

**SPRINGS UNION FREE SCHOOL DISTRICT  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018**

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

To the Board of Education  
Springs Union Free School District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary fund of the Springs Union Free School District as of and for the fiscal year ended June 30, 2018, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary fund of the Springs Union Free School District as of June 30, 2018, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

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### ***Emphasis of Matter – Change in Accounting Principle***

As described in Note 2 to the financial statements, in 2018, Springs Union Free School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in District's total OPEB liability, schedule of District's proportionate share of the net pension liability, and the schedule of District's contributions on pages 3 through 15 and 49 through 53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Springs Union Free School District's basic financial statements. The other supplementary financial information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2018, on our consideration of the Springs 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 Springs Union Free School District's internal control over financial reporting and compliance.

*R. S. Abrams & Co., LLP*

R.S. Abrams & Co., LLP  
Islandia, NY  
November 7, 2018

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

The Springs Union Free School District's (District) discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018 in comparison with the year ended June 30, 2017, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

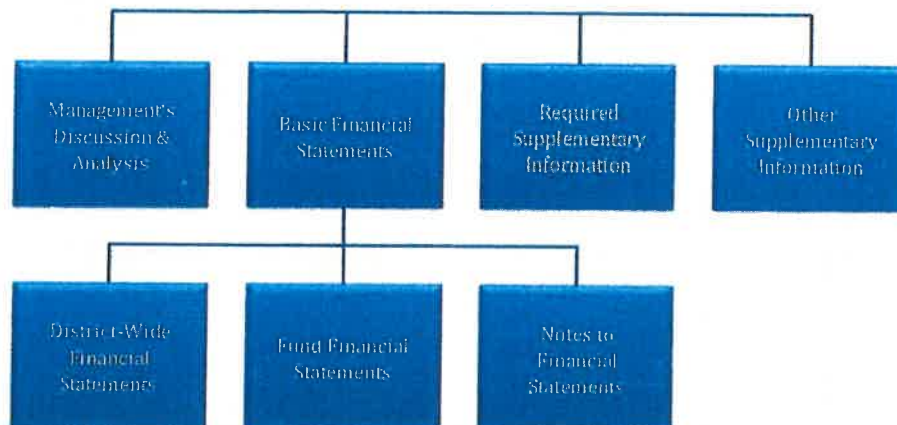
**1. FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2018 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, decreased by \$1,464,850 (8.92%). This was due to an excess of expenses over revenues based on the economic resources measurement focus and the accrual basis of accounting.
- The District's total net position at June 30, 2017 was restated and decreased by \$24,847,423, as a result of the required implementation of a new GASB accounting standard during the 2018 fiscal year. This new GASB accounting standard has no impact on the governmental funds financial statements.
- The general fund's total fund balance, as reflected in the fund financial statements, decreased by \$5,510,349 (52.95%). This was due to expenditures and other financing sources exceeding revenues based on the current financial resources measurement focus and the modified accrual basis of accounting.
- On March 6, 2018, the voters of the District authorized the issuance of \$16,960,000 in serial bonds and authorized the use of capital reserves and unassigned fund balance in the amount of \$6,003,298 for a total of \$22,963,298 to fund the construction of an addition, as well as, alterations and improvements to the building
- The District's 2018 property tax levy of \$25,012,770 reflects a 2.15% increase over the 2017 tax levy. This increase is less than the calculated tax cap limit increase of 2.24%.
- The 2017-2018 final budget was under expended by \$1,141,843.

**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:



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

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**A. District-Wide Financial Statements**

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

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

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

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

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

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

Fiduciary Funds

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

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

**A. Net Position**

The District's total net position decreased by \$1,464,850 between fiscal year 2018 and 2017. The June 30, 2017 net position has been restated and decreases, and the recognized OPEB obligation has been restated and increased, both by \$24,847,423, resulting from the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. A summary of the District's Statements of Net Position follows:

	<u>2018</u>	<u>As Restated 2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>Assets</b>				
Current and Other Assets	\$ 14,134,991	\$ 12,965,325	\$ 1,169,666	9.02 %
Capital Assets, Net	4,193,273	4,051,373	141,900	3.50 %
Net Pension Asset - Proportionate Share	<u>402,208</u>	<u></u>	<u>402,208</u>	N/A
Total Assets	<u>18,730,472</u>	<u>17,016,698</u>	<u>1,713,774</u>	10.07 %
<b>Deferred Outflows of Resources</b>	<u>5,753,857</u>	<u>5,682,574</u>	<u>71,283</u>	1.25 %



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

	2018	As Restated 2017	Increase (Decrease)	Percentage Change
<b>Liabilities</b>				
Current and Other Liabilities	2,969,643	2,184,689	784,954	35.93 %
Long-Term Liabilities	2,002,770	1,897,203	105,567	5.56 %
Net Pension Liability - Proportionate Share	148,741	944,044	(795,303)	(84.24)%
Total OPEB Obligation	<u>33,749,172</u>	<u>33,637,376</u>	<u>111,796</u>	0.33 %
 Total Liabilities	 <u>38,870,326</u>	 <u>38,663,312</u>	 <u>207,014</u>	 0.54 %
 <b>Deferred Inflows of Resources</b>	 <u>3,505,434</u>	 <u>462,541</u>	 <u>3,042,893</u>	 657.86 %
<b>Net Position</b>				
Net Investment in Capital Assets	3,689,556	3,475,428	214,128	6.16 %
Restricted	8,883,942	8,353,582	530,360	6.35 %
Unrestricted (Deficit)	<u>(30,464,929)</u>	<u>(28,255,591)</u>	<u>(2,209,338)</u>	7.82 %
 Total Net Deficit	 <u>\$ (17,891,431)</u>	 <u>\$ (16,426,581)</u>	 <u>\$ (1,464,850)</u>	 8.92 %

The increase in current and other assets is evidenced by increases in cash, amounts due from the fiduciary fund and in amounts due from other governments.

The capital assets, net increase is due to capital asset additions in excess of depreciation expense. The accompanying Notes to Financial Statements, Note 9 "Capital Assets" provides additional information.

Net pension asset – proportionate share represents the District's share of the New York State Teacher's Retirement System's collective net pension asset at the measurement date of the respective year. In the current year, the District's proportionate share shifted from a liability to an asset. The accompanying Notes to Financial Statements, Note 12 "Pension Plans – New York State", provides additional information.

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

The current and other liabilities increase is primarily due to increases in amounts due to other governments, offset by decreases in accounts payable and amounts due to the teachers' retirement system.

The long-term liabilities increase is the result of increases in compensated absences and workers' compensation liabilities and the issuance of installment debt for the purchase of a bus, offset by the repayment of the current maturity of the bond and installment purchase debt.

Net pension liability – proportionate represents the District's share of the New York State Teachers' Retirement System and the New York State and Local Employees' Retirement System's collective net pension liability at the measurement date of the respective year. The decrease is due to the shift of the net pension liability to an asset for the TRS and a decrease in the pension liability for the ERS. The accompanying Notes to Financial Statements, Note 12 "Pension Plans – New York State", provides additional information..



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

The total other postemployment benefits (OPEB) obligation increase is the result of the current year OPEB costs using the economic resources measurement focus and the 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.

Deferred inflows of resources represents actuarial adjustments of the pension and OPEB plans that will be amortized in future years, and deferred revenues.

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; furniture and equipment, infrastructure and vehicles net of depreciation and related outstanding debt. This number increased over the prior year as follows:

	Increase (Decrease)
Capital asset additions	\$ 404,053
Principal debt reduction of construction bonds	100,000
Principal debt reduction of installment purchase debt	69,254
Proceeds from the issuance of installment purchase debt	(97,026)
Depreciation expense	(262,153)
	\$ 214,128

The restricted net position relates to the District's reserves. This number increased over the prior year due to the District's funding of the capital reserve in the amount of \$582,295, employee benefit accrued liability reserve in the amount of \$100,000 and retirement contribution reserve in the amount of \$100,000, as well as \$11,038 due to the District allocating interest to the general fund reserves. The District also utilized \$100,000 of the repair reserve, \$100,000 of the retirement contribution reserve as planned in the 2017-18 budget. In addition, the District utilized \$62,973 from amount restricted for capital to fund current year capital expenses.

The unrestricted deficit amount of \$(30,464,929) relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation. This deficit increased over the prior year by \$2,209,338.

**B. Changes in Net Position**

The results of operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of these statements for the years ended June 30, 2018 and 2017 is as follows:

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

	2018	2017	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 540,848	\$ 276,723	\$ 264,125	95.45 %
Operating Grants	434,797	564,670	(129,873)	(23.00)%
Capital Grants	73,644	36,928	36,716	99.43 %
General Revenues				
Property Taxes and STAR	25,012,771	24,485,698	527,073	2.15 %
State Sources	1,645,657	1,828,691	(183,034)	(10.01)%
Other	288,566	392,324	(103,758)	(26.45)%
Total Revenues	<u>27,996,283</u>	<u>27,585,034</u>	<u>411,249</u>	1.49 %
<b>Expenses</b>				
General Support	2,866,709	2,654,720	211,989	7.99 %
Instruction	25,250,206	23,748,717	1,501,489	6.32 %
Pupil Transportation	1,301,357	1,012,027	289,330	28.59 %
Debt Service - Interest	23,441	26,715	(3,274)	(12.26)%
Food Service Program	19,420	22,929	(3,509)	(15.30)%
Total Expenses	<u>29,461,133</u>	<u>27,465,108</u>	<u>1,996,025</u>	7.27 %
Increase / (Decrease) in Net Position	<u>\$ (1,464,850)</u>	<u>\$ 119,926</u>	<u>\$ (1,584,776)</u>	(1321.46)%

The District's net position decreased by \$1,464,850 and increased by \$119,926 for the years ended June 30, 2018 and 2017, respectively.

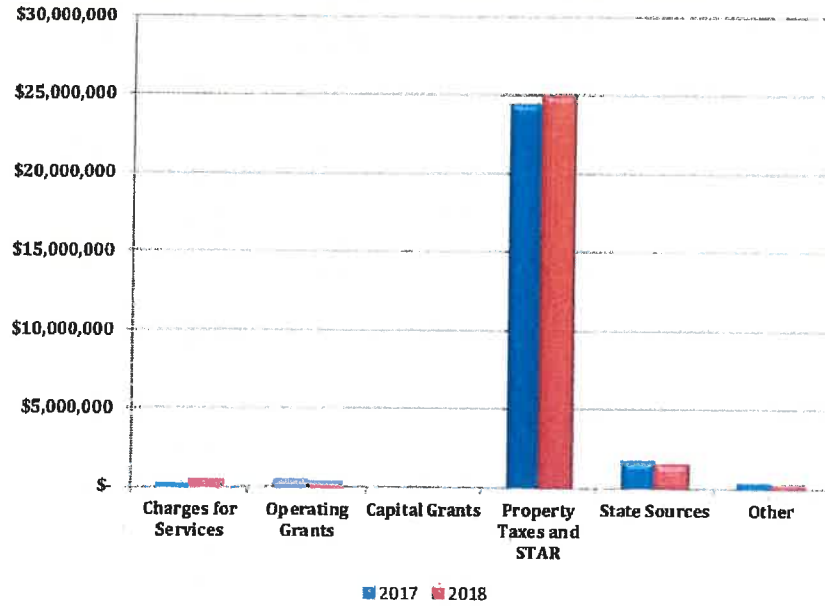
The District's revenues increased by \$411,249 or 1.49%, as compared to the prior year. This increase is primarily attributable to increases in charges for services and property taxes and STAR, offset by decreases in operating grants and State sources. The increase in charges for services is the result of the District receiving more in tuition from other districts. The increase in property taxes and STAR is due to an increase in the tax levy in accordance with the 2017-2018 budget. State sources revenue in the prior year included special grants and supplemental charter school aid. The District did not receive similar grants or supplemental charter school aid and as result there was a decrease in the amount of aid received.

The District's expenses for the year increased by \$1,996,025 or 7.27%, as compared to the prior year. This increase was primarily due to increases in the general support, instruction and transportation areas.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 89.3% and 88.8% of the total for the years 2018 and 2017, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 85.7% and 86.4% for the years 2018 and 2017, respectively).

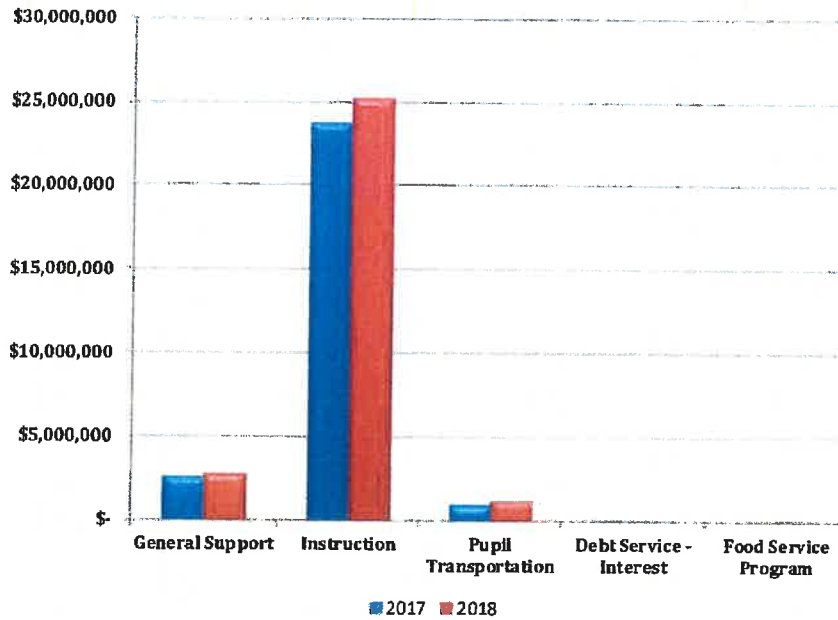
**SPRINGS UNION FREE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)**

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



	Charges for Services	Operating Grants	Capital Grants	Property Taxes and STAR	State Sources	Other
<b>2017</b>	1.0%	2.0%	0.1%	88.8%	6.6%	1.5%
<b>2018</b>	1.9%	1.6%	0.3%	89.3%	5.9%	1.0%

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
<b>2017</b>	9.7%	86.4%	3.7%	0.1%	0.1%
<b>2018</b>	9.7%	85.7%	4.4%	0.1%	0.1%

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

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

At June 30, 2018, the District's governmental funds reported a combined fund balance of \$10,935,809, which is an increase of \$307,571 over the prior year. This increase is due to an excess of revenues over expenditures based upon the current financial resources measurement focus and the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
<b>General Fund</b>			
Restricted:			
Workers' compensation	\$ 165,479	\$ 165,396	\$ 83
Unemployment insurance	126,963	126,899	64
Retirement contribution	427,127	426,913	214
Insurance	150,603	150,528	75
Employee benefit accrued liability	1,275,110	1,174,522	100,588
Capital	299,801	5,717,945	(5,418,144)
Repairs	498,534	591,379	(92,845)
Assigned:			
Appropriated fund balance	734,343	870,022	(135,679)
Unappropriated fund balance	62,618	57,748	4,870
Unassigned: Fund balance	<u>1,154,948</u>	<u>1,124,523</u>	<u>30,425</u>
	<u>4,895,526</u>	<u>10,405,875</u>	<u>(5,510,349)</u>
<b>School Food Service Fund</b>			
Assigned: Unappropriated fund balance	3,252	4,724	(1,472)
<b>Capital Projects Fund</b>			
Restricted: Capital	5,940,325		5,940,325
Assigned: Unappropriated fund balance	<u>96,706</u>	<u>217,639</u>	<u>(120,933)</u>
	<u>6,037,031</u>	<u>217,639</u>	<u>5,819,392</u>
 Total Fund Balance	 <u>\$ 10,935,809</u>	 <u>\$ 10,628,238</u>	 <u>\$ 307,571</u>

**A. General Fund**

The general fund – fund balance decreased by \$5,510,349 as compared to an increase of \$875,800 in the prior year. This increase is due to expenditures and other financing sources of \$32,993,191 which exceeded revenues of \$27,482,842. Revenues and other resources increased by \$474,413 (1.76%) over fiscal year 2017 totals, primarily in the areas of property taxes and charges for services. The increase in property taxes was in accordance with the 2017-18 budget. The increase in charges in services was due the District receiving in more in tuition from other districts. These increases were offset by decreases in state sources and miscellaneous revenues. State sources revenue in the prior year included special grants and supplemental charter school aid. The District did not receive similar amounts in the current year. Miscellaneous revenues decreased over the prior year due to decreases in refund of prior years' expenses. This was primarily due to the District in the prior year receiving monies for summer handicapped programs pertaining to prior years' receivables previously written off by the District.

Expenditures and other uses increased by \$6,860,562 (26.25%) over fiscal 2017 totals. This increase is primarily the result of an increase in operating transfers out, which included \$6,003,298 transfer to the

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

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capital projects fund as approved by the voters of the District.

In May 2014, the voters of the District authorized the creation of a capital reserve for \$10,000,000 to be funded for a period of five years. During 2018, the District funded the capital reserve in the amount of \$582,295, and \$2,859 of interest earnings was allocated to the reserve. The total funding of the reserve as of June 30, 2018 was \$6,295,007 and the reserve has earned \$8,092 in interest. On March 6, 2018, the voters of the District authorized the use of the reserve in the amount of \$6,003,298 to fund a portion of the addition and improvements to the building. The balance in the reserve at June 30, 2018 was \$299,801.

The District expects to appropriate \$100,000 from the repair reserve and \$100,000 from the retirement contribution reserve during 2018-2019.

**B. School Food Service Fund**

The school food service fund - fund balance decreased by \$1,472, which was the operating loss of the food service program.

**C. Capital Projects Fund**

The net change in the capital projects fund – fund balance is an increase of \$5,819,392 due to the transfer from the general fund to fund district-wide improvement projects and the addition project, and proceeds of installment purchase agreements net of expenditures incurred during the year for various projects.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2017-2018 Budget**

The District's general fund adopted budget for the year ended June 30, 2018 was \$28,113,085. This amount was increased by encumbrances carried forward from the prior year in the amount of \$57,748 and a budget revision of \$6,026,819 for a total final budget of \$34,197,652.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$25,090,439 in estimated property taxes and STAR.

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

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

Opening, Unassigned Fund Balance	\$ 1,124,523
Revenues Over Budget	416,258
Expenditures and Encumbrances Under Budget	1,141,843
Transfers to Reserves	(782,295)
Interest Earned in Reserves	(11,038)
Appropriated for the 2018-2019 Budget	<u>(734,343)</u>
Closing, Unassigned Fund Balance	<u>\$ 1,154,948</u>

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

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Opening, Unassigned Fund Balance

The \$1,124,523 shown in the table is the portion of the District's June 30, 2017 fund balance that was retained as unassigned fund balance.

Revenues Over Budget

The 2017-2018 final budget for revenues was \$27,066,584. Actual revenues received for the year were \$27,482,842. The actual revenues were higher than budgeted by \$416,258. The District received more than anticipated in the areas of charges for services for tuition, and sale of property and compensation for loss, which contribute directly to the change to the general fund unassigned fund balance from June 30, 2017 to June 30, 2018.

Expenditures and Encumbrances Under Budget

The 2017-2018 final budget for expenditures was \$34,197,652. Actual expenditures as of June 30, 2018 were \$32,993,191 and outstanding encumbrances were \$62,618. Combined, the expenditures plus encumbrances for 2017-2018 were \$33,055,809. The final budget was under expended by \$1,141,843, which contribute directly to the change to the general fund unassigned fund balance from June 30, 2017 to June 30, 2018.

Transfers to Reserves

Monies transferred from budget lines within the general fund operating budget into required reserve do not affect the combined restricted, assigned and unassigned 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 \$(782,295) shown in the previous table is due to the transfer to the capital reserve (\$582,295), employee benefit accrued liability reserve (\$100,000) and retirement contribution reserve (\$100,000).

Interest Earned in Reserves

Interest earned on general fund reserves increases the reserve and, therefore, decreases the unassigned portion of the general fund-fund balance.

The \$(11,038) shown in the above table represents interest earned in the workers' compensation reserve (\$83), unemployment insurance reserve (\$64), retirement contribution reserve (\$214), insurance reserve (\$75), employee benefit accrued liability reserve (\$588), capital reserve (\$2,859), and the repair reserve (\$7,155).

Appropriated Fund Balance

The District has chosen to use \$734,343 of the available June 30, 2018 unassigned fund balance to partially fund the 2018-2019 approved operating budget. As such, the June 30, 2018 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, 2018

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

was \$1,154,948. This is an increase of \$30,425 over the unassigned fund balance from the prior year. This unassigned portion is equal to the New York State Real Property Tax Law §1318 permissible 4% statutory maximum.

**6. CAPITAL ASSETS, DEBT ADMINISTRATION AND OTHER LONG-TERM LIABILITIES**

**A. Capital Assets**

At June 30, 2018, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to current year additions of \$404,053, in excess of depreciation expense of \$262,153 for the year ended June 30, 2018. A summary of the District's capital assets, net of depreciation at June 30, 2018 and 2017 is as follows:

	2018	2017	Increase (Decrease)
Land	\$ 9,875	\$ 9,875	\$ -
Construction in progress	235,158	61,825	173,333
Buildings and improvements	2,856,254	2,951,588	(95,334)
Site improvements	407,597	432,662	(25,065)
Furniture and equipment	337,367	241,372	95,995
Vehicles	347,022	354,051	(7,029)
Capital assets, net	<u>\$ 4,193,273</u>	<u>\$ 4,051,373</u>	<u>\$ 141,900</u>

**B. Debt Administration**

At June 30, 2018, the District had total bonds payable of \$400,000 and total installment purchase contracts payable of \$103,717. The bonds were issued for school building improvements. The decrease in outstanding debt represents principal payments. There were no new issuances of serial bonds during the year ended June 30, 2018. The installment purchase contracts were issued for purchases of school buses. A summary of the outstanding serial bonds and installment purchase contracts at June 30, 2018 and 2017 is as follows:

Issue Date	Interest Rate	2018	2017	Increase (Decrease)
<b>Bonds Payable</b>				
2002	3.75%	<u>\$ 400,000</u>	<u>\$ 500,000</u>	<u>\$ (100,000)</u>
<b>Installment Purchase Debt</b>				
2016	2.25%	\$ 38,395	\$ 75,945	\$ (37,550)
2017	2.00%	<u>65,322</u>	<u>-</u>	<u>65,322</u>
		<u>\$ 103,717</u>	<u>\$ 75,945</u>	<u>\$ 27,772</u>

On March 8, 2018, the voters of the District authorized the issuance of \$16,960,000 in serial bonds to fund an addition and improvements to the building. As of June 30, 2018, the District has not issued any debt related to this authorization.



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

The District's latest underlying long-term credit rating from Moody's Investors Service, Inc. is Aa2. The District's total outstanding indebtedness is significantly less than the debt limit. The debt limit is 10% of the full valuation of the taxable real property within the District.

**C. Other Long-Term Liabilities**

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

	2018	As Restated 2017	Increase (Decrease)
Compensated absences payable	\$ 1,325,190	\$ 1,185,161	\$ 140,029
Workers' compensation liabilities	173,863	136,097	37,766
Net pension liability - proportionate share	148,741	944,044	(795,303)
Total OPEB obligation	<u>33,749,172</u>	<u>33,637,376</u>	<u>111,796</u>
	<u>\$ 35,396,966</u>	<u>\$ 35,902,678</u>	<u>\$ (505,712)</u>

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

**A. Subsequent Year's Budget**

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 15, 2018, for the year ending June 30, 2019, is \$28,873,698. This is an increase of \$760,613 or 2.71% over the previous year's budget.

The District budgeted revenues other than property taxes at a \$130,237 increase over the prior year's estimate. The assigned, appropriated fund balance applied to the June 30, 2017 budget in the amount of \$734,343 is \$135,679 less than the prior year. The District will also utilize \$100,000 of the retirement contribution reserve and \$100,000 of the repair reserve to fund the 2018-2019 budget, which is the same as the prior year. A property tax increase of \$766,055, or 3.06% over the prior year levy was needed to meet the revenue shortfall and cover the increase in appropriations.

**B. Future Budgets**

Increases in costs of health insurance and tuition expense, as well as the property tax cap, and uncertainty of state aid and federal funds will greatly impact the District's future budgets.

The District is currently experiencing enrollment growth which is projected to continue in future years. Instructional space has become limited, as a result, the Board has begun discussions regarding capital expansion options with its architect.

**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

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

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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.

**D. Property Tax Relief Credit**

New York State law provides a "Property Tax Relief Credit" to eligible taxpayers 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. The amount of the credit (check) is a function of the basic STAR savings and the taxpayer's income.

This program provides an incentive for the District to be tax cap compliant.

**8. CONTACTING THE DISTRICT**

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

Mr. Michael Henery  
School Business Administrator  
Springs Union Free School District  
48 School Street  
East Hampton, New York 11937

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Statement of Net Position**  
June 30, 2018

<b>ASSETS</b>	
Cash	
Unrestricted	\$ 3,413,292
Restricted	8,946,915
Receivables	
Accounts receivable	529
Due from fiduciary funds	384,166
Due from state and federal	721,889
Due from other governments	668,200
Capital assets:	
Not being depreciated	245,033
Being depreciated, net of accumulated depreciation	3,948,240
Net pension asset - proportionate share	<u>402,208</u>
Total Assets	<u>18,730,472</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	<u>5,753,857</u>
<b>LIABILITIES</b>	
Payables	
Accounts payable	204,771
Accrued liabilities	7,413
Due to other governments	1,724,687
Due to teachers' retirement system	966,609
Due to employees' retirement system	55,899
Unearned credits	
Collections in advance	10,264
Long-term liabilities	
Due and payable within one year	
Bonds payable	100,000
Compensated absences payable	375,771
Due and payable after one year	
Bonds payable	300,000
Installment purchase debt payable	103,717
Compensated absences payable	949,419
Workers' compensation liabilities	173,863
Net pension liability - proportionate share	148,741
Total other postemployment benefits obligation	<u>33,749,172</u>
Total Liabilities	<u>38,870,326</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred revenue	20,758
Pensions	1,816,715
Other postemployment benefits obligation	<u>1,667,961</u>
Total Deferred Inflows of Resources	<u>3,505,434</u>
<b>NET DEFICIT</b>	
Net investment in capital assets	<u>3,689,556</u>
Restricted	
Workers' compensation	165,479
Unemployment insurance	126,963
Retirement contribution	427,127
Insurance	150,603
Employee benefit accrued liability	1,275,110
Capital	6,240,126
Repairs	<u>498,534</u>
Unrestricted (deficit)	<u>(30,464,929)</u>
Net Deficit	<u>\$ (17,891,431)</u>

See Notes to Financial Statements

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Statement of Activities**  
For The Year Ended June 30, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	Capital Grants	
<b>FUNCTIONS/PROGRAMS</b>					
General support	\$ 2,866,709	\$	\$	\$	\$ (2,866,709)
Instruction	25,250,206	535,848	427,534	73,644	(24,213,180)
Pupil transportation	1,301,357				(1,301,357)
Debt service - interest	23,441				(23,441)
Food service program	19,420	5,000	7,263		(7,157)
<b>Total Functions and Programs</b>	<b>\$ 29,461,133</b>	<b>\$ 540,848</b>	<b>\$ 434,797</b>	<b>\$ 73,644</b>	<b>(28,411,844)</b>
<b>GENERAL REVENUES</b>					
Real property taxes					24,590,439
Other tax items					533,139
Sale of property and compensation for loss					25,058
Use of money and property					13,543
Miscellaneous					120,803
State sources					1,645,657
Medicaid reimbursement					18,355
<b>Total General Revenues</b>					<b>26,946,994</b>
<b>Change in Net Deficit</b>					<b>(1,464,850)</b>
<b>Total Net Deficit - Beginning of Year, as Restated</b>					<b>(16,426,581)</b>
<b>Total Net Deficit - End of Year</b>					<b>\$ (17,891,431)</b>

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2018

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>					
Cash					
Unrestricted	\$ 3,272,785	\$ 19,229	\$ 6,338	\$ 114,940	\$ 3,413,292
Restricted	8,946,915				8,946,915
Receivables					
Accounts receivable	529				529
Due from other funds	827,409			6,003,298	6,830,707
Due from state and federal	199,071	431,192	1,815	89,811	721,889
Due from other governments	668,200				668,200
Total Assets	<u>\$ 13,914,909</u>	<u>\$ 450,421</u>	<u>\$ 8,153</u>	<u>\$ 6,208,049</u>	<u>\$ 20,581,532</u>
<b>LIABILITIES</b>					
Payables					
Accounts payable	\$ 123,564	\$	\$	\$ 81,207	\$ 204,771
Accrued liabilities	3,949				3,949
Due to other funds	6,003,298	440,485	2,758		6,446,541
Due to other governments	1,724,687				1,724,687
Due to teachers' retirement system	966,609				966,609
Due to employees' retirement system	55,899				55,899
Unearned credits					
Collections in advance		9,936	328		10,264
Total Liabilities	<u>8,878,006</u>	<u>450,421</u>	<u>3,086</u>	<u>81,207</u>	<u>9,412,720</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred revenues	<u>141,377</u>		<u>1,815</u>	<u>89,811</u>	<u>233,003</u>
<b>FUND BALANCES</b>					
Restricted:					
Workers' compensation	165,479				165,479
Unemployment insurance	126,963				126,963
Retirement contribution	427,127				427,127
Insurance	150,603				150,603
Employee benefit accrued liability	1,275,110				1,275,110
Capital	299,801			5,940,325	6,240,126
Repairs	498,534				498,534
Assigned:					
Appropriated fund balance	734,343				734,343
Unappropriated fund balance	62,618		3,252	96,706	162,576
Unassigned: Fund balance	<u>1,154,948</u>				<u>1,154,948</u>
Total Fund Balances	<u>4,895,526</u>	<u>-</u>	<u>3,252</u>	<u>6,037,031</u>	<u>10,935,809</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 13,914,909</u>	<u>\$ 450,421</u>	<u>\$ 8,153</u>	<u>\$ 6,208,049</u>	<u>\$ 20,581,532</u>

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
June 30, 2018

Total Governmental Fund Balances		\$ 10,935,809
Amounts reported for governmental activities in the Statement of Net Position are different because:		
<p>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.</p>		
Original cost of capital assets	\$ 8,210,240	
Accumulated depreciation	<u>(4,016,967)</u>	4,193,273
<p>Proportionate share of long-term asset and liability as well as 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.</p>		
Net pension asset - teachers' retirement system	402,208	
Deferred outflows of resources	5,753,857	
Net pension liability - employees' retirement system	(148,741)	
Deferred inflows of resources	<u>(1,816,715)</u>	4,190,609
<p>Total other postemployment benefits obligation and deferred outflows and inflows related to providing benefits in retirement are not current financial resources or obligation and are not reported in the funds.</p>		
Total other postemployment benefits obligation	(33,749,172)	
Deferred inflows of resources	<u>(1,667,961)</u>	(35,417,133)
<p>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.</p>		
		212,245
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:</p>		
Accrued interest on bonds payable	(3,464)	
Bonds payable	(400,000)	
Installment purchase debt payable	(103,717)	
Compensated absences payable	(1,325,190)	
Workers' compensation liabilities	<u>(173,863)</u>	(2,006,234)
Total Net Position (Deficit)		<u>\$ (17,891,431)</u>

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Governmental Funds**  
For The Year Ended June 30, 2018

	General	Special Aid	School Food Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>					
Real property taxes	\$ 24,590,439	\$	\$	\$	\$ 24,590,439
Other tax items	533,139				533,139
Charges for services	535,848				535,848
Sale of property and compensation for loss	25,058				25,058
Use of money and property	13,543				13,543
Miscellaneous	120,803		5,000		125,803
State sources	1,645,657	164,248			1,809,905
Medicaid reimbursement	18,355				18,355
Federal sources		263,286	5,448		268,734
<b>Total Revenues</b>	<b>27,482,842</b>	<b>427,534</b>	<b>10,448</b>	<b>-</b>	<b>27,920,824</b>
<b>EXPENDITURES</b>					
General support	2,070,861				2,070,861
Instruction	18,884,284	397,328			19,281,612
Pupil transportation	795,064	63,115			858,179
Employee benefits	4,905,747				4,905,747
Debt service					
Principal	169,254				169,254
Interest	24,274				24,274
Food service program			19,420		19,420
Capital outlay				380,932	380,932
<b>Total Expenditures</b>	<b>26,849,484</b>	<b>460,443</b>	<b>19,420</b>	<b>380,932</b>	<b>27,710,279</b>
Excess (Deficiency) of Revenues Over Expenditures	<u>633,358</u>	<u>(32,909)</u>	<u>(8,972)</u>	<u>(380,932)</u>	<u>210,545</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Proceeds of obligations				97,026	97,026
Operating transfers in		32,909	7,500	6,103,298	6,143,707
Operating transfers (out)	<u>(6,143,707)</u>				<u>(6,143,707)</u>
<b>Total Other Financing Sources and (Uses)</b>	<u>(6,143,707)</u>	<u>32,909</u>	<u>7,500</u>	<u>6,200,324</u>	<u>97,026</u>
<b>Net Change in Fund Balances</b>	<b>(5,510,349)</b>	<b>-</b>	<b>(1,472)</b>	<b>5,819,392</b>	<b>307,571</b>
<b>Fund Balances</b>					
Beginning of Year	<u>10,405,875</u>		<u>4,724</u>	<u>217,639</u>	<u>10,628,238</u>
End of Year	<u>\$ 4,895,526</u>	<u>\$ -</u>	<u>\$ 3,252</u>	<u>\$ 6,037,031</u>	<u>\$ 10,935,809</u>



**SPRINGS 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, 2018

Net Change in Fund Balances \$ 307,571

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).

\$ 75,459

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

(9,941)

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

(140,029)

Increase in workers' compensation claims liability

(37,766)

(112,277)

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 expense in the Statement of Activities. This is the amount by which capital outlays exceeded depreciation in the period.

Capital outlays

404,053

Depreciation expense

(262,153)

141,900

Long-Term Debt Transactions Differences

Proceeds from the issuance of installment purchase debt are other funding sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position and do not affect the Statement of Activities.

(97,026)

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

100,000

Repayment of installment purchase debt

69,254

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, 2017 to June 30, 2018.

833

73,061

Pension and Other Postemployment Benefits Differences

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

Teachers' retirement system

(109,989)

Employees' retirement system

14,641

Other postemployment benefits

(1,779,757)

(1,875,105)

Change in Net Deficit of Governmental Activities

\$ (1,464,850)

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position -**  
**Fiduciary Fund**  
June 30, 2018

	<u>Agency</u>
<b>ASSETS</b>	
Cash	<u>\$ 428,006</u>
Total Assets	<u>\$ 428,006</u>
<b>LIABILITIES</b>	
Extraclassroom activity balances	\$ 5,321
Due to governmental funds	384,166
Other liabilities	<u>38,519</u>
Total Liabilities	<u>\$ 428,006</u>

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Springs 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 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 Fund. Separate audited financial statements of the extraclassroom activity funds can be found at the District's Business Office.

**B. Joint Venture**

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

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

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

**C. Basis of Presentation**

District-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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

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

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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operations. The following is the District's fiduciary fund:

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

**D. Measurement Focus and Basis of Accounting**

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

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

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

**E. Real Property Taxes**

Calendar

Real property taxes are levied annually by the Board no later than October 15<sup>th</sup> and become a lien on November 1<sup>st</sup>. Taxes are collected by the Town of East Hampton and remitted to the District from December to June.

Enforcement

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

**F. Restricted Resources**

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

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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 assumptions that affect the reported amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingencies at the date of the financial statements and the reported revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including compensated absences, termination benefits, pension costs, other postemployment benefits, workers' compensation liabilities, potential contingent liabilities and useful lives of long-lived assets.

**I. Cash and Cash Equivalents/Investments**

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

Investments are reported at fair value, based on quoted market prices.

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

**J. Capital Assets**

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

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

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

wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 1,000	50 years
Site improvements	1,000	20 years
Furniture and equipment	1,000	5-20 years
Vehicles	1,000	5-10 years

**K. Deferred Outflows of Resources**

Deferred outflows of resources, reported 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 deferred outflows of resources reported in the Statement of Net Position relates to pensions and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense, and District contributions to the pension systems (TRS and ERS) subsequent to the measurement date.

**L. Collections in Advance**

Collections in advance arise when resources are received by the District before it has a legal claim to them, as 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 revenue are recognized in subsequent periods when the District has legal claim to the resources.

**M. 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 three items that qualify for reporting in this category. First is deferred revenues reported in the general fund when resources are received by the District before it has a legal claim to them and consists of property taxes received by the District before the period for which the real property taxes are levied and unavailable revenues reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. In subsequent periods, when the District has legal claim to the resources the property taxes will be recognized as revenue and when the availability criterion is met, unavailable revenues are reclassified as revenues. In the District-wide financial statements, property taxes remain as deferred inflows and unavailable revenues are treated as revenues. The second item, reported in the Statement of Net Position, is related to pensions and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense. The third item is related to OPEB reported in the district-wide Statement of Net Position and represents the change in the total other postemployment benefits obligation not included in OPEB expense.

**N. 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.



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

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

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

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

**O. Other Benefits**

Eligible District employees participate in the New York State Teachers' Retirement System or the New York State 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 economic resources measurement focus and the accrual basis of accounting in accordance with GASB Statement No. 75.

**P. Equity Classifications**

District-Wide Statements

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

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

*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

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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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:

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

*Workers' Compensation Reserve*

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

*Unemployment Insurance Reserve*

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

*Retirement Contribution Reserve*

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

*Insurance Reserve*

Insurance Reserve is used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action, and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. The reserve is accounted for in the general fund.

*Employee Benefit Accrued Liability Reserve*

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

*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.

*Repairs Reserve*

Repairs Reserve (GML §6-d) is used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. The Board of Education, without voter approval, may establish a repair reserve fund by a majority vote of its members. Voter approval is required to fund this reserve (Opinion of the New York State Comptroller 81-401). Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years. The reserve is accounted for in the general fund.

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

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

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Fund Balance Classification**

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

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

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

**2. CHANGES IN ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of the Statement requires the District to report other postemployment benefits liabilities, expenses and deferred outflows of resources and deferred inflows of resources on the full accrual basis.

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

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

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

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

**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 current financial resources measurement focus and the modified accrual basis, whereas the economic resources measurement focus

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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and the accrual basis of accounting is used on the Statement of Activities, thereby affecting expenses such as compensated absences.

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

Pension and Other Postemployment Benefits Differences

Pension differences occur as a result of recognizing pension costs using the current financial resources measurement focus and the modified accrual basis of accounting, whereby an expenditure is recognized based on the contractually required contribution as calculated by the plan, versus the economic resources measurement focus and the accrual basis of accounting, whereby an expense is recognized related to the District's proportionate share of the collective pension expense of the plan.

Other postemployment benefit differences occur as a result of recognizing OPEB costs using the current financial resources measurement focus and the modified accrual basis of accounting, whereby an expenditure is recognized for health insurance premiums and other postemployment benefit costs as they mature (come due for payment), versus the economic resources measurement focus and the accrual basis of accounting, whereby an expense is recognized related to the future cost of benefits in retirement over the term of employment.

**4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

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

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

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

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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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:

Voter approved use of the capital reserve to fund capital projects	\$ 6,003,298
Contingent expenditures funded by donations and grants in aid	<u>23,521</u>
	<u>\$ 6,026,819</u>

Budgets are adopted annually on a basis consistent with GAAP.

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

**B. Encumbrances**

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

**5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

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

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

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

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

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

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Investment Pool:**

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

Total investments of the cooperative at June 30, 2018 are \$1,219,485,996, which consisted of \$213,214,286 in repurchase agreements, \$775,228,258 in U.S. Treasury Securities, and \$231,043,452 in collateralized bank deposits, with various interest rates and due dates.

The amount of \$726,965 is included as cash in the general fund.

The above amounts represent the cost of the investment pool shares, which approximates market value. The lead participant of NYCLASS is the Village of Potsdam. Additional information concerning NYCLASS, including the annual report, can be found on its website at [www.newyorkclass.org](http://www.newyorkclass.org).

**6. PARTICIPATION IN BOCES**

During the year ended June 30, 2018, the District was billed \$1,558,395 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$136,472. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

**7. DUE FROM STATE AND FEDERAL**

Due from state and federal at June 30, 2018 consisted of:

General Fund	
New York State - excess cost aid	\$ 199,071
Special Aid Fund	
Federal and state grants	431,192
School Food Service Fund	
Federal and state food service program reimbursements	1,815
Capital Projects Fund	
Smart schools bond	<u>89,811</u>
	<u>\$ 721,889</u>



**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**8. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2018 consisted of:

General Fund	
BOCES aid	\$ 136,472
Tuition from other districts	<u>531,728</u>
	<u>\$ 668,200</u>

**9. CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2018 were as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 9,875	\$	\$	\$ 9,875
Construction in progress	<u>61,825</u>	<u>283,905</u>	<u>(110,572)</u>	<u>235,158</u>
Total capital assets not being depreciated	<u>71,700</u>	<u>283,905</u>	<u>(110,572)</u>	<u>245,033</u>
Capital assets being depreciated				
Buildings and improvements	5,159,249			5,159,249
Site improvements	678,205			678,205
Furniture and equipment	533,623	133,694		667,317
Vehicles	<u>1,363,410</u>	<u>97,026</u>		<u>1,460,436</u>
Total capital assets being depreciated	<u>7,734,487</u>	<u>230,720</u>		<u>7,965,207</u>
Less accumulated depreciation for:				
Buildings and improvements	2,207,661	95,334		2,302,995
Site improvements	245,543	25,065		270,608
Furniture and equipment	292,251	37,699		329,950
Vehicles	<u>1,009,359</u>	<u>104,055</u>		<u>1,113,414</u>
Total accumulated depreciation	<u>3,754,814</u>	<u>262,153</u>	<u>-</u>	<u>4,016,967</u>
Total capital assets, being depreciated, net	<u>3,979,673</u>	<u>(31,433)</u>	<u>-</u>	<u>3,948,240</u>
Capital assets, net	<u>\$ 4,051,373</u>	<u>\$ 252,472</u>	<u>\$ (110,572)</u>	<u>\$ 4,193,273</u>

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

General support	\$ 134,474
Instruction	23,624
Pupil transportation	<u>104,055</u>
 Total depreciation expense	 <u>\$ 262,153</u>

**10. INTERFUND TRANSACTIONS**

Interfund balances and activities at June 30, 2018, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 827,409	\$ 6,003,298	\$	\$ 6,143,707
Special Aid Fund		440,485	32,909	
School Food Service Fund		2,758	7,500	
Capital Projects Fund	<u>6,003,298</u>		<u>6,103,298</u>	
Total Governmental Funds	<u>6,830,707</u>	<u>6,446,541</u>	<u>\$ 6,143,707</u>	<u>\$ 6,143,707</u>
Fiduciary Funds		<u>384,166</u>		
 Total	 <u>\$ 6,830,707</u>	 <u>\$ 6,830,707</u>		

The District typically transfers from the general fund to the special aid fund, the school food service fund and the capital projects fund in accordance with the general fund budget. The transfer to the special aid from the general fund is to provide the District's 20% share of the summer program for students with disabilities and amounts to subsidize the in-house summer program. The transfer to the school food service fund from the general fund is to subsidize the program. The transfer to the capital projects fund is to fund district wide improvements.

**11. LONG-TERM LIABILITIES**

**A. Changes**

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

	Balance			Amounts	
	June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Long-term debt:					
Bonds payable	\$ 500,000	\$	\$ (100,000)	\$ 400,000	\$ 100,000
Installment purchase debt	75,945	97,026	(69,254)	103,717	
Other long-term liabilities					
Compensated absences	1,185,161	140,029		1,325,190	375,771
Workers' compensation	<u>136,097</u>	<u>168,712</u>	<u>(130,946)</u>	<u>173,863</u>	
	<u>\$ 1,897,203</u>	<u>\$ 405,767</u>	<u>\$ (300,200)</u>	<u>\$ 2,002,770</u>	<u>\$ 475,771</u>

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

**SPRINGS 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, 2018
Building addition	2002	2022	3.75%	<u>\$ 400,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2019	\$ 100,000	\$ 16,625	\$ 116,625
2020	100,000	12,625	112,625
2021	100,000	8,500	108,500
2022	<u>100,000</u>	<u>4,250</u>	<u>104,250</u>
Total	<u>\$ 400,000</u>	<u>\$ 42,000</u>	<u>\$ 442,000</u>

**C. Installment Purchase Debt**

Installment purchase debt is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2018
Thomas school bus	7/20/2016	7/20/2019	2.25%	\$ 38,395
Thomas school bus	8/18/2017	8/18/2020	2.00%	<u>65,322</u>
				<u>103,717</u>

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

Year Ending June 30,	Principal	Interest	Total
2019	\$	\$	\$
2020	70,733	2,170	72,903
2021	<u>32,984</u>	<u>660</u>	<u>33,644</u>
Total	<u>\$ 103,717</u>	<u>\$ 2,830</u>	<u>\$ 106,547</u>

**D. Interest Expense**

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

Interest paid	\$ 24,274
Less interest accrued in the prior year	(4,297)
Plus interest accrued in the current year	<u>3,464</u>
Total interest expense on long-term debt	<u>\$ 23,441</u>

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

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**E. Interest Expense**

On March 8, 2018, the voters approved a bond issue not to exceed \$16,960,000 for an addition and improvements to the building. As of June 30, 2018, no debt has been issued, but work has commenced and expenditures are recorded in the capital projects fund.

**12. PENSION PLANS – NEW YORK STATE**

**A. General Information**

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

**B. Provisions and Administration**

Teachers' Retirement System

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

Employees' Retirement System

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

**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,

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

2012, are required to contribute 3% of their salary to ERS or 3.5% of their salary to TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the TRS' fiscal year ended June 30<sup>th</sup>, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31<sup>st</sup>, and employer contributions are either paid by the prior December 15<sup>th</sup> less a 1% discount or by the prior February 1<sup>st</sup>. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year. The District's contribution rate was 11.72% of covered payroll for the TRS' fiscal year ended June 30, 2017. The District's average contribution rate was 14.57% of covered payroll for the ERS' fiscal year ended March 31, 2018.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2018 was \$883,657 for TRS and \$190,873 for ERS.

**D. Pension Asset/(Liability), Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2018, 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, 2017, for TRS and March 31, 2018 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 the ERS systems in reports provided to the District.

	TRS	ERS
Measurement date	June 30, 2017	March 31, 2018
District's proportionate share of the net pension asset/(liability)	\$ 402,208	\$ (148,741)
District's portion of the Plan's total net pension asset/(liability)	0.0529150%	0.0046086%
Change in proportion since the prior measurement date	0.0011100	0.0004667

For the year ended June 30, 2018, the District recognized pension expense of \$994,156 for TRS and \$176,232 for ERS. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	TRS	ERS	TRS	ERS
Differences between expected and actual experience	\$ 330,919	\$ 53,051	\$ 156,816	\$ 43,839
Changes of assumptions	4,092,549	98,628		
Net difference between projected and actual earnings on pension plan investments		216,035	947,318	426,431
Changes in proportion and differences between the District's contributions and proportionate share of contributions		23,119	211,885	30,426
District's contributions subsequent to the measurement date	883,657	55,899		
<b>Total</b>	<b>\$ 5,307,125</b>	<b>\$ 446,732</b>	<b>\$ 1,316,019</b>	<b>\$ 500,696</b>

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	TRS	ERS
2019	\$ 59,494	\$ 23,772
2020	1,049,181	22,357
2021	741,261	(110,965)
2022	158,772	(45,027)
2023	739,006	
Thereafter	359,735	
	<b>\$ 3,107,449</b>	<b>\$ (109,863)</b>

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, 2017	March 31, 2018
Actuarial valuation date	June 30, 2016	April 1, 2017
Inflation	2.5%	2.5%
Salary increases	1.90-4.72%	3.8%
Investment rate of return (net of investment expense, including inflation)	7.25%	7.0%
Cost of living adjustments	1.5%	1.3%

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

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

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

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

For TRS, 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.

For ERS, the long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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, 2017		March 31, 2018
Asset type				
Domestic equity	35.0%	5.90%	36.0%	4.55%
International equity	18.0%	7.40%	14.0%	6.35%
Real estate	11.0%	4.30%	10.0%	5.55%
Private Equities	8.0%	9.00%	10.0%	7.50%
Alternative investments			8.0%	3.75-5.68%
Domestic fixed income securities	16.0%	1.60%		
Global fixed income securities	2.0%	1.30%		
High-yield fixed income securities	1.0%	3.90%		
Bonds and mortgages	8.0%	2.80%	17.0%	1.31%
Short-term	1.0%	0.60%		
Cash			1.0%	-0.25%
Inflation indexed bonds			4.0%	1.25%
	100.0%		100.0%	

Real rates of return are net of long-term inflation assumption of 2.2% for the TRS and 2.5% for the ERS.

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

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for TRS and 7.0% for ERS (the discount rate used by the TRS at the prior year's measurement date of June 30, 2016, was 7.5%). 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 asset/(liability) calculated using the discount rate of 7.25% for TRS and 7.0% for ERS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.25% for TRS and 6.0% for ERS) or 1 percentage point higher (8.25% for TRS and 8.0% for ERS) than the current rate:

TRS	1% Decrease (6.25)%	Current Assumption (7.25)%	1% Increase (8.25)%
District's proportionate share of the net pension asset (liability)	\$ (6,928,860)	\$ 402,208	\$ 6,541,615
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	\$ (1,125,416)	\$ (148,741)	\$ 677,486

Pension Plan Fiduciary Net Position

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

	TRS	ERS
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2017	March 31, 2018
Employers' total pension liability	\$ (114,708,261)	\$ (183,400,590)
Plan fiduciary net position	115,468,360	180,173,145
Employers' net pension asset/(liability)	\$ 760,099	\$ (3,227,445)
Ratio of plan fiduciary net position to the employers' total pension liability	100.66%	98.24%



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

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2018, are paid to the system in September, October and November 2018 through a state aid intercept. Accrued retirement contributions as of June 30, 2018, represent employer and employee contributions for the fiscal year ended June 30, 2018, 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. Accrued retirement contributions as of June 30, 2018 amounted to \$883,657 of employer contributions and \$82,952 of employee contributions.

For ERS, employer contributions are paid annually based on the system's fiscal year, which ends on March 31<sup>st</sup>. Accrued retirement contributions as of June 30, 2018, represent the projected employer contribution for the period of April 1, 2018 through June 30, 2018 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2018 amounted to \$55,899 of employer contributions. Employee contributions are remitted monthly.

**13. PENSION PLANS - OTHER**

**A. Tax Sheltered Annuities**

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain compensated absence payments based on collectively bargained agreements. Contributions made by the employees for the year ended June 30, 2018, totaled \$216,853.

**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, 2018 totaled \$25,107.

**14. POSTEMPLOYMENT HEALTHCARE BENEFITS**

**A. General Information about the OPEB Plan**

*Plan Description* – The District's defined benefit OPEB plan, provides OPEB for all permanent full-time employees of the District. The plan is a single-employer defined benefit OPEB plan administered by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

*Benefits Provided* – The District provides healthcare and life insurance benefits for retirees and their dependents. The benefit terms are dependent on which contract each employee falls under. The specifics of each contract are on file at the District offices and are available upon request.

*Employees Covered by Benefit Terms* – At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	53
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	123
	176

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

**B. Total OPEB Liability**

The District's total OPEB liability of \$33,749,172 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

*Actuarial Assumptions and Other Inputs* – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.20%
Salary increases	3.20% average, including inflation
Discount rate	3.87%
Healthcare cost trend rates	5.50% for 2018, decreasing to an ultimate rate of 3.84 % by 2078
Retirees' share of benefit-related costs	0 - 100% of projected health insurance premiums for retirees

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond Inded.

Mortality rates were based on April 1, 2010 – March 31, 2015 NYSLRS experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

**C. Changes in the Total OPEB Liability**

Balance at June 30, 2017	<u>\$ 33,637,376</u>
Changes for the year	
Service cost	1,567,932
Interest	1,189,614
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(1,829,889)
Benefit payments	<u>(815,861)</u>
	<u>111,796</u>
Balance at June 30, 2018	<u>\$ 33,749,172</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58% in 2017 to 3.87% in 2018.

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

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate* - The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87%) or 1 percentage point higher (4.87%) than the current discount rate:

OPEB	1% Decrease (2.87%)	Discount Rate ( 3.87%)	1% Increase ( 4.87%)
Total OPEB liability	<u>\$(40,654,200)</u>	<u>\$(33,749,172)</u>	<u>\$(28,337,521)</u>

*Sensitivity of the Total OPEB Liability Changes in the Healthcare Cost Trend Rates* - The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4.50% to 2.84%) or 1 percentage point higher (6.50% to 4.84%) than the current healthcare cost trend rate:

OPEB	1% Decrease (4.50 to 2.84%)	Healthcare Cost Trend Rates (5.50 to 3.84%)	1% Increase (6.50 to 4.84%)
Total OPEB liability	<u>\$(27,760,523)</u>	<u>\$(33,749,172)</u>	<u>\$(41,645,135)</u>

**D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year June 30, 2018, the District recognized OPEB expense of \$2,595,618. At June 30, 2018, the District reported deferred inflows of resources related to OPEB from the following sources:

	Deferred	
	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$	\$
Changes of assumptions and other inputs		1,667,961
Total	<u>\$ -</u>	<u>\$ 1,667,961</u>

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

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ (161,928)
2020	(161,928)
2021	(161,928)
2022	(161,928)
2023	(161,928)
Thereafter	(858,321)
	\$ (1,667,961)

**15. RISK MANAGEMENT**

**A. General Information**

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

**B. Public Entity Risk Pool**

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.

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

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

The District's liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2018, as processed by the EEWCC, is \$173,863. Claims activity is summarized as follows:

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

	2017	June 30, 2018
Claims at beginning of year	\$ 128,469	\$ 136,097
Incurred claims and claim adjustment expenses	34,525	168,712
Claims payments and expenses	(26,897)	(130,946)
Claims liabilities at end of year	\$ 136,097	\$ 173,863

The District has reserved \$165,479 in the general fund for potential supplemental assessments due to catastrophic losses and future claims.

The EEWCC has issued financial statements for the year ended June 30, 2018. Copies of these statements can be obtained from the District's Business Office.

**16. RESTRICTED FUND BALANCE – APPROPRIATED RESERVES**

The District expects to appropriate the following amounts from reserves, which are reported in the June 30, 2018 restricted fund balances, to fund the budget for the year ending June 30, 2019.

Retirement contribution	\$ 100,000
Repairs	100,000
	\$ 200,000

**17. ASSIGNED APPROPRIATED FUND BALANCE**

The amount of \$734,343 has been appropriated to reduce taxes for the year ending June 30, 2019.

**18. RESTATEMENT OF NET POSITION**

For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75. The implementation of Statement No. 75 resulted in the reporting of a change in the liability for other postemployment benefits obligation and a deferred outflow of resources. The District's net position has been restated as follows:

Net position beginning of year, as previously stated	\$ 8,420,842
GASB Statement No. 75 implementation	
Beginning total other postemployment benefits obligation	(33,637,376)
Less: Net other postemployment benefits obligation under GASB Statement No. 45	8,789,953
	(24,847,423)
Net position beginning of year, as restated	\$(16,426,581)

**19. COMMITMENTS AND CONTINGENCIES**

**A. Encumbrances**

All encumbrances are classified as restricted or assigned fund balance. At June 30, 2018, the District encumbered the following amounts, classified as assigned unappropriated fund balance:

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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General Fund	
General Support	\$ 14,155
Instruction	48,318
Transportation	145
	62,618
Special Aid Fund	
Instruction	4,138
Capital Projects Fund	
Capital Projects	64,067
	\$ 130,823

**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. The District's administration believes disallowances, if any, would be immaterial.

**C. Litigation**

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

**D. Operating Leases**

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$27,289. The minimum remaining operating lease payments are as follows:

Year Ending June 30,	Amount
2019	\$ <u>2,274</u>

**20. SUBSEQUENT EVENTS**

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

**A. Installment Purchase Contract**

On August 30, 2018, the District entered into an installment purchase contract in the amount of \$149,959 at an interest rate of 3.28% payable annually over the next three years.

**B. Issuance of TANs**

On October 2, 2018, the District issued tax anticipation notes in the amount of \$5,000,000, which are due June 27, 2019.

**SUPPLEMENTARY INFORMATION**

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
**For The Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
<b>REVENUES</b>				
Local Sources				
Real property taxes	\$ 24,533,528	\$ 24,590,439	\$ 24,590,439	\$ -
Other tax items	610,000	553,089	533,139	(19,950)
Charges for services	130,000	130,000	535,848	405,848
Sale of property and compensation for loss			25,058	25,058
Use of money and property	5,000	5,000	13,543	8,543
Miscellaneous	110,000	133,521	120,803	(12,718)
<b>Total Local Sources</b>	<b>25,388,528</b>	<b>25,412,049</b>	<b>25,818,830</b>	<b>406,781</b>
State Sources	1,654,535	1,654,535	1,645,657	(8,878)
Medicaid Reimbursement			18,355	18,355
<b>Total Revenues</b>	<b>27,043,063</b>	<b>27,066,584</b>	<b>27,482,842</b>	<b>\$ 416,258</b>
<b>APPROPRIATED FUND BALANCE</b>				
Prior Years' Surplus	870,022	870,022		
Prior Year's Encumbrances	57,748	57,748		
Appropriated Reserves	200,000	6,203,298		
<b>Total Appropriated Fund Balance</b>	<b>1,127,770</b>	<b>7,131,068</b>		
<b>Total Revenues and Appropriated Fund Balance</b>	<b>\$ 28,170,833</b>	<b>\$ 34,197,652</b>		

**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.



**SPRINGS 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, 2018

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
<b>EXPENDITURES</b>					
<b>General Support</b>					
Board of education	\$ 48,350	\$ 55,471	\$ 52,320	\$	\$ 3,151
Central administration	321,110	321,047	317,778	215	3,054
Finance	363,771	332,879	304,586	6,500	21,793
Staff	100,417	152,279	97,527	7,440	47,312
Central services	1,086,726	1,125,592	1,084,690		40,902
Special items	221,104	218,604	213,960		4,644
<b>Total General Support</b>	<b>2,141,478</b>	<b>2,205,872</b>	<b>2,070,861</b>	<b>14,155</b>	<b>120,856</b>
<b>Instruction</b>					
Administration & improvement	477,452	487,382	475,069		12,313
Teaching - regular school	13,871,853	13,543,840	13,174,419	6,717	362,704
Programs for students with disabilities	4,334,970	4,150,489	3,949,261	17,944	183,284
Instructional media	681,344	624,272	563,413	4,402	56,457
Pupil services	687,580	755,491	722,122	19,255	14,114
<b>Total Instruction</b>	<b>20,053,199</b>	<b>19,561,474</b>	<b>18,884,284</b>	<b>48,318</b>	<b>628,872</b>
Pupil Transportation	771,359	917,855	795,064	145	122,646
Employee Benefits	4,805,412	5,139,768	4,905,747		234,021
<b>Debt Service</b>					
Principal	177,551	177,551	169,254		8,297
Interest	54,334	24,334	24,274		60
<b>Total Debt Service</b>	<b>231,885</b>	<b>201,885</b>	<b>193,528</b>	<b>-</b>	<b>8,357</b>
<b>Total Expenditures</b>	<b>28,003,333</b>	<b>28,026,854</b>	<b>26,849,484</b>	<b>62,618</b>	<b>1,114,752</b>
<b>OTHER USES</b>					
Operating Transfers Out	167,500	6,170,798	6,143,707		27,091
<b>Total Expenditures and Other Uses</b>	<b>\$ 28,170,833</b>	<b>\$ 34,197,652</b>	<b>32,993,191</b>	<b>\$ 62,618</b>	<b>\$ 1,141,843</b>
Net Change in Fund Balance			(5,510,349)		
Fund Balance - Beginning of Year			10,405,875		
Fund Balance - End of Year			<u>\$ 4,895,526</u>		

**Note to Required Supplementary Information**

Budget Basis of Accounting

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

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Schedule of the District's Proportionate Share of the Net Pension Asset/Liability**  
**Last Five Fiscal Years \***

***Teachers' Retirement System***

	2018	2017	2016	2015	2014
District's proportion of the net pension asset/(liability)	0.0529150%	0.0518050%	0.0506810%	0.0470660%	0.0463110%
District's proportionate share of the net pension asset/(liability)	\$ 402,208	\$ (554,858)	\$ 5,264,107	\$ 5,242,910	\$ 304,840
District's covered payroll	\$ 8,559,176	\$ 8,387,144	\$ 7,607,176	\$ 6,977,777	\$ 6,805,939
District's proportionate share of the net pension asset/(liability) as a percentage of its covered payroll	4.70 %	6.62 %	69.20 %	75.14 %	4.48 %
Plan fiduciary net position as a percentage of the total pension liability	100.66%	99.01%	110.46%	111.48%	100.70%

***Employees' Retirement System***

	2018	2017	2016	2015	2014
District's proportion of the net pension (liability)	0.0046086%	0.0041419%	0.0049802%	0.0048056%	0.0048056%
District's proportionate share of the net pension (liability)	\$ (148,741)	\$ (389,186)	\$ (799,336)	\$ (162,346)	\$ (217,160)
District's covered payroll	\$ 1,114,902	\$ 1,098,828	\$ 1,563,428	\$ 1,114,245	\$ 1,060,801
District's proportionate share of the net pension (liability) as a percentage of its covered payroll	13.34 %	35.42 %	51.13 %	14.57 %	20.47 %
Plan fiduciary net position as a percentage of the total pension liability	98.24%	94.70%	90.68%	97.95%	97.20%

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

**Note to required supplementary Information**

**Teachers' Retirement System**

The discount rate decreased from 8.0% to 7.5% to 7.25%, as reflected in 2016, 2017 and 2018 above.

**Employees' Retirement System**

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

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Schedule of District Pension Contributions**  
 Last Ten Fiscal Years

*Teachers' Retirement System*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 883,657	\$ 998,853	\$ 1,061,341	\$ 1,331,946	\$ 1,120,076	\$ 803,825	\$ 783,025	\$ 600,626	\$ 451,930	\$ 531,298
Contributions in relation to the contractually required contribution	883,657	998,853	1,061,341	1,331,946	1,120,076	803,825	783,025	600,626	451,930	531,298
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 9,016,907	\$ 8,559,176	\$ 8,387,144	\$ 7,607,176	\$ 6,977,777	\$ 6,805,939	\$ 7,050,009	\$ 7,067,543	\$ 7,308,840	\$ 6,939,101
Contributions as a percentage of covered payroll	10%	12%	13%	18%	16%	12%	11%	8%	6%	8%

*Employees' Retirement System*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 190,873	\$ 162,264	\$ 216,705	\$ 202,177	\$ 206,898	\$ 198,366	\$ 126,360	\$ 123,356	\$ 101,978	\$ 103,624
Contributions in relation to the contractually required contribution	190,873	162,264	216,705	202,177	206,898	198,366	126,360	123,356	101,978	103,624
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 1,241,973	\$ 1,150,794	\$ 1,179,214	\$ 1,135,265	\$ 1,074,174	\$ 1,039,809	\$ 1,016,117	\$ 1,031,923	\$ 1,096,939	\$ 1,132,486
Contributions as a percentage of covered payroll	15%	14%	18%	18%	19%	19%	12%	12%	9%	9%

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Schedule of Changes in the District's Total OPEB Liability and Related Ratios**  
**Last Fiscal Year**

	2018
Total OPEB Liability	
Service cost	\$ 1,567,932
Interest	1,189,614
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(1,829,889)
Benefit payments	(815,861)
Net Change in Total OPEB Liability	111,796
Total OPEB liability, beginning	33,637,376
Total OPEB liability, ending	\$ 33,749,172
Covered employee payroll	\$ 9,468,743
Total OPEB liability as a percentage of covered employee payroll	356%

**Notes to Required Supplementary Information**

**Trust Assets**

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

The amounts presented for the fiscal year were determined as of the measurement date of the plan.

**Change of Assumptions:**

The discount rate was 3.58% and 3.87% as of June 30, 2017 and June 30, 2018, respectively.

**SPRINGS 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, 2018

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 28,113,085
Additions:		
Prior year's encumbrances		<u>57,748</u>
Original Budget		28,170,833
Budget revisions		<u>6,026,819</u>
Final Budget		<u><u>\$ 34,197,652</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2018-19 voter-approved expenditure budget		<u>\$ 28,873,698</u>
Maximum allowed (4% of 2018-19 budget)		<u>\$ 1,154,948</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 796,961	
Unassigned fund balance	<u>1,154,948</u>	
		\$ 1,951,909
Less:		
Appropriated fund balance	734,343	
Encumbrances	<u>62,618</u>	
Total adjustments		<u>796,961</u>
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		<u><u>\$ 1,154,948</u></u>
Actual Percentage		4.00%

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Schedule of Project Expenditures and Financing Resources-Capital Projects Fund**  
For The Year Ended June 30, 2018

PROJECT TITLE	Budget		Prior Years	Expenditures		Unexpended Balance	Methods of Financing			Fund Balance June 30, 2018
	June 30, 2017	June 30, 2018		Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	
Vestibule Project SED Project 0001-14	\$ 168,000	\$ 168,000	\$ 161,229	\$ 161,229	\$ 6,771	\$	\$	\$ 168,000	\$ 168,000	\$ 6,771
District-Wide Improvements 2015	200,000	200,000	70,581	70,581	129,419			200,000	200,000	129,419
District-Wide Improvements 2016	100,000	100,000	48,239	68,629	31,371			100,000	100,000	31,371
District-Wide Improvements 2017	50,000	50,000	4,145	30,537	15,318			50,000	50,000	15,318
District-Wide Improvements 2018	136,000	136,000	36,928	96,362	3,638			100,000	100,000	3,638
Smart Schools Bond Project		22,963,298		73,644	25,428	16,960,000	136,000	6,003,298	136,000	25,428
General construction				62,973						
Bus purchase				97,026		97,026				
<b>Totals</b>	<b>\$ 654,000</b>	<b>\$ 23,814,324</b>	<b>\$ 321,122</b>	<b>\$ 380,932</b>	<b>\$ 23,112,270</b>	<b>\$ 17,057,026</b>	<b>\$ 136,000</b>	<b>\$ 6,621,298</b>	<b>\$ 23,814,324</b>	<b>\$ 23,112,270</b>

Portion of Smart bond not yet recognized  
Bond proceeds not yet recognized

(115,239)  
(16,960,000)

\$ 6,037,031

**SPRINGS UNION FREE SCHOOL DISTRICT**  
**Net Investment in Capital Assets**  
June 30, 2018

Capital assets, net	<u>\$ 4,193,273</u>
Deduct:	
Short-term portion of bonds payable	100,000
Long-term portion of bonds payable	300,000
Long-term portion of installment purchase debt	<u>103,717</u>
	<u>503,717</u>
Net investment in capital assets	<u>\$ 3,689,556</u>



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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  
Springs Union Free School District

We have audited, 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, the financial statements of the governmental activities, each major fund, and the fiduciary fund of the Springs Union Free School District, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Springs Union Free School District's basic financial statements, and have issued our report thereon dated November 7, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Springs 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 Springs Union Free School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Springs 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Springs 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*.

## **Purpose of this Report**

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

*R.S. Abrams & Co., LLP*

R.S. Abrams & Co., LLP  
Islandia, NY  
November 7, 2018