KENMORE-TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2017

KENMORE-TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT

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June 30, 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Education
Kenmore-Town of Tonawanda Union Free School District

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the 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 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary 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 accompanying supplementary information as listed in the table of contents, including the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 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, 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.

Lumsden & McCormick, LLP

October 6, 2017

Kenmore-Town of Tonawanda Union Free School District
Management's Discussion and Analysis
June 30, 2017
(Unaudited)

Introduction

Management's Discussion and Analysis (MD&A) of Kenmore-Town of Tonawanda Union Free School District (the District) provides an overview of the District's financial activities and performance for the year ended June 30, 2017. The information contained in the MD&A should be considered in conjunction with the information presented as part of the District's financial statements that follow. This MD&A, the financial statements and notes thereto are essential to obtaining a full understanding of the District's financial position and results of operations. The District's financial statements have the following components: (1) government-wide financial statements; (2) governmental fund financial statements; (3) reconciliations between the government-wide and governmental fund financial statements; (4) agency fund statements; (5) notes to the financial statements; and (6) supplementary information.

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. In 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The results of this statement include recognizing a total OPEB liability and related deferred outflows and deferred inflows of resources. The cumulative effect of implementing this required change in accounting principle resulted in a restatement of beginning net position as detailed in Note 2 to the financial statements. The comparative data in the MD&A for 2016 has not been restated.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net difference reported as net position. The statement of activities presents information showing how the District's net position changed during each year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future periods. The government-wide financial statements present information about the District as a whole. All of the activities of the District are considered to be governmental activities.

Governmental fund financial statements focus on near-term inflows and outflows of resources, as well as on balances of resources available at the end of the year. Such information may be useful in evaluating the District's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the District's near-term financing decisions. The reconciliation portion of the financial statements facilitates the comparison between governmental funds and governmental activities.

Agency funds are used to account for resources held for the benefit of parties outside the District. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's programs. The notes to the financial statements provide additional information that is essential for a full understanding of the government-wide and governmental fund financial statements.

Supplementary information further explains and supports the financial statements and includes information required by generally accepted accounting principles and the New York State Department of Education.

Condensed Statement of Net Position	2017	2016	Change $	Change %
Current and other assets	$ 83,541,000	$ 79,349,000	$ 4,192,000	5.3%
Net pension asset	-	40,519,000	(40,519,000)	-100.0%
Capital assets	136,244,000	109,765,000	26,479,000	24.1%
Total assets	219,785,000	229,633,000	(9,848,000)	-4.3%
Deferred outflows of resources	49,046,000	20,936,000	28,110,000	134.3%
Long-term liabilities	95,444,000	90,667,000	4,777,000	5.3%
Other liabilities	74,680,000	48,155,000	26,525,000	55.1%
Total liabilities	170,124,000	138,822,000	31,302,000	22.5%
Deferred inflows of resources	4,847,000	17,516,000	(12,669,000)	-72.3%
Net position:				
Net investment in capital assets	53,954,000	47,782,000	6,172,000	12.9%
Restricted	19,548,000	15,088,000	4,460,000	29.6%
Unrestricted	20,358,000	31,361,000	(11,003,000)	-35.1%
Total net position	$ 93,860,000	$ 94,231,000	$ (371,000)	-0.4%

Net position amounted to $93,860,000 and $94,231,000 as of June 30, 2017 and 2016. A significant portion of the District's net position reflects its investment in capital assets consisting of land, buildings and improvements, vehicles, and furniture and equipment, less outstanding debt used to acquire those assets. The District uses capital assets to provide services to students; consequently, these assets are not available for future spending.

The District's largest portion of its net position is restricted on how it may be used. Reserves are set aside for specific purposes governed by law, and include the debt service reserve, which is required to be used for the payment of bonds issued to finance capital projects; the capital reserve, which is set aside to pay for future renovations and bus purchases as approved by the District's voters; the employee benefit accrued liability reserve, which is restricted to pay for future accumulated sick and vacation time; a repair reserve, which is restricted for emergency repairs to the District's capital assets; and the tax certiorari reserve, which is used to pay tax judgments and claims. Other restricted resources include the retirement contribution, unemployment insurance, and workers' compensation insurance reserves.

Current assets increased by $4,192,000 (increase of $21,129,000 or 36.3% in 2016). These balances consist of cash and receivables from other governments and third parties. The changes in individual account balances reflect the timing of cash flows, the impact of the District's current year operating results, and the unspent portion of a bond anticipation note (BAN). The increase in capital assets of $26,479,000 (decrease of $9,255,000 or 7.8% in 2016) is mainly due to $27,700,000 spent on the District's 2014 capital improvement project.

Other liabilities increased by $26,525,000 (increase of $22,422,000 or 87.1% in 2016) due to the issuance of the BAN. The District's long-term liabilities increased $4,777,000 (increase of $2,983,000 in 2016) as debt payments of $8,611,000 were offset slightly by bond proceeds of $1,124,000 and the increase in accrued compensated absences and other benefits of $166,000, offset by the total OPEB liability of $12,541,000 due to the required recognition of GASB 75.

Changes of assumptions in the New York State Teachers' Retirement System (TRS), specifically reducing the discount rate from 8.0% to 7.5%, changed the 2016 net pension asset of $40,519,000 to a liability of $4,141,000. This change accompanied by a decrease in the net pension liability for the New York State and Local Employees' Retirement System (ERS) of $4,585,000 resulted in a total net pension liability decrease of $444,000.

Changes in deferred outflows and deferred inflows of resources reflect changes in pension activity at the State level which is required to be reflected on the District's financial statements. Deferred outflows of resources include contributions required to be paid by the District to the State pension systems after the measurement date, and as such are not included in the current net pension position. Deferred outflows of resources and deferred inflows of resources also reflect variances from actuarial assumptions, actual results of investment earnings compared to projected earnings, and changes of assumptions. The District has no control or authority over these transactions.

			Change	
Condensed Statement of Activities	**2017**	**2016**	**$**	**%**
Revenues				
Program revenues				
Charges for services	$ 3,673,000	$ 3,418,000	$ 255,000	7.5%
Operating grants and contributions	8,558,000	10,184,000	(1,626,000)	-16.0%
General revenues				
Property taxes	83,496,000	83,296,000	200,000	0.2%
Sales tax	8,161,000	8,123,000	38,000	0.5%
State aid	57,969,000	53,937,000	4,032,000	7.5%
Other	1,236,000	1,042,000	194,000	18.6%
Total revenue	163,093,000	160,000,000	3,093,000	1.9%
Expenses				
Instruction	122,842,000	117,963,000	4,879,000	4.1%
Support services				
General support	16,401,000	16,079,000	322,000	2.0%
Pupil transportation	7,087,000	5,972,000	1,115,000	18.7%
Food service	2,806,000	2,905,000	(99,000)	-3.4%
Interest and other	1,865,000	1,618,000	247,000	15.3%
Total expenses	151,001,000	144,537,000	6,464,000	4.5%
Special item				
Impairment loss	-	(10,654,000)	10,654,000	-100.0%
Change in net position	12,092,000	4,809,000	7,283,000	151.4%
Net position - beginning	94,231,000	89,422,000		
Restatement - GASB 75	(12,463,000)			
Net position - ending	$ 93,860,000	$ 94,231,000	$ (371,000)	-0.4%

District revenues increased by $3,093,000 (increase of $5,826,000 or 3.8% in 2016). An increase in real property taxes of $3,628,000 or 5.7% was offset by a decrease of $3,428,000 and 17.1% in property tax items and specifically payment-in-lieu of taxes (PILOT) due to the closing of the Huntley Power generation facility. State aid increased by $4,032,000 in 2017 ($4,505,000 or 9.1% in 2016) due to the phase-out of the gap elimination adjustment which was $2,077,000 in 2016, along with $2,231,000 received from Empire State Development Corporation to offset the reduction in PILOT revenue received in previous years for the Huntley facility. Operating grants and contributions decreased $1,626,000 (decrease of $863,000 or 7.8% in 2016) primarily due to reduction in grant funds received from New York State and in-kind services. The District participates in the Qualified Zone Academy Bond (QZAB) program that provides low interest rates to fund targeted programs. The QZAB program also requires service providers to perform in-kind services on behalf of the District which amounted to $378,000 and $1,170,000 in 2017 and 2016.

Total expenses increased $6,464,000 in 2017 (increase of $6,826,000 or 5.0% in 2016). The District recognized $6,875,000 of pension expense from TRS in 2017 ($2,687,000 of pension income in 2016) due to the decrease in the discount rate. The increase in pension expense is allocated to the functional expense categories with a majority of the increase allocated to instructional expense.

Financial Analysis of the District's Funds

Total fund balances for the governmental funds decreased from $31,422,000 to $9,077,000 as described below:

- Spending across all governmental funds increased by $24,077,000 or 14.8% (decrease of $1,776,000 or 1.1% in 2016). The increase is primarily due to $29,977,000 in capital project expenditures. Capital projects have been financed with bond anticipation notes (BANs). When the BANs are converted to bonds, the deficit capital projects fund will recognize the issuance of the bond as a financing source which serves to eliminate the deficit and will affect the total fund balance of the District.
- Total fund revenue increased $2,707,000 or 1.7% ($5,920,000 or 3.8% increase in 2016) due to the previously mentioned increase in State aid.
- Salary costs remained consistent with the prior year decreasing by 0.2% due to retirements in 2017, with some of those positions not being replaced. This reduction was offset by raises mandated by bargaining contacts.

General Fund Budgetary Highlights

The revenue budget for 2017 was $150,436,000. Actual revenue was over budget by $3,773,000 or 2.5%. The significant variances included state sources ($1,701,000) and charges for services ($1,066,000). The difference in state sources is due to the State aid received in 2017 relating to the Huntley facility as previously mentioned.

Actual expenditures and carryover encumbrances were less than the final amended budget by $7,984,000 or 5.1%. The significant variances between actual and final budgeted expenditures occurred in central services, programs for children with disabilities, and employee benefits; these differences are due to conservative budgeting and a conscious effort to manage expenses.

Capital Assets

	2017	2016
Land and land improvements	$ 4,976,000	$ 4,976,000
Buildings and improvements	136,153,000	136,294,000
Furniture and equipment	6,867,000	5,855,000
Vehicles	11,471,000	10,741,000
Construction in progress	30,124,000	3,011,000
	189,591,000	160,877,000
Accumulated depreciation	(53,347,000)	(51,112,000)
	$ 136,244,000	$ 109,765,000

Current year additions of $30,437,000 were offset by depreciation expense and loss on disposals of $3,958,000. Most of the current year additions were related to the District's 2014 capital improvement project.

Debt

At June 30, 2017, the District had $54,549,000 in outstanding bonds and energy performance contracts, with $8,549,000 due within one year ($62,026,000 outstanding in 2016). Outstanding compensated absences and other employee benefits payable were $14,564,000 ($14,398,000 in 2016) with $1,788,000 expected to be paid within one year.

Additional information on the District's long-term liabilities can be found in the notes to the financial statements.

Current Financial Issues and Concerns

School districts in New York State are impacted by the political pressures imposed on officials in funding of education. Year to year changes in funding levels and State Aid formulas complicate the planning process for schools.

The District will continue to mitigate the impact of rising costs of education on the overall budget, including using reserve funds as permitted by law to lessen the budget impact of rising costs. The property tax levy cap emphasizes the importance of using reserves judiciously and the necessity of implementing creative cost cutting measures. These issues and concerns require management to plan carefully and prudently to provide the educational resources necessary to meet student needs.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 questions about this report or need additional financial information, contact John Brucato, Assistant Superintendent for Finance, Kenmore-Town of Tonawanda Union Free School District, 1500 Colvin Boulevard, Buffalo, New York 14223.

Statement of Net Position

June 30, 2017
(With comparative totals as of June 30, 2016)

	2017	2016
Assets		
Cash	$ 71,172,707	$ 63,710,418
Accounts receivable	238,799	307,455
Due from other governments	6,129,420	5,971,933
State and federal aid receivable	3,014,497	3,947,136
Due from fiduciary funds	783,204	3,229,965
Inventory	197,916	176,846
Cash surrender value of life insurance	2,005,000	2,005,000
Net pension asset	-	40,519,036
Capital assets (Note 6)	189,591,055	160,877,130
Accumulated depreciation	(53,347,550)	(51,111,787)
Total assets	219,785,048	229,633,132
Deferred Outflows of Resources		
Defeasance loss	31,049	62,099
Grants	2,012,238	2,257,761
Deferred outflows of resources related to pensions	45,507,966	18,616,766
Deferred outflows of resources related to OPEB	1,494,099	-
Total deferred outflows of resources	49,045,352	20,936,626
Liabilities		
Accounts payable	9,576,272	2,033,228
Accrued liabilities	11,412,012	12,925,833
Due to retirement systems	8,250,382	8,832,558
Unearned revenue	139,557	186,732
Bond anticipation note	45,301,158	24,176,845
Long-term liabilities		
Due within one year:		
Bonds and financing leases	8,549,260	8,600,908
Compensated absences and other benefits	1,788,000	1,816,000
Due beyond one year:		
Bonds, financing leases, and related premium	46,009,471	53,444,290
Compensated absences and other benefits	12,776,000	12,582,000
Net pension liability	10,261,643	10,705,293
Total OPEB liability	16,060,007	3,518,587
Total liabilities	170,123,762	138,822,274
Deferred Inflows of Resources		
Grants	2,012,238	2,257,761
Deferred inflows of resources related to pensions	2,377,018	15,258,476
Deferred inflows of resources related to OPEB	457,453	-
Total deferred inflows of resources	4,846,709	17,516,237
Net Position		
Net investment in capital assets	53,953,803	47,782,244
Restricted	19,548,059	15,088,035
Unrestricted	20,358,067	31,360,968
Total net position	$ 93,859,929	$ 94,231,247

See accompanying notes.

KENMORE-TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT

Statement of Activities

For the year ended June 30, 2017
(With summarized comparative totals for June 30, 2016)

		Program Revenues		Net (Expense) Revenue	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**2017**	2016
Governmental activities					
General support	$ 16,400,725	$ 307,006	$ -	$ (16,093,719)	$ (15,761,665)
Instruction	122,841,879	2,711,316	6,578,687	(113,551,876)	(107,433,501)
Pupil transportation	7,087,048	-	-	(7,087,048)	(5,972,339)
Community services	477,158	-	-	(477,158)	(508,889)
Interest expense	1,387,461	-	-	(1,387,461)	(1,108,967)
School food service	2,806,366	654,679	1,979,369	(172,318)	(149,402)
	$ 151,000,637	$ 3,673,001	$ 8,558,056	(138,769,580)	(130,934,763)
General revenues					
Real property taxes				83,496,208	83,296,035
Sales taxes				8,161,321	8,123,517
Miscellaneous				1,235,619	1,042,140
State aid				57,968,652	53,936,523
Total general revenues				150,861,800	146,398,215
Special item					
Impairment loss (Note 6)				-	(10,654,481)
Change in net position				12,092,220	4,808,971
Net position - beginning				94,231,247	89,422,276
Cumulative effect of a change in accounting principle (Note 2)				(12,463,538)	
Net position - beginning, as restated				81,767,709	89,422,276
Net position - ending				$ 93,859,929	$ 94,231,247

See accompanying notes.

KENMORE-TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT

Balance Sheet - Governmental Funds

June 30, 2017
(With summarized comparative totals as of June 30, 2016)

	General	Capital Projects	Special Aid	School Lunch	Total Governmental Funds 2017	Total Governmental Funds 2016
Assets						
Cash	$ 46,060,523	$ 23,731,982	$ 131,337	$ 1,248,865	$ 71,172,707	$ 63,710,418
Accounts receivable	232,699	-	4,592	1,508	238,799	307,455
Due from other governments	6,129,420	-	-	-	6,129,420	5,971,933
State and federal aid receivable	2,036,895	-	977,602	-	3,014,497	3,947,136
Due from other funds	1,841,014	-	-	57,935	1,898,949	4,713,082
Inventory	-	-	-	197,916	197,916	176,846
Cash surrender value of life insurance	2,005,000	-	-	-	2,005,000	2,005,000
Total assets	58,305,551	23,731,982	1,113,531	1,506,224	84,657,288	80,831,870
Deferred Outflows of Resources						
Grants	2,012,238	-	-	-	2,012,238	2,257,761
Total assets and deferred outflows	$ 60,317,789	$ 23,731,982	$ 1,113,531	$ 1,506,224	$ 86,669,526	$ 83,089,631
Liabilities						
Accounts payable	$ 3,674,227	$ 5,835,558	$ 46,823	$ 19,664	$ 9,576,272	$ 2,033,228
Accrued liabilities	10,942,383	-	240,149	14,480	11,197,012	12,697,833
Due to retirement systems	8,250,382	-	-	-	8,250,382	8,832,558
Due to other funds	-	357,286	758,459	-	1,115,745	1,483,117
Unearned revenue	71,457	-	68,100	-	139,557	186,732
Bond anticipation note	-	45,301,158	-	-	45,301,158	24,176,845
Total liabilities	22,938,449	51,494,002	1,113,531	34,144	75,580,126	49,410,313
Deferred Inflows of Resources						
Grants	2,012,238	-	-	-	2,012,238	2,257,761
Fund Balances						
Nonspendable:						
Inventory	-	-	-	197,916	197,916	176,846
Life insurance	2,005,000	-	-	-	2,005,000	2,005,000
Restricted:						
Capital	5,594,948	-	-	-	5,594,948	3,190,173
Debt service	2,566,770	-	-	-	2,566,770	2,515,835
Employee benefit accrued liability	3,964,299	-	-	-	3,964,299	4,061,861
Workers' compensation	965,786	-	-	-	965,786	854,378
Retirement contribution	2,896,934	-	-	-	2,896,934	910,000
Unemployment insurance	383,063	-	-	-	383,063	382,545
Repair	1,474,601	-	-	-	1,474,601	1,472,604
Tax certiorari	1,701,658	-	-	-	1,701,658	1,700,639
Assigned:						
Designated for subsequent year's expenditures	5,850,000	-	-	-	5,850,000	5,900,000
Other purposes	1,535,659	-	-	1,274,164	2,809,823	1,972,638
Unassigned	6,428,384	(27,762,020)	-	-	(21,333,636)	6,279,038
Total fund balances (deficit)	35,367,102	(27,762,020)	-	1,472,080	9,077,162	31,421,557
Total liabilities, deferred inflows, and fund balances	$ 60,317,789	$ 23,731,982	$ 1,113,531	$ 1,506,224	$ 86,669,526	$ 83,089,631

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2017

Total fund balances - governmental funds		$ 9,077,162
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported as assets in governmental funds.		136,243,505
The District's proportionate share of net pension liabilities as well as pension-related deferred outflows and deferred inflows of resources are recognized in the government-wide statements and include:		
Deferred outflows of resources related to pensions	45,507,966	
Net pension liability	(10,261,643)	
Deferred inflows of resources related to pensions	(2,377,018)	32,869,305
The District's total OPEB liability as well as OPEB-related deferred outflows and deferred inflows of resources are recognized on the government-wide statements and include:		
Deferred outflows of resources related to OPEB	1,494,099	
Total OPEB liability	(16,060,007)	
Deferred inflows of resources related to OPEB	(457,453)	(15,023,361)
Defeasance losses associated with bond refundings are recognized as deferred outflows of resources in the government-wide statements.		31,049
Certain liabilities are not due and payable currently and therefore are not reported as liabilities of the governmental funds. These liabilities are:		
Bonds and financing leases	(54,558,731)	
Accrued interest	(215,000)	
Compensated absences and other benefits	(14,564,000)	(69,337,731)
Net position - governmental activities		$ 93,859,929

See accompanying notes.

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

For the year ended June 30, 2017
(With summarized comparative totals for June 30, 2016)

	General	Capital Projects	Special Aid	School Lunch	Total Governmental Funds 2017	Total Governmental Funds 2016
Revenues						
Real property taxes	$ 66,894,064	$ -	$ -	$ -	$ 66,894,064	$ 63,266,066
Real property tax items	16,602,144	-	-	-	16,602,144	20,029,969
Nonproperty taxes	8,161,321	-	-	-	8,161,321	8,123,517
Charges for services	2,711,316	-	-	-	2,711,316	2,388,180
Use of money and property	355,603	-	-	666	356,269	352,541
Sale of property and compensation for loss	30,690	-	-	4,050	34,740	369,625
Miscellaneous	1,347,369	-	55,399	43,702	1,446,470	2,133,615
State sources	57,968,652	-	2,045,691	61,930	60,076,273	56,683,200
Federal sources	137,543	-	3,962,531	1,873,737	5,973,811	6,144,993
Sales	-	-	-	654,679	654,679	712,812
Total revenues	154,208,702	-	6,063,621	2,638,764	162,911,087	160,204,518
Expenditures						
General support	13,399,366	-	72,221	945,007	14,416,594	14,628,118
Instruction	87,738,724	-	5,860,458	-	93,599,182	93,915,015
Pupil transportation	5,347,596	-	230,655	-	5,578,251	4,772,906
Community services	246,412	-	143,397	-	389,809	440,590
Employee benefits	31,355,517	-	-	431,218	31,786,735	33,010,061
Debt service						
Principal	8,600,908	-	-	-	8,600,908	8,482,911
Interest	1,379,040	-	-	-	1,379,040	1,085,546
Cost of sales	-	-	-	1,005,599	1,005,599	1,102,096
Capital outlay	-	29,976,927	-	27,943	30,004,870	5,246,642
Total expenditures	148,067,563	29,976,927	6,306,731	2,409,767	186,760,988	162,683,885
Excess revenues (expenditures)	6,141,139	(29,976,927)	(243,110)	228,997	(23,849,901)	(2,479,367)
Other financing sources (uses)						
Operating transfers, net	(223,110)	80,000	243,110	(100,000)	-	-
BAN premium	381,436	-	-	-	381,436	271,891
Proceeds from the issuance of debt	-	1,124,070	-	-	1,124,070	915,101
Total other financing sources (uses)	158,326	1,204,070	243,110	(100,000)	1,505,506	1,186,992
Net change in fund balances	6,299,465	(28,772,857)	-	128,997	(22,344,395)	(1,292,375)
Fund balances - beginning	29,067,637	1,010,837	-	1,343,083	31,421,557	32,713,932
Fund balances (deficit) - ending	$ 35,367,102	$ (27,762,020)	$ -	$ 1,472,080	$ 9,077,162	$ 31,421,557

See accompanying notes.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the year ended June 30, 2017

Total net change in fund balances - governmental funds		$ (22,344,395)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. In the statement of activities, the cost of the assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense and disposals.		26,478,162
Pension expense is recognized when paid on the fund statement of revenues, expenditures, and changes in fund balances and actuarially determined on the statement of activities. These differences are:		
2017 TRS and ERS contributions	10,283,498	
2017 ERS accrued contribution	837,912	
2016 ERS accrued contribution	(785,199)	
2017 TRS net pension expense	(6,875,066)	
2017 ERS net pension expense	(3,763,873)	(302,728)
OPEB expense is recognized when paid on the fund statement of revenues, expenditures, and changes in fund balances and actuarially determined on the statement of activities.		958,764
Payments of long-term liabilities are reported as expenditures in governmental funds and as a reduction of debt in the statement of net position.		8,600,908
Debt proceeds are recorded as other financing sources in governmental funds but increase long-term liabilities in the statement of net position.		(1,124,070)
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds these expenditures are reported when paid. These differences are:		
Amortization of defeasance loss	(31,050)	
Amortization of bond premium	9,629	
Compensated absences and other benefits	(166,000)	
Interest	13,000	(174,421)
Change in net position - governmental activities		$ 12,092,220

See accompanying notes.

KENMORE-TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balance Budget (Non-GAAP) and Actual - General Fund

For the year ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Encumbrances	Variance with Final Budget Over/(Under)
Revenues					
Local sources					
Real property taxes	$ 82,390,409	$ 66,786,991	$ 66,894,064		$ 107,073
Real property tax items	919,862	16,523,280	16,602,144		78,864
Nonproperty taxes	8,200,000	8,200,000	8,161,321		(38,679)
Charges for services	1,645,000	1,645,000	2,711,316		1,066,316
Use of money and property	328,500	328,500	355,603		27,103
Sale of property and compensation for loss	9,200	9,200	30,690		21,490
Miscellaneous	565,000	565,000	1,347,369		782,369
State sources	56,267,762	56,267,762	57,968,652		1,700,890
Federal sources	110,000	110,000	137,543		27,543
Total revenues	150,435,733	150,435,733	154,208,702		3,772,969
Expenditures					
General support					
Board of education	58,599	58,599	40,633	1,200	(16,766)
Central administration	286,300	322,801	313,259	1,087	(8,455)
Finance	810,151	936,531	889,407	806	(46,318)
Staff	1,283,149	1,271,605	1,105,285	16,746	(149,574)
Central services	11,871,924	11,395,187	9,970,248	803,127	(621,812)
Special items	1,204,500	1,194,779	1,080,534	-	(114,245)
Instruction					
Instruction, administration, and improvement	6,582,656	5,909,140	5,434,386	3,823	(470,931)
Teaching - regular school	48,001,704	49,003,999	47,901,158	460,793	(642,048)
Programs for children with handicapping conditions	21,544,931	19,829,919	19,101,787	42,030	(686,102)
Occupational education	4,901,612	5,049,670	5,024,649	-	(25,021)
Teaching - special schools	593,205	524,101	415,546	17,449	(91,106)
Instructional media	3,490,257	4,612,683	4,430,894	61,076	(120,713)
Pupil services	5,644,586	5,812,732	5,430,304	1,545	(380,883)
Pupil transportation	5,706,990	5,933,911	5,347,596	98,187	(488,128)
Community services	283,982	281,722	246,412	8,803	(26,507)
Employee benefits	35,264,835	35,383,129	31,355,517	18,987	(4,008,625)
Debt service					
Principal	8,600,909	8,600,909	8,600,908	-	(1)
Interest	1,456,844	1,465,717	1,379,040	-	(86,677)
Total expenditures	157,587,134	157,587,134	148,067,563	1,535,659	(7,983,912)
Excess revenues (expenditures)	(7,151,401)	(7,151,401)	6,141,139	(1,535,659)	11,756,881
Other financing sources (uses)					
Operating transfers in	100,000	100,000	100,000		-
Operating transfers out	(330,000)	(330,000)	(323,110)		(6,890)
BAN premium	-	-	381,436		381,436
Appropriated reserves	675,000	675,000	-		(675,000)
Appropriate fund balance and carryover encumbrances	6,706,401	6,706,401	-		(6,706,401)
Total other financing sources (uses)	7,151,401	7,151,401	158,326		(6,993,075)
Excess revenues (expenditures) and other financing sources (uses)	$ -	$ -	$ 6,299,465	$ (1,535,659)	$ 4,763,806

KENMORE-TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT

Statement of Fiduciary Net Position

June 30, 2017

	Private-Purpose Trusts	Agency
Assets		
Cash	$ 97,035	$ 1,055,084
Agency receivables	-	39,840
Total assets	97,035	$ 1,094,924
Liabilities		
Extraclassroom activities balances	-	$ 260,395
Due to governmental funds	-	783,204
Agency liabilities	-	51,325
Total liabilities	-	$ 1,094,924
Net Position		
Restricted for scholarships	$ 97,035	

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KENMORE-TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Position

For the year ended June 30, 2017

	Private-Purpose Trusts
Additions	
Gifts and donations	$ 3,169
Interest income	52
	3,221
Deductions	
Scholarship awards	5,432
Change in net position	(2,211)
Net position - beginning	99,246
Net position - ending	$ 97,035

1. Summary of Significant Accounting Policies

Reporting Entity

Kenmore-Town of Tonawanda Union Free School District (the District) is governed by Education and other laws of the State of New York (the State). The District's Board of Education has responsibility and control over all activities related to public school education within the District. The District's Superintendent is the chief executive officer and the President of the Board serves as the chief fiscal officer. The Board members are elected by the public and have decision-making authority, the power to designate management, the ability to influence operations, and the primary accountability for fiscal matters.

The District provides education and support services such as administration, transportation, and plant maintenance. The District receives funding from local, state, and federal sources and must comply with requirements of these funding sources. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America, nor does it contain any component units.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Joint Venture

The District is one of 19 participating school districts in the Erie 1 Board of Cooperative Educational Services (BOCES). Formed under §1950 of Education Law, a BOCES is a voluntary cooperative association of school districts in a geographic area that shares planning, services, and programs, and also provides educational and support activities. There is no authority or process by which the District can terminate its status as a component of BOCES.

The component school district boards elect the members of the BOCES governing body. There are no equity interests and no single participant controls the financial or operating policies. BOCES may also contract with other municipalities on a cooperative basis under State General Municipal Law.

A BOCES' budget is comprised of separate spending plans for administrative, program, and capital costs. Each component school district shares in administrative and capital costs determined by its enrollment. Participating districts are charged a service fee for programs in which students participate and for other shared contracted administrative services. Participating districts may issue debt on behalf of BOCES; there is no such debt issued by the District.

During the year ended June 30, 2017, the District was billed $11,719,000 for BOCES administrative and program costs and recognized revenue of $569,000 as a refund from prior year expenditures paid to BOCES and $43,000 from rental and other service income. Audited financial statements are available from BOCES' administrative offices.

Risk Management

The District is self-insured pursuant to Article 5 of the Workers' Compensation law to finance the liability and risks related to workers' compensation claims. The District also self-funds health insurance. These activities are further discussed in Note 11.

Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display financial activities of the overall District, except for fiduciary activities. Eliminations have been made to minimize double counting of internal activities. These statements are required to distinguish between *governmental* and *business-type* activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The District does not maintain any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities.

- Direct expenses are those that are specifically associated with a program or are clearly identifiable to a particular function. Indirect expenses relate to the administration and support of the District's programs, including personnel, overall administration, and finance. Employee benefits are allocated to functional expenses as a percentage of related payroll expense.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and state aid, are presented as general revenues.

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

The District reports the following major funds:

- *General fund.* This is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- *Capital projects fund.* This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The District also elected to display the following as major funds:

- *Special aid fund.* This fund is used to account for the proceeds of specific revenue sources - other than expendable trusts or major capital projects - such as federal, state, and local grants and awards that are restricted or committed to expenditure for specific purposes. Either governments or other third parties providing the grant funds impose these restrictions.
- *School lunch fund.* This fund is a special revenue fund whose specific revenue sources, including free and reduced meal subsidies received from state and federal programs, are assigned to the operation of the District's breakfast and lunch programs.

The District has elected not to use a debt service fund as debt activity is currently reflected in the general fund. Amounts accumulated for the payment of future principal and interest payments restricted for such purposes are also included in the general fund.

The District reports the following fiduciary funds:

- *Private-purpose trust fund.* This fund reports trust arrangements under which principal and income benefit various third party scholarship arrangements.
- *Agency fund.* This fund accounts for assets held by the District as agent for various student groups and clubs, payroll, and employee third party withholdings. The agency fund is custodial in nature and does not involve measurement of results of operations.

The financial statements include certain prior year summarized comparative information in total but not by separate governmental activities and major funds. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Basis of Accounting and Measurement Focus

The government-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 flows take place. Nonexchange transactions, in which the District receives value directly without giving equal value in exchange, include property and sales taxes, grants, and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds 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 they are collected within ninety days after year end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset purchases are reported as expenditures in governmental funds. Proceeds of long-term liabilities and equipment and property purchased under capital leases are reported as other financing sources.

Under the terms of grant agreements, revenues are recognized to the extent of program expenditures. Amounts received in advance of the expenditures are considered unearned and reported as revenue when the expense is incurred.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Property Taxes

The District levies real property taxes no later than September 1. For the year ended June 30, 2017, the tax lien was issued on August 9, 2016 for collection from September 15, 2016 through November 30, 2016. Thereafter, uncollected amounts became the responsibility of Erie County. Such amounts were submitted to the District by April 1st of the following year as required by law.

The District is subject to tax abatements granted by the Erie County Industrial Development Agency (ECIDA), a public benefit corporation created by an act of the New York State Legislature to promote and assist private sector industrial and business development.

Through ECIDA, companies promise to expand or maintain facilities or employment within the communities served by the District, establish new businesses, or to relocate an existing business to these communities. Economic development agreements entered into by ECIDA can include the abatement of county, town, and school district taxes, in addition to other assistance. In the case of the District, these abatements have resulted in reductions of property taxes, which the District administers as a temporary reduction in the assessed value of the property involved. The abatement agreement stipulates a percentage reduction of property taxes, which can be as much as 100%.

For the year ended June 30, 2017, the impact of tax abatements through ECIDA amounted to $1,630,000. However, because the abated amounts are spread across the District's entire tax base, there is no impact on the overall property taxes collected.

Budget Process, Amendments, and Encumbrances

District administration prepares a proposed budget for the general fund requiring approval by the Board. A public hearing is held upon completion and filing of the tentative budget. Subsequently, the budget is adopted by the Board. The proposed budget is then presented to voters of the District. The budget for the fiscal year beginning July 1, 2016 was approved by a majority of the voters in a general election held on May 17, 2016.

Annual appropriations are adopted and employed for control of the general fund. These budgets are adopted on a GAAP basis under the modified accrual basis of accounting. Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations authorized for the current year may be increased by the planned use of specific restricted, committed, and assigned fund balances and subsequent budget amendments approved by the Board as a result of new revenue sources not included in the original budget.

Major capital expenditures are subject to individual project budgets based on the cost of the project and external financing rather than annual appropriations. For the capital projects fund, these budgets do not lapse at year end and are carried over to the completion of the project.

Encumbrance accounting is used to assure budgetary control over commitments related to unperformed (executory) contracts for goods or services outstanding at the end of each year. Encumbrances are budgetary expenditures in the year committed and again in the subsequent period when the expenditure is paid. All budget appropriations that are unencumbered lapse at the end of the fiscal year. Encumbrances outstanding at year end are presented for GAAP-related purposes as committed or assigned fund balances and do not constitute expenditures or liabilities. At July 1, encumbrances carried forward from the prior year are reestablished as budgeted appropriations.

Inventory

Inventory consists of food and similar food service goods related to school lunch operations and is recorded at the lower of first-in, first-out cost or net realizable value. Donated commodities are stated at values which approximate market.

Cash Surrender Value of Life Insurance

Cash surrender value of life insurance is stated at the lower of accumulated premiums paid or surrender value of the contracts.

Capital Assets

Capital assets are reported at actual or estimated historical cost based on appraisals. Contributed assets are recorded at fair value at the time received. Depreciation is provided in the government-wide statements over estimated useful lives using the straight-line method. Maintenance and repairs are expensed as incurred; significant improvements are capitalized.

Capitalization thresholds for determining which asset purchases are added to capital accounts and the estimated useful lives of capital assets are:

	Capitalization Policy	Estimated Useful Life
Land improvements	$5,000	20
Buildings and improvements	$5,000	30
Furniture, equipment, and vehicles	$5,000	5-15

Bond Premiums

Premiums received upon the issuance of debt are included as other financing sources in the governmental funds statements when issued. In the government-wide statements, premiums are recognized with the related debt issue and amortized on a straight-line basis as a component of interest expense over the life of the related obligation.

Deferred Outflows and Deferred Inflows of Resources

In the government-wide financial statements, gains or losses from bond refundings represent the difference between the price required to repay previously issued debt and the net carrying amount of the retired debt, and are recorded as either a deferred outflow or deferred inflow of resources. In subsequent years, these amounts are amortized on a straight-line basis as a component of interest expense over the shorter of the life of the old or new debt.

Voluntary nonexchange transactions represented by grants accrued in advance of the receipt of contributed services are recognized as deferred outflows and deferred inflows of resources on the government-wide and governmental funds statements. The grants represent in-kind services to be received over the next six years by the District and are recognized at the estimated net present value of the services; revenue and expense/expenditures will be recognized ratably over the next six years.

Pensions

The District participates in the New York State Teachers' Retirement System (TRS) and the New York State and Local Employees' Retirement System (ERS) (the Systems) as mandated by State law. The Systems recognize benefit payments when due and payable in accordance with benefit terms; investment assets are reported at fair value. On the government-wide statements, the District recognizes its proportionate share of net pension position, deferred outflows and deferred inflows of resources, pension expense (revenue), and information about and changes in the fiduciary net position on the same basis as reported by the respective defined benefit pension plans.

Compensated Absences and Other Benefits

The liability for compensated absences reported in the government-wide financial statements consists of unpaid accumulated sick and vacation time. The liability has been calculated using the vesting method, in which leave amounts for both employees currently eligible to receive payments and those expected to become eligible to receive such payments are included. Sick pay is accrued on the basis of negotiated contracts with administrators and employee groups which provide for the payment of accumulated sick time at retirement or the option of converting this vested amount to provide for payment of health insurance until exhausted. Certain bargaining unit employees are also entitled to contributions made by the District to medical accounts, health reimbursement accounts, or health savings accounts. The accumulation of these benefits is determined by the contracts and provides employees with contributions annually. Contributions to these plans accumulate through retirement, and are accrued annually.

The government-wide financial statements reflect the estimated liability, while in the governmental funds financial statements, only the amount of matured liabilities is accrued based on expendable available financial resources.

Equity Classifications

Government-Wide Statements

- *Net investment in capital assets* - consists of capital assets net of accumulated depreciation and certain deferred outflows of resources, reduced by outstanding balances of any related debt obligations that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – consists of restricted assets, reduced by liabilities and deferred inflows of resources related to those assets, if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or the terms of the District's bonds.
- *Unrestricted* – the net 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 component of net position and therefore are available for general use by the District.

Governmental Fund Statements

The District considers unrestricted resources to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, unless the use of the restricted amount was appropriated in the current year's budget. Within unrestricted fund balance, the District considers committed, assigned, then unassigned resources to have been spent when an expenditure is incurred for which amounts in any of those fund balance classifications could be used.

Restricted fund balances generally result from reserves created by the State of New York Legislature and included in General Municipal Law, State Education Law, or Real Property Tax Law as authorized for use by the Board of Education. Certain reserves may require voter approval for their establishment and/or use. Earnings on invested resources are required to be added to the various reserves.

Committed fund balances are authorized by the Board of Education as recommended by the District’s management prior to the end of the fiscal year, although funding of the commitment may be established subsequent to year end. Assigned fund balances include the planned use of existing fund balance to offset the subsequent year’s tax levy. Additionally, the Board of Education has given the District’s management the authority to assign fund balances for specific purposes that are neither restricted nor committed. Nonspendable fund balances represent resources that cannot be spent as they are not expected to be converted to cash and include inventory and the cash value of life insurance policies.

Fund balance restrictions consist of the following reserves:

- *Capital* – is used to accumulate funds to finance all or a portion of future capital projects for which bonds may be issued. Voter authorization is required for both the establishment of the reserve and payments from the reserve. During 2008, voters approved the creation of a capital reserve of $15,000,000, which has been fully funded. During 2016, voters approved the creation of another capital reserve of $15,000,000, which has been funded to $2,374,300.
- *Debt service* – is used to account for proceeds from the sale of property that was financed by obligations still outstanding, interest and earnings on outstanding obligations (including bond and BAN premiums), and remaining bond proceeds not needed for their original purpose as required by §165 of Finance Law. This reserve must be used to pay the debt service obligations for which the original money was generated.
- *Employee benefit accrued liability* - is used to account for the payment of accumulated vacation and sick time due upon termination of an employee's services. It is 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.
- *Workers' compensation* – is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this program.
- *Retirement contribution* – is used to finance retirement contributions payable to ERS.
- *Unemployment insurance* – is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants as the District has elected to use the benefit reimbursement method.
- *Repair* – is used to accumulate funds to finance costs of major repairs to capital improvements or equipment, and requires a public hearing for its use.
- *Tax certiorari* – is used to pay judgments and claims resulting from certiorari proceedings. Funds not used by July 1 of the fourth fiscal year following their deposit must be returned to unassigned fund balance.

Interfund Balances

The operations of the District include transactions between funds including resources for cash flow purposes. These interfund receivables and payables are repaid within one year. Permanent transfers of funds provide financing or other services.

In the government-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 fiduciary funds.

Interfund receivables and payables are netted on the accompanying governmental funds balance sheet as the right of legal offset exists. It is the District's practice to settle these amounts at the net balances due between funds.

2. Change in Accounting Principle

Effective July 1, 2016, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), which supersedes GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement addresses accounting and financial reporting for other postemployment benefits offered by the District and requires various note disclosures (Note 10) and required supplementary information. As a result, beginning of year net position has been restated as follows:

Net position previously reported, July 1, 2016	$ 94,231,247
OPEB previously reported	3,518,587
Total OPEB liability	(15,982,125)
Amounts paid by the District subsequent to the measurement date	-
Net position as restated	$ 81,767,709

Information on beginning of year deferred outflows and deferred inflows of resources, and all information for the prior year, is not available and therefore such amounts have not been restated.

3. Stewardship and Compliance

The capital projects deficit fund balance of $27,762,020 will be funded when bond anticipation notes are converted to permanent financing.

4. Cash

Cash management is governed by State laws and as established in the District's written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Policies permit the Treasurer to use demand accounts and certificates of deposit. Invested resources are limited to obligations of the United States Treasury and its Agencies, repurchase agreements, and obligations of the State or its localities.

Collateral is required for demand and time deposits and certificates of deposit 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 and school districts.

Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned to it. At June 30, 2017, the District's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institutions' trust departments through a perfected security interest in the pledged assets, by the pledging institutions' agents, or in an undivided security interest in pooled assets in the District's name.

5. Interfund Transactions – Fund Financial Statements

			Transfers	
Fund	**Receivable**	**Payable**	**In**	**Out**
General	$ 1,898,949	$ 57,935	$ 100,000	$ 323,110
Special aid	-	758,459	243,110	-
School lunch	57,935	-	-	100,000
Capital projects	-	357,286	80,000	-
Fiduciary	-	783,204	-	-
	$ 1,956,884	**$ 1,956,884**	**$ 423,110**	**$ 423,110**

The general fund provides cash flow to the various other funds; these amounts will be repaid when funds are received from the State after final expenditure reports have been submitted and approved or when permanent financing is obtained. The amount the fiduciary fund owes the general fund was for a transfer of funds for an upcoming payroll. The general fund made permanent transfers to the special aid fund to cover its share of costs related to the summer school handicap program and to the capital projects fund for capital spending needs. The amount transferred from the school lunch fund to the general fund is to reimburse the general fund for administrative costs.

6. Capital Assets

	July 1, 2016	Increases	Retirements/ Reclassifications	June 30, 2017
Non-depreciable capital assets:				
Land	$ 1,952,841	$ -	$ -	$ 1,952,841
Construction in progress	3,010,865	27,831,548	(718,073)	30,124,340
Total non-depreciable assets	4,963,706	27,831,548	(718,073)	32,077,181
Depreciable capital assets:				
Land improvements	3,023,449	-	-	3,023,449
Buildings and improvements	136,293,609	-	(140,897)	136,152,712
Furniture and equipment	5,855,169	374,579	636,959	6,866,707
Vehicles	10,741,197	2,231,119	(1,501,310)	11,471,006
Total depreciable assets	155,913,424	2,605,698	(1,005,248)	157,513,874
Less accumulated depreciation:				
Land improvements	3,023,449	-	-	3,023,449
Buildings and improvements	36,857,323	2,337,589	167,571	39,362,483
Furniture and equipment	4,200,440	421,157	(195,862)	4,425,735
Vehicles	7,030,575	1,000,672	(1,495,364)	6,535,883
Total accumulated depreciation	51,111,787	3,759,418	(1,523,655)	53,347,550
Total depreciable assets, net	104,801,637	(1,153,720)	518,407	104,166,324
	$ 109,765,343	**$ 26,677,828**	**$ (199,666)**	**$ 136,243,505**

Depreciation expense has been allocated to the following functions: general support $320,382, instruction $3,187,969, pupil transportation $206,015, and school lunch $45,052.

Three of the District's schools have been closed and are no longer used by the District. In 2016, the carrying values of the buildings and related campuses were reduced from $13,054,481 to $2,400,000 based on appraisals of the properties (Level 3 inputs) and this was the value as of June 30, 2017.

As of June 30, 2017, net investment in capital assets consists of the following:

Capital assets, net of accumulated depreciation	$ 136,243,505
Cash in capital projects fund, net of related payables	17,539,138
Defeasance loss	31,049
Bond anticipation note	(45,301,158)
Bonds, financing leases, and related premium	(54,558,731)
	$ 53,953,803

7. Short-Term Debt

As of June 30, 2017, a bond anticipation note (BAN) of $45,301,158 was outstanding ($24,176,845 as of June 30, 2016), with interest at 2.0% (0.84% in 2016) and maturing in June 2018. In 2017, a $21,124,313 BAN was issued. The District intends to reissue the BAN until permanent financing is secured.

8. Long-Term Liabilities

	July 1, 2016	Increases	Decreases	June 30, 2017	Amount Due in One Year
Bonds	$ 57,027,761	$ 1,124,070	$ 7,194,740	$ 50,957,091	$ 7,092,321
Bond premium	19,257	-	9,629	9,628	-
Energy performance contracts	4,998,180	-	1,406,168	3,592,012	1,456,939
Compensated absences	10,511,000	-	732,000	9,779,000	575,000
Other employee benefits	3,887,000	898,000	-	4,785,000	1,213,000
	$ 76,443,198	**$ 2,022,070**	**$ 9,342,537**	**$ 69,122,731**	**$ 10,337,260**

Existing Obligations

Description	Maturity	Rate	Balance
2005B Refunding bond	June 2018	3.25%-3.75%	$ 560,000
2008 Improvement bond	June 2022	2.88%-3.5%	1,875,000
2013 Qualified Zone Academy bonds	June 2028	0.53%	3,769,171
2013 Qualified Zone Academy bonds	June 2028	0.53%	23,368,850
2014 Building improvement bond (refinancing)	September 2020	1.0%-5.0%	5,830,000
2014 Qualified Zone Academy bonds	June 2028	0.39%	3,125,000
2014 Improvement and bus bond	September 2023	2.0%-4.0%	3,365,000
2015 Bus bond	August 2019	1.75%	415,000
2015 Qualified Zone Academy bonds	June 2029	0.92%	6,785,000
2016 Bus bond	August 2020	1.66%	740,000
2016 Qualified Zone Academy bonds	September 2025	0.0%	1,124,070
2008 Energy performance contract (refinancing)	April 2019	3.42%	2,747,190
2009 Energy performance contract	January 2024	4.73%-5.39%	844,822
			$ 54,549,103

Debt Service Requirements

Years ending June 30,	Principal	Interest
2018	$ 8,549,260	$ 698,506
2019	8,298,723	494,611
2020	5,446,683	358,662
2021	5,396,100	271,754
2022	4,435,946	200,334
2023-2027	18,524,489	439,981
2028-2029	3,897,902	25,793
	$ 54,549,103	**$ 2,489,641**

9. Pension Plans

Plan Descriptions

The District participates in the following cost-sharing, multiple employer, public employee retirement systems:

- TRS is administered by the New York State Teachers' Retirement Board and provides 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. TRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained from the New York State Teachers' Retirement System at www.nystrs.org.
- ERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and provide benefits to employees. ERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained from the New York State and Local Retirement System at www.osc.state.ny.us/retire.

Benefits: The Systems provide retirement, disability, and death benefits for eligible members, including automatic cost of living adjustments. In general, retirement benefits are determined based on an employee's individual circumstances using a pension factor, an age factor, and final average salary. The benefits vary depending on the individual's employment tier. Pension factors are determined based on tier and an employee's years of service, among other factors.

Contribution Requirements: No employee contribution is required for those hired prior to July 1976. The Systems require employee contributions of 3% of salary for the first 10 years of service for those employees who joined the Systems from July 1976 through December 2009. Participants hired on or after January 1, 2010 through March 31, 2012 are required to contribute 3.5% (TRS) or 3% (ERS) of compensation throughout their active membership in the Systems. Participants hired on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. Pursuant to Article 11 of Education Law, an actuarially determined contribution rate is established annually for TRS by the New York State Teachers' Retirement Board. This rate was 11.72% for 2017. For ERS, the Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the District to the pension accumulation fund. For 2017, these rates ranged from 9.4% - 21.8%.

The amount accrued by the District for TRS for the year ended June 30, 2017 was $7,265,256. A liability to ERS of $837,912 is accrued based on the District's legally required contribution for employee services rendered from April 1, 2017 through June 30, 2017.

Net Pension Asset (Liability), Pension Expense, and Deferred Outflows and Deferred Inflows of Resources

At June 30, 2017, the District reported net pension liabilities of $4,141,399 and $6,120,244 for its proportionate share of the TRS and ERS net pension liabilities, respectively.

The TRS net pension liability was measured as of June 30, 2016, and the total pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures applied to roll forward the net pension position to June 30, 2016. The District's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to TRS's total actuarially determined employer contributions for the fiscal year ended on the measurement date. At June 30, 2016, the District's proportion was 0.386670%, a decrease of 0.003431% from its proportion measured as of June 30, 2015.

The ERS net pension liability was measured as of March 31, 2017, and the total pension liability was determined by an actuarial valuation as of April 1, 2016. The District's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contributions for the fiscal year ended on the measurement date. At the March 31, 2017 measurement date, the District's proportion was 0.0651351%, a decrease of 0.0015634% from its proportion measured as of March 31, 2016.

For the year ended June 30, 2017, the District recognized net pension expense of $10,638,939 on the government-wide statements (expense from TRS of $6,875,066 and expense from ERS of $3,763,873). At June 30, 2017, the District reported deferred outflows and deferred inflows of resources as follows:

	TRS		ERS	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 1,345,359	$ 153,368	$ 929,394
Changes of assumptions	23,592,046	-	2,090,899	-
Net difference between projected and actual earnings on pension plan investments	9,312,043	-	1,222,461	-
Changes in proportion and differences between District contributions and proportionate share of contributions	208,097	51,367	825,884	50,898
District contributions subsequent to the measurement date	7,265,256	-	837,912	-
	$ 40,377,442	**$ 1,396,726**	**$ 5,130,524**	**$ 980,292**

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

Years ending June 30,	**TRS**	**ERS**
2018	$ 2,906,815	$ 1,416,496
2019	2,906,815	1,416,496
2020	10,138,805	1,224,705
2021	7,888,722	(745,377)
2022	3,632,279	-
Thereafter	4,242,024	-
	$ 31,715,460	$ 3,312,320

Actuarial Assumptions

For TRS, the actuarial assumptions used in the June 30, 2015 valuation, with update procedures used to roll forward the total pension liability to June 30, 2016, were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014. These assumptions are:

Inflation – 2.5%
Salary increases – Based on TRS member experience, dependent on service, ranging from 1.90%-4.72%
Projected Cost of Living Adjustments (COLA) – 1.5% compounded annually
Investment rate of return – 7.5% compounded annually, net of investment expense, including inflation
Mortality – Based on TRS member experience, with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2014, applied on a generational basis
Discount rate – 7.5%

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

For ERS, the actuarial assumptions used in the April 1, 2016 valuation, with update procedures used to roll forward the total pension liability to March 31, 2017, were based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015. These assumptions are:

Inflation – 2.5%
Salary increases – 3.8%
COLA – 1.3% annually
Investment rate of return – 7.0% compounded annually, net of investment expense, including inflation
Mortality – Society of Actuaries' Scale MP-2014
Discount rate – 7.0%

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

Investment Asset Allocation

Best estimates of arithmetic real rates of return for each major asset class and the Systems' target asset allocations as of the applicable valuation dates are summarized as follows:

	TRS		ERS	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Domestic equities	37%	6.1%	36%	4.6%
International equities	18%	7.3%	14%	6.4%
Private equities	7%	9.2%	10%	7.8%
Real estate	10%	5.4%	10%	5.8%
Inflation-indexed bonds	-	-	4%	1.5%
Domestic fixed income securities	17%	1.0%	-	-
Global fixed income securities	2%	0.8%	-	-
Bonds and mortgages	8%	3.1%	17%	1.3%
Short-term	1%	0.1%	1%	(0.3)%
Other	-	-	8%	4.0%-5.9%
	100%		**100%**	

Discount Rate

The discount rate projection of cash flows assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those 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.

The following presents the District's proportionate share of its net pension asset and liability calculated using the discount rate of 7.5% (TRS) and 7.0% (ERS) and the impact of using a discount rate that is 1% higher or lower than the current rate.

	1.0% Decrease	At Current Discount Rate	1.0% Increase
District's proportionate share of the TRS net pension asset (liabilty)	$ (54,033,964)	$ (4,141,399)	$ 37,705,869
District's proportionate share of the ERS net pension asset (liability)	$ (19,546,846)	$ (6,120,244)	$ 5,231,923

10. Postemployment Benefits Other than Pensions (OPEB)

The District maintains a single-employer defined benefit healthcare plan (the Plan) providing for continuation of medical insurance benefits for certain District employees and their spouses based on various bargaining unit agreements and individual contracts. Benefits are provided through a combination of self-funded and community-rated health insurance plans. Eligibility for benefits is based on covered employees who retire from the District at age 55 and have met vesting requirements. The Plan has no assets, does not issue financial statements, and is not a trust.

At June 30, 2017, employees covered by the Plan include:

Active employees	1,224
Inactive employees or beneficiaries currently receiving benefits	440
Inactive employees entitled to but not yet receiving benefits	-
	1,664

Total OPEB Liability

The District's total OPEB liability of $16,060,007 was measured as of March 31, 2017 and was determined by an actuarial valuation as of June 30, 2017.

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Healthcare cost trend rates – based on the National Health Expenditure Projections 2009-2025 for short-term rates and the Society of Actuaries Getzen Long-Term Healthcare Cost Trend Resource Model v2016_a (updated September 2016) for long-term rates, initially 5.3%, rising to 6.3% in 2019 and an ultimate rate of 4.17% after 2070
Salary increases – 3.31%
Mortality – 2015 TRS mortality rates for active members for all active employees; 2015 TRS mortality base rates for service and deferred annuitants and beneficiaries; fully generational using Mortality Improvement Scale MP-2016 for retirees and surviving spouses
Discount rate – 3.80% based on the Fidelity Municipal Go AA 20-Year Bond rate as of the measurement date
Inflation rate – 2.2%

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	$ 15,982,125
Changes for the year:	
Service cost	482,122
Interest	483,469
Changes of benefit terms	-
Differences between expected and actual experience	1,649,734
Changes of assumptions or other inputs	(505,104)
Benefit payments	(2,032,339)
Net changes	77,882
Balance at June 30, 2017	$ 16,060,007

The following presents the sensitivity of the District's total OPEB liability to changes in the discount rate, including what the District's total OPEB liability would be if it were calculated using a discount rate that is 1% higher or lower than the current discount rate:

	1.0% Decrease (2.80%)	Discount Rate (3.80%)	1.0% Increase (4.80%)
Total OPEB liability	$ (17,273,668)	$ (16,060,007)	$ (14,946,744)

The following presents the sensitivity of the District's total OPEB liability to changes in the healthcare cost trend rates, including what the District's total OPEB liability would be if it were calculated using a discount rate that is 1% higher or lower than the current healthcare cost trend rates:

	1.0% Decrease (4.30% to 3.17%)	Healthcare Cost Trend Rate (5.30% to 4.17%)	1.0% Increase (6.30% to 5.17%)
Total OPEB liability	$ (14,703,117)	$ (16,060,007)	$ (17,670,340)

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2017, the District recognized OPEB expense of $1,073,575. At June 30, 2017, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,494,099	$ -
Changes of assumptions or other inputs	-	457,453
	$ 1,494,099	**$ 457,453**

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

Years ending June 30,		
2018	$	107,984
2019		107,984
2020		107,984
2021		107,984
2022		107,984
Thereafter		496,726
	$	**1,036,646**

11. Risk Management

General Liability

The District purchases commercial insurance for various risks of loss due to torts, theft, damage, errors and omissions, and natural disasters. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three years.

Workers' Compensation and Health Insurance

The District has chosen to establish self-insured plans for risks associated with employee workers' compensation claims and health insurance. Generally, liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The District's exposure is calculated with consideration of the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other benefit costs. For workers' compensation, the District purchases excess insurance limiting their self-funded rate to $1,000,000 per incident and $1,000,000 in the aggregate.

The District's self-funded health insurance coverage includes various plan options. The District provides a monthly premium equivalent equal to adjusted actual claims and an excess amount to fund an approximate 15% allowance for claims run-off and other uncertainties. The District purchases excess insurance that limits exposure to $225,000 per incident.

Workers' Compensation

	Beginning of Year	Current Claims and Changes in Estimates	Claims Paid	End of Year
2017	$ 1,649,000	$ 754,000	$ 642,000	$ 1,761,000
2016	$ 1,663,000	$ 721,000	$ 735,000	$ 1,649,000

Health Insurance

	Beginning of Year	Current Claims and Changes in Estimates	Claims Paid	End of Year
2017	$ 1,952,000	$ 11,168,000	$ 11,168,000	$ 1,952,000
2016	$ 1,790,000	$ 11,725,000	$ 11,563,000	$ 1,952,000

Estimated liabilities for both plans have been accrued on the government-wide and governmental funds financial statements as they are expected to be paid with currently available financial resources.

12. Commitments and Contingencies

Grants

The District receives financial assistance from federal and state agencies in the form of grants and calculated aid as determined by the State. The expenditure of grant funds generally requires compliance with the terms and conditions specified in the agreements and are subject to audit by the grantor agencies. State aid payments are based upon estimated expenditures and pupil statistics, are complex, and subject to adjustment. Any disallowed claims resulting from such audits could become a liability of the District. Based on prior experience, management expects such amounts to be immaterial.

Construction Commitments

The District has entered into contracts with various construction companies for several capital projects. District voters approved spending up to $56,459,000 across all projects, which will be performed in various phases over the next few years. To date, the District has spent $32,396,000. Outstanding contract commitments at June 30, 2017 amounted to $14,738,000.

Encumbrances

Significant outstanding encumbrances in the general fund as of June 30, 2017 include $203,000 for equipment and $438,000 for technology upgrades.

Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Position
New York State Teachers' Retirement System

As of the measurement date of June 30,	2016	2015	2014	2013
District's proportion of the net pension position	0.386670%	0.390101%	0.388234%	0.389726%
District's proportionate share of the net pension asset (liability)	$ (4,141,399)	$ 40,519,036	$ 43,246,834	$ 2,565,385
District's covered payroll	$ 59,667,098	$ 58,598,426	$57,348,189	$ 57,086,407
District's proportionate share of the net pension position as a percentage of its covered payroll	6.94%	69.15%	75.41%	4.49%
Plan fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%	100.70%

Data prior to 2013 is unavailable.

The following is a summary of changes of assumptions:

	2016	2015
Inflation	2.5%	3.0%
Salary increases	1.90%-4.72%	4.0%-10.9%
Cost of living adjustments	1.5%	1.625%
Investment rate of return	7.5%	8.0%
Discount rate	7.5%	8.0%
Society of Actuaries' mortality scale	MP-2014	AA

Required Supplementary Information
Schedule of District Contributions
New York State Teachers' Retirement System

June 30,	2017	2016	2015	2014	2013
Contractually required contribution	$ 7,265,256	$ 7,911,857	$ 10,272,304	$ 9,319,081	$ 6,759,021
Contribution in relation to the contractually required contribution	(7,265,256)	(7,911,857)	(10,272,304)	(9,319,081)	(6,759,021)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 61,990,239	$ 59,667,098	$ 58,598,426	$ 57,348,189	$ 57,086,407
Contributions as a percentage of covered payroll	11.72%	13.26%	17.53%	16.25%	11.84%

Data prior to 2013 is unavailable.

Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Position
New York State and Local Employees' Retirement System

As of the measurement date of March 31,	2017	2016	2015
District's proportion of the net pension position	0.0651351%	0.0666985%	0.0654566%
District's proportionate share of the net pension liability	$ (6,120,244)	$ (10,705,293)	$ (2,211,283)
District's covered payroll	$ 19,658,393	$ 18,581,980	$ 18,340,435
District's proportionate share of the net pension position as a percentage of its covered payroll	-31.13%	-57.61%	-12.06%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	97.90%	97.90%

Data prior to 2015 is unavailable.

The following is a summary of changes of assumptions:

	2016	2015
Inflation	2.5%	2.7%
Salary increases	3.8%	4.9%
Cost of living adjustments	1.3%	1.4%
Investment rate of return	7.0%	7.5%
Discount rate	7.0%	7.5%

Required Supplementary Information
Schedule of District Contributions
New York State and Local Employees' Retirement System

June 30,	2017	2016	2015	2014	2013
Contractually required contribution	$ 3,018,242	$ 3,386,702	$ 3,595,876	$ 3,525,162	$ 3,770,542
Contribution in relation to the contractually required contribution	(3,018,242)	(3,386,702)	(3,595,876)	(3,525,162)	(3,770,542)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 19,658,393	$ 18,581,980	$ 18,340,435	$ 18,355,278	$ 19,975,927
Contributions as a percentage of covered payroll	15.35%	18.23%	19.61%	19.21%	18.88%

Data prior to 2013 is unavailable.

Required Supplementary Information
Schedule of Changes in the District's
Total OPEB Liability and Related Ratios

June 30, 2017

Total OPEB liability - beginning	$ 15,982,125
Changes for the year:	
Service cost	482,122
Interest	483,469
Changes of benefit terms	-
Differences between expected and actual experience	1,649,734
Changes of assumptions or other inputs	(505,104)
Benefit payments	(2,032,339)
Net change in total OPEB liability	77,882
Total OPEB liability - ending	$ 16,060,007
Covered-employee payroll	$ 69,533,993
Total OPEB liability as a percentage of covered-employee payroll	23.1%

Data prior to 2017 is unavailable.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Supplementary Information
Schedule of Change from Original to Final Budget and
Calculation of Unrestricted Fund Balance Limit - General Fund

For the year ended June 30, 2017

Original expenditure budget	$	157,110,733
Encumbrances carried over from prior year		806,401
Revised expenditure budget	$	157,917,134

* * *

Unrestricted Fund Balance		
Assigned	$	7,385,659
Unassigned		6,428,384
		13,814,043
Encumbrances included in assigned fund balance		(1,535,659)
Appropriated fund balance used for tax levy		(5,850,000)
Amount subject to 4% limit pursuant to Real Property Tax Law §1318	$	6,428,384
§1318 of Real Property Tax Law - unrestricted fund balance limit calculation		
2018 expenditure budget (unaudited)	$	160,656,978
4% of budget		6,426,279
Actual percentage of 2018 expenditure budget		4.0%

Supplementary Information
Schedule of Capital Project Expenditures

June 30, 2017

		Expenditures			
Project Title	**Original Budget**	**Prior Years**	**Current Year**	**Total**	**Unexpended Balance**
2014 Capital improvements	$ 51,507,000	$ 4,564,616	$ 27,700,153	$ 32,264,769	$ 19,242,231
Smart Schools Bond Act	4,951,929	-	131,395	131,395	4,820,534
	$ 56,458,929	$ 4,564,616	$ 27,831,548	$ 32,396,164	$ 24,062,765

KENMORE-TOWN OF TONAWANDA UNION FREE SCHOOL DISTRICT

Supplementary Information
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor Number	Expenditures
U.S. Department of Education:			
Passed Through New York State Department of Education			
Special Education Cluster:			
Special Education_Grants to States	84.027	0032-17-0241	2,184,983
Special Education_Grants to States	84.027	0032-16-0241	438
Special Education_Preschool Grants	84.173	0033-17-0241	61,079
Total Special Education Cluster			2,246,500
Title I Grants to Local Educational Agencies	84.010	0021-17-0850	1,099,749
Title I Grants to Local Educational Agencies	84.010	0021-16-0850	7,070
Title I Grants to Local Educational Agencies	84.010	0011-17-2230	50,000
Adult Education - Basic Grants to States	84.002	2338-17-2006	77,077
Career and Technical Education - Basic Grants to States	84.048	8000-17-0093	55,158
English Language Acquisition State Grants	84.365	0293-17-0850	29,786
English Language Acquisition State Grants	84.365	0293-16-0850	26,239
English Language Acquisition State Grants	84.365	0149-17-0850	7,046
English Language Acquisition State Grants	84.365	0149-16-0850	30,086
Supporting Effective Instruction State Grants	84.367	0147-17-0850	270,531
Supporting Effective Instruction State Grants	84.367	0147-16-0850	50,581
Total U.S. Department of Education			3,949,823
U.S. Department of Agriculture:			
Passed Through Board of Cooperative Educational Services Second Supervisory District of Erie-Chautauqua-Cattaraugus Counties			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	12,708
Passed Through New York State Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	399,396
National School Lunch Program	10.555	N/A	1,221,533
Total Child Nutrition Cluster			1,620,929
Healthy, Hunger-Free Kids Act of 2010 Childhood Hunger Research and Demonstration Projects	10.592	N/A	34,357
Passed Through New York State Office of General Services			
Child Nutrition Discretionary Grants Limited Availability	10.579	N/A	218,451
Total U.S. Department of Agriculture			1,886,445
Total Expenditures of Federal Awards			$ 5,836,268

See accompanying notes.

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs administered by Kenmore-Town of Tonawanda Union Free School District (the District), an entity as defined in Note 1 to the District's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the Schedule of Expenditures of Federal Awards.

Basis of Accounting

The District uses the modified accrual basis of accounting for each federal program, consistent with the fund basis financial statements.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable programs and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the District's financial reporting system.

Indirect Costs

Indirect costs are allocated to Federal funds on a formulaic approach at an amount less than the 10% de minimis indirect cost rate permitted by the Uniform Guidance.

Non-Monetary Federal Program

The District is the recipient of a federal award program that does not result in cash receipts or disbursements, termed a "non-monetary program." During the year ended June 30, 2017, the District used $218,451 worth of commodities under the Child Nutrition Discretionary Grants Limited Availability program (CFDA Number 10.579).

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

The Board of Education
Kenmore-Town of Tonawanda Union Free School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining fund information of Kenmore-Town of Tonawanda Union Free School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 6, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Lumsden & McCormick, LLP

October 6, 2017

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

The Board of Education
Kenmore-Town of Tonawanda Union Free School District

Report on Compliance for Each Major Federal Program

We have audited Kenmore-Town of Tonawanda Union Free School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Lumsden & McCormick, LLP

October 6, 2017

Schedule of Findings and Questioned Costs

For the year ended June 30, 2017

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	*Unmodified*
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA #	Amount
Special Education Cluster:		
Special Education _Grants to States	84.027	$ 2,185,421
Special Education_Preschool Grants	84.173	61,079
		$ 2,246,500

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II. Financial Statement Findings

No matters were reported.

Section III. Federal Award Findings and Questioned Costs

No matters were reported.