14,646,478
Total Net Position - Beginning of Year				59,277,528
Total Net Position - End of Year				<u>\$ 73,924,006</u>

JERICO UNION FREE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2016

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 14,360,394	\$ 1,092,434	\$ 683,295	\$	\$ 8,875,972	\$ 25,012,095
Restricted	45,436,570			1,055,908	10,086,488	56,578,966
Receivables						
Accounts receivable	10,724		4,529			15,253
Taxes receivable	2,802,060					2,802,060
Due from other funds	2,297,542				1,257,129	3,554,671
Due from state and federal	2,132,723	492,976	11,342			2,637,041
Due from other governments	832,611					832,611
Inventory			43,878			43,878
Total Assets	<u>\$ 67,872,624</u>	<u>\$ 1,585,410</u>	<u>\$ 743,044</u>	<u>\$ 1,055,908</u>	<u>\$ 20,219,589</u>	<u>\$ 91,476,575</u>
LIABILITIES						
Payables						
Accounts payable	\$ 2,028,763	\$ 24,755	\$ 3,691	\$	\$ 94,961	\$ 2,152,170
Accrued liabilities	736,694	421	10,087			747,202
Due to other funds	1,257,129	1,529,269	232,776			3,019,174
Due to other governments	27,598		817			28,415
Due to teachers' retirement system	6,596,706					6,596,706
Due to employees' retirement system	679,184					679,184
Unearned credits						
Collections in advance		30,965	66,606			97,571
Total Liabilities	<u>11,326,074</u>	<u>1,585,410</u>	<u>313,977</u>	<u>-</u>	<u>94,961</u>	<u>13,320,422</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	<u>1,569,129</u>					<u>1,569,129</u>
FUND BALANCES						
Nonspendable: Inventory						
			<u>43,878</u>			<u>43,878</u>
Restricted:						
Unemployment insurance	251,355					251,355
Retirement contribution	16,938,734					16,938,734
Employee benefit accrued liability	18,223,026					18,223,026
Capital	10,023,455				10,086,488	20,109,943
Debt service				1,055,908		1,055,908
	<u>45,436,570</u>			<u>1,055,908</u>	<u>10,086,488</u>	<u>56,578,966</u>
Assigned:						
Appropriated fund balance	4,200,000					4,200,000
Unappropriated fund balance	499,889		385,189		10,038,140	10,923,218
	<u>4,699,889</u>		<u>385,189</u>		<u>10,038,140</u>	<u>15,123,218</u>
Unassigned fund balance	<u>4,840,962</u>					<u>4,840,962</u>
Total Fund Balances	<u>54,977,421</u>	<u>-</u>	<u>429,067</u>	<u>1,055,908</u>	<u>20,124,628</u>	<u>76,587,024</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 67,872,624</u>	<u>\$ 1,585,410</u>	<u>\$ 743,044</u>	<u>\$ 1,055,908</u>	<u>\$ 20,219,589</u>	<u>\$ 91,476,575</u>

JERICHO UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016

Total Governmental Fund Balances \$ 76,587,024

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

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. 1,569,129

The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are 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	\$ 59,195,984	
Accumulated depreciation	<u>(24,409,151)</u>	34,786,833

Proportionate share of long-term asset and 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.

Net pension asset - teachers' retirement system	33,069,962	
Deferred outflows of resources	13,461,244	
Net pension liability - employees' retirement system	(7,068,327)	
Deferred inflows of resources	<u>(12,379,905)</u>	27,082,974

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

Accrued interest on bonds payable	(98,016)	
Bonds payable	(4,990,000)	
Compensated absences payable	(19,657,843)	
Net other postemployment benefits obligation	<u>(41,356,095)</u>	<u>(66,101,954)</u>

Total Net Position \$ 73,924,006

JERICO UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2016

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 102,459,209	\$	\$	\$	\$	\$ 102,459,209
Other tax items	6,679,525					6,679,525
Charges for services	2,374,177					2,374,177
Use of money and property	778,172					778,172
Forfeitures	16,439					16,439
Sale of property and compensation for loss	34,237					34,237
Miscellaneous	543,355	43,710				587,065
Interfund revenue	22,540					22,540
State sources	5,066,149	241,309	14,525			5,321,983
Medicaid reimbursement	55,241					55,241
Federal sources		823,367	141,255			964,622
Surplus food			73,395			73,395
Sales - school lunch			1,048,938			1,048,938
Total Revenues	118,029,044	1,108,386	1,278,113	-	-	120,415,543
EXPENDITURES						
General support	9,819,670					9,819,670
Instruction	65,492,787	1,399,662				66,892,449
Pupil transportation	5,309,684	50,085				5,359,769
Community service	75,989					75,989
Employee benefits	23,567,012		381,201			23,948,213
Debt service						
Principal				1,420,000		1,420,000
Interest	143,889			263,638		407,527
Cost of sales			1,090,920			1,090,920
Capital outlay					3,855,551	3,855,551
Total Expenditures	104,409,031	1,449,747	1,472,121	1,683,638	3,855,551	112,870,088
Excess (Deficiency) of Revenues Over Expenditures	13,620,013	(341,361)	(194,008)	(1,683,638)	(3,855,551)	7,545,455
OTHER FINANCING SOURCES AND (USES)						
Operating transfers in		341,361	295,000	1,683,638	18,741,125	21,061,124
Operating transfers (out)	(21,061,124)					(21,061,124)
Total Other Financing Sources and Uses	(21,061,124)	341,361	295,000	1,683,638	18,741,125	-
Net Change in Fund Balances	* (7,441,111)	-	100,992	-	14,885,574	7,545,455
Fund Balances - Beginning of Year	62,418,532		328,075	1,055,908	5,239,054	69,041,569
End of Year	\$ 54,977,421	\$ -	\$ 429,067	\$ 1,055,908	\$ 20,124,628	\$ 76,587,024

* The net change in the general fund-fund balance is a decrease of \$7,441,111. This is primarily the result of a voter-approved one-time transfer of \$16,306,125 in May 2016 from the capital reserve and fund balance to the capital projects fund for the purpose of completing projects throughout the District.

JERICHO 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, 2016

Net Change in Fund Balances \$ 7,545,455

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).

Change in unavailable revenue \$ 245,539

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	(990,516)	
Increase in net other postemployment benefits obligation	<u>(4,807,162)</u>	
		(5,552,139)

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	4,310,936	
Depreciation expense	<u>(1,177,252)</u>	
		3,133,684

Long-Term Debt Transactions Differences

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

Repayment of bond principal 1,420,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2015 to June 30, 2016.

	<u>23,667</u>	
		1,443,667

Pension Differences

The decrease 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	8,573,825	
Employees' retirement system	<u>(498,014)</u>	
		<u>8,075,811</u>

Change in Net Position of Governmental Activities \$ 14,646,478

JERICHO UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2016

	Agency	Private Purpose Trust
ASSETS		
Cash		
Unrestricted	\$ 1,286,328	\$
Restricted		78,928
Total Assets	\$ 1,286,328	78,928
 LIABILITIES		
Extraclassroom activity balances	\$ 146,888	
Due to governmental funds	535,497	
Other liabilities	603,943	
Total Liabilities	\$ 1,286,328	-
 NET POSITION		
Restricted for scholarships		\$ 78,928

JERICO UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For The Year Ended June 30, 2016

	Private Purpose Trust
ADDITIONS	
Contributions	\$ 25,942
Investment earnings	
Interest	74
Total Additions	26,016
 DEDUCTIONS	
Scholarships and awards	41,800
Change in Net Position	(15,784)
Net Position - Beginning of Year	94,712
Net Position - End of Year	\$ 78,928

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

Extraclassroom Activity Funds

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

B. Joint Venture

The District is a component district in the Board of Cooperative Educational Services of Nassau (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 administrative, program, and capital costs. Each component district's share of administrative and capital

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

C. Basis of Presentation

District-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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.

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

JERICO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Real Property Taxes

Calendar

Real property taxes are levied annually by the Board no later than August 15th and become a lien on October 1st and April 1st. Taxes are collected by the towns of Oyster Bay and North Hempstead and remitted to the District from October 1st to November 10th, and April 1st through May 10th.

Enforcement

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

F. Restricted Resources

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

G. Interfund Transactions

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

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

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

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

H. Use of Estimates

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

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. Cash and Cash Equivalents

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

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

J. Receivables

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

K. Inventory

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

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

A portion of fund balance has been classified as nonspendable to indicate that inventory does not constitute an available spendable resource.

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 estimated fair market 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	\$ 15,000	50 years
Furniture and equipment	5,000	5-20 years
Land improvements	15,000	20 years
Vehicles	5,000	8 years

JERICO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. The second item is the District's contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

N. Collections in Advance

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

O. Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and 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. This includes receivables of certain state aid allocations and amounts due from other governments for tuition charges. 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. This represents the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense, including the net difference between projected and actual earnings on pension plan investments.

P. Employee Benefits – Compensated Absences

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave. Certain collectively bargained agreements require these termination payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

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.

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Q. Other Benefits

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

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

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

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

R. Short-Term Debt

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

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

S. Equity Classifications

District-Wide Statements

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

JERICO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

Fund Statements

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

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of inventory.

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

Unemployment Insurance Reserve

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

Retirement Contribution Reserve

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

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Employee Benefit Accrued Liability Reserve

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

Capital Reserve

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

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 for Scholarships

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

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

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

Fund Balance Classification

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

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

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

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

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

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

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

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 changes in the District's proportion of the collective net pension asset/liability, differences between the District's contributions and its proportionate share of the total contributions to the pension systems and District contributions to the pension systems subsequent to the measurement date.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

The voters of the District approved the proposed appropriation budget for the general fund. Appropriations are adopted at the program line item level.

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

Instructional supplies funded by donations	\$ 35,176
Voter authorized transfer to the capital projects fund	16,306,125
Employee benefit accrued liability reserve appropriation	<u>796,460</u>
	<u>\$ 17,137,761</u>

Budgets are adopted annually on a basis consistent with GAAP.

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

B. Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as part of assigned fund balance, unless classified as restricted, and do not

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

4. 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.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2016, the District was billed \$3,445,294 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$660,047. Financial statements for the BOCES are available from the BOCES administrative offices at 71 Clinton Road, P.O. Box 9195, Garden City, New York 11530-9195.

6. DUE FROM STATE AND FEDERAL

Due from state and federal at June 30, 2016 consisted of:

General Fund	
New York State - excess cost aid	\$ 967,307
New York State - homeless aid	640,000
Federal share medicaid	7,799
BOCES aid	<u>517,617</u>
	2,132,723
Special Aid Fund	
Federal and state grants	492,976
School Lunch Fund	
Federal and state food service program reimbursements	<u>11,342</u>
	<u>\$ 2,637,041</u>

JERICO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

7. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2016 consisted of:

General Fund		
Tuition receivable	\$	476,161
Health services		111,272
Split line property taxes		128,719
Payment in lieu of taxes		37,753
Nassau County drug and alcohol grant		<u>78,706</u>
	<u>\$</u>	<u>832,611</u>

8. CAPITAL ASSETS

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

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Governmental activities				
Capital assets not being depreciated				
Land	\$ 357,356	\$	\$	\$ 357,356
Construction in progress	<u>2,198,795</u>	<u>3,646,354</u>		<u>5,845,149</u>
Total capital assets not being depreciated	<u>2,556,151</u>	<u>3,646,354</u>	-	<u>6,202,505</u>
Capital assets being depreciated				
Buildings and improvements	49,650,761	209,197		49,859,958
Furniture and equipment	<u>2,785,337</u>	<u>455,385</u>	<u>(107,201)</u>	<u>3,133,521</u>
Total capital assets being depreciated	<u>52,436,098</u>	<u>664,582</u>	<u>(107,201)</u>	<u>52,993,479</u>
Less accumulated depreciation for:				
Buildings and improvements	21,422,071	981,465		22,403,536
Furniture and equipment	<u>1,917,029</u>	<u>195,787</u>	<u>(107,201)</u>	<u>2,005,615</u>
Total accumulated depreciation	<u>23,339,100</u>	<u>1,177,252</u>	<u>(107,201)</u>	<u>24,409,151</u>
Total capital assets, being depreciated, net	<u>29,096,998</u>	<u>(512,670)</u>	-	<u>28,584,328</u>
Capital assets, net	<u>\$ 31,653,149</u>	<u>\$ 3,133,684</u>	\$ -	<u>\$ 34,786,833</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 132,660
Instruction	980,831
Pupil transportation	52,085
Food service program	<u>11,676</u>
Total depreciation expense	<u>\$ 1,177,252</u>

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

9. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2016, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 2,297,542	\$ 1,257,129	\$	\$ 21,061,124
Special Aid Fund		1,529,269	341,361	
School Lunch Fund		232,776	295,000	
Debt Service Fund			1,683,638	
Capital Projects Fund	1,257,129		18,741,125	
Total Governmental Funds	3,554,671	3,019,174	21,061,124	21,061,124
Fiduciary Funds		535,497		
Total	\$ 3,554,671	\$ 3,554,671	\$ 21,061,124	\$ 21,061,124

The District typically transfers from the general fund to the special aid fund for the District's share of the costs for the summer program for students with disabilities and the state-supported Section 4201 schools, and the debt service fund and capital projects fund in accordance with the general fund budget. The transfer to the school lunch fund was to provide support for the program per the approved budget.

10. SHORT-TERM DEBT

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

	Maturity	Stated Interest Rate	Balance June 30, 2015	Issued	Redeemed	Balance June 30, 2016
TAN	6/19/2016	2.0%	\$	\$ 10,000,000	\$ (10,000,000)	\$

Interest on short-term debt for the year was \$143,889. The District did receive an issuance premium in the amount of \$123,100, which was recorded as miscellaneous revenue.

11. 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, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 6,410,000	\$	\$ (1,420,000)	\$ 4,990,000	\$ 1,430,000
Other long-term liabilities					
Compensated absences	18,667,327	1,786,977	(796,461)	19,657,843	700,000
	\$ 25,077,327	\$ 1,786,977	\$ (2,216,461)	\$ 24,647,843	\$ 2,130,000

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

JERICO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2016
Advance refunding serial bond	3/2007	8/2019	3.48-5.00%	<u>\$ 4,990,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,430,000	\$ 203,956	\$ 1,633,956
2018	1,420,000	139,838	1,559,838
2019	1,405,000	71,875	1,476,875
2020	735,000	18,375	753,375
Total	<u>\$ 4,990,000</u>	<u>\$ 434,044</u>	<u>\$ 5,424,044</u>

C. Interest Expense

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

Interest paid	\$ 263,638
Less interest accrued in the prior year	(121,683)
Plus interest accrued in the current year	<u>98,016</u>
Total interest expense on long-term debt	<u>\$ 239,971</u>

12. PENSION PLANS – NEW YORK STATE

A. General Information

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

B. Provisions and Administration

Teachers' Retirement System

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

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of its funds. 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 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 and each of the two preceding years.

The District's share of the required contributions, based on covered payroll paid for the District's year ended June 30th, for the current year and two preceding years was:

Year	TRS	ERS
2016	\$ 6,354,997	\$ 2,101,938
2015	8,383,830	2,238,549
2014	7,520,130	2,690,137

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2015	March 31, 2016
District's proportionate share of the net pension asset/(liability)	\$ 33,069,962	\$ (7,068,327)
District's portion of the Plan's total net pension asset/(liability)	0.3183840%	0.0440387%
Change in proportion since the prior measurement date	0.0050950	(0.0005986)

For the year ended June 30, 2016, the District recognized pension expense (credit) of \$(2,264,175) for TRS and \$2,561,626 for ERS. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<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	\$	\$ 35,718	\$ 916,510	\$ 837,832
Changes of assumptions		1,884,910		
Net difference between projected and actual earnings on pension plan investments		4,193,319	10,453,587	
Changes in proportion and differences between the District's contributions and proportionate share of contributions	7,723	305,393	159,126	12,850
District's contributions subsequent to the measurement date	<u>6,354,997</u>	<u>679,184</u>		
Total	<u>\$ 6,362,720</u>	<u>\$ 7,098,524</u>	<u>\$ 11,529,223</u>	<u>\$ 850,682</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:

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ended	TRS	ERS
2017	\$ (4,234,881)	\$ 1,413,009
2018	(4,234,881)	1,413,009
2019	(4,234,881)	1,413,009
2020	1,719,939	1,329,631
2021	(132,779)	
Thereafter	(404,017)	
	<u>\$ (11,521,500)</u>	<u>\$ 5,568,658</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, 2015	March 31, 2016
Actuarial valuation date	June 30, 2014	April 1, 2015
Interest rate	8.0%	7.0%
Salary scale	4.01-10.91%	3.8%
Decrement tables	July 1, 2005 - June 30, 2010 System's Experience	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	3.0%	2.5%

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

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

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.

JERICHO 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, 2015		March 31, 2016
Asset type				
Domestic equity	37.0%	6.50%	38.0%	7.30%
International equity	18.0%	7.70%	13.0%	8.55%
Real estate	10.0%	4.60%	8.0%	8.25%
Alternative investments	7.0%	9.90%	19.0%	6.75-11.00%
Domestic fixed income securities	17.0%	2.10%		
Global fixed income securities	2.0%	1.90%		
Bonds and mortgages	8.0%	3.40%	18.0%	4.00%
Short-term	1.0%	1.20%		
Cash			2.0%	2.25%
Inflation indexed bonds			2.0%	4.00%
	100.0%		100.0%	

Discount Rate

The discount rate used to calculate the total pension liability was 8.0% for TRS and 7.0% for ERS (the discount rate used by the ERS at the prior year's measurement date of March 31, 2015, was 7.50%). 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 8.0% 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 (7.0% for TRS and 6.0% for ERS) or 1 percentage point higher (9.0% for TRS and 8.0% for ERS) than the current rate:

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

TRS	1% Decrease (7.00)%	Current Assumption (8.00)%	1% Increase (9.00)%
District's proportionate share of the net pension asset (liability)	\$ 2,255,798	\$ 33,069,962	\$ 63,195,417
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	\$ (15,938,565)	\$ (7,068,327)	\$ 426,644

Pension Plan Fiduciary Net Position

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

	TRS	ERS
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2015	March 31, 2016
Employers' total pension liability	\$ (99,332,104)	\$ (172,303,544)
Plan fiduciary net position	109,718,917	156,253,265
Employers' net pension asset/(liability)	\$ 10,386,813	\$ (16,050,279)
Ratio of plan fiduciary net position to the employers' total pension liability	110.46%	90.68%

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2016, are paid to the System in September, October and November 2016 through a state aid intercept. Accrued retirement contributions as of June 30, 2016, represent employer and employee contributions for the fiscal year ended June 30, 2016, 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, 2016 amounted to \$6,354,997 of employer contributions and \$241,709 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, 2016, represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2016 amounted to \$679,184 of employer contributions. Employee contributions are remitted monthly.

JERICO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

13. PENSION PLANS - OTHER

A. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2016, totaled \$796,461 and \$3,156,876, respectively.

B. Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2016 totaled \$858,598.

14. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. Plan Description

The District provides medical and Medicare part B reimbursement, and dental and vision coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through 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 between 35% and 50% 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, 2016, the District recognized a general fund expenditure of \$1,702,007 for insurance premiums for 229 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.

JERICO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Annual required contribution (ARC)	\$ 7,079,967
Interest on net OPEB obligation	1,461,957
Adjustment to ARC	<u>(2,032,755)</u>
Annual OPEB cost (expense)	6,509,169
Contributions made	<u>(1,702,007)</u>
Increase in net OPEB obligation	4,807,162
Net OPEB obligation - beginning of year	<u>36,548,933</u>
Net OPEB obligation - end of year	<u>\$ 41,356,095</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, 2016 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	\$ 6,509,169	26.1%	\$ 41,356,095
June 30, 2015	6,456,474	23.2%	36,548,933
June 30, 2014	5,944,410	20.4%	31,591,051

D. Funded Status and Funding Progress

The valuation for the year ended June 30, 2016 is an update derived from estimates from the July 1, 2014 actuarial valuation, based on the fact that there were no material changes to any benefit packages and cost-sharing structures or the census information.

As of July 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$65,001,330 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$65,011,330. The covered payroll (annual payroll of active employees covered by the plan) was \$58,965,690, and the ratio of the UAAL to the covered payroll was 110%.

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

E. Actuarial Methods and Assumptions

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

JERICHO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate and an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% as of June 30, 2022. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

15. RISK MANAGEMENT

A. General Information

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

B. Public Entity Risk Pool

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

16. RESTRICTED FUND BALANCE – APPROPRIATED RESERVES

The District expects to appropriate \$550,386 from the retirement contribution reserve, which is reported in the June 30, 2016 restricted fund balances, to fund the budget for the year ending June 30, 2017.

17. ASSIGNED: APPROPRIATED FUND BALANCE

The amount of \$4,200,000 has been appropriated to partially fund the budget for the year ending June 30, 2017.

18. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

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

Assigned: Unappropriated Fund Balance:	
General Fund	
General Support	\$ 324,979
Instruction	173,775
Pupil Transportation	1,135
	499,889
Capital Projects Fund - Capital projects	1,773,215
	\$ 2,273,104

JERICO UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Grants

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

C. Litigation

General

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

D. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$197,162. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 190,728
2018	185,928
2019	<u>138,726</u>
	<u>\$ 515,382</u>

19. SUBSEQUENT EVENTS

The District has evaluated subsequent events through September 20, 2016, which is the date the financial statements were available to be issued. No significant events were identified that would require adjustment of or disclosure in the financial statements, except for the following:

Issuance of TANs

On September 20, 2016, the District awarded the winning bids for its \$9,500,000 tax anticipation notes. The tax anticipation notes, which will be issued on September 29, 2016, amount to \$8,500,000 and \$1,000,000, with the stated interest rates of 1.75% and 0.90% respectively. The District will receive a premium of \$45,985 on the \$8,500,000 note, to yield an effective interest rate of 1.012%.

JERICHO UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 104,831,665	\$ 102,459,209	\$ 102,459,209	\$ -
Other tax items	4,290,000	6,662,456	6,679,525	17,069
Charges for services	1,613,000	1,613,000	2,374,177	761,177
Use of money and property	575,000	575,000	778,172	203,172
Forfeiture			16,439	16,439
Sale of property and compensation for loss			34,237	34,237
Miscellaneous	135,000	170,176	543,355	373,179
Interfund revenues	15,000	15,000	22,540	7,540
Total Local Sources	111,459,665	111,494,841	112,907,654	1,412,813
State Sources	4,000,000	4,000,000	5,066,149	1,066,149
Medicaid Reimbursement	22,000	22,000	55,241	33,241
Total Revenues	115,481,665	115,516,841	118,029,044	\$ 2,512,203
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	5,200,000	11,419,637	*	
Prior Year's Encumbrances	1,223,221	1,223,221		
Appropriated Reserves				
Retirement contribution	503,573	503,573		
Employee benefit accrued liability		796,460	**	
Capital		10,086,488	*	
Total Appropriated Fund Balance	6,926,794	24,029,379		
Total Revenues and Appropriated Fund Balance	\$ 122,408,459	\$ 139,546,220		

- * On May 17, 2016, the District's voters authorized an additional \$6,219,637 to be appropriated from fund balance and \$10,086,488 to be expended from the capital reserve for the purpose of completing projects throughout the District.
- ** Board authorized appropriation for compensated absences payments.

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.

JERICO 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, 2016

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 116,400	\$ 116,400	\$ 79,193	\$	\$ 37,207
Central administration	496,297	496,297	483,942	\$	12,355
Finance	1,226,357	1,216,245	1,027,010	23,650	165,585
Staff	872,291	872,291	746,175	\$	126,116
Central services	8,390,232	7,862,427	6,698,282	301,329	862,816
Special items	920,000	920,000	785,068	\$	134,932
Total General Support	<u>12,021,577</u>	<u>11,483,660</u>	<u>9,819,670</u>	<u>324,979</u>	<u>1,339,011</u>
Instruction					
Administration & improvement	4,912,081	4,966,562	4,590,793	6,772	368,997
Teaching - regular school	38,646,572	39,172,249	33,379,088	67,975	5,725,186
Programs for students with disabilities	20,619,974	20,522,974	18,235,928	28,253	2,258,793
Occupational education	125,000	125,000	89,321	\$	35,679
Instructional media	3,751,608	3,993,746	3,800,430	40,335	152,981
Pupil services	5,772,399	5,799,656	5,397,227	30,440	371,989
Total Instruction	<u>73,827,634</u>	<u>74,580,187</u>	<u>65,492,787</u>	<u>173,775</u>	<u>8,913,625</u>
Pupil Transportation	6,276,796	6,276,796	5,309,684	1,135	965,977
Community Services	65,000	80,000	75,989	\$	4,011
Employee Benefits	26,903,814	25,903,814	23,567,012	\$	2,336,802
Debt Service: Interest	160,000	160,000	143,889	\$	16,111
Total Expenditures	<u>119,254,821</u>	<u>118,484,457</u>	<u>104,409,031</u>	<u>499,889</u>	<u>13,575,537</u>
OTHER FINANCING USES					
Operating transfers out	3,153,638	21,061,763	21,061,124	\$	639
Total Expenditures and Other Uses	<u>\$ 122,408,459</u>	<u>\$ 139,546,220</u>	<u>125,470,155</u>	<u>\$ 499,889</u>	<u>\$ 13,576,176</u>
Net Change in Fund Balance			*		(7,441,111)
Fund Balances - Beginning of Year			<u>62,418,532</u>		
Fund Balances - End of Year			<u>\$ 54,977,421</u>		

* The net change in the general fund-fund balance is a decrease of \$7,441,111. This is primarily the result of a voter-approved one-time transfer of \$16,306,125 in May 2016 from the capital reserve and fund balance to the capital projects fund for the purpose of completing projects throughout the District.

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.

JERICO UNION FREE SCHOOL DISTRICT
Schedule of Funding Progress - Other Postemployment Benefits
June 30, 2016

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, 2010	\$ -	\$ 63,218,162	\$ 63,218,162	0%	\$ 50,736,898	124.6%
July 1, 2012	-	64,147,385	64,147,385	0%	51,832,532	123.8%
July 1, 2014	-	65,011,330	65,011,330	0%	58,965,690	110.3%

JERICO UNION FREE SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability
June 30, 2016

Teachers' Retirement System

	2016	2015
District's proportion of the net pension asset	0.3183840%	0.3132890%
District's proportionate share of the net pension asset	\$ 33,069,962	\$ 34,898,485
District's covered payroll	\$ 47,825,613	\$ 46,227,722
District's proportionate share of the net pension asset as a percentage of its covered payroll	69.10 %	75.50 %
Plan fiduciary net position as a percentage of the total pension asset	110.46%	111.48%

Employees' Retirement System

	2016	2015
District's proportion of the net pension liability	0.0440387%	0.0446373%
District's proportionate share of the net pension liability	\$ 7,068,327	\$ 1,507,956
District's covered payroll	\$ 14,043,651	\$ 13,444,094
District's proportionate share of the net pension liability as a percentage of its covered payroll	50.33 %	11.22 %
Plan fiduciary net position as a percentage of the total pension liability	90.68%	97.95%

JERICHO UNION FREE SCHOOL DISTRICT
Schedule of District Contributions
 June 30, 2016

Teachers' Retirement System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 6,354,997	\$ 8,383,830	\$ 7,520,130	\$ 5,459,091	\$ 5,109,591	\$ 3,984,451	\$ 2,818,371	\$ 3,302,016	\$ 3,631,231	\$ 3,405,190
Contributions in relation to the contractually required contribution	6,354,997	8,383,830	7,520,130	5,459,091	5,109,591	3,984,451	2,818,371	3,302,016	3,631,231	3,405,190
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	47,778,311	47,825,613	46,227,722	46,107,185	45,990,914	46,223,333	45,531,039	43,276,750	41,594,859	39,595,230
Contributions as a percentage of covered payroll	13%	18%	16%	12%	11%	9%	6%	8%	9%	9%

Employees' Retirement System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 2,101,938	\$ 2,238,549	\$ 2,690,137	\$ 2,635,354	\$ 1,813,703	\$ 1,518,861	\$ 972,349	\$ 839,486	\$ 1,103,421	\$ 845,021
Contributions in relation to the contractually required contribution	2,101,938	2,238,549	2,690,137	2,635,354	1,813,703	1,518,861	972,349	839,486	1,103,421	845,021
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	13,861,931	12,825,571	12,506,699	13,340,531	13,318,780	12,141,573	12,748,206	11,921,585	10,491,577	9,560,913
Contributions as a percentage of covered payroll	15%	17%	22%	20%	14%	13%	8%	7%	11%	9%

JERICO UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
and the Real Property Tax Limit - General Fund
For The Year Ended June 30, 2016

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 121,185,238
Additions:		
Prior year's encumbrances		<u>1,223,221</u>
Original Budget		<u>122,408,459</u>
Budget revision		
Instructional supplies funded by donations		35,176
Voter authorized additional transfer to the capital projects fund funded by the capital reserve and fund balance		16,306,125
Employee benefit accrued liability reserve appropriation		<u>796,460</u>
Total budget revisions		<u>17,137,761</u>
Final Budget		<u><u>\$ 139,546,220</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2016-17 voter-approved expenditure budget		<u><u>\$ 121,024,051</u></u>
Maximum allowed (4% of 2016-17 budget)		<u><u>\$ 4,840,962</u></u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 4,699,889	
Unassigned fund balance	<u>4,840,962</u>	
		\$ 9,540,851
Less:		
Appropriated fund balance	4,200,000	
Encumbrances	<u>499,889</u>	
Total adjustments		<u>4,699,889</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		<u><u>\$ 4,840,962</u></u>
Actual Percentage		4.00%

JERICHO UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund
For The Year Ended June 30, 2016

PROJECT TITLE	Budget		Expenditures		Unexpended Balance	Proceeds of Obligations/State Aid	Methods of Financing			Fund Balance June 30, 2016
	June 30, 2015	June 30, 2016	Prior Years	Current Year			Total	Local Sources	Transfer out to General Fund	
Springer gym roof	\$ 300,000	\$ 300,000	\$ 296,524	\$ 260,446	\$ 3,476	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ 3,476
Pool roof	375,000	375,000	346,455	20,951	28,545	-	375,000	-	375,000	28,545
Robert Williams Elementary	1,000,000	1,000,000	619,002	9,225	371,773	-	1,000,000	-	1,000,000	371,773
Middle School/High School freight elevator/walk-in/boxes/generator	841,211	1,156,516	624,632	260,446	271,438	-	1,156,516	-	1,156,516	271,438
Cantiague lighting/stair enclosures	225,761	255,838	225,761	20,951	9,126	-	255,838	-	255,838	9,126
Jackson lighting and gym floor	512,176	286,494	260,032	21,247	5,215	-	286,494	-	286,494	5,215
Seaman lighting/painting	320,853	201,153	140,458	56,521	4,174	-	201,153	-	201,153	4,174
Middle School/High School auditorium	3,500,000	3,650,000	191,550	3,089,215	369,235	-	3,650,000	-	3,650,000	369,235
District-wide security and technology upgrades	300,000	150,000	128,575	128,575	21,425	-	150,000	-	150,000	21,425
District-wide upgrades and replacements	900,000	900,000	202,958	47,197	649,845	-	900,000	-	900,000	649,845
District-wide upgrades and replacements	900,000	900,000	202,958	350,749	549,251	-	900,000	-	900,000	549,251
Emergency projects		1,535,000			1,535,000		1,535,000		1,535,000	1,535,000
2015-16 Interfund Transfer Proposition No. 2		16,306,125			16,306,125		16,306,125		16,306,125	16,306,125
Totals	\$ 8,275,001	\$ 27,016,126	\$ 3,035,947	\$ 3,855,551	\$ 20,124,628	\$ -	\$ 27,016,126	\$ -	\$ 27,016,126	\$ 20,124,628

JERICO UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2016

Capital assets, net	<u>\$ 34,786,833</u>
Short-term portion of bonds payable	1,430,000
Long-term portion of bonds payable	<u>3,560,000</u>
	<u>4,990,000</u>
Net Investment in Capital Assets	<u><u>\$ 29,796,833</u></u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the Jericho Union Free School District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Jericho 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 Jericho Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Jericho 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 Jericho 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 Jericho Union Free School District in a separate letter dated September 20, 2016.

Purpose of this Report

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

Cullen & Danowski, LLP

September 20, 2016

