

HEMPSTEAD UNION FREE SCHOOL DISTRICT
HEMPSTEAD, NEW YORK
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

HEMPSTEAD UNION FREE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Education
Hempstead Union Free School District
Town of Hempstead, New York:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

As discussed in note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 77 - "Tax Abatement Disclosures," and Statement No. 82 - "Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73," during the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15 and the additional information on pages 55 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is 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 November 22, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
November 22, 2017

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

The following is a discussion and analysis of the Hempstead Union Free School District's (the "District") financial performance for the year ended June 30, 2017. This section is a summary of the District's financial activities based on currently known facts, decisions or conditions. It is also based on both the District-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- In the District-wide financial statements, revenues increased by 7.7%, primarily as a result of increased operating grants, real property taxes, other tax items and State sources.
- In the District-wide financial statements, expenses increased by 8.5% primarily due to increased general support, instruction, and food service program expenditures.
- The District's general fund total fund balance increased by \$13,791,539 due to revenues in excess of expenditures.
- The District's general fund actual revenues were \$13,434,793 more than budgeted revenues; general fund expenditures were \$391,885 under budget.
- The 2017-2018 budget in the amount of \$202,696,297 was authorized by 65% of the District's residents that voted.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-wide statements.
- The *governmental fund financial 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 District acts solely as a trustee or agent for the benefit of others.

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 and other supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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

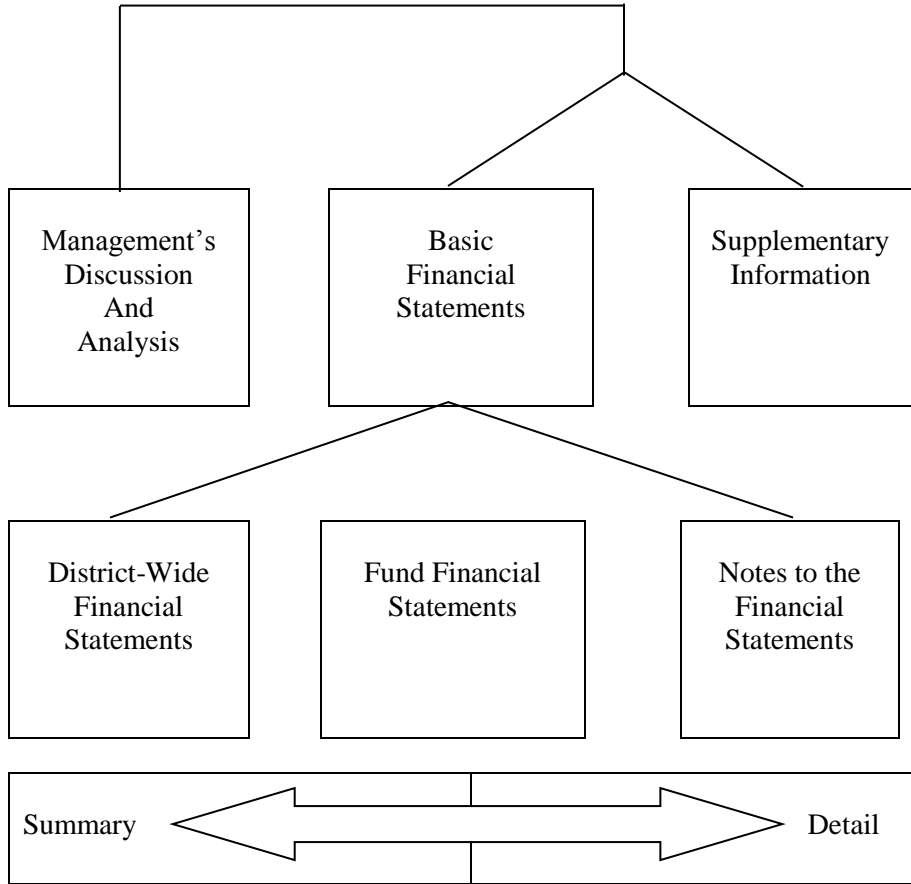


Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents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

Table A-2: Major Features of the District-wide and Fund Financial Statements			
	District-wide Financial Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activity monies
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities and Changes in Net Position 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Table A-2: Major Features of the District-wide and Fund Financial Statements (continued)			
	District-wide Financial Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
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/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during 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	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Financial Statements

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

The two District-wide financial statements report the District's *net position* and how it has changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, is one way to measure the District's financial health or *position*.

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

In the District-wide financial statements, the District's activities are shown as *governmental activities*. Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and State formula aid finance most of these activities.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the 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 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:

- Governmental funds: Most of the 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 that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide financial statements, reconciliations of the District-wide and governmental funds financial statements are provided which explain the relationship (or differences) between them.
- Fiduciary funds: The District is the trustee or fiduciary, for assets that belong to others, such as the scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net position decreased by 4.6% from the year before to a net deficit of \$(59,917,378), as detailed in Tables A-3.

The restricted net position balance of \$8,170,008 represents assets that are restricted by external sources, imposed by laws through constitutional provisions or enabling legislation.

As of June 30, 2017, the District has an unrestricted net deficit of \$(92,278,061). This deficit is primarily driven by the District's required recognition of its obligation for post-employment benefits which currently totals \$131,397,373. This obligation will continue to grow into the future (see Note 11 to the accompanying financial statements) resulting in a greater unrestricted net deficit position.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

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

	<u>6/30/17</u>	<u>6/30/16</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$ 33,900,748	\$ 24,525,008	\$ 9,375,740	38.2
Noncurrent assets	8,625,235	49,819,831	(41,194,596)	(82.7)
Capital assets, net	<u>51,016,151</u>	<u>53,669,206</u>	<u>(2,653,055)</u>	(4.9)
Total assets	<u>\$ 93,542,134</u>	<u>\$ 128,014,045</u>	<u>\$ (34,471,911)</u>	(26.9)
Deferred outflows	<u>\$ 47,417,992</u>	<u>\$ 15,858,153</u>	<u>\$ 31,559,839</u>	199.0
Current liabilities	\$ 28,330,917	\$ 29,635,282	\$ (1,304,365)	(4.4)
Long-term liabilities	<u>170,353,612</u>	<u>155,068,382</u>	<u>15,285,230</u>	9.9
Total liabilities	<u>\$ 198,684,529</u>	<u>\$ 184,703,664</u>	<u>\$ 13,980,865</u>	7.6
Deferred inflows	<u>\$ 2,192,975</u>	<u>\$ 16,476,178</u>	<u>\$ (14,283,203)</u>	(86.7)
Net position:				
Net investment in capital assets	\$ 24,190,675	\$ 23,832,044	\$ 358,631	1.5
Restricted	8,170,008	8,200,776	(30,768)	(0.4)
Unrestricted (deficit)	<u>(92,278,061)</u>	<u>(89,340,464)</u>	<u>(2,937,597)</u>	(3.3)
Total net position	<u>\$ (59,917,378)</u>	<u>\$ (57,307,644)</u>	<u>\$ (2,609,734)</u>	(4.6)

As of June 30, 2017, the District's working capital (current and other assets less current liabilities) increased by \$10,680,105. As of June 30, 2017, the District had working capital of \$5,569,831 as compared to \$(5,110,274) as of June 30, 2016. The District's working capital increase is primarily due to an increase in unrestricted cash.

As of June 30, 2017, the District has noncurrent assets of \$8,625,235 as compared to \$49,819,831 as of June 30, 2016. The decrease is primarily attributed to the decrease in net pension asset-proportionate share of \$45,073,275. This is a result of changes in assumptions used to determine the District's proportionate share of the net pension asset or liability for the New York State Teachers' Retirement System ("TRS"). The District is reporting a net pension liability of \$4,335,567 for TRS for the year-ended June 30, 2017, which is reported as part of long-term liabilities in the above table.

As of June 30, 2017, the District had an investment in capital assets of \$51,016,151 as compared to \$53,669,206 as of June 30, 2016. The decrease is due to depreciation charges offset by the current year outlay for capital asset purchases.

Long-term liabilities increased \$15,285,230 primarily due to the increases of net other-post employment benefits obligation and net pension liability-TRS proportionate share offset by the decreases in net pension liability-ERS proportionate share and compensated absences payable.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Changes in Net Position

The District's Net Position decreased by \$2,609,734 during the fiscal year ended June 30, 2017. The District's 2017 revenues and expenses totaled \$226,836,310 and \$229,446,044 respectively. (See Table A-4)

Property and other taxes and State sources accounted for most of the District's revenue by contributing 35 cents and 52 cents, respectively, of every dollar raised (See Table A-5). The remainder came from charges for services, operating grants, miscellaneous, and use of money and property.

Revenues increased 7.7% or \$16,230,936 primarily as a result of an increase in operating grants, real property taxes, other tax items and State sources.

Instruction and transporting students are the largest expense items in the District at 85 percent (See Table A-7). The District's administrative and business activities accounted for 13 percent of total costs.

Expenses increased by 8.5% or \$18,018,297 primarily as a result of an increase in instructional, general support and food service program expenses.

Table A-4: Changes in Net Position from Operating Results - Governmental Activities Only				
	<u>6/30/17</u>	<u>6/30/16</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Program revenues:				
Charges for services	\$ 734,137	\$ 964,690	\$ (230,553)	(23.9)
Operating grants	24,184,707	19,831,175	4,353,532	22.0
General revenues:				
Real property taxes	70,886,167	69,003,247	1,882,920	2.7
Other tax items	9,725,572	9,447,773	277,799	2.9
Use of money and property	34,814	20,064	14,750	73.5
Sale of property & compensation for loss	506,705	890,157	(383,452)	(43.1)
State sources	119,063,301	108,550,696	10,512,605	9.7
Federal sources - Medicaid assistance	-	14,493	(14,493)	(100.0)
Miscellaneous	1,700,907	1,883,079	(182,172)	(9.7)
Total revenues	<u>226,836,310</u>	<u>210,605,374</u>	<u>16,230,936</u>	7.7
Expenses				
General support	29,845,432	28,483,777	1,361,655	4.8
Instruction	187,067,325	169,821,290	17,246,035	10.2
Pupil transportation	7,951,277	9,170,821	(1,219,544)	(13.3)
Community service	-	6,425	(6,425)	(100.0)
Debt service - interest	885,705	761,886	123,819	16.3
Food service program	3,696,305	3,183,548	512,757	16.1
Total expenses	<u>229,446,044</u>	<u>211,427,747</u>	<u>18,018,297</u>	8.5
Change in net position	<u>\$ (2,609,734)</u>	<u>\$ (822,373)</u>	<u>\$ (1,787,361)</u>	217.3

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Table A-5: Sources of Revenues for Fiscal Year 2017

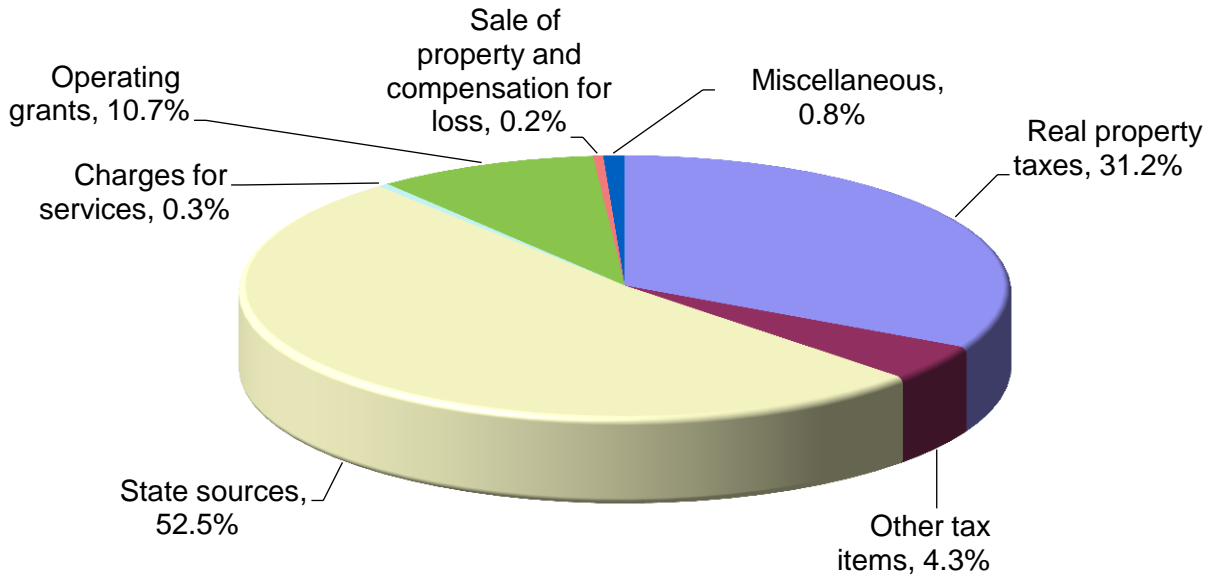
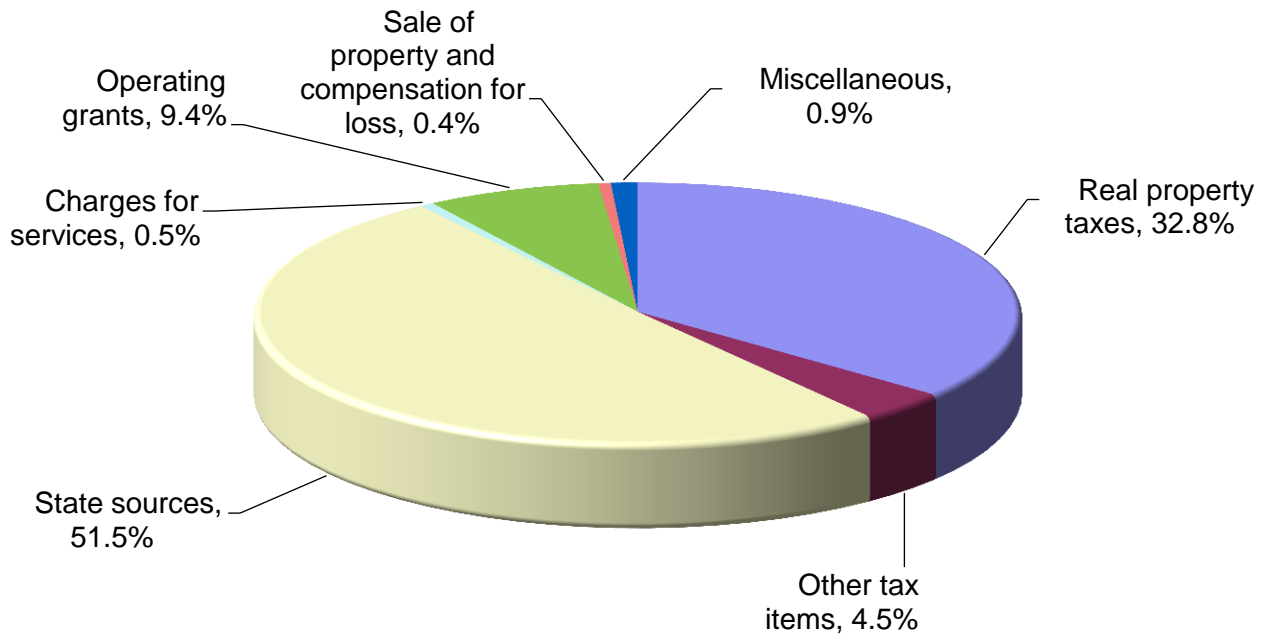


Table A-6: Sources of Revenues for Fiscal Year 2016



HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Table A-7: Expenses for Fiscal Year 2017

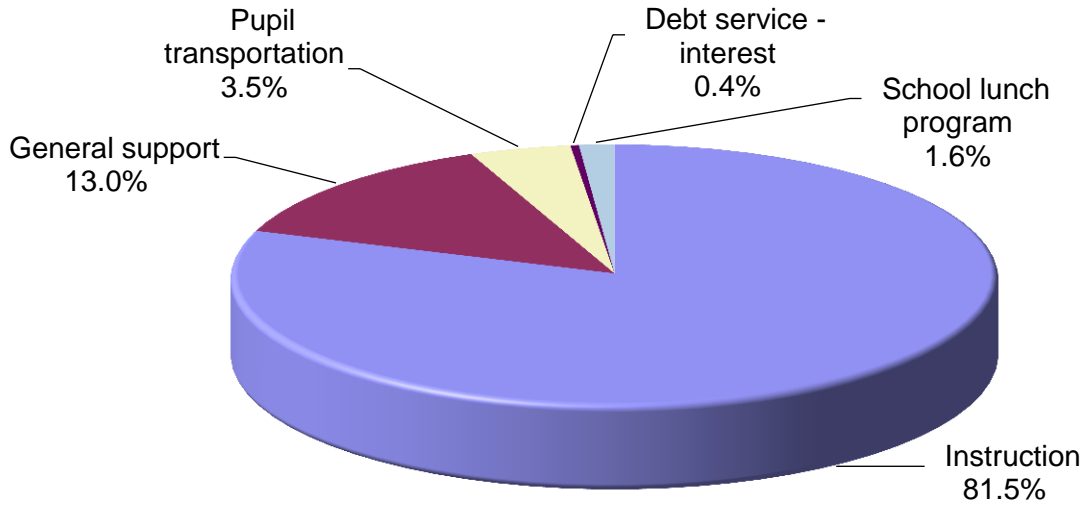
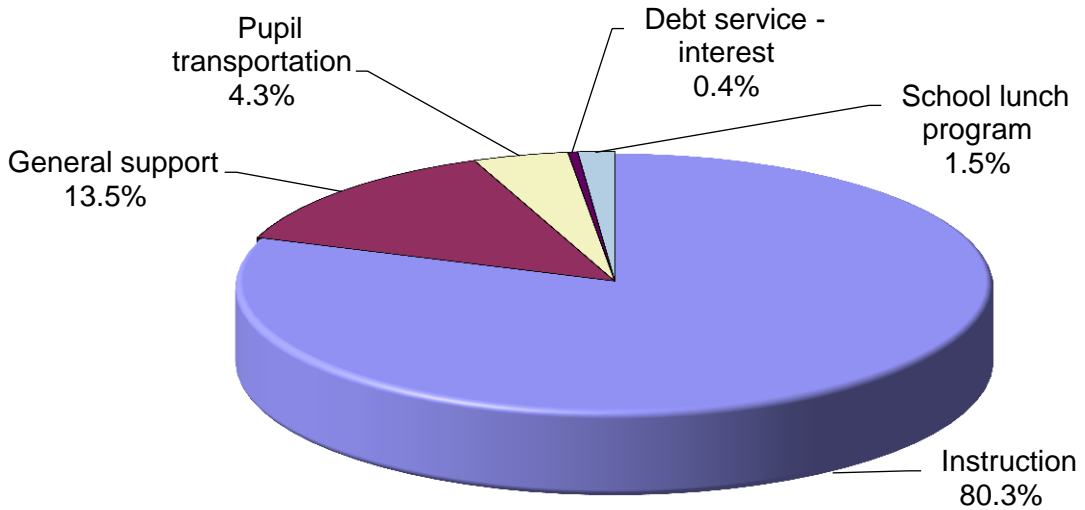


Table A-8: Expenses for Fiscal Year 2016



HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Governmental Activities

Revenues for the District's governmental activities totaled \$226,836,310 while total expenses equaled \$229,446,044.

The major changes in revenues and expenses are as follows:

Revenues:

- Other tax items which increased by \$277,799, include the reimbursements received under the School Tax Reimbursement Program ("STAR"). The STAR program provides tax relief to homeowners through State reimbursement to the District. Payments in lieu of taxes ("PILOTS") are also included within this category. The revenues from the STAR program decreased by \$14,756 compared to the prior year. PILOT payments increased by \$292,555.
- Real property taxes increased by \$1,882,920 as a result of an increase in the 2016-17 tax levy.
- State aid increased by \$10,512,605, primarily because of increases in basic aid, excess cost aid, lottery aid, textbook and computer software aid and miscellaneous aid. In addition, the District received charter school supplemental basic tuition aid in 2016-2017 of \$745,416.
- Operating grants increased by \$4,353,532 primarily due to an increase in State awards in the special aid fund.

Expenses:

- Instructional expenses increased by \$17,246,035. The primary reason for the increase in instruction was the allocation of increased other postemployment benefits and an increase in the employee benefit allocation.
- Pupil transportation decreased by \$1,219,544 primarily due to a decrease in the cost of transportation services from a third party.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

As of June 30, 2017, the District's combined governmental funds reported a total fund balance of \$22,340,571 which is an increase of \$14,179,160 from the prior year. This increase is due primarily to certain revenues over budgeted amounts and savings in various expense categories.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Fund balances for the District's governmental funds for the past two years were distributed as follows:

Table A-9: Fund Balances - Governmental Funds				
	<u>6/30/17</u>	<u>6/30/16</u>	<u>\$ Change</u>	<u>% Change</u>
General Fund				
Restricted:				
Workers' Compensation	\$ 1,211,009	\$ 1,208,815	\$ 2,194	0.2
Unemployment Insurance	1,282,778	1,280,453	2,325	0.2
Retirement contributions	804,117	802,660	1,457	0.2
Insurance	403,112	402,382	730	0.2
Employee Benefit Accrued Liability	2,797,541	2,792,473	5,068	0.2
Assigned:				
Encumbrances	13,861	49,000	(35,139)	(71.7)
Unassigned	<u>10,955,845</u>	<u>(2,859,059)</u>	<u>13,814,904</u>	483.2
Total General Fund	<u>17,468,263</u>	<u>3,676,724</u>	<u>13,791,539</u>	(375.1)
School Lunch Fund				
Nonspendable:				
Inventory	24,303	20,332	3,971	19.5
Unassigned	<u>1,687,967</u>	<u>1,250,362</u>	<u>437,605</u>	35.0
Total School Lunch Fund	<u>1,712,270</u>	<u>1,270,694</u>	<u>441,576</u>	34.8
Debt Service Fund				
Restricted:				
Debt service	<u>1,656,927</u>	<u>1,656,155</u>	<u>772</u>	0.0
Total Debt Service Fund	<u>1,656,927</u>	<u>1,656,155</u>	<u>772</u>	0.0
Capital Projects Fund				
Restricted:				
Unspent bond proceeds	14,524	57,838	(43,314)	(74.9)
Assigned:				
Unappropriated fund balance	<u>1,488,587</u>	<u>1,500,000</u>	<u>(11,413)</u>	(0.8)
Total Capital Projects Fund	<u>1,503,111</u>	<u>1,557,838</u>	<u>(54,727)</u>	(3.5)
Total fund balance	<u>\$ 22,340,571</u>	<u>\$ 8,161,411</u>	<u>\$ 14,179,160</u>	173.7

General Fund Budgetary Highlights

The District's General Fund adopted budget for the year ended June 30, 2017 was \$189,167,890. This amount was increased by encumbrances carried forward from the prior year in the amount of \$49,000 which resulted in a final budget of \$189,216,890. The majority of the budgeted revenues were from property taxes, STAR revenue and State sources, for a total budgeted amount of \$187,375,670.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

At June 30, 2017, the District's unassigned fund balance was \$10,955,845. The following is a reconciliation of the General Fund's unassigned fund balance for the year ended June 30, 2017:

Unassigned fund balance, beginning of year	\$ (2,859,059)
Revenues over budget	13,434,793
Expenditures and encumbrances under budget	391,885
Allocation to restricted reserves	<u>(11,774)</u>
Unassigned fund balance, end of year	<u>\$ 10,955,845</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the District had invested \$51,016,151, net of depreciation, in a broad range of capital assets, as indicated in the table below.

Table A-10: Capital Assets (net of depreciation)

	<u>6/30/17</u>	<u>6/30/16</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 1,695,948	\$ 1,695,948	\$ -	0.0
Construction-in-progress	17,980,925	17,926,198	54,727	0.3
Buildings and building improvements	29,709,501	31,944,962	(2,235,461)	(7.0)
Furniture and equipment	1,052,265	1,466,754	(414,489)	(28.3)
Site improvements	<u>577,512</u>	<u>635,344</u>	<u>(57,832)</u>	(9.1)
Totals	<u>\$ 51,016,151</u>	<u>\$ 53,669,206</u>	<u>\$ (2,653,055)</u>	(4.9)

Long-Term Debt

At year-end, the District had \$169,397,883 in general obligation bonds and other long-term debt.

Table A-11: Outstanding Long-Term Debt

	<u>6/30/17</u>	<u>6/30/16</u>	<u>\$ Change</u>	<u>% Change</u>
General obligation bonds	\$ 26,840,000	\$ 29,895,000	\$ (3,055,000)	(10.2)
Compensated absences	6,337,528	6,333,637	3,891	0.1
Workers' compensation claims payable	3,352,982	4,477,973	(1,124,991)	(25.1)
Claims payable	900,000	-	900,000	100
Termination benefits	570,000	573,500	(3,500)	(0.6)
Other post-employment benefits	<u>131,397,373</u>	<u>114,772,951</u>	<u>16,624,422</u>	14.5
Totals	<u>\$ 169,397,883</u>	<u>\$ 156,053,061</u>	<u>\$ 13,344,822</u>	8.6

HEMPSTEAD UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- New York State imposed a maximum tax levy increase of the lesser of 2% or the CPI effective for the fiscal year 2016-2017 budget, subject to certain exclusions. Based on the value of obligatory contractual increases and continued increases in the State's unfunded mandates, it is expected that reductions may be necessary. The District will continue to consolidate services to maintain its high standards. If the State mandates and legal requirements continue to escalate, there will be an inevitable negative impact on District programs.
- The General Fund budget for the 2017-2018 school year was approved by the voters in the amount of \$202,696,297. This is an increase of 7.15% over the previous year's budget.
- The 2017-2018 budget is impacted by certain trends affecting school districts. These include increases in retirement contributions, health insurance costs, workers' compensation judgments, and potential unemployment insurance claims, which are beyond the District's control.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Hempstead Union Free School District
Lawrence Dobroff
Assistant Superintendent for Business and Operations
185 Peninsula Boulevard
Hempstead, New York 11550
516-434-4000

HEMPSTEAD UNION FREE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Current assets:	
Cash:	
Unrestricted	\$ 12,888,103
Receivables:	
State and federal aid	15,866,812
Taxes receivable	4,461,410
Due from other governments	298,043
Due from fiduciary funds	156,653
Other receivables	205,424
Inventories	24,303
	<hr/>
Total current assets	33,900,748
Non-current assets:	
Restricted cash	8,625,235
Capital assets	
Non-depreciable	19,676,873
Depreciable, net of accumulated depreciation of \$43,238,697	31,339,278
	<hr/>
Total non-current assets	59,641,386
	<hr/>
Total assets	93,542,134

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources - NYSERS	3,629,377
Deferred outflows of resources - NYSTRS	43,788,615
	<hr/>
Total deferred outflows of resources	47,417,992

LIABILITIES

Current liabilities:	
Payables:	
Accounts payable	\$ 5,776,632
Accrued liabilities	2,559,924
Accrued interest payable	229,848
Due to other governments	1,091,500
Due to teachers' retirement system	7,649,586
Due to employees' retirement system	544,254
Compensated absences payable	412,338
Noncurrent liabilities, due within one year:	
Bonds payable	3,100,000
Compensated absences payable	1,462,675
Workers' compensation claims payable	3,352,982
Unearned revenues:	
Monies received in advance	2,151,178
	<hr/>
Total current liabilities	28,330,917
Noncurrent liabilities:	
Long-term liabilities, due after one year:	
Bonds payable	23,740,000
Compensated absences payable	4,874,853
Termination benefits payable	570,000
Claims payable	900,000
Net other post-employment benefits obligation	131,397,373
Net pension liability-ERS proportionate share	4,535,819
Net pension liability-TRS proportionate share	4,335,567
	<hr/>
Total noncurrent liabilities	170,353,612
	<hr/>
Total liabilities	198,684,529

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources - NYSERS	709,465
Deferred inflows of resources - NYSTRS	1,483,510
	<hr/>
Total deferred inflows of resources	2,192,975

NET POSITION

Net investment in capital assets	24,190,675
Restricted:	
Workers' compensation	1,211,009
Unemployment insurance	1,282,778
Retirement contribution	804,117
Insurance	403,112
Employee benefit accrued liability	2,797,541
Debt service	1,656,927
Unspent bond proceeds	14,524
Unrestricted (deficit)	(92,278,061)
	<hr/>
Total net position (deficit)	\$ (59,917,378)

The accompanying notes to financial statements are an integral part of this statement.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expense)
	Expenses	Charges for	Operating	Revenue and
FUNCTIONS / PROGRAMS		Services	Grants	Changes in
				Net Position
General support	\$ 29,845,432	\$ -	\$ -	\$ (29,845,432)
Instruction	187,067,325	595,299	19,375,307	(167,096,719)
Pupil transportation	7,951,277	-	-	(7,951,277)
Debt service - interest	885,705	-	-	(885,705)
Food service program	3,696,305	138,838	4,809,400	1,251,933
TOTAL FUNCTIONS AND PROGRAMS	\$ 229,446,044	\$ 734,137	\$ 24,184,707	(204,527,200)
GENERAL REVENUES				
Real property taxes				70,886,167
Other tax items				9,725,572
Use of money & property				34,814
Sale of property & compensation for loss				506,705
State sources				119,063,301
Miscellaneous				1,700,907
TOTAL GENERAL REVENUES				201,917,466
CHANGE IN NET POSITION				(2,609,734)
TOTAL NET POSITION (DEFICIT) - BEGINNING OF YEAR				(57,307,644)
TOTAL NET POSITION (DEFICIT) - END OF YEAR				\$ (59,917,378)

The accompanying notes to financial statements are an integral part of this statement.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	Major Funds					Total Governmental Funds
	Special Revenue Funds					
	General	Special Aid	School Lunch	Debt Service		
ASSETS						
Cash:						
Unrestricted	\$ 12,620,218	\$ 128,612	\$ 139,273	\$ -	\$ -	\$ 12,888,103
Restricted	6,498,557	-	-	-	2,126,678	8,625,235
Receivables:						
State and federal aid	7,338,421	8,133,195	395,196	-	-	15,866,812
Taxes	4,461,410	-	-	-	-	4,461,410
Due from other governments	298,043	-	-	-	-	298,043
Due from other funds	5,845,738	479,530	2,137,191	1,656,927	196,982	10,316,368
Due from fiduciary funds	156,653	-	-	-	-	156,653
Other receivables	205,424	-	-	-	-	205,424
Inventories	-	-	24,303	-	-	24,303
Total assets	<u>\$ 37,424,464</u>	<u>\$ 8,741,337</u>	<u>\$ 2,695,963</u>	<u>\$ 1,656,927</u>	<u>\$ 2,323,660</u>	<u>\$ 52,842,351</u>
LIABILITIES						
Payables:						
Accounts payable	\$ 2,892,032	\$ 2,380,437	\$ 504,163	\$ -	\$ -	\$ 5,776,632
Accrued liabilities	2,427,235	20,689	-	-	112,000	2,559,924
Due to other governments	1,091,500	-	-	-	-	1,091,500
Due to other funds	3,309,062	5,819,227	479,530	-	708,549	10,316,368
Due to teachers' retirement system	7,649,586	-	-	-	-	7,649,586
Due to employees' retirement system	544,254	-	-	-	-	544,254
Compensated absences	412,338	-	-	-	-	412,338
Unearned revenues:						
Monies received in advance	1,630,194	520,984	-	-	-	2,151,178
Total liabilities	<u>19,956,201</u>	<u>8,741,337</u>	<u>983,693</u>	<u>-</u>	<u>820,549</u>	<u>30,501,780</u>
FUND BALANCE						
Fund Balance:						
Non-spendable: Inventory	-	-	24,303	-	-	24,303
Restricted	6,498,557	-	-	1,656,927	14,524	8,170,008
Assigned	13,861	-	1,687,967	-	1,488,587	3,190,415
Unassigned	10,955,845	-	-	-	-	10,955,845
Total fund balance	<u>17,468,263</u>	<u>-</u>	<u>1,712,270</u>	<u>1,656,927</u>	<u>1,503,111</u>	<u>22,340,571</u>
Total liabilities and fund balance	<u>\$ 37,424,464</u>	<u>\$ 8,741,337</u>	<u>\$ 2,695,963</u>	<u>\$ 1,656,927</u>	<u>\$ 2,323,660</u>	<u>\$ 52,842,351</u>

The accompanying notes to financial statements are an integral part of this statement.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balance - Governmental Funds \$ 22,340,571

Amounts reported for governmental activities in the Statement of Net Position are different due to the following:

Capital assets less accumulated depreciation are included in the Statement of Net Position

Capital assets:

Non-depreciable	\$ 19,676,873	
Depreciable	74,577,975	
Accumulated depreciation	<u>(43,238,697)</u>	51,016,151

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

Deferred outflows of resources - NYSERS and NYSTRS pension related	\$ 47,417,992	
Proportionate share of net pension liability - NYSERS	(4,535,819)	
Proportionate share of net pension liability - NYSTRS	(4,335,567)	
Deferred inflows of resources - NYSERS and NYSTRS pension related	<u>(2,192,975)</u>	36,353,631

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported in the fund financial statements. However, these liabilities are included in the Statement of Net Position:

Bonds payable	\$ (26,840,000)	
Workers compensation claims payable	(3,352,982)	
Claims payable	(900,000)	
Compensated absences payable	(6,337,528)	
Termination benefits payable	(570,000)	
Net other post employment benefits obligation	<u>(131,397,373)</u>	(169,397,883)

Interest payable applicable to the District's activities are not due and payable in the current period and accordingly are not reported in the fund financial statements. However, these liabilities are included in the Statement of Net Position

(229,848)

Net Deficit - Governmental Activities

\$ (59,917,378)

HEMPSTEAD UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Major Funds					Total Governmental Funds
	General	Special Revenue Funds		Debt Service	Capital Projects	
		Special Aid	School Lunch			
REVENUES						
Real property taxes	\$ 70,886,167	\$ -	\$ -	\$ -	\$ -	\$ 70,886,167
Other tax items - including STAR reimbursement	9,725,572	-	-	-	-	9,725,572
Charges for services	595,299	-	-	-	-	595,299
Use of money and property	33,991	-	51	772	-	34,814
Sale of property and compensation for loss	506,705	-	-	-	-	506,705
Miscellaneous	1,683,541	-	17,366	-	-	1,700,907
Interfund revenue	108,107	-	-	-	-	108,107
Local sources	-	2,792	-	-	-	2,792
State sources	119,063,301	11,542,177	128,826	-	-	130,734,304
Federal sources	-	7,830,338	4,502,271	-	-	12,332,609
Surplus food	-	-	178,303	-	-	178,303
Sales	-	-	138,838	-	-	138,838
TOTAL REVENUES	202,602,683	19,375,307	4,965,655	772	-	226,944,417
EXPENDITURES						
General support	21,232,827	-	-	-	-	21,232,827
Instruction	119,026,866	19,900,385	-	-	-	138,927,251
Pupil transportation	7,948,154	-	-	-	-	7,948,154
Employee benefits	36,125,206	-	862,400	-	-	36,987,606
Debt service - Principal	3,055,000	-	-	-	-	3,055,000
Debt service - Interest	898,013	-	-	-	-	898,013
Cost of sales	-	-	3,661,679	-	-	3,661,679
Capital outlay	-	-	-	-	54,727	54,727
TOTAL EXPENDITURES	188,286,066	19,900,385	4,524,079	-	54,727	212,765,257
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,316,617	(525,078)	441,576	772	(54,727)	14,179,160
OTHER FINANCING SOURCES AND (USES)						
Operating transfers in	-	525,078	-	-	-	525,078
Operating transfers (out)	(525,078)	-	-	-	-	(525,078)
TOTAL OTHER FINANCING SOURCES AND (USES)	(525,078)	525,078	-	-	-	-
NET CHANGE IN FUND BALANCES	13,791,539	-	441,576	772	(54,727)	14,179,160
FUND BALANCES - BEGINNING	3,676,724	-	1,270,694	1,656,155	1,557,838	8,161,411
FUND BALANCES - END OF YEAR	\$ 17,468,263	\$ -	\$ 1,712,270	\$ 1,656,927	\$ 1,503,111	\$ 22,340,571

The accompanying notes to financial statements are an integral part of this statement.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net Change in Fund Balance - Governmental Funds \$ 14,179,160

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which depreciation exceeds capital outlay in the current period is:

Capital outlay	\$ 221,353	
Depreciation expense	<u>(2,874,408)</u>	(2,653,055)

Repayment of bond principal is an expenditure on the governmental funds, but it reduces long-term liabilities on the Statement of Net Position and does not affect the Statement of Activities		3,055,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Other post-employment benefits	\$(16,624,422)	
Workers' compensation claims payable	1,124,991	
Claims payable	(900,000)	
Compensated absences payable	(3,891)	
Termination benefits payable	3,500	
Accrued interest costs	<u>12,308</u>	(16,387,514)

(Increases) decreases in the 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.

District Pension plan contributions - NYSERS	\$ 2,132,441	
District Pension plan contributions - NYSTRS	8,303,066	
District proportionate share of pension expense - NYSERS	(2,756,037)	
District proportionate share of pension expense - NYSTRS	(7,498,169)	
Change in deferred outflows/inflows of resources - NYSERS	11,144	
Change in deferred outflows/inflows of resources - NYSTRS	<u>(995,770)</u>	<u>(803,325)</u>

Change in Net Position		<u>\$ (2,609,734)</u>
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HEMPSTEAD UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>Scholarship Trusts</u>	<u>Agency Funds</u>
ASSETS		
Cash-restricted	\$ 13,609	\$ 256,731
Total assets	<u>13,609</u>	<u>256,731</u>
LIABILITIES		
Due to other funds	-	\$ 156,653
Extraclassroom activity balance	-	22,508
Other liabilities	-	77,570
Total liabilities	<u>-</u>	<u>256,731</u>
NET POSITION		
Restricted:		
Endowment scholarships	<u>13,609</u>	
Total net position	<u>13,609</u>	
Total liabilities and net position	<u>\$ 13,609</u>	

The accompanying notes to financial statements are an integral part of this statement.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Scholarship Trusts
ADDITIONS	
Interest and earnings	\$ 1
Total additions	1
DEDUCTIONS	
Scholarships and awards	2,500
Total deductions	2,500
Change in net position	(2,499)
Net position, beginning of year	16,108
Net position, end of year	\$ 13,609

The accompanying notes to financial statements are an integral part of this statement.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on such criteria the District's Extraclassroom Activity Funds have been included in the accompanying financial statements. See corresponding note below.

B. Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found elsewhere in this report. The District accounts for assets held as an agent for various student organizations in an agency fund.

C. Joint venture

The District is a component district in the Nassau 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

HEMPSTEAD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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 \$33,674,825 for BOCES administrative and program costs.

The District's share of BOCES aid amounted to \$3,972,954.

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

D. Basis of presentation

1. District-wide financial statements

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

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

2. Fund financial 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.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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 from State and federal grants that are restricted for specific educational programs.

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

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.

Capital Projects Funds: These funds are used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

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.

E. Measurement focus and basis of accounting

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

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

HEMPSTEAD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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 measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within a reasonable period of time after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments 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.

F. Property taxes

Real property taxes for the Town of Hempstead residents are levied annually by the Board of Education no later than August 15th, and become a lien on October 1st and April 1st. Taxes are collected by the Town of Hempstead and remitted to the District during the period of October 1st through November 10th, and April 1st through May 10th without penalty.

Uncollected real property taxes have been enforced by the County in which the District is located. Nassau County has paid an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following April 1st.

G. Restricted resources

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

H. Interfund transactions

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

Advances to/from other funds represent loans to other funds which are not expected to be repaid within the subsequent year. The advances are offset by nonspendable fund balance in the fund financial statements, which indicates that the funds are not "available" for appropriation and are not expendable available financial resources

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

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The governmental funds report all interfund transactions as originally recorded. Interfund 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 10 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

I. 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, termination benefits, other postemployment benefits, workers' compensation liabilities, potential contingent liabilities, useful lives of long-lived assets and the proportionate share of net pension assets and liabilities.

J. Cash and cash equivalents

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 Federal Deposit Insurance Corporation ("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 school districts.

K. Accounts receivable

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

L. Inventories and prepaid items

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value which approximates market. These inventories are accounted for on the consumption method. Under the consumption method, a current asset for the inventories is recorded at the time of purchase and an expense/expenditure is reported in the year the goods are consumed.

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

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

M. Restricted cash

Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves and debt agreements. Restricted cash at June 30, 2017 included \$8,625,235 within the governmental funds for general reserve purposes and \$270,340 in the fiduciary funds.

N. Capital assets

Capital assets are reported at actual cost, when the information is available, or estimated historical costs, based on appraisals conducted by independent third-party professionals. 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and building improvements	\$ 15,000	Straight-line	50 years
Site improvements	\$ 15,000	Straight-line	20 years
Furniture and equipment	\$ 1,000	Straight-line	5-20 years

O. Deferred outflows of resources

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The deferred outflows of resources reported in the Statement of Net Position relates to pensions and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in the collective pension expense and the District's contributions to the pension systems (TRS and ERS) subsequent to the measurement date.

P. Deferred inflows of resources

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources in the Statement of Net Position is related to pensions and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in the collective pension expense.

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Q. Unearned revenues

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.

R. Vested employee benefits - compensated absences and termination benefits

Compensated absences

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

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

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

Consistent with GASB Pronouncements, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

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

Termination benefits

In addition to the compensated absences, certain bargaining units are entitled to lump sum payments based on years of service to the District at termination.

In the fund financial statements only the amount of matured liabilities is accrued within the general fund.

S. Other benefits

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

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

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

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In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits to retired employees and their survivors in accordance with the provisions 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 cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

T. 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 RAN's and TAN's 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.

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 BAN's issued for capital purposes to 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.

U. Accrued liabilities and long-term obligations

Payables, accrued liabilities and long-term obligations are reported in the District-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments and other post-employment benefits that will be paid from governmental funds, are reported as a liability in the funds financial statements only to the extent 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.

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For purposes of measuring the net position asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

V. Net Position and Fund Balance

District-wide financial statements

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

1. Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.
2. Restricted net position: Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
3. Unrestricted net position: Is the amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position, and is deemed to be available for general use by the District.

Fund financial statements

In the fund financial statements there are five classifications of fund balance:

1. 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 consists of inventories recorded in the School Lunch Fund of \$24,303.
2. 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:

Workers' Compensation

According to General Municipal Law §6-j, must be used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by Board action, and is funded by budgetary appropriations and such other

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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.

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 the tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund.

Retirement Contributions

According to General Municipal Law §6-r, must be used for financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the Board.

Insurance Reserve

According to General Municipal Law §6-n, must be used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action, and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the insurance reserve, however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. This reserve is accounted for in the general fund as restricted fund balance.

Employee Benefit Accrued Liability

According to General Municipal Law §6-p, must be used for the payment of accrued employee benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated.

Restricted for Debt Service

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

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Restricted - Unspent Bond Proceeds

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

Restricted for Scholarships

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the General Fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

3. Committed - Includes amounts that are subject to a purpose constraint imposed by a formal action of the District's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. The Board of Education is the decision-making authority that can, by Board resolution, commit fund balance. The District has no committed fund balances as of June 30, 2017.
4. Assigned - Includes amounts that are subject to a purpose constraint that represents an intended use established by the District's highest level of decision-making authority, or by their designated body or official. They also include 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 assignment must be narrower than the purpose of the General Fund. All encumbrances of the General Fund are classified as assigned fund balance as of June 30, 2017 based on the fact that there are no restricted resources on hand to liquidate them, and amounted to \$13,861.
5. Unassigned - Includes all other General Fund net position that does not meet the definition of the above four classifications and is deemed to be available for general use by the District.

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Fund balances for all governmental funds as of June 30, 2017 were distributed as follows:

	General	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
Nonspendable:					
Inventory	\$ -	\$ 24,303	\$ -	\$ -	\$ 24,303
Total nonspendable	-	24,303	-	-	24,303
Restricted:					
Workers' Compensation	1,211,009	-	-	-	1,211,009
Unemployment Insurance	1,282,778	-	-	-	1,282,778
Retirement contributions	804,117	-	-	-	804,117
Insurance	403,112	-	-	-	403,112
Employee Benefit Accrued Liability	2,797,541	-	-	-	2,797,541
Debt Service Fund	-	-	1,656,927	-	1,656,927
Unspent Bond Proceeds	-	-	-	14,524	14,524
Total restricted	6,498,557	-	1,656,927	14,524	8,170,008
Assigned:					
School Lunch Fund	-	1,687,967	-	-	1,687,967
Capital Projects	-	-	-	1,488,587	1,488,587
Encumbrances	13,861	-	-	-	13,861
Total assigned	13,861	1,687,967	-	1,488,587	3,190,415
Unassigned	10,955,845	-	-	-	10,955,845
Total	\$ 17,468,263	\$ 1,712,270	\$ 1,656,927	\$ 1,503,111	\$ 22,340,571

NYS Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the school district's budget for the General Fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation. As of June 30, 2017 the District was at 5.4% of the school district's budget for the General Fund for the ensuing fiscal year.

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.

W. New Accounting Standards

The District has adopted and implemented the following current Statements of the Governmental Accounting Standards Board (GASB) that are applicable as of June 30, 2017: Statement No. 77, Tax Abatement Disclosures, which requires increased disclosures surrounding tax abatements, and Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No.

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73. This statement addresses issues in the previously issued pension statements regarding payroll related measures in the required supplementary information, the selection of assumptions and deviations from other guidance, and the treatment of employee (plan member) contributions made by employers.

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

Due to the differences in the measurement focus and basis of accounting used in the 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 "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 funds Balance Sheet.

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

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

1. Long-term revenue/expense differences

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

2. Capital related differences

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

3. Long-term debt transaction differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental 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.

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4. 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.

3. **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 expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments are approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. For the fiscal year ended June 30, 2017, there were no supplemental appropriations.

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.

Certain individual budgetary expenditures exceeded their budgetary authorizations in the General Fund.

Budgets are established and used for the 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

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as 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.

4. **CASH AND CASH EQUIVALENTS - CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE AND FOREIGN CURRENCY RISKS**

The District's investment policies are governed by State statutes. In addition, the District has its own written investment policy. District monies must be deposited in FDIC insured commercial banks or trust companies located within the State. The District Treasurer is authorized to use demand accounts and

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certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit and will exceed at all times the principal of all deposits not covered by federal deposit 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.

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the federal government. Underlying securities must have a market value of at least 100 percent of the cost of the repurchase agreement.

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity.

Custodial credit risk - deposits/investments: Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

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

Deposits and investments at year-end were entirely covered by federal depository insurance or by collateral held by the District's custodial banks in the District's name. They consisted of:

Fund	Bank Balance	Carrying Amount
General Fund	\$ 28,414,618	\$ 19,118,775
Special Aid Fund	138,029	128,612
School Lunch Fund	138,851	139,273
Capital Fund	2,126,678	2,126,678
Fiduciary Funds	718,345	270,340
	\$ 31,536,521	\$ 21,783,678

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5. RECEIVABLES

A. State and federal aid

State and federal aid receivables at June 30, 2017, consisted of the following:

General Fund:

BOCES aid	\$ 1,794,227
General Aid	2,080,621
New York State Aid - excess cost aid	2,697,787
New York State Aid - prior years general aid	765,786
Total General Fund	7,338,421

Special Aid Fund:

State and federal grants	8,133,195
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School Lunch Fund:

School breakfast and lunch reimbursement	395,196
	\$ 15,866,812

B. Due from other governments

Other receivables at June 30, 2017, consisted of the following:

General Fund:

Other districts - charges for services	\$ 298,043
	\$ 298,043

C. Other receivables

Other receivables at June 30, 2017, consisted of the following:

General Fund:

Various	\$ 205,424
	\$ 205,424

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6. CAPITAL ASSETS

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending</u> <u>Balance</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 1,695,948	\$ -	\$ -	\$ 1,695,948
Construction-in-progress	17,926,198	54,727	-	17,980,925
Total nondepreciable assets	<u>19,622,146</u>	<u>54,727</u>	<u>-</u>	<u>19,676,873</u>
Capital assets that are depreciated:				
Buildings and building improvements	68,927,285	-	-	68,927,285
Furniture and equipment	3,085,844	166,626	-	3,252,470
Site improvements	2,398,220	-	-	2,398,220
Total depreciable assets	<u>74,411,349</u>	<u>166,626</u>	<u>-</u>	<u>74,577,975</u>
Less accumulated depreciation:				
Buildings and building improvements	36,982,323	2,235,461	-	39,217,784
Furniture and equipment	1,619,090	581,115	-	2,200,205
Site improvements	1,762,876	57,832	-	1,820,708
Total accumulated depreciation	<u>40,364,289</u>	<u>2,874,408</u>	<u>-</u>	<u>43,238,697</u>
Total capital assets, net	<u>\$ 53,669,206</u>	<u>\$ (2,653,055)</u>	<u>\$ -</u>	<u>\$ 51,016,151</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 50,038
Instruction	2,747,260
Food service program	73,987
Pupil transportation	3,123
	<u>\$ 2,874,408</u>

7. SHORT-TERM DEBT OBLIGATIONS

The District issued a TAN dated July 14, 2016 in the amount of \$23,500,000, which matured on June 30, 2017, bearing interest of 1.75%, with an effective rate of 0.952161%. As of June 30, 2017, the District does not have any outstanding RAN's, TAN's, BAN's or deficiency notes. Interest expense on short-term debt for the year ended June 30, 2017, amounted to \$395,257

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8. LONG-TERM DEBT OBLIGATIONS

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds payable	\$ 29,895,000	\$ -	\$ 3,055,000	\$ 26,840,000	\$ 3,100,000
Other post-employment benefits	114,772,951	22,512,958	5,888,536	131,397,373	-
Compensated absences	6,333,637	3,891	-	6,337,528	1,462,675
Workers' compensation claims payable	4,477,973	502,080	1,627,071	3,352,982	3,352,982
Claims payable	-	900,000	-	900,000	-
Termination benefits	573,500	-	3,500	570,000	-
Total long-term liabilities	<u>\$ 156,053,061</u>	<u>\$ 23,918,929</u>	<u>\$ 10,574,107</u>	<u>\$ 169,397,883</u>	<u>\$ 7,915,657</u>

Bonds Payable

Bonds payable comprised of the following:

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding at 6/30/17
QZAB Bonds	12/22/06	12/15/22	7.25%	\$ 10,750,000
Serial Bonds	06/01/09	06/01/24	4.00 - 5.00%	3,400,000
Serial Bonds	07/18/13	07/15/28	3.00 - 4.00%	7,095,000
QZAB Bonds	10/02/13	07/15/28	1.15 - 5.30%	3,835,000
Serial Bonds	07/17/14	07/15/24	2.00 - 3.00%	1,760,000
				<u>\$ 26,840,000</u>

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The following is a summary of the maturity of long-term indebtedness

<u>June 30,</u>	<u>Serial Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,100,000	\$ 627,728	\$ 3,727,728
2019	3,150,000	580,473	3,730,473
2020	3,205,000	528,912	3,733,912
2021	3,265,000	472,975	3,737,975
2022	3,325,000	413,382	3,738,382
2023-2027	8,590,000	1,122,320	9,712,320
2028-2029	2,205,000	99,761	2,304,761
	<u>\$ 26,840,000</u>	<u>\$ 3,845,551</u>	<u>\$ 30,685,551</u>

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

Interest paid	\$ 502,756
Less interest accrued in the prior year	(242,156)
Plus interest accrued in the current year	<u>229,848</u>
Total interest expense	<u>\$ 490,448</u>

Termination Benefits

In addition to payments for accumulated time, the teachers assistants contracts with the District provide for the lump sum payment upon termination of \$4,000, \$5,500 or \$8,500 after 10, 15 or 20 years of employment, respectively. The current estimated value of the payout is \$570,000 and is recorded as a long-term liability in the Statement of Net Position.

Unissued Debt

On June 13, 2006, the voters authorized the issuance of bonds not to exceed \$33,317,483 to construct improvements and alterations to all District owned school buildings and sites. As of June 20, 2017, the District had issued \$32,641,931 of bonds; \$675,552 of bonds had not been issued. The projects are almost completed and expenditures are recorded in the capital projects fund.

On March 15, 2011, the voters authorized the issuance of bonds not to exceed \$18,135,084 for the Prospect School Bond Project. As of June 30, 2017, the District had issued \$14,920,000 of bonds and \$3,215,084 of funding was provided by State sources and the general fund.

9. PENSION PLANS

General information

The District participates in the New York State and Local Employees' Retirement System ("NYSERS") and the New York State Teachers' Retirement System ("NYSTRS") (collectively referred to as the "Systems").

HEMPSTEAD UNION FREE SCHOOL DISTRICT
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Plan descriptions and benefits provided

Employees' Retirement System

The New York State and Local Employees' Retirement System is a cost-sharing, multiple-employer retirement system. NYSERS 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 NYSERS. NYSERS benefits are established under the provisions of the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in NYSERS, 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 ("NYSGLIP"), which provides death benefits in the form of life insurance. NYSERS is included within New York State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Teachers' Retirement System

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

Contributions

The Systems are noncontributory for the employee who joined prior to July 27, 1976 (tiers I and II). For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary (tiers III and IV). For NYSERS, employees who joined the system between January 1, 2010 and April 1, 2012, are required to contribute 3% of their salary (tier V). For NYSTRS, employees who joined the system between January 1, 2010 and April 1, 2012, are required to contribute 3.5% of their salary (tier V). In addition, employee contribution rates (3% to 6%) under NYSERS and NYSTRS tier VI (those who joined after April 1, 2012) vary based on a sliding salary scale. With the exception of NYSERS and NYSTRS tier V and VI employees, employees in the system more than ten years are no longer required to contribute. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually, which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows:

Year	NYSERS	NYSTRS
2017	\$ 2,132,441	\$ 7,307,296
2016	2,222,023	8,303,066
2015	2,483,849	11,795,529

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

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

At June 30, 2017, the District reported the following liability for its proportionate share of the net pension liability for each of the Systems.

	NYSERS	NYSTRS
Actuarial valuation date	April 1, 2016	June 30, 2016
Net pension liability	\$ 4,535,819	\$ 4,335,567
District's portion of the Plan's total net pension liability	0.04827%	0.40480%

For the year ended June 30, 2017, the District recognized pension expense of \$2,756,038 and \$7,479,565 for NYSERS and NYSTRS, respectively. At June 30, 2017, the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources were as follows:

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	Deferred Outflows of Resources - <u>NYSERS</u>	Deferred Outflows of Resources - <u>NYSTRS</u>	Deferred Inflows of Resources - <u>NYSERS</u>	Deferred Inflows of Resources - <u>NYSTRS</u>
Difference between expected experience and actual experience	\$ 113,663	\$ -	\$ (688,790)	\$ (1,408,435)
Changes of assumptions	1,549,602	24,698,148	-	-
Net difference between projected and actual earnings on pension plan investments	905,987	9,748,633	-	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	515,871	2,034,538	(20,675)	(75,075)
Employer contributions subsequent to the measurement date	<u>544,254</u>	<u>7,307,296</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,629,377</u>	<u>\$ 43,788,615</u>	<u>\$ (709,465)</u>	<u>\$ (1,483,510)</u>

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

	<u>NYSERS</u>	<u>NYSTRS</u>
<u>For the year ended:</u>		
2018	\$ 1,016,356	\$ 3,323,605
2019	1,016,356	3,323,605
2020	884,012	10,894,663
2021	(541,066)	8,539,086
2022	-	4,083,081
Thereafter	-	4,833,769

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.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Significant actuarial assumptions used in the valuations were as follows:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.00%	7.50%
Salary scale	3.80%	1.90% - 4.72%
Decrement tables	April 1, 2010 - March 31, 2015	July 1, 2009 - June 30, 2014
	System's Experience	System's Experience
Inflation rate	2.50%	2.50%
Cost of living adjustments	1.30%	1.50%

For NYSERS, 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 NYSTRS, annuitant mortality rates are based on system experience with adjustments for mortality improvements based on the Society of Actuaries’ Scale MP-2014.

For NYSERS, 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. For NYSTRS, 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.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected 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:

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	NYSTRS		NYSERS	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Measurement date	June 30, 2016		March 31, 2017	
Asset Type:				
Domestic equity	37.0%	6.10%	36.0%	4.55%
International equity	18.0%	7.30%	14.0%	6.35%
Private equity	7.0%	9.20%	10.0%	7.75%
Real Estate	10.0%	5.40%	10.0%	5.80%
Absolute return strategies	-	-	2.0%	4.00%
Oportunistic portfolio	-	-	3.0%	5.89%
Real assets	-	-	3.0%	5.54%
Bond and mortgages	-	-	17.0%	1.31%
Cash	-	-	1.0%	-0.25%
Inflation indexed bonds	-	-	4.0%	1.50%
Domestic fixed income securities	17.0%	1.00%	-	-
Global fixed income securities	2.0%	0.80%	-	-
Mortgages	8.0%	3.10%	-	-
Short-term	1.0%	0.10%	-	-
	100.0%		100.0%	

The real rate of return is net of a long-term inflation assumption of 2.5% for NYSERS and 2.1% for NYSTRS.

Discount rate

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

Sensitivity of the proportionate share of the net pension liability to the discount rate assumption

The following presents the District's proportionate share of the net pension asset/(liability) calculated using the discount rate of 7.0% for NYSERS and 7.5% for NYSTRS, 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 (6.0% for NYSERS and 6.5% for NYSTRS) or 1-percentage point higher (8.0% for NYSERS and 8.5% for NYSTRS) than the current rate:

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<u>NYSERS</u>	1% Decrease (6.00%)	Current assumption (7.00%)	1% Increase (8.00%)
Employer's proportionate share of the net pension asset (liability)	\$ (14,486,508)	\$ (4,535,819)	\$ 3,877,469
<u>NYSTRS</u>	1% Decrease (6.50%)	Current assumption (7.50%)	1% Increase (8.50%)
Employer's proportionate share of the net pension asset (liability)	\$ (56,567,320)	\$ (4,335,567)	\$ 39,473,690

Pension plan fiduciary net position

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

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

Payables to the pension plan

For NYSERS, 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 NYSERS wages multiplied by the employer's contribution rate, by tier. Accrued employer retirement contributions as of June 30, 2017 amounted to \$544,254.

For NYSTRS, 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 NYSTRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the NYSTRS System. Accrued employer retirement contributions as of June 30, 2017 amounted to \$7,307,296.

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Pension Plans – Other

Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. Contributions made by employees for the year ended June 30, 2017, totaled \$3,584,949.

Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2017 totaled \$304,618.

10. INTERFUND TRANSACTIONS - GOVERNMENTAL FUNDS

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenues</u>	<u>Expenditures</u>
General Fund	\$ 6,002,391	\$ 3,309,062	\$ -	\$ 525,078
Special Aid Fund	479,530	5,819,227	525,078	-
School Lunch Fund	2,137,191	479,530	-	-
Debt Service Fund	1,656,927	-	-	-
Capital Projects Fund	196,982	708,549	-	-
Fiduciary Funds	-	156,653	-	-
Totals	<u>\$ 10,473,021</u>	<u>\$ 10,473,021</u>	<u>\$ 525,078</u>	<u>\$ 525,078</u>

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Position.

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

11. OTHER POST-EMPLOYMENT BENEFITS (“OPEB”)

Plan description and annual OPEB cost

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

The District implemented GASB Standards for Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions, (standards codified in 2012) in the school year June 30, 2008. This requires the District to calculate and record a net other post-employment benefit obligation at year-end. The net other post-employment benefit obligation is basically the cumulative difference between the actuarially required contribution and actual contributions made.

The District assumes between 86% and 90% of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums

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mature (come due for payment). For the fiscal year ended June 30, 2017, the District recognized a general fund expenditure of \$5,888,536 for insurance premiums for 507 currently enrolled retirees, including spouses. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the “pay as you go” method.

The District has obtained an actuarial valuation report as of July 1, 2016 which indicates that the total liability for other post-employment benefits is \$296,098,316.

The District’s annual 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 Standards. 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 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:

	For the Year Ended June 30 2017
Annual required contribution	\$ 24,305,408
Interest on net OPEB obligation	4,590,918
Adjustment to annual required contribution	(6,383,368)
Annual OPEB cost	22,512,958
Contributions made	5,888,536
Increase in net OPEB obligation	16,624,422
Net OPEB obligation, beginning of year	114,772,951
Net OPEB obligation, end of year	\$ 131,397,373

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

Fiscal Year Ended	Annual OPEB Cost	OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/17	\$ 22,512,958	\$ 5,888,536	26.2%	\$ 131,397,373
06/30/16	22,321,855	5,894,444	26.4%	114,772,951
06/30/15	22,156,723	5,228,727	23.6%	98,345,540

Funded status and funding progress

In the July 1, 2016, actuarial valuation, the plan was 0% funded. The actuarial accrued liability for benefits was \$296,098,316 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$296,098,316. The covered payroll (annual payroll of active employees covered by the plan) was \$74,247,627, and the ratio of the UAAL to the covered payroll was 398.8%.

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

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 July 1, 2016 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.0% discount rate and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 4.5% after 6 years. The UAAL is being amortized as a level dollar amortization on an open basis over 30 years.

12. RISK MANAGEMENT

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

The District has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. General Fund liabilities only include amounts for reported claims and do not include claims which were incurred on or before year end but not reported ("IBNR").

Claims activity is summarized below:

<u>Fiscal years ended June 30:</u>	<u>Beginning Balance</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2017	\$ 4,477,973	\$ 502,080	\$ 1,627,071	\$ 3,352,982
2016	4,199,066	1,716,343	1,437,436	4,477,973
2015	4,520,824	1,047,475	1,369,233	4,199,066

The District has not purchased any annuity contracts.

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13. TAX ABATEMENTS

The Nassau County Industrial Development Agency enters into various property tax abatement programs for the purpose of economic development. The amount of property tax revenue that was reduced as a result of these programs is not available. The District received payment in lieu of taxes (PILOT) payments totaling \$4,815,478.

14. CONTINGENCIES AND COMMITMENTS

Government grants

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

Property tax cap

In June 2011, the New York State Legislature enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions. For fiscal years beginning in 2012-13 through at least June 15, 2016, growth in the property tax levy (the total amount to be raised through property taxes charged on a municipality's taxable assessed value of property) will be capped at 2 percent or the rate of inflation (but not less than 1 percent), whichever is less, with some exceptions. The New York State Comptroller recently set the allowable levy growth factor for school districts for fiscal years beginning July 1, 2015 at 1.62 percent (before exemptions). School districts can exceed the tax levy limit by a 60 percent vote of the governing body, or by local law. For fiscal years beginning July 1, 2016, the allowable levy growth factor was set at 0.12 percent. In July 2015, the Real Property Tax Cap Laws were extended to June 15, 2020.

Litigation

The District's middle school teachers have filed a class action grievance seeking back-pay in an amount equal to 20% of their salary for the 2016-17 school year, because the District assigning each teacher a sixth class to teach, which the Grievant alleges violates the CBA and/or past practice. The District is vigorously defending this claim based upon case-law holding that so long as the express provisions of the CBA are not violated – which they were not – school districts have the authority to determine how many classes teachers teach per day. The Grievants are relying upon the past practice of the District which has apparently been to pay individual teachers an additional 20% of their salary as a stipend when assigned an additional teaching period. Should the hearing officer rule in favor of the Grievants, the potential exposure to the District is approximately \$1,500,000.

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

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Operating Leases

The District leases various equipment under non-cancelable operating leases, principally in the general fund. Rental expense for the year 2017 was \$408,191. The minimum remaining operating lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 408,191
2019	407,707
2020	<u>396,683</u>
	<u>\$ 1,212,581</u>

In the year ended June 30, 2017, the District leased space in two buildings located in the District. The contracts were year to year. Rental expense for the year was \$641,208. Anticipated costs for the 2017-18 year are \$670,000.

15. FUTURE ACCOUNTING STANDARDS

GASB has issued Statement No. 75, Accounting and Financial Reporting for Post-employment 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 Post-employment 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 Post-employment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

GASB has issued Statement No. 85, Ominibus, effective for the year ending June 30, 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB has issued Statement No. 86, Certain Debt Extinguishment Issues, effective for the year ending June 30, 2018. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB has issued Statement No. 87, Leases, effective for the year ending June 30, 2021. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

The District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

16. SUBSEQUENT EVENTS

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

Issuance of TANs

On September 14, 2017, the District issued tax anticipation notes in the amount of \$18,000,000 which are due June 29, 2018 and bear interest at 1.82%.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

HEMPSTEAD UNION FREE SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Year-end Encumbrances</u>	<u>Variance Better (Worse)</u>
REVENUES					
Local sources:					
Real property taxes	\$ 70,774,098	\$ 70,774,098	\$ 70,886,167		\$ 112,069
Other tax items	7,621,557	7,621,557	9,725,572		2,104,015
Charges for services	804,205	804,205	595,299		(208,906)
Use of money and property	18,963	18,963	33,991		15,028
Sale of property and compensation for loss	-	-	506,705		506,705
Miscellaneous	919,052	919,052	1,683,541		764,489
Interfund Revenues	50,000	50,000	108,107		58,107
Total local sources	<u>80,187,875</u>	<u>80,187,875</u>	<u>83,539,382</u>		<u>3,351,507</u>
State sources	<u>108,980,015</u>	<u>108,980,015</u>	<u>119,063,301</u>		<u>10,083,286</u>
Total revenues	<u>189,167,890</u>	<u>189,167,890</u>	<u>202,602,683</u>		<u>13,434,793</u>
EXPENDITURES					
General support:					
Board of Education	194,907	194,907	171,446	\$ -	23,461
Central administration	397,039	419,139	416,040	-	3,099
Finance	1,726,423	1,758,956	1,559,395	261	199,300
Staff	1,431,591	1,628,433	1,428,785	13,000	186,648
Central services	16,676,290	16,639,535	15,254,757	-	1,384,778
Special items	3,035,150	3,752,280	2,402,404	-	1,349,876
Total general support	<u>23,461,400</u>	<u>24,393,250</u>	<u>21,232,827</u>	<u>13,261</u>	<u>3,147,162</u>
Instruction:					
Instruction, administration and improvement	6,246,833	6,430,268	5,855,105	-	575,163
Teaching - regular school	62,795,517	67,294,949	63,499,026	600	3,795,323
Programs for children with handicapping conditions	34,915,258	30,113,538	37,357,572	-	(7,244,034)
Occupational education	1,686,705	1,686,705	1,382,718	-	303,987
Teaching - special school	526,324	491,206	461,392	-	29,814
Instructional media	3,554,529	3,678,316	3,323,715	-	354,601
Pupil services	6,235,857	7,867,603	7,147,338	-	720,265
Total instruction	<u>115,961,023</u>	<u>117,562,585</u>	<u>119,026,866</u>	<u>600</u>	<u>(1,464,881)</u>
Pupil transportation	7,700,000	9,203,889	7,948,154	-	1,255,735
Employee benefits	37,167,280	33,654,153	36,125,206	-	(2,471,053)
Debt service:					
Principal	3,055,000	3,055,000	3,055,000	-	-
Interest	1,422,187	898,013	898,013	-	-
Total expenditures	<u>188,766,890</u>	<u>188,766,890</u>	<u>188,286,066</u>	<u>13,861</u>	<u>466,963</u>
OTHER FINANCING USES					
Interfund transfers	450,000	450,000	525,078	-	(75,078)
Total expenditures and other financing uses	<u>189,216,890</u>	<u>189,216,890</u>	<u>188,811,144</u>	<u>\$ 13,861</u>	<u>391,885</u>
Net change in fund balance	<u>\$ (49,000)</u>	<u>\$ (49,000)</u>	13,791,539		<u>\$ 13,826,678</u>
Fund balance, beginning of year			<u>3,676,724</u>		
Fund balance, end of year			<u>\$ 17,468,263</u>		

Note to Required Supplementary Information

Budget Basis of Accounting

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

The accompanying notes to financial statements are an integral part of this statement.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

HEMPSTEAD UNION FREE SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/16	\$ -	\$ 296,098,316	\$ 296,098,316	0%	\$ 74,247,627	398.8%
07/01/14	-	223,321,884	223,321,884	0%	71,704,806	311.4%
07/01/12	-	207,304,762	207,304,762	0%	79,629,169	260.3%

The accompanying notes to financial statements are an integral part of this statement.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NYSERS
LAST TEN FISCAL YEARS*
(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>**2014</u>	<u>**2013</u>	<u>**2012</u>	<u>**2011</u>	<u>**2010</u>	<u>**2009</u>	<u>**2008</u>
District's proportionate share of the net pension liability	.04827%	0.04547%	0.04676%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's proportionate share of the net pension liability	\$ (4,536)	\$ (7,298)	\$ (1,580)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's covered payroll	\$ 14,079	\$ 14,200	\$ 14,264	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's proportionate share of the net pension liability as a percentage of covered payroll	32.22%	51.40%	11.07%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.68%	97.95%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* The amounts presented for each fiscal year were determined as of March 31.

Not Available = N/A

****Note to Required Supplementary Information**

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET/LIABILITY - NYSTRS
LAST TEN FISCAL YEARS*
(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>**2014</u>	<u>**2013</u>	<u>**2012</u>	<u>**2011</u>	<u>**2010</u>	<u>**2009</u>	<u>**2008</u>
District's proportionate share of the net pension asset (liability)	0.40480%	0.43395%	0.44572%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's proportionate share of the net pension asset (liability)	\$ (4,336)	\$ 45,073	\$ 49,650	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's covered payroll	\$ 62,972	\$ 63,931	\$ 69,950	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's proportionate share of the net pension asset as a percentage of covered payroll	6.89%	70.50%	70.98%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension asset (liability)	99.01%	110.46%	111.48%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* The amounts presented for each fiscal year were determined as of June 30.

Not Available = N/A

****Note to Required Supplementary Information**

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

HEMPSTEAD UNION FREE SCHOOL DISTRICT
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS - NYSERS
LAST TEN FISCAL YEARS*
(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 2,132	\$ 2,222	\$ 2,484	\$ 2,599	\$ 2,442	\$ 1,855	\$ 1,072	\$ 1,025	\$ 1,156	\$ 1,221
Contributions in relation to the contractually required contribution	<u>2,132</u>	<u>2,222</u>	<u>2,484</u>	<u>2,599</u>	<u>2,442</u>	<u>1,855</u>	<u>1,072</u>	<u>1,025</u>	<u>1,156</u>	<u>1,221</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 14,079	\$ 14,200	\$ 14,264	\$ 13,995	\$ 13,309	\$ 13,573	\$ 13,554	\$ 13,685	\$ 14,300	\$ 13,675
Contributions as a percentage of covered payroll	15.14%	15.65%	17.41%	18.57%	18.35%	13.67%	7.91%	7.49%	8.08%	8.93%

* The amounts presented for each fiscal year were determined as of March 31.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

HEMPSTEAD UNION FREE SCHOOL DISTRICT
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS - NYSTRS
LAST TEN FISCAL YEARS*
(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 7,307	\$ 8,303	\$ 11,796	\$ 11,068	\$ 7,831	\$ 7,294	\$ 5,722	\$ 3,920	\$ 4,598	\$ 5,136
Contributions in relation to the contractually required contribution	<u>7,307</u>	<u>8,303</u>	<u>11,796</u>	<u>11,068</u>	<u>7,831</u>	<u>7,294</u>	<u>5,722</u>	<u>3,920</u>	<u>4,598</u>	<u>5,136</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 62,972	\$ 63,931	\$ 69,950	\$ 68,032	\$ 64,660	\$ 63,899	\$ 64,314	\$ 64,445	\$ 61,730	\$ 60,207
Contributions as a percentage of covered payroll	11.60%	12.99%	16.86%	16.27%	12.11%	11.41%	8.90%	6.08%	7.45%	8.53%

* The amounts presented for each fiscal year were determined as of June 30.

**OTHER
SUPPLEMENTARY
INFORMATION**

**HEMPSTEAD UNION FREE SCHOOL DISTRICT
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND THE REAL PROPERTY TAX LIMIT - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Change from adopted budget to final budget:

Adopted budget		\$ 189,167,890
Add:		
Prior year's encumbrances		49,000
Final budget		\$ 189,216,890

§1318 of real property tax law limit calculation:

2017-2018 voter-approved budget		\$ 202,696,297
Maximum allowed (4% of 2017-2018 budget)		\$ 8,107,852

General Fund fund balance subject to §1318 of real property tax law:

Unrestricted fund balance:		
Assigned fund balance	\$ 13,861	
Unassigned fund balance	10,955,845	\$ 10,969,706
Less:		
Encumbrances	13,861	13,861

General Fund fund balance subject to §1318 of real property tax law		\$ 10,955,845
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Actual percentage		5.4%
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The accompanying notes to financial statements are an integral part of this statement.

HEMPSTEAD UNION FREE SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

PROJECT TITLE SED Project#	Budget		Expenditures and Transfers			Unexpended Balance	Proceeds of Obligations	Methods of Financing			Fund Balance June 30, 2017
	June 30, 2016	June 30, 2017	Prior Years	Current Year	Total			State Aid	Local Sources	Total	
Projects Funded by Appropriations											
District-wide improvements	\$ 1,500,000	\$ 1,500,000	\$ -	\$ 11,413	\$ 11,413	\$ 1,488,587	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,488,587
Bond issue - 2010 - 11											
Prospect School 008-012	18,135,084	18,247,083	18,247,083	-	18,247,083	-	14,920,000	2,760,811	454,273	18,135,084	(111,999)
Bond issue - 2005 - 06											
Hempstead High School 0020-020	13,515,982	13,515,982	12,674,993	43,314	12,718,307	797,675	13,515,982			13,515,982	797,675
Hempstead High School 0020-024	205,500	205,500	201,100		201,100	4,400	205,500			205,500	4,400
Hempstead Middle School 0001-022	5,810,164	5,810,164	5,810,164		5,810,164	-	5,810,164			5,810,164	-
Hempstead Middle School 0001-023	211,432	211,432	211,432		211,432	-	211,432			211,432	-
Franklin Street Elementary 0002-013	3,613,905	3,613,905	3,613,905		3,613,905	-	3,613,905			3,613,905	-
Franklin Street Elementary 0003-014	2,384,283	2,384,283	2,384,283		2,384,283	-	2,384,283			2,384,283	-
Jackson Main Elementary 0004-013	2,420,482	2,420,482	2,420,482		2,420,482	-	2,420,482			2,420,482	-
Jackson Annex 0005-009	1,474,492	1,474,492	1,474,492		1,474,492	-	1,474,492			1,474,492	-
Ludlum Elementary 0006-015	2,260,529	2,260,529	2,260,529		2,260,529	-	2,260,529			2,260,529	-
Marshall School 0007-013	1,420,714	1,420,714	1,420,714		1,420,714	-	1,420,714			1,420,714	-
	<u>33,317,483</u>	<u>33,317,483</u>	<u>32,472,094</u>	<u>43,314</u>	<u>32,515,408</u>	<u>802,075</u>	<u>33,317,483</u>	<u>-</u>	<u>-</u>	<u>33,317,483</u>	<u>802,075</u>
	<u>52,952,567</u>	<u>53,064,566</u>	<u>\$ 50,719,177</u>	<u>\$ 54,727</u>	<u>\$ 50,773,904</u>	<u>\$ 2,290,662</u>	<u>\$ 48,237,483</u>	<u>\$ 2,760,811</u>	<u>\$ 1,954,273</u>	<u>\$ 52,952,567</u>	<u>2,178,663</u>
											Unissued Debt (675,552)
											Fund Balance <u>\$ 1,503,111</u>

**OTHER
SUPPLEMENTARY
INFORMATION**

HEMPSTEAD UNION FREE SCHOOL DISTRICT
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2017

Capital assets, net		\$ 51,016,151
Add:		
Unspend bond proceeds	<u>14,524</u>	14,524
Deduct:		
Short-term portion of bonds payable	\$ 3,100,000	
Long-term portion of bonds payable	<u>23,740,000</u>	<u>26,840,000</u>
Net investment in capital assets		<u><u>\$ 24,190,675</u></u>

The accompanying notes to financial statements are an integral part of this statement.