

South Jefferson Central School District

Financial Statements

Year Ended June 30, 2017

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STACKEL & NAVARRA, C.P.A., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

COMMUNITY BANK BUILDING -- 216 WASHINGTON STREET
WATERTOWN, NEW YORK 13601-3336
TELEPHONE 315/782-1220
FAX 315/782-0118

Robert F. Stackel, C.P.A.
Jacob Navarra, C.P.A.
Mark B. Hills, C.P.A.

Board of Education
South Jefferson Central School District
Adams, New York

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Jefferson Central School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School 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.

STACKEL & NAVARRA, C.P.A., P.C

CERTIFIED PUBLIC ACCOUNTANTS

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

Basis for Modified Opinion on General Fund

As discussed in Note 17 of the financial statements, management has adopted a policy of recording pension expense in the General Fund when paid. Accounting principles generally accepted in the United States of America require that pension expense be recorded in the period when incurred. For the year ended June 30, 2017, General Fund expenses are overstated by \$283,949, liabilities are understated by \$1,420,497, and fund balance is overstated by \$1,420,497.

Modified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Modified Opinion on General Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund of South Jefferson Central School District, as of June 30, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified 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 other than the General Fund, and the aggregate remaining fund information of South Jefferson Central School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress - other post-employment benefits, the schedule of revenue, expenditures and changes in fund balance - budget (non-GAAP basis) and actual - general fund, the schedules of District contributions - NYSTRS & NYSERS pension plans - last 3 fiscal years, and the schedules of District's proportionate share of the net pension liability - NYSTRS & NYSERS pension plans - last 3 fiscal years on pages 4-15 and 55-58 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 South Jefferson Central School District's basic financial statements. The schedule of change from adopted budget to final budget and the real property tax limit – general fund, schedule of project expenditures – capital projects fund and net investment in capital assets are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of change from adopted budget to final budget and the real property tax limit – general fund, schedule of project expenditures – capital projects fund, net investment in capital assets and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of change from adopted budget to final budget and the real property tax limit – general fund, schedule of project expenditures – capital projects fund, net investment in capital assets and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2017, on our consideration of South Jefferson Central School District's internal control over financial reporting and on out 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 South Jefferson Central School's internal control over financial reporting and compliance.

Stackel & Navarra, CPA, PC

Watertown, NY
October 9, 2017

South Jefferson Central School District
Management's Discussion and Analysis
June 30, 2017

The following is a discussion and analysis of South Jefferson Central School District's financial performance for the fiscal year ended June 30, 2017. This section is a summary of the school district's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. This section is only an introduction and should be read in conjunction with the school district's financial statements, which immediately follow this section. Responsibility for completeness and fairness of the information contained rests with the school district.

School District Overview and Highlights

The school district is located in the northern tier of the state, approximately 45 miles from the Canadian border and employs approximately 350 full and part time professional and support staff. These employees are organized into three collective bargaining units (teaching staff, support staff, and administration). All agreements are set to expire on June 30, 2019.

The school district has continued to maximize sources of grants and aid from Federal and New York State sources, resulting in an average tax rate of \$10.910249 dollars of assessed value over the ten towns and three counties that comprise the district. In general, taxpayers are content with the district; budgets have been adopted with consistent tax levy increases while school events are always a popular attraction.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts: Management's Discussion and Analysis (MD & A), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the school district.

- The first two statements are *district-wide* financial statements that provide both *short-term* and *long-term* information about the school district's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the school district, reporting the school district's operations in *more detail* than the district-wide statements. The fund financial statements concentrate on the school district's most significant funds with all other non-major funds listed in total in one column.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the school district acts solely as a *trustee* or *agent* for the benefit of others.

South Jefferson Central School District
Management's Discussion and Analysis
June 30, 2017

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information (Supplemental Schedule SS-1) that further explains and supports the financial statements with a comparison of the school district's budget and actual for the year.

The following summarizes the major features of the school district's financial statements, including the portion of the school district's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

Major Features of the District-Wide and Fund Financial Statements			
	Fund Financial Statements		
→	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the school district that are not fiduciary, such as instruction, special education and building maintenance	Instances in which the school district administers resources on behalf of someone else, i.e. scholarships programs and student activities' monies
Required Financial Statements	1. Statement of Net Position 2. Statement of Activities	3. Balance Sheet 4. Statement of Revenues, Expenditures, and Changes in Fund Balance	5. Statement of Fiduciary Net Assets 6. Statement of Changes in Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, short term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/ Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	Additions and deductions during the year, regardless of when cash is received or paid

South Jefferson Central School District
Management's Discussion and Analysis
June 30, 2017

District-Wide Statements

The district-wide statements report information about the school district as a whole using accounting methods similar to those used by private-sector companies. The *statement of net position* includes all of the school district's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid.

The two district-wide statements report the school district's *net position* and how it has changed. The net position, the difference between the school district's assets and liabilities, is one way to measure the school district's financial health.

- Over time, increases or decreases in the school district's net position can be an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the school district's overall health, you need to consider additional nonfinancial factors such as changes in the school district's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the Statement of Activities depicts most of the school's basic services. Entitled *Governmental Activities*, they include regular and special education services, pupil transportation, general support, and administration. Property taxes and state and federal aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the school district's funds, focusing on its most significant or "major" funds - not the school district as a whole. Funds are accounting devices the school district uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The school district establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal grants).

The district has two kinds of funds:

- 1.) **Governmental Funds:** Most of the school district's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources

South Jefferson Central School District
Management's Discussion and Analysis
June 30, 2017

that can be spent in the near future to finance the school district's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

- 2.) Fiduciary Funds:** The school district is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The school district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The school district excludes these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The net position may serve over time as a useful indicator of a government's financial position. In the case of the school district, liabilities exceeded assets by \$7,416,357 at the close of the most recent fiscal year, an increase of \$1,400,840 over the previous year. The change is largely due to the \$3,646,519 increase in the Other Postemployment Benefits Payable (OPEB), a required liability as a result of GASB 45. The impact of the OPEB liability was mitigated by the inclusion of pension reporting as required by GASB 68, a new requirement for 2015. GASB 68 is further discussed in the notes to the financial statements.

The largest portion of the school district's net assets reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The school district used capital assets to provide services; consequently, these assets are not available for future spending. Although the school district's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following schedule summarizes the school district's net position. The complete Statement of Net Position can be found in the school district's basic financial statements.

South Jefferson Central School District
Management's Discussion and Analysis
June 30, 2017

Condensed Statement of Net Position

	<u>2016-2017</u>	<u>2015-2016</u>
<u>ASSETS</u>		
Current and other assets	\$ 4,492,873	\$ 11,385,502
Capital assets, net	40,993,157	42,047,306
Total Assets	<u>\$ 45,486,030</u>	<u>\$ 53,432,808</u>
<u>DEFERRED OUTFLOWS OF</u>		
<u>RESOURCES</u>	<u>\$ 6,766,728</u>	<u>\$ 1,885,846</u>
<u>LIABILITIES</u>		
Current liabilities	\$ 3,262,793	\$ 4,777,515
Deferred Revenue	21,988	36,182
Long-term liabilities	55,950,585	53,737,267
Total Liabilities	<u>\$ 59,235,366</u>	<u>\$ 58,550,964</u>
<u>DEFERRED OUTFLOWS OF</u>		
<u>RESOURCES</u>	<u>\$ 433,749</u>	<u>\$ 2,783,207</u>
<u>NET POSITION</u>		
Invested in capital assets net of related debt	\$ 17,643,125	\$ 16,100,668
Restricted	64,218	60,673
Unrestricted	(25,123,700)	(22,176,858)
Total Net Position	<u>\$ (7,416,357)</u>	<u>\$ (6,015,517)</u>

In general, current assets are those assets that are available to satisfy current obligations and current liabilities are those liabilities that will be paid within one year. Current assets consist primarily of cash equivalents and state and federal aid receivable. Current liabilities and long-term liabilities increased significantly. The decrease in current liabilities was due to the retirement of a \$1,400,000 Bond Anticipation Note for an New York State Education Department approved capital project approved by the district voters in December 2007. Long-term liabilities increased due the increase in OPEB obligations as mentioned above.

The Statement of Activities shows the cost of program services net of charges for services and grants offsetting those services. General revenues including tax revenue, investment earnings and unrestricted state and federal aid must support the net cost of the school district's programs.

The following schedule summarizes the school district's activities. The complete Statement of Activities can be found in the School District's basic financial statements.

South Jefferson Central School District
Management's Discussion and Analysis
June 30, 2017

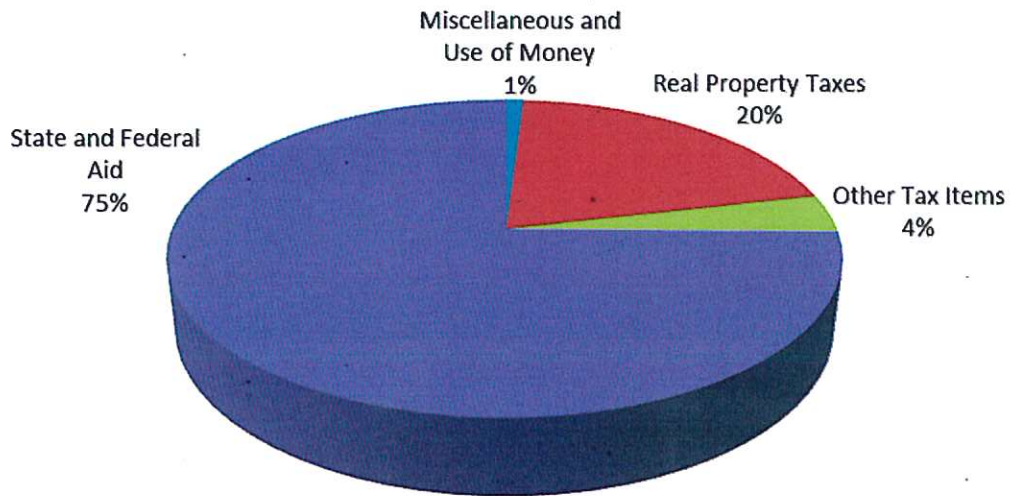
Condensed Statement of Activities

Revenues	<u>2016-2017</u>	<u>2015-2016</u>
Program Revenues		
Charges for services	\$ 382,030	\$ 382,908
Operating grants	2,158,138	1,968,029
General Revenues		
Property and other tax items	7,399,193	7,254,258
Use of money and property	6,267	1,993
Sale of property and compensation for loss	981	23,844
Federal sources	126,626	109,115
State sources	22,705,515	21,700,748
Other	293,960	366,815
Total Revenues	<u>\$ 33,072,710</u>	<u>\$ 31,807,710</u>
Expenses		
General Support	3,587,288	3,472,175
Instruction	25,998,845	24,011,666
Pupil Transportation	3,085,468	3,024,615
Debt Service	759,606	875,645
Unallocated Depreciation	-	-
Loss on Sale of Fixed Assets	-	900
School Lunch Program - Cost of Food Sales	1,042,343	977,277
Total Expenses	<u>\$ 34,473,550</u>	<u>\$ 32,362,278</u>
Change in Net Position	<u>\$ (1,400,840)</u>	<u>\$ (554,568)</u>

The Statement of Activities includes the activity of the Special Aid funds, which are comprised of a number of state and federal grant programs. The school lunch fund, also known as the cafeteria fund, is included here as well. It is designed to be self-supporting, with revenues nearly matching expenditures. For several of the past years revenues have exceeded expenses; however, the 2012-2013 and 2013-2014 school years saw a significant decrease in the fund balance. And in the 2014-2015 school year, the school lunch fund had a negative fund balance. To address this, the school district budgeted and executed a transfer from the general fund to the capital fund in 2016-2017. This was done again for the 2017-18 budget. Finally, the statements also include the related debt service funds and the capital projects fund. These are also discussed later.

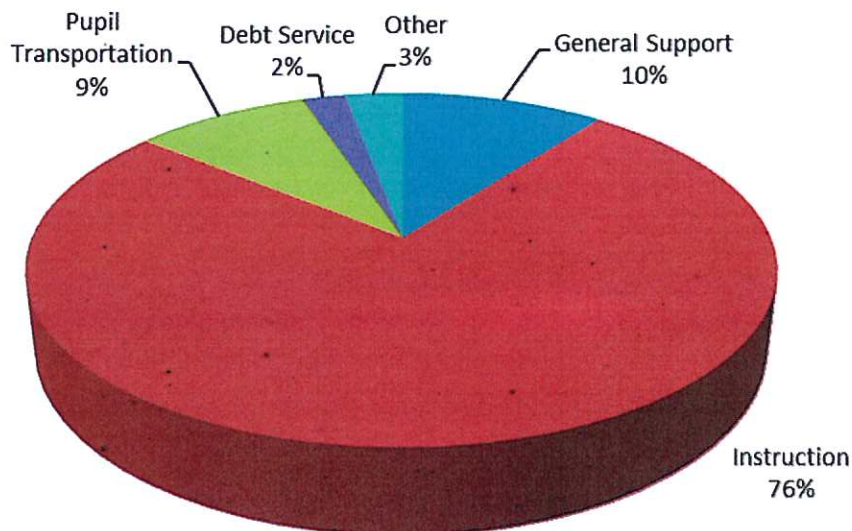
South Jefferson Central School District
Management's Discussion and Analysis
June 30, 2017

General Revenues for Year Ended 6/30/17



The school district is heavily dependent on both state and federal aid for its funding. State aid and the federal grants combined account for 75% of total revenues – similar to prior year's 74% total.

Expenses for Year Ended 6/30/17



South Jefferson Central School District
Management's Discussion and Analysis
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General Fund Budgetary Highlights

The school district's adjusted budget for the 2016-2017 school year was \$32,628,308. Actual expenditures totaled \$30,369,928, which includes transfers out and debt service of \$4,031,842, for a favorable variance of \$2,258,380 (including \$26,074 encumbered and carried into the next year as an adjustment to the 2017-2018 budget). The schedule below shows, in general terms, how the actual expenditures are distributed and compared to final budgeted appropriations:

Results vs. Budget (in thousands of dollars)

	Original Budget	Final Budget	Actual	Variance
Revenue:				
Local Sources	\$ 7,586	\$ 7,641	\$ 7,838	\$ (197)
State Sources	22,736	22,736	23,061	(325)
Federal Sources	-	-	11	(11)
Total	<u>\$ 30,322</u>	<u>\$ 30,377</u>	<u>\$ 30,910</u>	<u>\$ (533)</u>
Expense:				
General Support	\$ 3,358	\$ 3,334	\$ 2,598	\$ 736
Instruction	15,074	15,120	14,502	618
Pupil Transportation	1,994	2,027	1,663	364
Community Services	-	-	-	-
Employee Benefits	7,974	7,981	7,481	500
Debt Service	446	120	120	-
Transfers to Other Funds	3,719	4,046	4,032	14
Total	<u>\$ 32,565</u>	<u>\$ 32,628</u>	<u>\$ 30,396</u>	<u>\$ 2,232</u>

The school district under-expended its budget by \$2,258,380. As is the district's practice and budgetary control and as demonstrated in the financial statements, all functional budget codes were under-expended.

The school district's general fund receives its funding from many sources. The schedule above also depicts the actual revenues relative to the final budgeted revenues.

The district attempts to facilitate a conservative prediction of revenues; district officials show caution when building budgets. Due to the tenuous nature of predicting state aid, the district strategy is to underestimate all revenues; this year the district received more than they budgeted. The net variance was a positive \$532,289 for total revenues in the 2016-2017 school year.

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ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Financial position (year to year) – General Fund

The General Fund, fund balance increased to \$4,015,953 on June 30, 2017. This was an increase of \$539,710 reversing a prior year decline of \$143,703. That change in position is as follows:

June 30, 2017	\$ 4,015,953
June 30, 2016	\$ 3,476,243
June 30, 2015	\$ 3,619,946
June 30, 2014	\$ 2,900,128
June 30, 2013	\$ 2,864,791

The attempt on the part of the district to keep the size of the fund balance from changing significantly has been reasonably successful: the fund balance has remained relatively stable throughout the previous years, leading up to the 2014-2015 school year. The fund balance increased during the 2014-2015 largely in part to the district using \$409,393 of Debt Service Fund money to make debt payments. This strategy was employed to help the district retrieve increased tax revenue in future years, without the need to override the tax cap. The increase in the 2016-17 year reflects the positive variance in revenues coupled with strict fiscal controls on expenditures. This provides the taxpayers with the necessary fiscal reassurances to continue to support the budgets even as tax rates gradually decline.

Capital Projects Fund

The Capital Projects Fund shows a negative fund balance of (\$1,321,832). The Capital Projects Fund continues to show a negative fund balance as a result of the issuance of short term bus bond anticipation notes (BAN). The outstanding BAN on buses represents (\$1,265,032) of the total fund balance of (\$1,321,832) in the Capital Projects Fund.

Because the district uses short term financing to purchase buses (to more closely match state aid streams) and uses short term financing for capital projects, the capital fund will continue to show deficit fund balances.

School Lunch (Cafeteria) Fund

The School Lunch Fund fund balance showed an increase of \$90,663, due to the transfer from the general fund and placing the fund balance in the black as of June 30, 2017, at \$28,296.

Expenses in this fund largely reflect food costs and employee wages and fringe benefits. Lower participation and higher operating costs are primarily the result of the Healthy, Hungry Free Kids Act of 2010, which mandates that every child must be offered 5 components within a regulated serving size to meet calorie and fat limitations within grade groups. The added requirements of more fruits and vegetables, and the extended use of whole grain, have led to higher costs and

South Jefferson Central School District
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lower participation. While the General Fund covers some of the fringe benefits of the employees that work in that fund, it was necessary to budget a \$100,000 transfer from the General Fund to the School Lunch Fund during the 2016-2017 school year to correct the negative fund balance in the School Lunch Fund.

Special Aid Funds

Federal and State grants provide funding for specific purposes ranging from reading improvement to servicing the needs of students with disabilities. The chart below indicates the 2016-2017 and the 2015-2016 revenues and corresponding expenses for each grant that is outlined in the audit report. These grants are included in a schedule of Expenditures of Federal Awards. All federal and state grants require the filing of an original budget, a budget amendment (if necessary), and a final cost report at the end of the project. Final cost reports have been filed and approved by the State Education Department for each grant.

	Purpose	2016-2017	2015-2016
ESSA Title I	Basic Grant	440,085	305,513
ESSA Title IIA	Effective Instruction/Teacher Quality	90,691	90,869
IDEA	Handicapped Programs	426,489	404,412
Other Federal Aid and Misc.	Impact Aid and DoDEA achievement at military connected schools	50,542	57,800
	Total Federal Aid	1,007,807	858,594

CAPITAL ASSET AND DEBT ADMINISTRATION

The financial statements provide a picture of capital assets over time. These include land, buildings, and equipment and furniture. In response to the auditor's management letter from several years ago, the district contracted with the firm of Industrial Appraisal to take a physical inventory of all district assets; a tagging inventory system was also among the services that were contracted. This effort was completed in late Fall, 2006. As a result, the estimated costs of fixed assets acquired prior to 2002 have been adjusted. The original cost of fixed assets has been increased by construction in progress, the purchase of buses, and the acquisition of other fixed assets. Accumulated depreciation has been changed according to the sale of certain buses and the normal depreciation schedule. Readers should note that the valuation is management's best estimate of the values of capital assets and will be adjusted in subsequent reports, if necessary.

For more information regarding fixed assets, refer to Note 7 in the notes to financial statements.

Long-Term Debt

In February, 2012, the district refunded its serial bonds first issued during the 2004-2005 school year. Favorable interest rates provided a significant savings; district officials realized a present value savings of \$942,270, and a budgetary savings of \$1,045,384. As of June 30, 2017 the district has saved a total of \$586,718 by refunding its serial bonds.

South Jefferson Central School District
Management's Discussion and Analysis
June 30, 2017

The table below represents the refunded bond payment schedule.

<u>Fiscal</u> <u>Year</u>		<u>Interest</u> <u>Due 10/15</u>	<u>Interest</u> <u>Due 4/15</u>	<u>Principal</u> <u>Due 4/15</u>	<u>Total Debt</u> <u>Payments</u>
2012	2013	267,053.13	267,053.13	1,010,000.00	1,544,106.26
2013	2014	251,903.13	251,903.13	1,115,000.00	1,618,806.26
2014	2015	235,178.13	235,178.13	1,145,000.00	1,615,356.26
2015	2016	212,278.13	212,278.13	1,190,000.00	1,614,556.26
2016	2017	194,428.13	194,428.13	1,215,000.00	1,603,856.26
2017	2018	170,128.13	170,128.13	1,260,000.00	1,600,256.26
2018	2019	157,528.13	157,528.13	1,185,000.00	1,500,056.26
2019	2020	127,903.13	127,903.13	1,250,000.00	1,505,806.26
2020	2021	96,653.13	96,653.13	1,310,000.00	1,503,306.26
2021	2022	73,428.13	73,428.13	1,355,000.00	1,501,856.25
2022	2023	39,553.13	39,553.13	1,415,000.00	1,494,106.25
2023	2024	4,178.13	4,178.13	25,000.00	33,356.25
2024	2025	3,865.63	3,865.63	30,000.00	37,731.25
2025	2026	3,471.88	3,471.88	30,000.00	36,943.75
2026	2027	3,059.38	3,059.38	30,000.00	36,118.75
2027	2028	2,609.38	2,609.38	30,000.00	35,218.75
2028	2029	2,159.38	2,159.38	30,000.00	34,318.75
2029	2030	1,690.63	1,690.63	30,000.00	33,381.25
2030	2031	1,203.13	1,203.13	35,000.00	37,406.25
2031	2032	612.50	612.50	35,000.00	36,255.00
		\$1,848,884.42	\$1,848,884.42	\$13,725,000.00	\$17,422,768.84

South Jefferson Central School District
Management's Discussion and Analysis
June 30, 2017

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

The district's annual audit as of June 30, 2016, indicates that it is in sound financial condition. Management believes this audit confirms and continues that trend

The difficulty for future budgets for South Jefferson in its rural setting is magnified by the uncertainty of the fiscal condition of New York State, the large and seemingly unfair state aid reductions, and the continuing impact of the new tax cap legislation. District officials continue to comply with the tax cap legislation; voters approved the 2017-2018 budget with an increase in its local levy by 1.34%, which represented the allowable increase under the law without asking for a supermajority vote.

Unfortunately, seemingly unfair State Aid reductions, the continuation of the tax cap legislation, rising pension costs, unpredictable health care costs, and continuing threat of Federal sequestration resting on the non-defense discretionary portion of the federal budget will continue to put pressure on the district's budget. Further, while the general economic outlook for New York State has improved over the years, the upcoming budget year will be a challenge as the State, once again, announced that it is facing a potential four billion dollar deficit before any increases or new programs are considered. What the impact on school aid will be remains to be determined.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT TEAM

This report is designed to provide the school district's citizens, taxpayers, customers, investors, and creditors with a general overview of the school district's finances and to demonstrate the school district's accountability for the money it receives. If you have questions about this report or need additional information, contact the following district officials at the address below.

Mary Beth Denny, Superintendent of Schools

South Jefferson Central School District
P.O. Box 10
Adams, New York 13605

Phone: 315-583-6104
Fax: 315-583-6381
Email: mbdenny@spartanpride.org

South Jefferson Central School District
Statement of Net Position
Governmental Activities
June 30, 2017

ASSETS

Cash

Unrestricted \$ 2,233,940

Restricted 64,218

Accounts receivable 5,794

State and Federal aid receivable 2,147,777

Prepaid expenses 30,442

Inventories 10,702

Capital assets, net 40,993,157

Total Assets \$ 45,486,030

Deferred outflows of resources

Pensions \$ 6,766,728

LIABILITIES

Payables

Accounts payable 126,393

Accrued liabilities 311,452

Unearned revenue 21,988

Due to Teachers' retirement system 1,338,132

Due to Employees' retirement system 153,955

Due to other governments 67,829

Bond anticipation notes payable 1,265,032

Long-term liabilities

Due and payable within one year

Employees' retirement system 87,019

Serial bonds 2,815,000

Due and payable after one year

Employees' retirement system 559,135

Serial bonds 19,270,000

Compensated absences payable 155,826

Net OPEB obligation 31,155,315

Net pension liability- proportionate share 1,908,290

Total Liabilities \$ 59,235,366

Deferred inflows of resources

Pensions \$ 433,749

NET POSITION

Net investment in capital assets 17,643,125

Restricted 64,218

Unrestricted (Deficit) (25,123,700)

Total Net Position \$ (7,416,357)

South Jefferson Central School District
Statement of Activities and Changes in Net Position
Governmental Activities
For the Year Ended June 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>		
FUNCTIONS/PROGRAMS				
General support	\$ 3,587,288	\$ -	\$ -	\$ (3,587,288)
Instruction	25,998,845	160,465	1,588,210	(24,250,170)
Pupil transportation	3,085,468	-	-	(3,085,468)
Debt service	759,606	-	-	(759,606)
School lunch program	<u>1,042,343</u>	<u>221,565</u>	<u>569,928</u>	<u>(250,850)</u>
 Total Functions and Programs	 <u>\$ 34,473,550</u>	 <u>\$ 382,030</u>	 <u>\$ 2,158,138</u>	 <u>(31,933,382)</u>
 GENERAL REVENUES				
Real property taxes				6,222,179
Other tax items				1,177,014
Use of money and property				6,267
Sale of property and compensation for loss				981
Miscellaneous				293,960
Federal sources				11,062
State sources				22,705,515
Medicaid reimbursement				<u>115,564</u>
 Total General Revenues				 <u>30,532,542</u>
 Change in Net Position				 (1,400,840)
 Total Net Position - Beginning of year				 <u>(6,015,517)</u>
 Total Net Position - End of year				 <u>\$ (7,416,357)</u>

South Jefferson Central School District
Balance Sheet - Governmental Funds
June 30, 2017

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 2,176,012	\$ -	\$ 41,190	\$ -	\$ 16,738	\$ 2,233,940
Restricted	64,218	-	-	-	-	64,218
Receivables						
Accounts receivable	3,468	-	2,326	-	-	5,794
Due from other funds	674,916	-	-	3,547	-	678,463
State and Federal aid	1,473,912	673,865	-	-	-	2,147,777
Inventories	-	-	10,702	-	-	10,702
Prepaid expenses	30,442	-	-	-	-	30,442
Total Assets	\$ 4,422,968	\$ 673,865	\$ 54,218	\$ 3,547	\$ 16,738	\$ 5,171,336
LIABILITIES						
Payables						
Accounts payable	\$ 63,902	\$ -	\$ 11,992	\$ -	\$ 50,499	\$ 126,393
Accrued liabilities	200,663	-	13,414	-	-	214,077
Unearned revenue	-	21,988	-	-	-	21,988
Due to other funds	3,547	651,877	-	-	23,039	678,463
Due to other governments	67,313	-	516	-	-	67,829
Due to Teachers' Retirement System	71,500	-	-	-	-	71,500
Due to Employee's Retirement System	90	-	-	-	-	90
Bond anticipation notes payable	-	-	-	-	1,265,032	1,265,032
Total Liabilities	407,015	673,865	25,922	-	1,338,570	2,445,372
FUND BALANCES						
Nonspendable	30,442	-	10,702	-	-	41,144
Restricted	60,671	-	-	3,547	-	64,218
Assigned	2,069,645	-	17,594	-	-	2,087,239
Unassigned	1,855,195	-	-	-	(1,321,832)	533,363
Total Fund Balances	4,015,953	-	28,296	3,547	(1,321,832)	2,725,964
Total Liabilities and Fund Balances	\$ 4,422,968	\$ 673,865	\$ 54,218	\$ 3,547	\$ 16,738	\$ 5,171,336

See notes to financial statements.

South Jefferson Central School District
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
For the Year Ended June 30, 2017

	Total Governmental Funds	Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS				
Cash	\$ 2,298,158	\$ -	\$ -	\$ 2,298,158
Accounts receivable	5,794	-	-	5,794
Due from other funds	678,463	-	(678,463)	-
State & federal aid receivable	2,147,777	-	-	2,147,777
Prepaid expenses	30,442	-	-	30,442
Inventories	10,702	-	-	10,702
Land, buildings and equipment (net)	-	40,993,157	-	40,993,157
Total Assets	<u>\$ 5,171,336</u>	<u>\$ 40,993,157</u>	<u>\$ (678,463)</u>	<u>\$ 45,486,030</u>
Deferred outflows of resources				
Pensions	<u>\$ -</u>	<u>\$ 6,766,728</u>	<u>\$ -</u>	<u>\$ 6,766,728</u>
LIABILITIES				
Accounts payable	\$ 126,393	\$ -	\$ -	\$ 126,393
Accrued liabilities	214,077	97,375	-	311,452
Deferred revenue	21,988	-	-	21,988
Due to teachers' retirement system	71,500	1,266,632	-	1,338,132
Due to employees' retirement system	90	800,019	-	800,109
Due to other governments	67,829	-	-	67,829
Due to other funds	678,463	-	(678,463)	-
Bond anticipation notes payable	1,265,032	-	-	1,265,032
Compensated absences payable	-	155,826	-	155,826
Serial bonds payable	-	22,085,000	-	22,085,000
Net pension liability - proportionate share	-	1,908,290	-	1,908,290
Net OPEB Obligation	-	31,155,315	-	31,155,315
Total Liabilities	<u>2,445,372</u>	<u>57,468,457</u>	<u>(678,463)</u>	<u>59,235,366</u>
Deferred inflows of resources				
Pensions	<u>\$ -</u>	<u>\$ 433,749</u>	<u>\$ -</u>	<u>\$ 433,749</u>
FUND BALANCE/NET POSITION				
Total Fund Balance/Net Position	<u>2,725,964</u>	<u>(10,142,321)</u>	<u>-</u>	<u>(7,416,357)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	<u>\$ 5,171,336</u>	<u>\$ 47,759,885</u>	<u>\$ (678,463)</u>	<u>\$ 52,252,758</u>

See notes to financial statements.

South Jefferson Central School District
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 6,222,179	\$ -	\$ -	\$ -	\$ -	\$ 6,222,179
Other tax items	1,177,014	-	-	-	-	1,177,014
Charges for services	160,465	-	-	-	-	160,465
Use of money and property	2,722	-	-	3,545	-	6,267
Sale of property and compensation for loss	981	-	-	-	-	981
Miscellaneous	274,446	19,514	-	-	-	293,960
State sources	22,945,205	351,775	33,502	-	-	23,330,482
Federal sources	11,062	996,745	477,194	-	-	1,485,001
Medicaid reimbursement	115,564	-	-	-	-	115,564
Surplus food	-	-	59,232	-	-	59,232
Sales - school lunch	-	-	221,565	-	-	221,565
Total Revenues	30,909,638	1,368,034	791,493	3,545	-	33,072,710
EXPENDITURES						
General support	2,575,663	-	400,782	-	-	2,976,445
Instruction	14,498,632	1,210,244	-	-	-	15,708,876
Pupil transportation	1,663,419	19,199	-	-	-	1,682,618
Employee benefits	7,480,508	156,382	27,403	-	-	7,664,293
Debt service						
Principal	90,773	-	-	2,745,000	-	2,835,773
Interest	29,091	-	-	741,970	-	771,061
Cost of sales	-	-	372,645	-	-	372,645
Capital outlay	-	-	-	-	738,186	738,186
Total Expenditures	26,338,086	1,385,825	800,830	3,486,970	738,186	32,749,897
Excess (Deficiency) of Revenues Over Expenditures	4,571,552	(17,791)	(9,337)	(3,483,425)	(738,186)	322,813
OTHER FINANCING SOURCES AND USES						
Operating transfers in	-	17,791	100,000	3,486,970	427,081	4,031,842
Operating transfers (out)	(4,031,842)	-	-	-	-	(4,031,842)
Total Other Sources (Uses)	(4,031,842)	17,791	100,000	3,486,970	427,081	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)	539,710	-	90,663	3,545	(311,105)	322,813
Fund Balances - Beginning of year	3,476,243	-	(62,367)	2	(1,010,727)	2,403,151
Fund Balances - End of year	\$ 4,015,953	\$ -	\$ 28,296	\$ 3,547	\$ (1,321,832)	\$ 2,725,964

South Jefferson Central School District
Reconciliation of Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2017

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

Net Change in Fund Balances - Total Governmental Funds	\$ 322,813
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, net of related losses on disposal of capital assets.

Capital outlays	\$ 775,700	
Depreciation expense	<u>1,829,849</u>	\$ (1,054,149)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the Statement of Net Position. This is the amount of debt repayments made in the current period.	2,829,074
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(Increases) decreases in accrued compensated absences reported in the statement of activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.	(155,826)
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On the Statement of Activities, the actual and projected long term expenditures for post employment benefits are reported whereas on the governmental funds only the actual expenditures are recorded for post employment benefits.	(3,646,519)
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(Increases) decreases in proportionate share of net pension asset/liability reported in the Statement of Activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.

Teachers' Retirement System	172,472	
Employees' Retirement System	<u>(164,109)</u>	8,363

Pension expense not recorded in fund statements. Adjustment in pension expense in the Statement of Activities to adjust to GAAP.	283,949
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Accrued interest expense is recorded in the Statement of Activities but not in the governmental funds. The increase in accrued interest is reported in expense.	<u>11,455</u>
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Change in net position of governmental activities	<u>\$ (1,400,840)</u>
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See notes to financial statements.

South Jefferson Central School District
Statement of Fiduciary Net Position
For the Year Ended June 30, 2017

	<u>Private Purpose Trusts</u>	<u>Agency</u>
ASSETS		
Cash	\$ 243,558	\$ 204,814
LIABILITIES		
Due to other governments	-	607
Extra-classroom activity balances	-	204,207
Total Liabilities	-	204,814
NET POSITION		
Reserved for scholarships	\$ 243,558	\$ -

Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

	<u>Private Purpose Trusts</u>
ADDITIONS	
Gifts and contributions	\$ 59,684
Investment earnings	154
Total Additions	59,838
DEDUCTIONS	
Scholarships and awards	54,655
Change in Net Position	5,183
Net Position - Beginning of year	238,375
Net Position - End of Year	\$ 243,558

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

Note 1 – Summary of accounting policies:

The financial statements of South Jefferson Central School District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the District are described below:

A) Reporting entity:

The South Jefferson Central School 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 seven members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, The Financial Reporting Entity, as amended by GASB Statement 39, Component Units. 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 is a brief description of certain entities included in the District’s reporting entity.

i) Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District's business office. The district accounts for assets held as an agent for various student organizations in an agency fund.

B) Joint venture:

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

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

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

During the year, the District was billed \$2,776,088 for BOCES administrative and program costs.

The District's share of BOCES aid amounted to \$1,205,560.

Financial statements for the BOCES are available from the BOCES administrative office.

C) Basis of presentation:

i) District-wide statements:

The Statement of Net Position and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

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

ii) Funds statements:

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

The District reports the following major governmental funds:

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

Special Revenue Funds: These funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds include the following:

Special Aid Fund: Used to account for proceeds received from State and federal grants that are restricted for specific educational programs.

School Lunch Fund: Use to account for child nutrition activities whose funds are restricted as to use.

Capital Projects Funds: These funds are used to account for the financial resources used for acquisition, construction, or major repair of capital facilities. For these funds, each capital project is assessed to determine

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

whether it is a major or non-major fund. Those capital projects that are determined to be major are reported in separate columns in the financial statements. Those that are determined to be non-major are reported in the supplemental schedules either separately or in the aggregate.

Debt Service Fund: This fund accounts for the accumulation of resources and the payment of principal and interest on long-term general obligation debt of governmental activities. When a capital asset is sold and all or a portion of the bonds used to finance the capital asset are outstanding, this fund must be used to account for the proceeds from the sale of capital assets up to the balance of related bonds outstanding.

The District reports the following fiduciary funds:

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

There are two classes of fiduciary funds:

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

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

D) Measurement focus and basis of accounting:

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.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

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 expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measureable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 120 days after the end of the fiscal year.

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

E) Property taxes:

Real property taxes are levied annually by the Board of Education no later than September 1, and become a lien on September 1. Taxes are collected during the period September 1 to November 15.

Uncollected real property taxes are subsequently enforced by the Counties in which the District is located. The Counties pay an amount representing uncollected real property taxes transmitted to the counties for enforcement to the District no later than the following April 1.

F) Restricted resources:

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District's policy concerning which to apply first varies with the

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

intended use, and with associated legal requirements, many of which are described elsewhere in these Notes.

G) Inter-fund transactions:

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

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

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

Refer to Note 11 for a detailed disclosure by individual fund for inter-fund receivables, payables, expenditures, and revenues activity.

H) 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

I) Cash (and cash equivalents)/Investments

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

J) Receivable (or Accounts receivable):

No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

K) Inventories and prepaid items:

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value that approximates market. Purchases of inventory items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. These items are reported as assets on the statement of net position or balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

A portion of the fund balance in the amount of these non-liquid assets has been identified as not available for other subsequent expenditures.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

L) Other assets/restricted assets (if applicable):

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

In the district-wide financial statements, bond discounts and premiums, and any prepaid bond insurance costs are deferred and amortized over the life of the debt issue. Bond issuance costs are recognized as an expense in the period incurred.

M) Capital assets:

Capital assets are reported at actual cost for acquisitions subsequent to June 30, 2002. For assets acquired prior to July 1, 2002, estimated historical costs, based on appraisals conducted by independent third-party professionals were used. Donated assets are reported at estimated fair market value at the time received.

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

	Capitalization <u>Threshold</u>	Depreciation <u>Method</u>	Estimated <u>Useful Life</u>
Buildings	\$ 50,000	Straight line	50 years
Land improvements	\$ 25,000	Straight line	20 years
Furniture, vehicles & equipment	\$ 5,000	Straight line	5 to 20 years

N) Deferred Outflows and Inflows of Resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. This item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. This item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension liability (ERS System) and difference during the measurements periods between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense.

O) Unearned Revenue

The District reports unearned revenues on its Statement of Net Position and its Balance Sheet. On the Statement of Net Position, unearned revenue arises when resources are received by the District before it has legal claim to them, as when grant monies are received prior to incurrence of qualifying expenditures. In subsequent periods, when the District has legal claim to resources, the liability for unearned revenue is removed and revenue is recognized.

P) Vested employee benefits:

Compensated absences

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

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

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

Consistent with GASB Statement 16, Accounting for Compensated Absences, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rated in effect at year-end.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

In the fund statements only the amount of matured liabilities is accrued within the General Fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

Q) Other benefits:

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

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

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits to retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement.

Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

R) Short-term debt:

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

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

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

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

The District may issue deficiency notes up to an amount not to exceed 5% of the amount of that same year's annual budget in any fund or funds arising from revenues being less than the amount estimated in the budget for that fiscal year. The deficiency notes may mature no later than the close of the fiscal year following the fiscal year in which they were issued. However, they may mature no later than the close of the second fiscal year after the fiscal year in which they were issued, if the notes were authorized and issued after the adoption of the budget for the fiscal year following the year in which they were issued.

S) Accrued liabilities and long-term obligations:

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

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

T) 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 acquisition, constructions or improvements of those assets.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

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

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

Funds statements: In the fund basis statements, there are five classifications of fund balance:

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes inventory recorded in the School Lunch Fund of \$10,702, as well as prepaid items or the long-term portion of loans receivable recorded in the General Fund.

Restricted – includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has established the following restricted fund balances:

Unemployment Insurance

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

Liability Claims and Property Loss

According to Education Law §1709(8), must be used to pay for liability claims and property loss incurred. Separate funds for liability claims and property loss are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000,

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

whichever is greater. This type of reserve fund may be utilized only by school districts with a population under 125,000. This reserve is accounted for in the General Fund.

Debt Service

According to General Municipal Law §6-l, the Mandatory Reserve for Debt Service must be established for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvement. This reserve is accounted for in the Debt Service Fund.

Restricted fund balance includes the following:

General Fund:

Unemployment insurance	\$ 30,147
Property loss	7,050
Liability	23,474
Debt Service Fund	<u>3,547</u>
	<u>\$ 64,218</u>

Committed – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority, i.e., the Board of Education. The District has no committed fund balances as of June 30, 2017.

Assigned – Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The purpose of the constraint must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance also includes an amount appropriated to partially fund the subsequent year's budget, as well as encumbrances not classified as restricted at the end of the fiscal year.

Unassigned – Includes all other General Fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the District and could report a surplus or deficit. In funds other than the general fund, the unassigned classification is used to report a deficit fund balance resulting from overspending for specific purposes for which amounts have been restricted or assigned.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

Unassigned Fund Balance

NYS Real Property Tax Law §1318 limits the amounts of unexpended surplus funds, a school district can retain to no more than 4% of the District's budget for the General Fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year, encumbrances and amounts reserved for insurance recoveries are also excluded from the 4% limitation.

Order of Use of Fund Balance:

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted fund balance. In the general fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

U) **New Accounting Standards**

The District has adopted and implemented the following (all) current Statements of the Governmental Accounting Standards Board (GASB) that are applicable as of June 30, 2017:

GASB has issued Statement No. 77, <i>Tax Abatement Disclosures</i>	Effective for the year ended June 30, 2017
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V) **Future Changes in Accounting Standards**

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

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

Note 2 – Explanation of certain differences between fund statements and District-wide statements:

Due to the differences in the measurement focus and basis of accounting used in the funds 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 focus of the District-wide statements, compared with the current financial resources focus of the governmental funds.

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

Total fund balances of the District's governmental funds differ from the "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 solely current financial resources focus of the governmental fund Balance Sheet, as applied to the reporting of capital assets and long-term liabilities, including pensions.

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

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

i) Long-term revenue differences:

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

ii) Capital related differences:

Capital related differences include the difference between proceeds for 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

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

an expenditure for the purchase of capital items in the fund statements and depreciation expense on those items as recorded in the Statement of Activities.

iii) Long-term debt transaction differences:

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

iv) Pension differences:

Pension differences occur as a result of changes in the District's proportion of the collective net pension asset/liability and differences between the District's contributions and its proportionate share of the total contributions to the pension systems.

Note 3 – Changes in accounting principles:

For the fiscal year ended June 30, 2017, the District implemented GASB Statement No. 77 Tax Abatement Disclosures.

Note 4 – Stewardship, compliance and accountability:

Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted:

The voters of the District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. The following supplemental appropriations occurred during the year:

Additional revenue designated for specific uses totaling \$55,566.

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

Encumbrances

Encumbrances 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 restrictions or assignments of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

The Capital Projects Fund has a deficit fund balance of \$1,321,832. This will be funded when the District obtains permanent financing for its current construction project and receives transportation aid for purchased buses.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

Note 5 – Cash (and cash equivalents) – custodial credit, concentration of credits, interest rate, and foreign currency risks:

Cash

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. While the District does not have a specific policy for custodial credit risk, New York State statutes govern the District's investment policies, as discussed previously in these Notes.

The District's aggregate bank balances (disclosed in the financial statements), included balances not covered by depository insurance at year-end, collateralized as follows:

Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the District's name	\$2,190,430
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Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes \$64,218 within the governmental funds and \$448,372 in the fiduciary funds.

Note 6 – Receivables:

Receivables at year-end for individual major funds and non-major funds, including the applicable allowances for uncollected accounts, are as follows:

<u>Description</u>	<u>Governmental Activities</u>			<u>Total</u>
	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	
Accounts receivable	\$ 3,468	\$ -	\$ 2,326	\$ 5,794
State and federal aid	<u>1,473,912</u>	<u>673,865</u>	<u>-</u>	<u>2,147,777</u>
	<u>\$ 1,477,380</u>	<u>\$ 673,865</u>	<u>\$ 2,326</u>	<u>\$ 2,153,571</u>

District management has deemed the amounts to be fully collectible.

Note 7 – Capital assets:

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

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

	<u>Beginning Balance</u>	<u>Additions/ Adjustments</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 345,900	\$ -	\$ -	\$ 345,900
Construction in progress	<u>1,285,208</u>	<u>79,012</u>	<u>1,285,208</u>	<u>79,012</u>
Total nondepreciable assets	<u>1,631,108</u>	<u>79,012</u>	<u>1,285,208</u>	<u>424,912</u>
Capital assets that are depreciated:				
Buildings	62,693,642	1,476,174	-	64,169,816
Furniture, vehicles and equipment	<u>7,646,037</u>	<u>505,722</u>	<u>299,629</u>	<u>7,852,130</u>
Total depreciable assets	<u>70,339,679</u>	<u>1,981,896</u>	<u>299,629</u>	<u>72,021,946</u>
Less accumulated depreciation:				
Buildings	24,128,993	1,424,445	-	25,553,438
Furniture, vehicles and equipment	<u>5,794,488</u>	<u>405,404</u>	<u>299,629</u>	<u>5,900,263</u>
Total accumulated depreciation	<u>29,923,481</u>	<u>1,829,849</u>	<u>299,629</u>	<u>31,453,701</u>
Total depreciated assets, net	<u>40,416,198</u>	<u>152,047</u>	<u>-</u>	<u>40,568,245</u>
Capital assets, net	<u>\$ 42,047,306</u>	<u>\$ 231,059</u>	<u>\$ 1,285,208</u>	<u>\$ 40,993,157</u>
Depreciation expense was charged to governmental functions as follows:				
General support		\$ 154,656		
Instruction		1,210,977		
Pupil transportation		463,644		
Food service		<u>572</u>		
		<u>\$ 1,829,849</u>		

Note 8 – Short-term debt:

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
BAN maturing 2/16/2018 at .99%	\$ -	\$ 1,265,032	\$ -	\$ 1,265,032
BAN maturing 2/17/2017 at .95%	1,116,638	-	1,116,638	-
BAN maturing 7/28/2016 at .85%	1,000,000	-	1,000,000	-
BAN maturing 7/28/2016 at .87%	<u>400,000</u>	<u>-</u>	<u>400,000</u>	<u>-</u>
	<u>\$ 2,516,638</u>	<u>\$ 1,265,032</u>	<u>\$ 2,516,638</u>	<u>\$ 1,265,032</u>

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

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

Interest paid	\$ 29,091
Less interest accrued in the prior year	(14,886)
Plus interest accrued in the current year	<u>4,598</u>
Total expense	<u><u>\$ 18,803</u></u>

Note 9 – Long-term debt obligations:

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

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts due due within one year</u>
Government activities:					
Bonds and notes payable:					
Serial bonds at 3% - 5%, Final payment due April 15, 2032	\$ 9,265,000	\$ -	\$ 1,215,000	\$ 8,050,000	1,260,000
Serial bonds at 1%-3% Final payment due June 15, 2025	10,000,000	-	1,020,000	8,980,000	1,040,000
Serial bonds at 1%-2.25%, Final payment due June 15, 2025	4,165,000	-	430,000	3,735,000	435,000
Serial bonds at 2% - 2.5%, Final payment due June 15, 2031	<u>-</u>	<u>1,400,000</u>	<u>80,000</u>	<u>1,320,000</u>	<u>80,000</u>
Total bonds payable	<u>\$23,430,000</u>	<u>\$ 1,400,000</u>	<u>\$ 2,745,000</u>	<u>\$ 22,085,000</u>	<u>\$ 2,815,000</u>
Other liabilities					
Compensated absences payable	-	155,826	-	155,826	-
Other postemployment benefits payable	27,508,796	3,646,519	-	31,155,315	-
Net pension liability- proportionate share	2,068,243	742,339	902,292	1,908,290	-
Due to retirement systems	<u>730,228</u>	<u>-</u>	<u>84,074</u>	<u>646,154</u>	<u>87,019</u>
Total other long-term liabilities	<u>\$30,307,267</u>	<u>\$ 4,544,684</u>	<u>\$ 986,366</u>	<u>\$ 33,865,585</u>	<u>87,019</u>
	<u><u>\$53,737,267</u></u>	<u><u>\$ 5,944,684</u></u>	<u><u>\$ 3,731,366</u></u>	<u><u>\$ 55,950,585</u></u>	<u><u>\$ 2,902,019</u></u>

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30,			
2018	\$ 2,815,000	\$ 656,382	\$ 3,471,382
2019	2,765,000	601,168	3,366,168
2020	2,865,000	510,319	3,375,319
2021	2,960,000	415,518	3,375,518
2022	3,045,000	333,306	3,378,306
5 subsequent years	7,050,000	449,457	7,499,457
5 subsequent years	<u>585,000</u>	<u>40,937</u>	<u>625,937</u>
Totals	<u>\$ 22,085,000</u>	<u>\$ 3,007,087</u>	<u>\$ 25,092,087</u>

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

Interest paid	\$ 771,061
Less interest accrued in the prior year	(108,830)
Plus interest accrued in the current year	<u>97,375</u>
Total expense	<u>\$ 759,606</u>

Note 10 – Pension plans:

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 offer a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

Provisions and administration

A 10-member Board of Trustees of the New York State Teachers' Retirement Board administers TRS. 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 in New York Public Schools and BOCES who elected to participate in TRS. Once a public employer elects to participate in the System, the election is irrevocable. The New

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

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. TRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395 or by referring to the TRS Comprehensive Annual Financial report, which can be found on the System's website at www.nystrs.org.

ERS provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. NYSRSSL govern obligations of employers and employees to contribute, and benefits to employees. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Office of the State Comptroller, 110 State Street, Albany, New York 12244 or by referring to the ERS Comprehensive Annual Report, which can be found at www.osc.state.ny.us/retire/publications/index.php.

Funding policies

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0% to 3.5% of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education Law. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year and each of the two preceding years.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

The District's share of the required contributions, based on covered payroll paid for the District's year ended June 30, was:

<u>Contributions</u>	<u>TRS</u>	<u>ERS</u>
2017	\$1,266,632	\$565,665

ERS has provided additional disclosures through entities that elected to participate in Chapter 260, 57, and 105.

Since 1989, the ERS billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability, which the District exercised.

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

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

	TRS	ERS
Measurement date	June 30, 2016	March 31, 2017
District's proportionate share of the net pension asset/ (liability)	\$(742,339)	\$(1,165,951)
District's portion of the Plan's total net pension asset/ (liability)	.069310%	.0124087%
Change in proportion since the prior measurement date	(8,161,158)	902,292

For the year ended June 30, 2017, the District's recognized pension expense (credit) of \$1,246,001 for TRS and \$694,382 for ERS. At June 30, 2017, the District's reported deferred

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>
Differences between expected and actual experience	\$ -	\$ 29,218	\$ 241,153	\$ 177,056
Changes of assumptions	4,228,837	398,332	-	-
Net difference between projected and actual earnings on pension plan investments	1,669,169	232,888	-	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	113,600	94,684	-	15,540
District's contributions subsequent to the measurement date	-	-	-	-
Total	<u>\$ 6,011,606</u>	<u>\$ 755,122</u>	<u>\$ 241,153</u>	<u>\$ 192,596</u>

District contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>TRS</u>	<u>ERS</u>
2017	\$ 534,414	\$ -
2018	534,414	247,190
2019	1,830,737	247,190
2020	1,427,413	220,551
2021	664,452	(152,406)
Thereafter	<u>779,023</u>	<u>-</u>
	<u>\$ 5,770,453</u>	<u>\$ 562,525</u>

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

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:

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2016	March 31, 2017
Actuarial valuation date	June 30, 2015	April 1, 2016
Interest rate	7.50%	7.00%
Salary scale	1.90- 4.72%	3.80%
Decrement tables	July 1, 2009 - June 30, 2014 System's Experience	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.50%	2.50%

For TRS, annuitant mortality rates are based on July 1, 2009 – June 30, 2014 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale AA. For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

For TRS, the actuarial assumptions used in the June 30, 2015 valuation are based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014. For ERS, the actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2016	March 31, 2017
Asset type		
Domestic equity	6.10%	4.55%
International equity	7.30%	6.35%
Private equity	9.20%	7.75%
Real estate	5.40%	5.80%
Absolute return strategies	-	4.00%
Opportunistic portfolio	-	5.89%
Real assets	-	5.54%
Bonds and mortgages	3.10%	1.31%
Cash	-	-0.25%
Inflation-indexed bonds	-	1.50%
Domestic fixed income securities	1.00%	-
Global fixed income securities	0.80%	-
Short-term	0.10%	-

Discount Rate

The discount rate used to calculate the total pension liability was 7.5% for TRS and 7.0% for ERS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

	1% Decrease	Current Assumption	1% Increase
<u>TRS</u>	<u>(6.5%)</u>	<u>(7.5%)</u>	<u>(8.50%)</u>
District's proportionate share of the net pension asset (liability)	<u>\$ (9,685,503)</u>	<u>\$ (742,339)</u>	<u>\$ 6,758,718</u>

	1% Decrease	Current Assumption	1% Increase
<u>ERS</u>	<u>(6.0%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
District's proportionate share of the net pension asset (liability)	<u>\$ (3,723,816)</u>	<u>\$ (1,165,951)</u>	<u>\$ 996,719</u>

Pension Plan Fiduciary Net Position

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

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

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017 represent employee and employer contributions for the fiscal year ended June 30, 2017 based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2017 amounted to \$1,338,132.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

For ERS, employer contributions are paid annually based on the System's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$153,865 of employer contributions. Employee contributions are remitted monthly.

Note 11 – Interfund transactions – governmental funds:

	Interfund			
	<u>Receivable</u>	<u>Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 674,916	\$ 3,546	\$ -	\$ 4,031,842
Special Aid	-	651,877	17,791	-
School Lunch	-	-	100,000	-
Debt Service	3,546	-	3,486,970	-
Capital Projects	-	23,039	427,081	-
Total Governmental Funds	<u>\$ 678,462</u>	<u>\$ 678,462</u>	<u>\$ 4,031,842</u>	<u>\$ 4,031,842</u>

The District typically transfers from the General Fund to the Special Aid Fund, to cover the local share of programs and from the General Fund to the Debt Service Fund to pay long term debt payments.

The District made a one-time transfer of \$100,000 from the General Fund to the School Lunch Fund. This amount was used to bring the fund balance to a positive amount.

The District also made a transfer from the General Fund to the Capital Fund to finance a \$100,000 capital project.

Note 12 – Postemployment (health insurance) benefits/ Prior period adjustment:

The District provides postemployment (health insurance, life insurance, etc.) coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District's contractual agreements.

The District implemented GASB Statement #45, *Accounting and Financial Reporting by employers for Postemployment Benefits Other than Pensions*, in the school year ended June 30, 2010. This required the District to calculate and record a net other postemployment benefit obligation at year-end. The net other postemployment benefit obligation is basically the

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

cumulative difference between the actuarially required contribution and the actual contributions made.

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the funds financial statements as payments are made.

The District has obtained an actuarial valuation report as of June 30, 2017 which indicates that the total liability for other postemployment benefits is \$31,155,315, which is reflected in the Statement of Net Position.

Annual OPEB Cost and Net OPEB Obligation: The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	\$ 6,355,328
Interest on net OPEB obligation	1,100,352
Adjustment to ARC	<u>(1,590,836)</u>
Annual OPEB cost (expense)	5,864,844
Contributions made	<u>(2,218,325)</u>
Increase in net OPEB obligation	3,646,519
Net OPEB obligation - beginning of year	<u>27,508,796</u>
Net OPEB obligation - end of year	<u><u>\$ 31,155,315</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows (dollar amounts in thousands):

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2015	\$ 6,126,578	35.75%	\$ 23,350,483
June 30, 2016	\$ 6,322,034	34.23%	\$ 27,508,796
June 30, 2017	\$ 5,864,844	37.82%	\$ 31,155,315

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

Funded Status and Funding Progress. As of June 30, 2017, the most recent actuarial valuation date, the plan was 4% funded. The actuarial accrued liability for benefits was \$70,188,945, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$70,188,945. The covered payroll (annual payroll of active employees covered by the plan) was \$15,490,742, and the ratio of the UAAL to the covered payroll was 453.10%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2016 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.75% initially, reduced by decrements to an ultimate rate of 3.886% after 58 years. Both rates included a 2.25% inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2016, was 30 years.

Note 13 – Risk management:

General

The District is exposed to various risks of loss relative to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. These risks are covered by commercial insurance

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

Consortiums and Self-Insured Plans

The District participates in South Jefferson Central School District Health Plan Trust for its employee health and accident insurance coverage. The trust is operated for the benefit of the District and is considered a self-sustaining risk pool that will provide coverage for its members up to \$145,000 per insured event. The pool obtains independent coverage for insured events in excess of the \$145,000 limit, and the District has essentially transferred all related risk to the trust.

Note 14 – Commitments and contingencies:

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

Note 15 – Tax abatements:

The County of Jefferson enters into a property tax abatement program for the purpose of economic development. The School District property tax revenue was reduced by \$277,208. The District received payment in Lieu of Tax (PILOT) payment totaling \$41,135.

Note 16 – Departure from GAAP:

During the year ended June 30, 2004, the district changed its method of recording pension expense. Previously, pension expense was accrued in the various funds when the expense became a liability of that fund. The method of recording was changed to recording pension expense in the funds when paid. During the year ended June 30, 2017, a pension accrual of \$1,420,497 was not recorded in the fund accounts resulting in an understatement of liability and overstatement of fund balances of \$1,420,497. Pension expense for the year ended June 30, 2017 is overstated by \$283,949 in the fund statements. However, this expense and liability have been included in the Statement of Net Position and the Statement of Activities.

South Jefferson Central School District
Notes to Financial Statements
For the Year Ended June 30, 2017

Note 17 – Subsequent Events:

Management has evaluated subsequent events through October 9, 2017, the date on which the financial statements were available to be issued.

South Jefferson Central School District
Required Supplementary Information
Schedule of Funding Progress
Other Post Employment Benefits Plan
June 30, 2017

Supplemental Schedule #1

<u>Actuarial</u> <u>Valuation Date</u>	<u>Actuarial Value</u> <u>of Assets</u>	<u>Actuarial Accrual</u> <u>Liability (AAL) -</u>	<u>Unfunded AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage of</u> <u>covered payroll</u>
6/30/2017	\$ -	\$ 70,188,945	\$ 70,188,945	0.00%	\$ 15,490,742	453.10%
6/30/2016	\$ -	\$ 67,296,207	\$ 67,296,207	0.00%	\$ 15,267,455	440.78%
6/30/2015	\$ -	\$ 75,016,460	\$ 75,016,460	0.00%	\$ 15,064,844	497.96%

See paragraph on supplementary schedules included in independent auditors' report.

South Jefferson Central School District

Supplemental Schedule #2

Required Supplementary Information

**Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) And Actual - General Fund
For the Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual (Budgetary Basis)		Final Budget Variance With Budgetary Actual
REVENUES					
Local Sources					
Real property taxes	\$ 7,343,394	\$ 7,343,394	\$ 6,222,179		\$ 1,121,215
Other tax items	49,500	49,500	1,177,014		(1,127,514)
Charges for services	29,000	84,566	160,465		(75,899)
Use of money and property	2,500	2,500	2,722		(222)
Sale of property and compensation for loss	-	-	981		(981)
Miscellaneous	161,500	161,500	274,446		(112,946)
Total Local Sources	7,585,894	7,641,460	7,837,807		(196,347)
State sources	22,735,889	22,735,889	23,060,769		(324,880)
Federal sources	-	-	11,062		(11,062)
Total Revenues	30,321,783	30,377,349	30,909,638		\$ (532,289)
Other financing sources					
Proceeds of debt	-	-	-		-
Total Revenues and Other sources	30,321,783	30,377,349	30,909,638		(532,289)
EXPENDITURES					
General Support					
Board of education	\$ 34,206	\$ 29,206	\$ 26,924	\$ -	\$ 2,282
Central administration	179,456	180,056	179,312	-	744
Finance	314,229	346,329	323,977	-	22,352
Staff	56,916	39,716	30,352	-	9,364
Central services	2,256,347	2,248,539	1,567,050	22,213	659,276
Special items	517,300	489,700	448,048	-	41,652
Total General Support	3,358,454	3,333,546	2,575,663	22,213	735,670
Instruction					
Instruction, administration and improvement	1,036,132	1,091,332	1,049,091	3	42,238
Teaching - regular school	8,863,198	8,885,798	8,637,625	3,523	244,650
Programs for children with handicapping conditions	3,638,397	3,596,180	3,386,704	-	209,476
Teaching - special school	13,992	55,067	53,712	335	1,020
Instructional media	315,884	321,110	296,515	-	24,595
Pupil services	1,206,636	1,170,636	1,074,985	-	95,651
Total Instruction	15,074,239	15,120,123	14,498,632	3,861	617,630
Pupil Transportation	1,993,655	2,027,355	1,663,419	-	363,936
Employee Benefits	7,973,502	7,981,031	7,480,508	-	500,523
Debt Service	446,434	119,865	119,864	-	1
Total Expenditures	28,846,284	28,581,920	26,338,086	26,074	2,217,760
OTHER FINANCING USES					
Transfers to other funds	3,719,307	4,046,388	4,031,842	-	14,546
Total Expenditures and Other Uses	\$ 32,565,591	\$ 32,628,308	\$ 30,369,928	\$ 26,074	\$ 2,232,306
Net change in fund balances	(2,243,808)	(2,250,959)	539,710		
Fund balance - beginning	3,476,243	3,476,243	3,476,243		
Fund balance - ending	\$ 1,232,435	\$ 1,225,284	\$ 4,015,953		

South Jefferson Central School District
Required Supplementary Information
Schedule of District Contributions
NYSTRS Pension Plan
Last 3 Fiscal Years
For the Year Ended June 30, 2017

Supplemental Schedule #3

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 1,566,583	\$ 1,871,452	\$ 6,949,624
Contributions in Relation to the Contractually Required Contribu	<u>1,566,583</u>	<u>1,871,452</u>	<u>6,949,624</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 11,814,351	\$ 10,695,234	\$ 10,675,710
Contributions as a Percentage of Covered-Employee Payroll	13.26%	17.50%	18.26%

Schedule of District Contributions
NYSERS Pension Plan
Last 3 Fiscal Years
For the Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 530,000	\$ 633,478	\$ 678,960
Contributions in Relation to the Contractually Required Contribu	<u>530,000</u>	<u>633,478</u>	<u>678,960</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 3,544,472	\$ 3,545,219	\$ 3,423,773
Contributions as a Percentage of Covered-Employee Payroll	14.95%	17.87%	19.83%

See paragraph on supplementary schedules included in independent auditors' report.

South Jefferson Central School District
Required Supplementary Information
Schedule of District's Proportionate Share of the Net Pension Liability
NYSTRS Pension Plan
Last 3 Fiscal Years
For the Year Ended June 30, 2017

Supplemental Schedule #4

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.069310%	0.071070%	0.071200%
District's Proportionate Share of the Net Pension Liability (Asset) \$	742,339	\$(7,381,930)	\$(7,939,006)
District's Covered-Employee Payroll	\$11,814,351	\$10,695,234	\$10,675,710
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	-6.28%	69.02%	74.37%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	99.01%	110.46%	93.00%

Schedule of District's Proportionate Share of the Net Pension Liability
NYSERS Pension Plan
Last 3 Fiscal Years
For the Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.012409%	0.012886%	0.012362%
District's Proportionate Share of the Net Pension Liability (Asset) \$	1,165,951	\$ 2,068,243	\$ 417,600
District's Covered-Employee Payroll	\$ 3,544,472	\$ 3,545,219	\$ 3,423,773
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	32.89%	58.34%	12.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	94.70%	90.68%	100.00%

See paragraph on supplementary schedules included in independent auditors' report.

South Jefferson Central School District Supplemental Schedule #5
Schedule of Change from Adopted Budget to Final Budget
And the Real Property Tax Limit - General Fund
For the Year Ended June 30, 2017

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ 32,565,591
Encumbrances	7,151
Budget revisions:	
Summer recreation program	<u>55,566</u>
Final budget	<u><u>\$ 32,628,308</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2017-2018 subsequent year's voter-approved expenditure budget	
Maximum allowed (4% of 2017-2018 budget of \$33,326,369)	<u><u>\$ 1,333,055</u></u>

General Fund Balance Subject to Section 1318 of Real Property Tax Law:

Unrestricted fund balance:	
Assigned fund balance	2,069,645
Unassigned fund balance	<u>1,855,195</u>
Total unrestricted fund balance	<u><u>\$ 3,924,840</u></u>

Less:	
Appropriated fund balance	2,043,571
Encumbrances included in assigned fund balance	<u>26,074</u>
Total adjustments	<u><u>\$ 2,069,645</u></u>

General Fund Balance Subject to Section 1318 of Real Property Tax Law	<u><u>\$ 1,855,195</u></u>
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Actual percentage	<u><u>5.60%</u></u>
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See paragraph on supplementary schedules included in independent auditors' report.

South Jefferson Central School District
Schedule of Project Expenditures -
Capital Projects Fund
For the Year Ended June 30, 2017

PROJECT TITLE	Expenditures				Methods of Financing				Fund Balance June 30, 2017		
	Original Appropriation	Revised Appropriation	Prior Years	Current Year	Total	Unexpended Balance	Proceeds of Obligations	State Aid		Local Sources	Total
Buses*	\$ 468,207	\$ 468,207	\$ -	\$ 468,207	\$ 468,207	\$ -	\$ -	\$ -	\$ 327,081	\$ 327,081	(1,250,312)
Alterations - Mannsville	252,000	104,929	88,055	16,874	104,929	-	-	-	-	-	-
Alterations - Adams Center Bus Garage	96,000	65,960	7,137	-	7,137	-	-	-	-	-	58,823
New Project	8,000,000	8,000,000	-	79,012	79,012	-	-	-	-	-	(79,012)
Additions & Alterations - Clarke	100,000	100,000	-	100,000	100,000	-	-	-	100,000	100,000	-
Additions & Alterations - Clarke	70,000	70,000	-	51,331	51,331	18,669	-	-	-	-	(51,331)
Additions & Alterations - Clarke	1,052,000	1,229,111	1,206,349	22,762	1,229,111	-	-	-	-	-	-
	\$ 10,038,207	\$ 10,038,207	\$ 1,301,541	\$ 738,186	\$ 2,039,727	\$ 18,669	\$ -	\$ -	\$ 427,081	\$ 427,081	\$ (1,321,832)

* Buses are financed by BANs when purchased.

South Jefferson Central School District

Supplemental Schedule #7

Net Investment in Capital Assets

For the Year Ended June 30, 2017

Capital assets, net		\$40,993,157
Deduct:		
Bond anticipation notes	\$ 1,265,032	
Short-term portion of bonds payable	2,815,000	
Long-term portion of bonds payable	<u>19,270,000</u>	
		<u>23,350,032</u>
Net Investment in capital assets		<u>\$17,643,125</u>

See paragraph on supplementary schedules included in independent auditors' report.

STACKEL & NAVARRA, C.P.A., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

COMMUNITY BANK BUILDING — 216 WASHINGTON STREET
WATERTOWN, NEW YORK 13601-3336
TELEPHONE 315/782-1220
FAX 315/782-0118

Robert F. Stackel, C.P.A.
Jacob Navarra, C.P.A.
Mark B. Hills, C.P.A.

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

Board of Education
South Jefferson Central School District
Adams, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Jefferson Central School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise South Jefferson Central School District's basic financial statements and have issued our report thereon dated October 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Jefferson Central 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 South Jefferson Central School District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Jefferson Central School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

STACKEL & NAVARRA, C.P.A., P.C

CERTIFIED PUBLIC ACCOUNTANTS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Jefferson Central 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 matter that is 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.

Stackel & Navarra, CPA, PC

Stackel & Navarra, C.P.A., P.C.

Watertown, NY

October 9, 2017

STACKEL & NAVARRA, C.P.A., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

COMMUNITY BANK BUILDING – 216 WASHINGTON STREET

WATERTOWN, NEW YORK 13601-3336

TELEPHONE 315/782-1220

FAX 315/782-0118

Robert F. Stackel, C.P.A.

Jacob Navarra, C.P.A.

Mark B. Hills, C.P.A.

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

Board of Education
South Jefferson Central School District
Adams, New York

Report on Compliance for Each Major Federal Program

We have audited South Jefferson Central School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South Jefferson Central School District's major federal programs for the year ended June 30, 2017. South Jefferson Central School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion of Each Major Federal Program

In our opinion, South Jefferson Central School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Stackel & Navarra, CPA, PC

Stackel & Navarra, C.P.A., P.C.
Watertown, NY
October 9, 2017

South Jefferson School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal/Grantor/Pass-Through Grantor/Program Title	<u>CFDA</u>	<u>Agency or</u>	
U.S. Department of Education	<u>Number</u>	<u>Pass-through</u>	
Passed-through NYS Education Department:		<u>Number</u>	
Special Education Cluster:			
IDEA - Part B (Section 619)	84.173	0033170314	\$ 5,406
IDEA - Part B (Section 611)	84.027	0032170314	421,083
Total Special Education Cluster			<u>426,489</u>
Title I - ESEA - Basic Grant	84.010	0021171155	440,085
Title IIA - Supporting Effective Instruction	84.367	0147171155	90,691
Total Passed-through NYS Education Department			<u>957,265</u>
Department of Education Direct Programs			
Impact Aid	84.041		<u>11,062</u>
Total U.S. Department of Education			<u>968,327</u>
U.S. Department of Agriculture			
Passed-through NYS Education Department:			
Child Nutrition Cluster:			
Non-cash assistance (food distribution)			
National School Lunch Program	10.555		59,232
Cash assistance			
School Breakfast Program	10.553		90,979
National School Lunch Program	10.555		369,815
Summer Food Service Program for children	10.559		15,453
Snack	10.555		947
Total Child Nutrition Cluster			<u>536,426</u>
Total U.S. Department of Agriculture			<u>1,013,620</u>
<u>U.S. Department of Defense</u>			
Department of Defense Direct Programs			
Achievement at Military -connected schools	12.557		<u>39,480</u>
Total Federal Awards Expended			<u>\$ 1,544,233</u>

See notes to Schedule of Expenditures of Federal Awards.

South Jefferson School District
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Note 1 – Summary of certain significant accounting policies:

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the District, which is described in Note 1 to the District's accompanying financial statements, using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

Matching costs (the District's share of certain program costs) are not included in the reported expenditures. The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program. The amounts reported as federal expenditures were obtained from the federal financial reports for the applicable program periods. The amounts reported in these reports are prepared from records maintained for each program, which are reconciled with the District's financial reporting system.

Note 2 – Food distribution:

Nonmonetary assistance is recorded in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the District has food commodities totaling \$10,702 in inventory.

Note 3 – Subrecipients:

No amounts were provided to subrecipients.

Note 4 – Other disclosures:

No insurance is carried specifically to cover equipment purchased with federal funds. Any equipment purchased with federal funds has only a nominal value, and is covered by the District's casualty insurance policies.

There were no loans or loan guarantees outstanding at year-end.

South Jefferson Central School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's opinion(s) issued: Modified

Internal control over financial reporting:

Material weakness (es) identified? _____ yes X no

Significant deficiency (ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness (es) identified? _____ yes X no

Significant deficiency (ies) identified? _____ yes X none reported

Type of auditor's opinion(s) issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance _____ yes X no

Identification of major programs:

Name of federal program CFDA Number

Title IIA – Supporting Effective Instruction 84.367

Nutrition Cluster 10.553

School Breakfast Program 10.555

National School Lunch Program 10.555

Donated Foods 10.559

Summer Food Service Program

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low risk? _____ yes X no

South Jefferson Central School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section II - Financial Statements Findings

None

Section III - Federal Award Findings and Questioned Costs

None

South Jefferson Central School District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Financial Statements Findings:

None

Federal Award Findings:

None

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Board of Education
South Jefferson Central School District
Adams, New York

Management Letter

In planning and performing our audit of the financial statements of South Jefferson Central School District for the year ended June 30, 2017, we considered the School District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of items that are opportunities for strengthening internal controls and operating efficiency.

We previously reported on the School District's internal control structure in our report dated October 9, 2017. This letter does not affect our report dated October 9, 2017, on the financial statements of South Jefferson Central School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various School District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Stackel & Navarra, CPA, PC

October 9, 2017

South Jefferson Central School District
Schedule of Findings and Recommendations
Year Ended June 30, 2017

Finding:

Unassigned fund balance of the General Fund exceeds the four percent limitation allowed by Section 1318 of New York State Real Property Tax Law.

Recommendation:

The District should work on reducing the fund balance to the allowable level.

Management's Response:

The District is aware that it inadvertently exceeded the four percent limitation. The District is implementing procedures to better track budgetary expenditures throughout the year in order to more accurately predict the year end fund balance during the budget development process. These procedures will both ensure "excess" fund balance is used to offset the tax levy as intended by the law and to provide the District with a bit more flexibility in budgeting its annual appropriations.

Finding: The District has extraclassroom activities that have been inactive for at least two years. It should be determined whether or not these clubs will become active again, and if not, the Board should authorize these clubs to be dissolved and any remaining funds to be disbursed to a club that benefits all students.

Recommendation: Any inactive clubs should be dissolved if determined that they will not become active again.

Management's Response:

Extraclassroom accounts that show no activity in a 2 year period will be reviewed by the District. Should these accounts be deemed inactive/defunct, the accounts will be closed and remaining funds will be transferred to the Student Council account of the building to which the club was affiliated.

South Jefferson Central School District
Schedule of Status of Prior Year's Findings
Year Ended June 30, 2017

Finding – There are activities included in the Extraclassroom Activity Fund which appear to be either inactive or not meet criteria to be included in the fund.

Status – Noted in this year's Schedule of Findings and Recommendation.