

***ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN***

***GENERAL PURPOSE  
FINANCIAL STATEMENTS***

***JUNE 30, 2017***

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
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## INDEPENDENT AUDITORS' REPORT

To The Board of Education of the  
Enlarged City School District of Middletown  
Middletown, New York

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Enlarged City School District of Middletown, New York, as of and for the year ended June 30, 2017, which collectively comprise the District's basic financial statements as listed in the table of contents, and the notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 of material misstatement.

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

## **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Enlarged City School District of Middletown, New York, as of June 30, 2017, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, on pages 4 through 13 and 54 through 58, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Enlarged City School District of Middletown, New York's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

The prior year summarized comparative information has been derived from the District's June 30, 2016 financial statements, and in our report dated September 30, 2016, we expressed an unmodified opinion on those financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017 on our consideration of the Enlarged City School District of Middletown, New York's internal control over financial reporting and 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 Enlarged City School District of Middletown, New York's internal control over financial reporting and compliance.

Mongaup Valley, New York  
October 10, 2017

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# Management's Discussion and Analysis

Enlarged City School District of Middletown

Year Ended June 30, 2017

**Middletown City School District  
223 Wisner Avenue  
Middletown, New York 10940**

# Enlarged City School District of Middletown

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

## Financial Highlights

Key financial highlights for 2017 are as follows:

### District-Wide Statements

- Total net position - end of year was \$125,584,027 at June 30, 2017, up \$8,837,038 from the prior year. This increase in total net position was primarily a result of the accounting treatment of pension expenses in accordance with GASB 68, which resulted in an actuarially calculated pension expense in the District-wide statements that was \$12.3 million less than the amount reported in the fund financial statements.
- Real property tax revenues accounted for \$65,493,117 or 40% of total revenues. State and Federal sources accounted for \$88,212,158 or 47% of total revenues. The percentage of tax revenues, as well as federal and state funding, increased from last year to the current year.

### General Fund Financial Statements

- Among major funds, the General Fund had \$166,659,404 in total revenues, of which \$65,493,117 or 40% was made up of real property tax revenues and \$88,212,158 or 51% was made up of state and federal sources. The General Fund expenditures totaled \$156,904,332 for the year ended June 30, 2017. The General Fund’s fund balance increased from \$47,764,908 at June 30, 2016 to \$58,696,106 at June 30, 2017. Of the total fund balance, assigned was \$5,299,227 to reduce the subsequent year’s tax levy and \$2,875,907 for year-end encumbrances. Amounts restricted totaled \$22,953,050 leaving \$27,567,922 as unassigned. A Capital Reserve Fund was established in May 2017 by voters and funded with \$3,000,556. The increase in the General Fund balance was a result of careful planning to establish a self-funded Health Care Reserve \$5,000,000 and continuation of RTTT (Race To The Top) initiatives.

## Using this Comprehensive Annual Report

This comprehensive and annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so that the reader can understand the District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.



## **Reporting the District as a Whole**

### *The Statement of Net Position and Statement of Activities*

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when the cash is received or paid.

These two statements report the District's net position and changes in it. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, current property tax laws, student enrollment and facility conditions in arriving at their consultation regarding the overall health of the District.

## **Reporting the District's Most Significant Funds**

### *Fund Financial Statements*

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The District's two types of funds, governmental and fiduciary, use different accounting approaches.

### *Government Funds*

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

## **Reporting the District's Fiduciary Responsibilities**

The District is the trustee or fiduciary for assets that belong to others such as the student activities funds. It is the District's responsibility to ensure that assets reported in these funds are being used for their intended purposes. The District's fiduciary activities are reported in a separate "Statement of Fiduciary Net Position" schedule, as the District may not use these assets to finance its operations.

**The District as a Whole**

The information below provides a comparison with the prior year information for the District as whole.

**Net Position**

	<b>2017</b>	<b>2016</b>
Current Assets	\$ 84,648,488	\$ 68,592,787
Net Pension Assets	\$ -	\$ 39,571,540
Capital Assets	\$ 313,092,402	\$ 289,035,990
Less: Accumulated Depreciation	\$ (86,343,782)	\$ (83,572,048)
<b>Total Assets</b>	<b>\$ 311,397,108</b>	<b>\$ 313,628,269</b>
Pensions	\$ 42,126,109	\$ 15,382,748
Deferred Refunding Charge, net	\$ 1,200,511	\$ 1,341,748
<b>Total Deferred Outflows of Resources</b>	<b>\$ 43,326,620</b>	<b>\$ 16,724,496</b>
Current Liabilities	\$ 39,322,291	\$ 12,973,267
Long Term Liabilities	\$ 187,433,134	\$ 185,547,368
<b>Total Liabilities</b>	<b>\$ 226,755,425</b>	<b>\$ 198,520,635</b>
Pensions	\$ 2,384,276	\$ 14,985,144
<b>Total Deferred Inflows of Resources</b>	<b>\$ 2,384,276</b>	<b>\$ 14,985,144</b>
Net Investment in Capital Assets	\$ 110,226,697	\$ 106,982,381
Restricted	\$ 22,953,050	\$ 21,225,995
Unrestricted	\$ (7,595,720)	\$ (11,361,387)
<b>Total Net Position</b>	<b>\$ 125,584,027</b>	<b>\$ 116,846,989</b>

<b>GENERAL REVENUES</b>		
	<b>2017</b>	<b>2016</b>
Real Property Taxes	\$ 65,493,117	\$ 63,052,305
Other Tax Items	\$ 8,089,575	\$ 10,065,170
Non Property Taxes	\$ 1,724,275	\$ 1,472,935
Investment Earnings	\$ 238,957	\$ 235,883
Sale of Property and Compensation for Loss	\$ 74,971	\$ 15,861
Miscellaneous Local Sources	\$ 2,140,434	\$ 1,310,856
Premium on Obligations	\$ 685,317	\$ 727,113
State Sources	\$ 87,696,682	\$ 80,086,264
Federal Sources	\$ 516,076	\$ 438,242
<b>Total General Revenues</b>	\$ 166,659,404	\$ 157,404,461
<b>NET PROGRAM EXPENDITURES (REVENUES)</b>		
	<b>2017</b>	<b>2016</b>
General Support	\$ (20,476,368)	\$ (18,611,316)
Instruction	\$ (136,832,724)	\$ (116,946,372)
Pupil Transportation	\$ (8,459,684)	\$ (7,986,405)
Community Service	\$ (950)	\$ (1,900)
Debt Service	\$ (7,072,044)	\$ (5,782,986)
School Lunch Program	\$ (4,222,631)	\$ (234,855)
<b>Total Net Program Expenditures/(Revenues)</b>	\$ (177,064,401)	\$ (149,563,834)
<b>Loss on Disposal of Capital Assets</b>	\$ -	\$ -
<b>CHANGE IN NET POSITION</b>	\$ 7,883,289	\$ 7,840,627

District's net position increased by .54% over the prior year's net position, mainly as a result of the accounting treatment of pensions in accordance with GASB 68.

## Governmental Activities

The laws in New York State require the need to seek voter approval for the general fund-operating budget. Without voter approval, School Districts' are placed on a contingency budget, which limits expenditures to those considered essential to maintain an educational program, preserve property and assure the health and safety of students and staff. The District's budget has been approved by the voters. This allows the District to purchase necessary equipment.

School Districts' are dependent upon property taxes as a primary source of revenue. Since the District must rely heavily on voter approval for funding levels, management of resources is of paramount concern to District Administration and the voting public.

### *The District's Funds*

Information about the School District's major funds starts on page 21. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and Other Sources of \$227,972,239 and total expenditures of \$173,788,488. The District's governmental fund balances increased \$52,551,048 across all funds. The increase is attributed to the capital projects account.

	<b>2017 Fund Balance</b>	<b>2016 Fund Balance</b>	<b>Increase (Decrease)</b>
General	\$47,764,908	\$40,196,874	\$7,568,034
Special Aid	-	-	-
School Lunch	2,016,962	1,789,993	226,969
Capital Projects	(1,170,364)	(47,011,056)	4,027,008
Debt Service	3,939,542	3,391,486	548,056
Total Governmental	52,551,048	(1,632,703)	\$54,183,751

## General Fund Budget Information

The District's budget is prepared in accordance with New York State law and is based on the modified accrual basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant fund is the General Fund.

## General Fund Activity

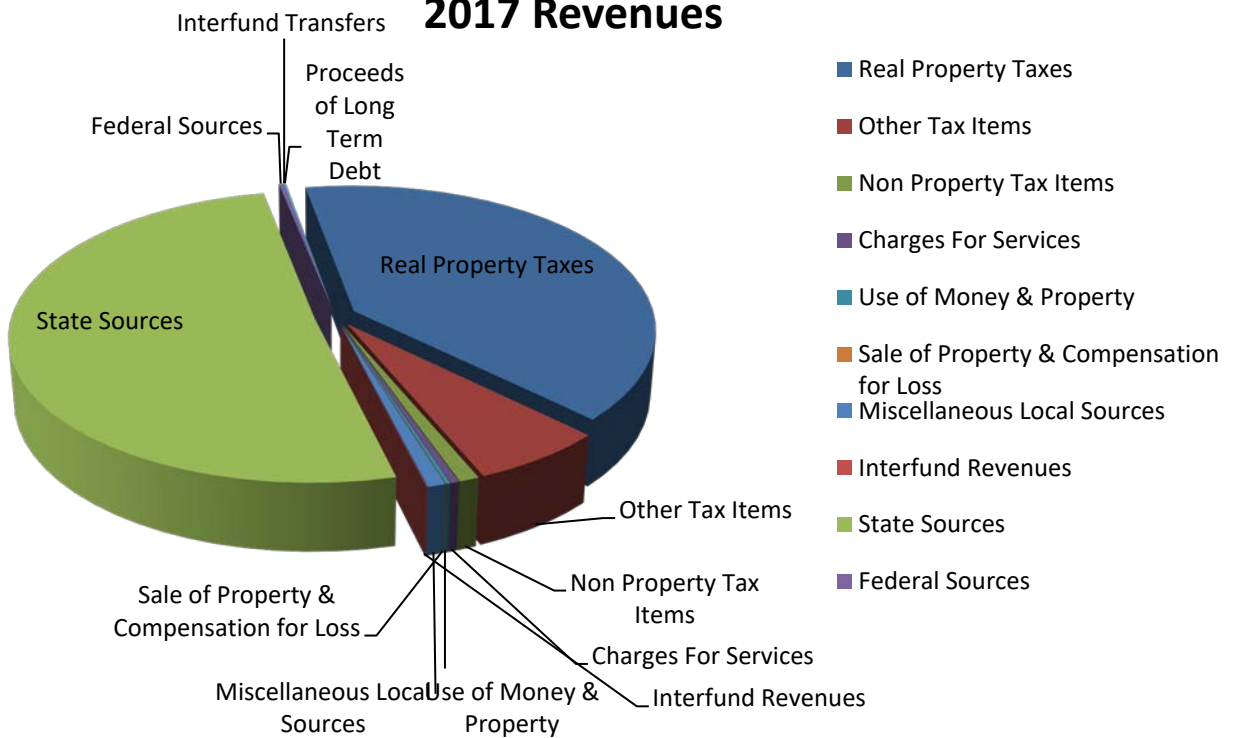
The tables and graphs that follow assist in illustrating the financial activities of the General Fund.

<b>Revenues</b>	<b>2017 Amount</b>	<b>2016 Amount</b>
Real Property Taxes	\$63,207,722	\$60,873,899
Other Tax Items	10,065,170	9,888,897
Non Property Tax Items	1,472,935	1,467,611
Charges For Services	628,049	547,075
Use of Money & Property	308,833	216,972
Sale of Property & Compensation for Loss	24,654	34,521
Miscellaneous Local Sources	1,313,856	968,699
Interfund Revenues	55,432	51,513
State Sources	80,086,264	74,249,021
Federal Sources	438,242	446,401
Interfund Transfers	190,717	213,717
Proceeds of Long Term Debt	0	124,758
<b>Total Revenues and Other Sources</b>	<b>\$157,791,874</b>	<b>\$149,083,084</b>

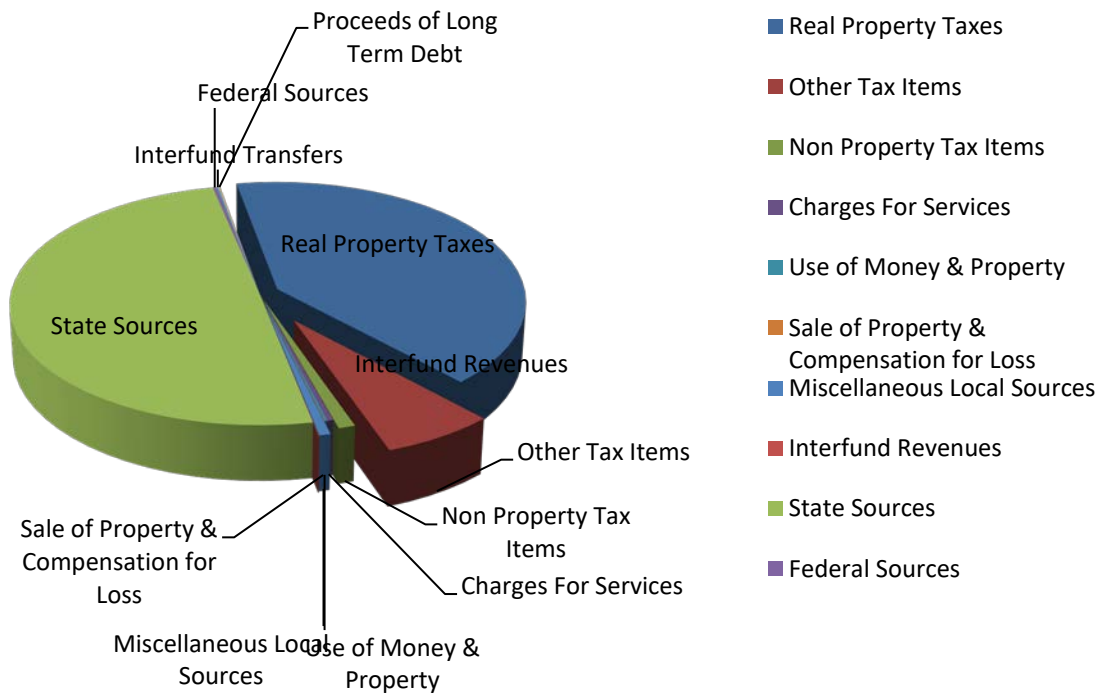
Overall revenues were consistent with last year. The property tax revenue, exclusive of STAR revenues, was up 4.3% Revenues and expenditures are depicted on the graphs on the succeeding pages. Expenditures increased as a result of increase in staff for the new building and increased cost of employee benefits.

<b>Expenditures</b>	<b>2017 Amount</b>	<b>2016 Amount</b>
General Support	\$14,433,223	\$13,721,306
Instruction	83,207,913	81,381,220
Pupil Transportation	7,943,428	7,738,036
Community Service	1,900	4,000
Employee Benefits	29,692,196	31,281,609
Debt Service	13,958,616	12,856,485
Interfund Transfers Out	986,564	3,476,247
<b>Total Expenditures and Other Uses</b>	<b>\$150,223,840</b>	<b>\$150,458,903</b>

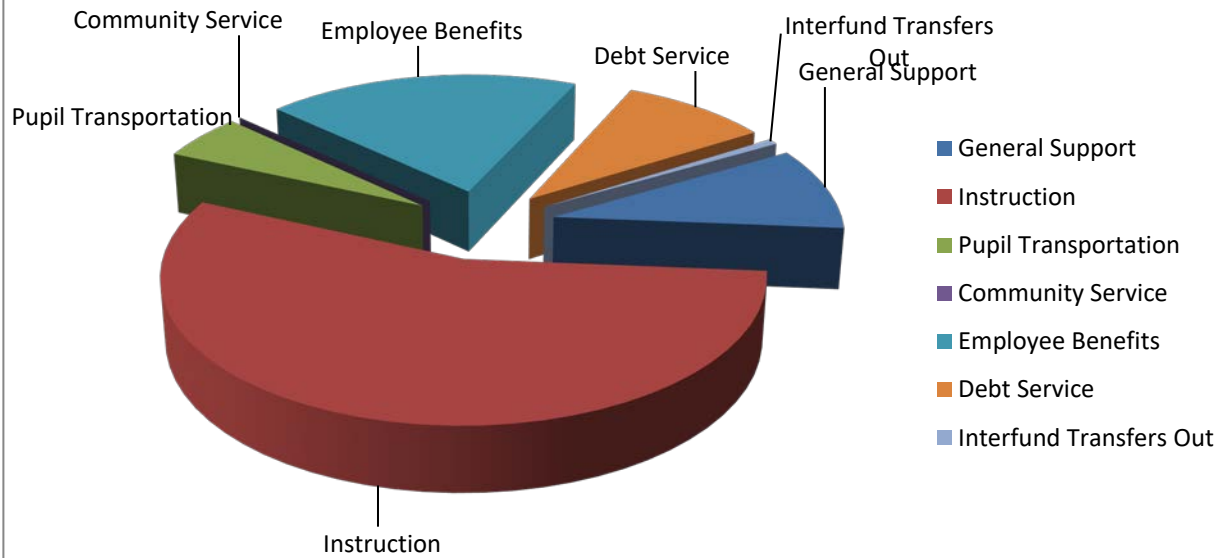
## 2017 Revenues



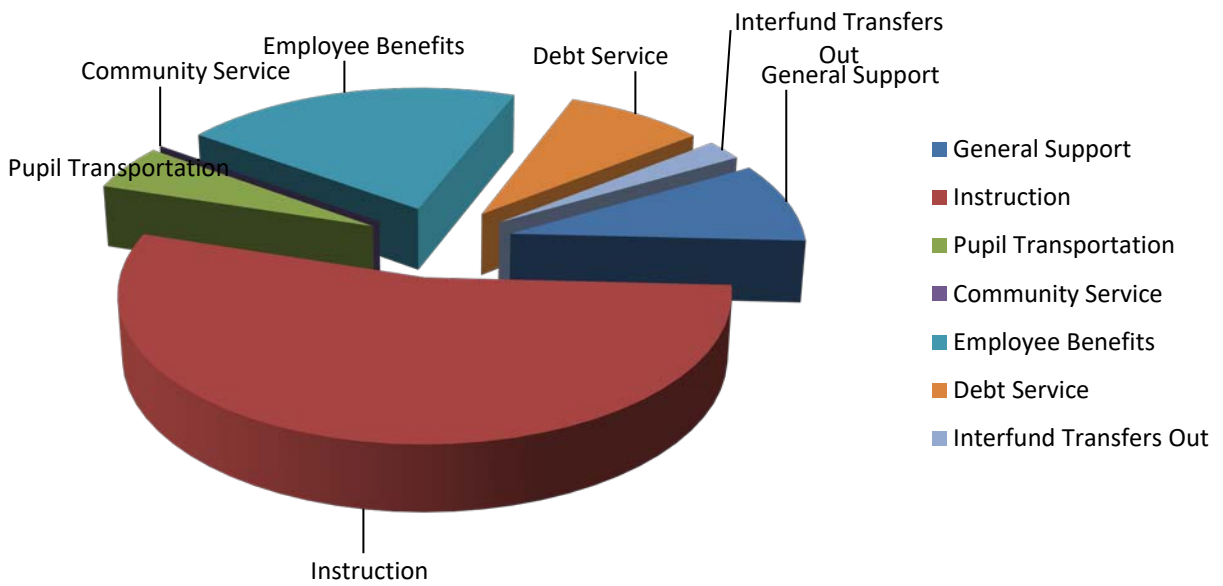
## 2016 Revenues



## 2017 Expenditures



## 2016 Expenditures



## **School Food Service Highlights**

The School Food Service recorded a profit of \$226,969. This is a result of increased participation and controlled expenditures in our food service program.

## **Capital Assets**

The District has \$205,463,942 invested in capital assets, net of \$83,572,048 in accumulated depreciation, as of June 30, 2017. Depreciation for the year ended June 30, 2017 was \$6,889,008.

## **Debt**

As of June 30, 2017, the District has \$93,426,000 in outstanding bonds, \$49,170,000 in outstanding bonds anticipation notes and \$5,055,561 outstanding on two energy performance contracts. The District paid \$2,480,229 in interest throughout the year.

Moody's Investors Service latest assigned rating for the District is Aa3 on the new scale instituted in April, 2010. The rating reflects the District's levels of financial reserves: a moderate debt burden further mitigated by state aid; and a fairly diverse tax base in close proximity to Metropolitan New York and regional employment centers.

## **Factors Bearing on the District's Future**

There are three factors that presently bear a factor on the Enlarged City School District of Middletown's future. The first is the stability of State Aid projections and the restrictions of foundation aid formula which directly impacts the amount the taxes that need to be levied when preparing the budget. New York State continues to have fiscal concerns and state aid is one of the largest revenue components for the district. The second factor is the stability of student enrollment in the District, which has increased over the past couple of years. We continue to see growth in the high school and the voters authorized an addition to the high school December of 2014. The third factor is the state legislation that requires a cap on the tax levy of the District. The cap is calculated using formulas based on current years levy, growth in tax base and inflation rates. The voters can approve a tax levy over the cap if the budget is passed by 60% or more of the voters.



**Contacting the District’s Financial Management**

It is the intent of this report to provide the District’s citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Business Office at Enlarged City School District of Middletown, 223 Wisner Ave. Middletown, New York 10940.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
STATEMENT OF NET POSITION  
JUNE 30,

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 48,991,233	\$ 35,077,645
Cash - Restricted	22,953,050	21,225,992
Taxes Receivable	3,534,731	3,977,791
Accounts Receivable	34,138	23,657
State and Federal Aid Receivable	5,930,680	4,942,793
Due From Other Governments	3,108,966	3,211,061
Due From Fiduciary Funds	157	3,168
Inventory	<u>95,533</u>	<u>130,680</u>
Total Current Assets	<u>84,648,488</u>	<u>68,592,787</u>
Non-Current Assets		
Net Pension Asset	-	39,571,540
Capital Assets	313,092,402	289,035,990
Less: Accumulated Depreciation	<u>(86,343,782)</u>	<u>(83,572,048)</u>
Total Non-Current Assets	<u>226,748,620</u>	<u>245,035,482</u>
<b>TOTAL ASSETS</b>	<u>311,397,108</u>	<u>313,628,269</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	42,126,109	15,382,748
Deferred Charge on Refunding, Net	<u>1,200,511</u>	<u>1,341,748</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>43,326,620</u>	<u>16,724,496</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
STATEMENT OF NET POSITION  
JUNE 30,

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 3,807,383	2,787,593
Accrued Liabilities	846,126	554,948
Bond Anticipation Notes	25,990,000	-
Due To Fiduciary Funds	-	895
Due To Other Governments	512,496	740,193
Due To TRS	7,497,489	8,248,998
Due To ERS	567,403	543,757
Unearned Revenues	101,394	96,883
Non-Current Liabilities:		
Due Within One Year:		
Serial Bonds	6,545,000	7,421,000
Energy Performance Contract	548,985	528,638
Installment Purchase Contract	-	42,258
Net OPEB Obligation	3,000,000	3,000,000
Due Beyond One Year:		
Serial Bonds	79,460,000	86,005,000
Energy Performance Contract	3,977,938	4,526,923
Compensated Absences	4,222,773	4,326,977
Net OPEB Obligation	81,274,207	72,093,570
Net Pension Liability	<u>8,404,231</u>	<u>7,603,002</u>
<b>TOTAL LIABILITIES</b>	<u>226,755,425</u>	<u>198,520,635</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pensions	<u>2,384,276</u>	<u>14,985,144</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>2,384,276</u>	<u>14,985,144</u>
<b>NET POSITION</b>		
Net Investment In Capital Assets	110,226,697	106,982,381
Restricted	22,953,050	21,225,995
Unrestricted	<u>(7,595,720)</u>	<u>(11,361,387)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 125,584,027</u>	<u>\$ 116,846,989</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE NET AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS		2016
General Support	\$ 20,476,368	\$ 138,910	\$ -	\$ -	\$ (20,337,458)	\$ (18,611,316)
Instruction	136,832,724	1,026,659	13,032,066	-	(122,773,999)	(116,946,372)
Pupil Transportation	8,459,684	-	314,062	-	(8,145,622)	(7,986,405)
Community Service	950	-	-	-	(950)	(1,900)
Debt Service	7,072,044	-	-	-	(7,072,044)	(5,782,986)
School Lunch Program	<u>4,222,631</u>	<u>521,735</u>	<u>3,254,854</u>	<u>-</u>	<u>(446,042)</u>	<u>(234,855)</u>
<b>TOTAL FUNCTIONS AND PROGRAMS</b>	<u>177,064,401</u>	<u>1,687,304</u>	<u>16,600,982</u>	<u>-</u>	<u>(158,776,115)</u>	<u>(149,563,834)</u>
<b>GENERAL REVENUES</b>						
Real Property Taxes					65,493,117	63,052,305
Other Tax Items					8,089,575	10,065,170
Non-Property Taxes					1,724,275	1,472,935
Investment Earnings					238,957	235,883
Sale of Property and Compensation For Loss					74,971	15,861
Miscellaneous Local Sources					2,140,434	1,310,688
Premium on Obligations					685,317	727,113
State Sources					87,696,682	80,086,264
Federal Sources					<u>516,076</u>	<u>438,242</u>
<b>TOTAL GENERAL REVENUES</b>					<u>166,659,404</u>	<u>157,404,461</u>
<b>CHANGE IN NET POSITION</b>					7,883,289	7,840,627
<b>TOTAL NET POSITION – Beginning of Year (Restated)</b>					<u>117,700,738</u>	<u>109,006,359</u>
<b>TOTAL NET POSITION - End of Year</b>					<u>\$ 125,584,027</u>	<u>\$ 116,846,986</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2016)

	<u>GENERAL</u>	<u>SPECIAL AID</u>	<u>SCHOOL LUNCH</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>	<u>2016</u>
<b>ASSETS</b>							
Cash	\$ 34,773,401	\$ 2,267,960	\$ 1,660,792	\$ 5,826,540	\$ 4,462,540	\$ 48,991,233	\$ 35,077,645
Cash - Restricted	22,953,050	-	-	-	-	22,953,050	21,225,992
Taxes Receivable	3,534,731	-	-	-	-	3,534,731	3,977,791
Accounts Receivable	30,088	-	4,050	-	-	34,138	23,657
Due From Other Funds	3,709,734	-	-	6,873	7,129	3,723,736	13,393,534
State And Federal Aid Receivable	3,898,281	1,463,933	568,466	-	-	5,930,680	4,942,793
Due From Other Governments	3,108,966	-	-	-	-	3,108,966	3,211,061
Inventories	<u>-</u>	<u>-</u>	<u>95,533</u>	<u>-</u>	<u>-</u>	<u>95,533</u>	<u>130,680</u>
<b>TOTAL ASSETS</b>	<u>\$ 72,008,251</u>	<u>\$ 3,731,893</u>	<u>\$ 2,328,841</u>	<u>\$ 5,833,413</u>	<u>\$ 4,469,669</u>	<u>\$ 88,372,067</u>	<u>\$ 81,983,153</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2016)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>I NON-MAJOR I</u>					TOTAL GOVERNMENTAL FUNDS	2016
	<u>GENERAL</u>	<u>SPECIAL AID</u>	<u>SCHOOL LUNCH</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICE</u>		
LIABILITIES							
Accounts Payable	\$ 1,420,635	\$ 235,860	\$ -	\$ 2,150,888	\$ -	\$ 3,807,383	\$ 2,787,593
Accrued Liabilities	394,084	10,850	94,296	-	-	499,230	236,473
Bond Anticipation Notes	-	-	-	25,990,000	-	25,990,000	-
Due To Other Governments	498,781	13,440	275	-	-	512,496	740,193
Due To Other Funds	6,873	3,383,214	322,363	11,129	-	3,723,579	13,391,261
Due To Teachers' Retirement System	7,497,489	-	-	-	-	7,497,489	8,248,998
Due To Employees' Retirement System	567,403	-	-	-	-	567,403	543,757
Unearned Revenues	-	88,529	12,865	-	-	101,394	96,883
TOTAL LIABILITIES	<u>10,385,265</u>	<u>3,731,893</u>	<u>429,799</u>	<u>28,152,017</u>	<u>-</u>	<u>42,698,974</u>	<u>26,045,158</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred Tax Revenues	<u>2,926,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,926,880</u>	<u>3,386,947</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,926,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,926,880</u>	<u>3,386,947</u>
FUND BALANCES							
Non-spendable:							
Inventory	-	-	95,533	-	-	95,533	130,680
Restricted:							
Tax Certiorari	8,905,591	-	-	-	-	8,905,591	9,764,862
Unemployment Insurance	1,068,947	-	-	-	-	1,068,947	1,036,071
Retirement Contribution	1,517,758	-	-	-	-	1,517,758	2,012,813
Employee Benefit Accrued Liability	4,887,958	-	-	-	-	4,887,958	5,051,986
Liability Claims	858,003	-	-	-	-	858,003	706,208
Property Loss	447,878	-	-	-	-	447,878	254,052
Workers Compensation	2,266,359	-	-	-	-	2,266,359	2,400,000
Capital	3,000,556	-	-	-	-	3,000,556	-
Assigned:							
Encumbrances	2,875,907	-	-	-	-	2,875,907	2,147,308
Appropriated	5,299,227	-	-	-	-	5,299,227	5,299,227
Unappropriated	-	-	1,803,509	3,699,316	4,469,669	9,972,494	6,557,260
Unassigned	<u>27,567,922</u>	<u>-</u>	<u>-</u>	<u>(26,017,920)</u>	<u>-</u>	<u>1,550,002</u>	<u>17,190,581</u>
TOTAL FUND BALANCES	<u>58,696,106</u>	<u>-</u>	<u>1,899,042</u>	<u>(22,318,604)</u>	<u>4,469,669</u>	<u>42,746,213</u>	<u>52,551,048</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 72,008,251</u>	<u>\$ 3,731,893</u>	<u>\$ 2,328,841</u>	<u>\$ 5,833,413</u>	<u>\$ 4,469,669</u>	<u>\$ 88,372,067</u>	<u>\$ 81,983,153</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2016)

	<u>2017</u>	<u>2016</u>
Total Governmental Fund Balances	\$ 42,746,213	\$ 52,551,048
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, therefore, are not reported in the governmental funds. The cost of capital assets and accumulated depreciation at June 30, 2017 are \$313,092,402 and \$86,343,782, respectively.	226,748,620	205,463,942
Refunding bond issuance costs are reported in the governmental funds as expenditures when paid. In the statement of net position, the costs are capitalized and amortized over the life of the bonds. Deferred refunding bond costs and accumulated amortization at June 30, 2017 are \$1,553,603 and \$353,092, respectively.	1,200,511	1,341,748
Proportionate share of long-term asset and liability associated with participation in State Retirement Systems are not current financial resources or obligations and are not reported in the governmental funds		
Net Pension Asset	-	
Deferred Outflows of Resources	42,126,109	
Net Pension Liability	(8,404,231)	
Deferred Inflows of Resources	<u>(2,384,276)</u>	32,366,142
In the governmental funds, taxes receivable are offset by deferred inflows of resources representing taxes that will not be collected in the first 60 days of the subsequent year. In the statement of net position the receivable is fully recognized regardless of when received.	2,926,880	3,386,947
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds Payable	(86,005,000)	
Energy Performance Contract	(4,526,923)	
Compensated Absences	(4,222,773)	
Net OPEB Obligation	(84,274,207)	
Installment Purchase Debt	<u>-</u>	(177,944,366)
Accrued interest on debt is reported in the statement of net position, regardless of when due. In the governmental funds, interest is not reported until it is due.	<u>(346,896)</u>	<u>(318,475)</u>
Net Position of Governmental Activities	<u>\$ 125,584,027</u>	<u>\$ 116,846,986</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	<u>I NON-MAJOR I</u>					TOTAL	
	<u>GENERAL</u>	<u>SPECIAL</u> <u>AID</u>	<u>SCHOOL</u> <u>LUNCH</u>	<u>CAPITAL</u> <u>PROJECTS</u>	<u>DEBT</u> <u>SERVICE</u>	<u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>2016</u>
REVENUES							
Real Property Taxes	\$ 65,953,184	\$ -	\$ -	\$ -	\$ -	\$ 65,953,184	\$ 63,207,722
Other Tax Items	8,089,575	-	-	-	-	8,089,575	10,065,170
Non Property Taxes	1,724,275	-	-	-	-	1,724,275	1,472,935
Charges For Services	1,026,659	-	-	-	-	1,026,659	628,049
Use of Money and Property	347,950	-	1,882	-	28,035	377,867	322,385
Sale of Property and Compensation For Loss	74,971	-	-	-	-	74,971	24,654
Miscellaneous Local Sources	2,140,584	10,054	-	-	-	2,150,638	1,316,274
Interfund Revenues	49,371	-	-	-	-	49,371	55,432
State Sources	87,696,682	2,948,095	95,809	-	-	90,740,586	83,317,306
Federal Sources	516,076	10,387,829	3,159,045	-	-	14,062,950	12,995,795
Sales	<u>-</u>	<u>-</u>	<u>521,735</u>	<u>-</u>	<u>-</u>	<u>521,735</u>	<u>571,123</u>
TOTAL REVENUES	167,619,327	13,345,978	3,778,471	-	28,035	184,771,811	173,976,845
OTHER FINANCING SOURCES							
Interfund Transfers In	216,203	733,052	39,400	4,000,000	7,400	4,996,055	1,177,281
Proceeds of Long Term Debt	-	-	-	-	-	-	48,871,000
BAN's Redeemed From Appropriations	-	-	-	2,110,000	-	2,110,000	3,220,000
Premium on Obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>685,317</u>	<u>685,317</u>	<u>727,113</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>167,835,530</u>	<u>14,079,030</u>	<u>3,817,871</u>	<u>6,110,000</u>	<u>720,752</u>	<u>192,563,183</u>	<u>227,972,239</u>
EXPENDITURES							
General Support	14,203,671	49,371	-	-	-	14,253,042	14,488,655
Instruction	86,252,587	12,729,821	-	-	-	98,982,408	95,176,767
Pupil Transportation	8,043,261	392,577	-	-	-	8,435,838	7,943,428
Community Services	950	-	-	-	-	950	1,900
Employees Benefits	30,006,340	906,982	757,445	-	-	31,670,767	31,361,538
Debt Services:							
Principal	10,101,896	-	-	-	-	10,101,896	10,500,579
Interest	3,523,175	-	-	-	-	3,523,175	3,458,037
Cost of Sales	-	-	3,178,346	-	-	3,178,346	2,951,087
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,225,541</u>	<u>-</u>	<u>27,225,541</u>	<u>6,729,216</u>
TOTAL EXPENDITURES	<u>152,131,880</u>	<u>14,078,751</u>	<u>3,935,791</u>	<u>27,225,541</u>	<u>-</u>	<u>197,371,963</u>	<u>172,611,207</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION



ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

(Continued)

	<u>GENERAL</u>	<u>SPECIAL AID</u>	<u>SCHOOL LUNCH</u>	<u>CAPITAL PROJECTS</u>	<u>I NON-MAJOR I DEBT SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>	<u>2016</u>
OTHER USES							
Interfund Transfers Out	\$ 4,772,452	\$ 279	\$ -	\$ 32,699	\$ 190,625	\$ 4,996,055	\$ 1,177,281
TOTAL EXPENDITURES AND OTHER USES	<u>156,904,332</u>	<u>14,079,030</u>	<u>3,935,791</u>	<u>27,258,240</u>	<u>190,625</u>	<u>202,368,018</u>	<u>173,788,488</u>
NET CHANGE IN FUND BALANCES	10,931,198	-	(117,920)	(21,148,240)	530,127	(9,804,835)	54,183,751
FUND BALANCE – Beginning of Year	<u>47,764,908</u>	<u>-</u>	<u>2,016,962</u>	<u>(1,170,364)</u>	<u>3,939,542</u>	<u>52,551,048</u>	<u>(1,632,703)</u>
FUND BALANCE – End of Year	<u>\$ 58,696,106</u>	<u>\$ -</u>	<u>\$ 1,899,042</u>	<u>\$ (22,318,604)</u>	<u>\$ 4,469,669</u>	<u>\$ 42,746,213</u>	<u>\$ 52,551,048</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	<u>2017</u>	<u>2016</u>
Total Net Change in Fund Balances – Governmental Funds	\$ (9,804,835)	\$ 54,183,751
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays are reported in governmental funds as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current fiscal year.</p>		
Depreciation Expenses	(7,161,917)	
Capital Outlay	<u>27,592,843</u>	114,737
<p>Refunding bond issuance costs are reported in the governmental funds as expenditures in the year the bonds are refunded. However, on the statement of activities, the costs are capitalized and amortized over the life of the bonds.</p>		
Amortization Expense	(141,237)	(141,237)
<p>Repayments of principal on long term debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.</p>		
Serial Bonds	7,421,000	
Installment Purchase Debt	42,258	
Energy Performance Contract	<u>528,638</u>	7,280,579
<p>In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid).</p>		
Compensated Absences	104,204	
Net OPEB Obligation	<u>(9,180,637)</u>	(14,738,943)
<p>(Increases) decreases in proportionate share of net pension asset/liability reported in the statement of activities do not provide for, or require the use of, current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds.</p>		
Teachers' Retirement System	(387,186)	
Employees' Retirement System	<u>(641,354)</u>	9,657,048

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

(Continued)

	<u>2017</u>	<u>2016</u>
In the governmental funds, the total amount received for the sale of assets is reported as revenue. In the statement of activities, the revenues are reduced by the net book value of the asset being sold.	\$ -	\$ (8,793)
In the governmental funds, proceeds of long term debt are reported as revenues. In the statement of net position, the proceeds increase the long term liability, and no revenue is recognized in the statement of activities.		
Serial Bonds	-	(48,871,000)
In the governmental funds, taxes receivable are only recognized as an asset in the amount that will be received in the first sixty days of the subsequent year. In the statement of activities, the full amount is recognized as an asset. Therefore, current year tax revenues are adjusted for amounts that were accrued and recognized in past years.	(460,067)	(155,417)
In the statement of activities, interest on long-term debt is accrued, regardless of when due. In the governmental funds, interest is reported when due.		
Current Year Accrued Interest	(346,896)	
Prior Year Accrued Interest	<u>318,475</u>	<u>519,902</u>
Change in Net Position of Governmental Activities	<u>\$ 7,883,289</u>	<u>\$ 7,840,627</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017

	<u>PRIVATE PURPOSE TRUST FUND</u>	<u>AGENCY FUND</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	<u>\$ 741,195</u>	<u>\$ 642,347</u>
<b>TOTAL ASSETS</b>	<u>741,195</u>	<u>\$ 642,347</u>
<b>LIABILITIES</b>		
Extraclassroom Activity Balances	-	\$ 224,696
Agency Liabilities	-	417,494
Due To Governmental Funds	<u>-</u>	<u>157</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>\$ 642,347</u>
Reserved For Scholarships	<u>\$ 741,195</u>	

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2017

	<u>PRIVATE PURPOSE TRUST FUND</u>
<b>ADDITIONS</b>	
Investment Earnings	\$ 757
Donations	<u>4,693</u>
<b>TOTAL ADDITIONS</b>	<u>5,450</u>
<b>DEDUCTIONS</b>	
Scholarships Awarded	<u>9,300</u>
<b>TOTAL DEDUCTIONS</b>	<u>9,300</u>
Change in Net Position	(3,850)
NET POSITION – Beginning of the Year	<u>745,045</u>
NET POSITION – End of Year	<u>\$ 741,195</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Enlarged City School District of Middletown have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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.

**A. Financial Reporting Entity**

The Enlarged City School District of Middletown is governed by the Education Law and other laws of the State of New York. The governing body is the Board of Education. The scope of activities included within the accompanying financial statements are those transactions which comprise School District operations, and are governed by, or significantly influenced by, the Board of Education.

Essentially, the primary function of the School District is to provide education for pupils. Services such as transportation of pupils, administration, finance, and plant maintenance support the primary function.

The financial reporting entity includes all funds, account groups, functions and organizations over which the School District officials exercise oversight responsibility. Oversight responsibility is determined on the basis of the financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

**1. Included in the Reporting Entity**

Based on the foregoing criteria and the significant factors presented below, the following organizations, functions or activities are included in the reporting entity:

**a. The Extraclassroom Activity Funds**

The Extraclassroom Activity Funds of the Enlarged City School District of Middletown represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the School District with respect to its financial transactions, and the designation of student management. The cash balances are reported in the Agency Fund of the School District. Separate audited general purpose financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the School District's business office.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. Joint Venture**

The Enlarged City School District of Middletown is a component school district in the Orange-Ulster Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of School Districts in a geographic area that share planning, services, and programs which provide educational and support activities.

BOCES are organized under Section 1950 of the Education Law. A BOCES Board is considered a corporate body. All BOCES property is held by the BOCES Board as a corporation (Section 1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section 119-n(a) of the General Municipal Law.

A BOCES budget is comprised of separate budgets for administrative, program and capital costs. Each component school district's share of administrative and capital costs is determined by resident public school district's enrollment as defined in Education Law Section 1950(4)(b)(7).

There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component School Districts pay tuition or a service fee for programs in which its students participate. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section 1950 of the Education Law.

Separate financial statements for the BOCES are available from the BOCES' administrative office.

**C. Basis of Presentation**

1. District-wide statements:

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

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operation or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund financial statements

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

*a. General Fund*

The General Fund is the principal operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

*b. Special Revenue Fund*

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes. Special revenue funds include the following funds:

1. Special Aid Fund – used to account for special operating projects or programs supported in whole, or in part, with federal funds or state or local grants.
2. School Lunch Fund – used to account for transactions of the School District lunch, breakfast, and milk programs.

*c. Capital Projects Fund*

The Capital Projects Fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.



ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District reports the following non-major governmental funds.

a. *Debt Service Fund*

The Debt Service Fund accounts for the accumulation of resources and the payment of principal and interest on long-term general obligation debt of governmental activities.

Additionally, the District reports the following fund type:

a. *Fiduciary Fund*

This fund is used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the District-wide financial statements, because their resources do not belong to the District, and are not available to be used. There are two classes of fiduciary funds:

Private Purpose Trust Fund

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

Agency Fund

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

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

The District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

**E. Property Taxes**

1. Calendar

Real property taxes are levied annually by the Board of Education no later than October 1<sup>st</sup>, and became a lien on October 1<sup>st</sup>. Taxes are collected during the period from October 1<sup>st</sup> through February 28<sup>th</sup>.

2. Enforcement

Uncollected real property taxes are enforced by the County of Orange, City of Middletown and Town of Wallkill. An amount representing uncollected real property taxes is transmitted to the District on a monthly basis and all uncollected taxes are eventually transmitted to the District within two years from the return of unpaid taxes.

**F. Budgetary Procedures And Budgetary Accounting**

1. Budget Policies

The budget policies are as follows:

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- a. The School District administration prepares a proposed budget for approval by the Board of Education for the following governmental fund types:
  - I. General Fund
- b. The proposed appropriation budget for the General Fund is approved by the voters within the District.
- c. Appropriations are adopted at the program level.
- d. Appropriations established by adoption of the budget constitute a limitation on expenditures and encumbrances which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need which exists which was not determined at the time the budget was adopted. The following supplemental appropriations occurred during the year:

Instruction	\$ 332,737
Transfers to Capital Projects	<u>4,000,000</u>
	<u>\$ 4,332,737</u>

2. Encumbrances

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

3. Budget Basis of Accounting

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

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. **Cash and Cash Equivalents**

For financial statement purposes, the District considers all highly liquid investments of three months or less as cash equivalents.

H. **Inventory**

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

I. **Accounts Receivable**

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would be immaterial.

J. **Capital Assets**

The District has established a formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The School District does not possess any infrastructure. The capitalization threshold used by the District is \$5,000.

All reported capital assets except for land and construction in progress are depreciated. Depreciation is computed using the straight-line method over the following estimated useful lives:

<b><u>ASSET CLASS</u></b>	<b><u>ESTIMATED USEFUL LIVES</u></b>
Buildings & Improvements	20-50
Machinery & Equipment	5-20

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**K. Unearned Revenue**

Unearned revenues arise when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Unearned revenues also arise when sources are received by the School District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the School District has legal claim to the resources, the liability for unearned revenues is removed and revenues are recognized.

**L. Vested Employee Benefits**

The District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods. Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

Consistent with GASB Statement 16, Accounting for Compensated Absences, an accrual for accumulated sick leave is included in the compensated absences liability at year-end. The compensated absences liability is calculated on the pay rates in effect at year-end.

For the District-wide Statements, the current portion is the amount estimated to be used in the following year, in accordance with GAAP. For the governmental funds, in the fund financial statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and District-wide presentations.

District employees participate in the New York State Employees' Retirement System and the New York State Teachers' Retirement System. In addition to providing pension benefits, the District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the District's employees may become eligible for these benefits if they reach retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance in the fund financial statements by recording its share of insurance premiums as an expenditure in the year paid. In the District-wide statements, the liability is reported at actuarially calculated amounts (See Note 11).

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. **Interfund Activity**

The amounts reported on the Statement of Net Position for due to and due from other funds represents amounts due between different fund types (governmental activities, and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these Notes.

N. **Equity Classifications**

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

Net investment in capital assets – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets.

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

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

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

Non-spendable – includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the School Lunch Fund of \$95,533.

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

Tax Certiorari

Used to accumulate funds to pay judgements and claims anticipated from tax certiorari proceedings. Any excess monies must be returned to the General Fund on or before the first day of the fourth fiscal year after the deposit of the monies. This reserve is accounted for in the General Fund.

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unemployment Insurance

Used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. This reserve is accounted for in the General Fund.

Employee Benefit Accrued Liability

Used to reserve funds for the payment of any accrued employee benefit due to an employee upon termination. The reserve is established by a majority vote of the Board of Education and is funded by budgetary appropriations and such other funds that may be legally appropriated. This reserve is accounted for in the General Fund.

Workers' Compensation

Used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. This reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. This reserve is accounting for in the General Fund.

Retirement Contribution

Used to reserve funds to finance contributions to the NYS Employees Retirement System. This reserve is accounted for in the General Fund.

Liability Claims and Property Loss

Used to reserve funds to pay for liability claims and property loss incurred. Separate funds for liability claims and property loss are required, and these reserves may not exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may only be utilized by school districts with a population under 125,000. This reserve is accounted for in the General Fund.

Capital

Used to pay the cost of any object or purpose for which bonds may be issued. Voter authorization is required for both establishment of the reserve and payments from the reserve. This reserve is accounted for in the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed – includes amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the District’s highest level of decision making authority before the end of the fiscal year, and requires the same level of formal action to remove the constraint. The Board of Education is the decision making authority that can, by resolution prior to the end of the fiscal year, commit fund balance. The District has no committed fund balances as of June 30, 2017.

Assigned – includes amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest level of decision making authority, or by their designated official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance generally includes encumbrances in the General Fund and appropriated fund balance. The Board of Education is the decision making authority that can, by resolution, assign fund balance. The District reported encumbrances of \$2,875,907 as assigned fund balance in the General Fund as of June 30, 2017.

Unassigned – represents the residual classification for the General Fund, and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should be used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the district’s General Fund budget for the ensuing fiscal year. Non-spendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation.

Order of Use of Fund Balance:

When resources are available from multiple fund balance classifications, the Board will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classification will be charged.

O. **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. **New Accounting Standards**

The District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2017, the District implemented the following new standards issued by GASB:

*GASB 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68, and Amendments to Certain Provisions of GASB 67 and GASB 68.*

*GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions.*

*GASB 77 – Tax Abatement Disclosures.*

*GASB 78 – Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans.*

*GASB 79 – Certain External Investment Pools and Pool Participants, effective for the year ending June 30, 2016, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for the year ending June 30, 2017.*

*GASB 80 – Blending Requirements for Certain Component Units – an Amendment of GASB 14.*

Q. **Future Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following standards that will become effective in future fiscal years:

*GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, effective for the year ending June 30, 2018.*

*GASB 81 – Irrevocable Split-Interest Agreements, effective for the year ending June 30, 2018.*

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**R. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has three items that qualify for reporting in this category. First is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Lastly is the District contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date. The District reports \$1,200,511 in deferred refunding charges, net of \$353,092 in accumulated amortization, as of June 30, 2017, and \$42,126,109 in deferred outflows of resources related to pensions as of June 30, 2017.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first arises only under a modified accrual basis of accounting and is reported as unavailable revenue-property taxes. The District recognized \$2,926,880 in deferred inflows of resources in the governmental fund financial statements for deferred tax revenues in the General Fund as of June 30, 2017. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension liability (ERS System) and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension system not included in pension expense. The District reports \$2,384,276 in deferred inflows of resources related to pensions as of June 30, 2017.

The reporting of deferred outflows of resources and deferred inflows of resources related to pensions resulted in a net increase of \$31,337,602 to unrestricted net position as of June 30, 2017.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL

## FUND STATEMENTS AND DISTRICT-WIDE STATEMENT

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the District-wide statements, certain financial transactions are treated differently. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds. These differences are reconciled in the financial statements.

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

Total fund balances of the District's governmental funds differs from "net position" of governmental activities reported in the Statement of Net Position. The difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund balance sheet.

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

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories:

- a) Long-term revenue differences:

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

- b) Capital related differences:

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

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL

FUND STATEMENTS AND DISTRICT-WIDE STATEMENT (Continued)

c) Long-term debt transaction differences:

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Fund Balance

The District's unassigned fund balance in the General Fund is in excess of the amount permitted by law. New York State Law limits the unassigned fund balance to 4% of the subsequent year's adopted budget.

The District had a deficit unassigned fund balance of \$26,017,920 in the Capital Projects Fund as of June 30, 2017. The deficit was caused by the accounting treatment of bond anticipation notes and will be eliminated when the notes are converted to long term financing.

NOTE 4 – PARTICIPATION IN BOCES

During the year ended June 30, 2017, the Enlarged City School District of Middletown was billed \$19,950,929 for BOCES administrative and program costs. General purpose financial statements for the BOCES are available at the BOCES' administrative office.

The School District's share of BOCES income amounted to \$4,046,173.

NOTE 5 – CASH AND INVESTMENTS

The Enlarged City School District of Middletown investment policies are governed by State statutes. In addition the District has its own written investment policy. District monies must be deposited in FDIC-Insured commercial banks or trust companies located within the State. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for 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 New York State and states other than New York and their municipalities and school districts.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 5 – CASH AND INVESTMENTS (Continued)

The District's aggregate cash balances include balances not covered by depository insurance at year end, collateralized as follows:

Collateralized with securities held by the pledging financial institution, or its trust department, but not in the District's name. \$ 73,245,300

NOTE 6 – CAPITAL ASSETS

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

	BEGINNING BALANCE (Restated)	ADDITIONS	RETIREMENTS/ RECLASSIFICATIONS	ENDING BALANCE
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 37,085,707	\$ -	\$ -	\$ 37,085,707
Construction In Progress	<u>4,401,800</u>	<u>-</u>	<u>-</u>	<u>4,401,800</u>
Total non-depreciable historical cost	<u>41,487,507</u>	<u>-</u>	<u>-</u>	<u>41,487,507</u>
Capital assets that are depreciated:				
Building and Improvements	235,038,362	27,216,442	-	262,254,804
Furniture and Equipment	<u>8,973,690</u>	<u>376,401</u>	<u>-</u>	<u>9,350,091</u>
Total depreciable historical cost	<u>244,012,052</u>	<u>27,592,843</u>	<u>-</u>	<u>271,604,895</u>
Less accumulated depreciation:				
Building and Improvements	73,904,475	6,538,792	-	80,443,267
Furniture and Equipment	<u>5,277,390</u>	<u>623,125</u>	<u>-</u>	<u>5,900,515</u>
Total Accumulated Depreciation	<u>79,181,865</u>	<u>7,161,917</u>	<u>-</u>	<u>86,343,782</u>
Total historical cost, net	<u>\$ 206,317,694</u>	<u>\$ 20,430,926</u>	<u>\$ -</u>	<u>\$ 226,748,620</u>
Depreciation expense was charged to Governmental functions as follows:				
General Support		\$ 2,698,211		
Instruction		4,402,766		
School Lunch		<u>60,940</u>		
		<u>\$ 7,161,917</u>		

NOTE 7 – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2017 are as follows:

	INTERFUND RECEIVABLE	INTERFUND PAYABLE	INTERFUND REVENUES	INTERFUND EXPENDITURES
General Fund	\$ 3,709,734	\$ 6,873	\$ 216,203	\$ 4,772,452
Special Aid Fund	-	3,383,214	733,052	279
School Lunch Fund	-	322,363	39,400	-
Capital Fund	6,873	11,129	4,000,000	32,699
Debt Service Fund	<u>7,129</u>	<u>-</u>	<u>7,400</u>	<u>190,625</u>
Total Governmental Activities	<u>3,723,736</u>	<u>3,723,579</u>	<u>4,996,055</u>	<u>4,996,055</u>
Agency Fund	<u>-</u>	<u>157</u>	<u>-</u>	<u>-</u>
Total Fiduciary Funds	<u>-</u>	<u>157</u>	<u>-</u>	<u>-</u>
TOTALS	<u>\$ 3,723,736</u>	<u>\$ 3,723,736</u>	<u>\$ 4,996,055</u>	<u>\$ 4,996,055</u>

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 7 – INTERFUND TRANSACTIONS (Continued)

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

The District typically transfers funds from the General Fund to the School Lunch Fund to cover the shortfall in the annual budget, to the Special Aid Fund to cover expenses that are not reimbursed by Federal or State Grants, and to the Debt Service Fund to make principal and interest payments on outstanding debt.

The District transfers investment income earned in the Capital Projects Fund to the Debt Service Fund for the purpose of making future debt service payments.

The District typically loans resources between funds for the purpose of relieving cash flow issues.

NOTE 8 – INVENTORY

Inventory in the School Lunch Fund at June 30, 2017 consisted of the following:

Food and Supplies	<u>\$ 95,533</u>
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NOTE 9 – LIABILITIES

A. **Pension Plans and Post-Employment Benefits**

1. General Information

The Enlarged City School District of Middletown participates in New York State and Local Employee's Retirement System (ERS), and the New York State Teachers' Retirement System (TRS). These Systems are cost sharing multiple employer, public employee retirement systems.

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

2. Plan Descriptions

a. Teachers' Retirement System (TRS)

As an employer, you make contributions to the NYS Teachers' Retirement System, a cost sharing, multiple employer defined benefit pension plan administered by the NYS Teachers' Retirement Board. The System provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 9 – LIABILITIES (Continued)

Retirement and Social Security Law of the State of New York. The System issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

b. Employees' Retirement System (ERS)

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute, and benefits to employees are governed by the New York State Retirement and Social Security Law (NYRSSL). The system issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

3. Funding Policy

Plan members who joined the Systems before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and prior to January 1, 2010, with less than ten years of service, are required to contribute 3% of their salary.

Those joining the NYSERS on or after January 1, 2010 and before April 1, 2012, contribute 3% of their salary throughout their entire working career. Those joining after April 1, 2012 contribute 3% of their salary through March 31, 2013, and beginning April 1, 2013, contribute at rates ranging from 3% to 6%, dependent upon their salary, for their entire working career.

Those joining the NYSTRS on or after January 1, 2010 and before April 1, 2012 contribute 3.5% of their salary throughout their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent on their salary, for their entire working career.

For the NYSTRS, employers are required to contribute at an actuarially determined rate, currently 11.72% of the annually covered payroll for the fiscal year ended June 30, 2017. Rates applicable to the fiscal years ended June 30, 2016 and 2015 were 13.26% and 17.53%, respectively.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2017

NOTE 9 – LIABILITIES (Continued)

For the NYSERS, the NYS Comptroller annually certifies the actuarially determined rates expressed used in computing the employers’ contributions based on salaries paid during the Systems’ fiscal year ending March 31.

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

	<u>ERS</u>	<u>TRS</u>
2017	\$ 1,896,426	\$ 6,882,510
2016	2,021,960	7,664,011
2015	2,129,500	10,032,097

**B. Indebtedness**

1. Long-Term Debt

Long-Term Debt Interest

Interest Expense on long-term debt consisted of the following:

Interest Paid	\$ 3,003,325
Less: Interest Accrued in the Prior Year	(318,475)
Plus: Interest Accrued in the Current Year	332,601
Interest on OPEB Obligation	3,379,211
Interest on Deferred Refunding Changes	<u>141,237</u>
 Total Expense	 <u>\$ 6,537,899</u>

Changes

The changes in the School District’s indebtedness during the year ended June 30, 2017 are summarized as follows:

	<u>BALANCE</u> <u>07/01/16</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>06/30/17</u>	<u>AMOUNTS</u> <u>DUE WITHIN</u> <u>ONE YEAR</u>
Serial Bonds	\$ 93,426,000	\$ -	\$ 7,421,000	\$ 86,005,000	\$ 6,545,000
Energy Performance Contract	5,055,561	-	528,638	4,526,923	548,985
Installment Purchase Debt	42,258	-	42,258	-	-
Compensated Absences	4,326,977	-	104,204	4,222,773	-
Net OPEB Obligation	<u>75,093,570</u>	<u>12,154,803</u>	<u>2,974,166</u>	<u>84,274,207</u>	<u>3,000,000</u>
 TOTAL	 <u>\$ 177,944,366</u>	 <u>\$ 12,154,803</u>	 <u>\$ 11,070,266</u>	 <u>\$ 179,028,903</u>	 <u>\$ 10,093,985</u>

Additions and deletions to compensated absences are shown net since it is impractical to determine those amounts separately.

Maturity

The following is a summary of maturity of indebtedness:



ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 9 – LIABILITIES (Continued)

<u>DESCRIPTION</u>	<u>ISSUE DATE</u>	<u>FINAL MATURITY</u>	<u>INTEREST RATE</u>	<u>OUTSTANDING 06/30/17</u>
Refunding Serial Bond	2013	2026	2.00%-3.00%	\$ 2,705,000
Refunding Serial Bond	2015	2026	2.00%-5.00%	20,000,000
Serial Bond	2008	2023	4.00%-4.125%	7,075,000
Serial Bond	2010	2025	2.00%-3.00%	5,750,000
Serial Bond	2012	2031	1.70%-4.75%	4,025,000
Serial Bond	2016	2042	2.00%-3.00%	46,450,000
Energy Performance Contract	2006	2022	4.28%	1,851,992
Energy Performance Contract	2014	2028	2.85%	<u>2,674,931</u>
				<u>\$ 90,531,923</u>

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2018	\$ 7,093,985	\$ 2,814,444
2019	7,025,147	2,585,779
2020	6,327,157	2,370,232
2021	6,530,051	2,165,391
2022	6,743,864	1,953,919
2023-2027	24,562,652	6,692,377
2028-2032	10,689,067	4,172,443
2033-2037	9,975,000	2,652,900
2038-2042	<u>11,585,000</u>	<u>1,063,650</u>
TOTAL	<u>\$ 90,531,923</u>	<u>\$ 26,471,135</u>

2. Short-Term Debt

a. Short-Term Debt Interest

Interest expense on short-term debt consisted of the following:

Interest Paid	\$ 519,850
Less: Interest Accrued in the Prior Year	-
Plus: Interest Accrued in the Current Year	<u>14,295</u>
Total Expense	<u>\$ 534,145</u>

b. Summary

Transactions in short-term debt for the year ended June 30, 2017 are summarized below:

<u>Purpose</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Additions And Alterations	6/18	2.50%	<u>\$ -</u>	<u>\$ 28,100,000</u>	<u>\$ 2,110,000</u>	<u>\$ 25,990,000</u>

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
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NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. **Risk Financing and Related Insurance**

The Enlarged City School District of Middletown is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties.

B. **Other Items**

The School District has received grants that are subject to audit by agencies of the State and Federal governments.

Such audits may result in disallowances and request a return of funds. Based on prior audits, the School District's administration believes disallowances, if any, will be immaterial.

NOTE 11 – POST EMPLOYMENT HEALTH INSURANCE BENEFITS

The District provides post employment coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District's contractual agreements.

GASB Statement #45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions, requires the District to calculate and record a net other post-employment benefit obligation at year-end. The net other post-employment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

The District recognizes the cost of providing health insurance annually as expenditures in the fund financial statements as payments are made. For the year ended June 30, 2017 the District recognized \$2,974,166 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of July 1, 2016 which indicates that the total liability for other post-employment benefits is \$116,246,518.

Plan Description: The healthcare plan (HP) is a single-employer defined benefit healthcare plan administered by the District. HP provides medical insurance benefits to eligible retirees and their spouses. The Board of Education of the District has the authority to establish and amend benefit provisions.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
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NOTE 11 – POST EMPLOYMENT HEALTH INSURANCE BENEFITS (Continued)

Funding Policy: The contribution requirements of Plan members and the District are established by the Board of Education. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2017, the District contributed \$2,974,166 to the plan for current premiums and \$0 to prefund benefits. Plan members receiving benefits contributed \$978,965, or approximately 25% of the total premiums, through their required contribution.

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

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to HP:

Annual required contribution	\$ 13,385,702
Interest on net OPEB obligation	3,379,211
Adjustment to annual required contribution	<u>(4,610,110)</u>
Annual OPEB cost (expense)	12,154,803
Contributions made	<u>(2,974,166)</u>
Increase in net OPEB obligation	9,180,637
Net OPEB obligation—beginning of year	<u>75,093,570</u>
Net OPEB obligation—end of year	<u>\$ 84,274,207</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the preceding years were as follows:

Fiscal Year Ended	Beginning Net OPEB obligation (a)	Annual OPEB Cost (b)	Contributions (c)	Percentage of Annual OPEB Cost Contributed (c/b)	Ending Net OPEB Obligation (a+b-c)
6/30/2017	\$ 75,093,570	\$ 12,154,803	\$ 2,974,166	24.47%	\$ 84,274,207
6/30/2016	60,080,305	17,992,077	2,978,812	16.56%	75,093,570
6/30/2015	46,014,851	16,921,649	2,856,195	16.88%	60,080,305
6/30/2014	35,471,160	13,288,078	2,744,387	20.65%	46,014,851
6/30/2013	25,010,852	12,521,625	2,061,317	16.46%	35,471,160
6/30/2012	17,409,846	9,254,315	1,653,309	17.87%	25,010,852

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
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NOTE 11 – POST EMPLOYMENT HEALTH INSURANCE BENEFITS (Continued)

Funded Status and Funding Progress. As of July 1, 2016, the most recent actuarial valuation date, the plan was 0 % funded. The actuarial accrued liability for benefits was \$116,246,518, and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$116,246,518. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$62.3 million, and the ratio of the UAAL to the covered payroll was approximately 185%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2016, actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8.68%-4.50%, and a discount rate of 4.5%. The UAAL is being amortized as a level dollar amount for a closed period of 30 years.

NOTE 12 – PENSION REPORTING FOR ASSETS/LIABILITIES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Pension Plan Descriptions and Benefits Provided

Detailed descriptions of the New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) are included in Note 9-A to the financial statements.

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NOTE 12 – PENSION REPORTING FOR ASSETS/LIABILITIES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (Continued)

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

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

	<u>ERS</u>	<u>TRS</u>
Actuarial valuation date	April 1, 2016	June 30, 2015
Net pension asset/(liability)	\$ (4,431,132)	\$ (3,973,099)
District's portion of the Plan's total net pension asset/(liability)	0.0471587%	0.370956%

For the year ended June 30, 2017, the District recognized pension expense of \$2,530,054 for ERS and \$6,612,551 for TRS. At June 30, 2017, the District reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expected and actual experience	\$ 111,040	\$ -	\$ 672,893	\$ 1,290,685
Changes of assumptions	1,513,837	22,633,301	-	-
Net difference between projected and actual earnings on pension plan investments	885,077	8,933,615	-	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	11,121	588,205	38,710	381,988
District's contributions subsequent to the measurement date	<u>567,403</u>	<u>6,882,510</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,088,478</u>	<u>\$ 39,037,631</u>	<u>\$ 711,603</u>	<u>\$ 1,672,673</u>

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
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NOTE 12 – PENSION REPORTING FOR ASSETS/LIABILITIES AND DEFERRED  
OUTFLOWS/INFLOWS OF RESOURCES (Continued)

District contributions subsequent to the measurement date of \$567,403 to ERS and \$6,882,510 to TRS will be recognized as a reduction of the net pension liability in the year June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>ERS</u>	<u>TRS</u>
2017	\$ -	\$ 2,804,042
2018	830,523	2,804,042
2019	830,523	9,742,135
2020	744,633	7,583,492
2021	(596,207)	3,500,024
2022	-	-
Thereafter	-	4,048,713
<b>TOTAL</b>	<u>\$ 1,809,472</u>	<u>\$ 30,482,448</u>

Actuarial Assumptions

The total pension liability as of the measurement date was measured by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The valuations used the following significant actuarial assumptions:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.0%	7.5%
Salary scale	3.8%	1.90%-4.72%
Decrement tables	April 1, 2010-March 31, 2015 System's Experience	July 1, 2009-June 30, 2014 System's Experience
Inflation rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010-March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014. For TRS, annuitant mortality rates are based on plan member experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014, applied on a generational basis.

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

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
 NOTES TO THE FINANCIAL STATEMENTS  
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NOTE 12 – PENSION REPORTING FOR ASSETS/LIABILITIES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (Continued)

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

Measurement date	<u>ERS</u> March 31, 2017	<u>TRS</u> June 30, 2016
Asset Type:		
Domestic Equity	4.55%	6.1%
International Equity	6.35	7.3
Real Estate	5.80	5.4
Alternative Investments	4.00-7.75	9.2
Domestic fixed income securities	-	1.0
Global fixed income securities	-	0.8
Bonds and Mortgages	1.31	3.1
Short-term	1.50	0.1

Discount Rate

The discount rate used to calculate the total pension liability was 7.00% for ERS and 7.50% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employees will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.00% for ERS and 7.50% for TRS, as well as what the District’s proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1-percentage point lower (6.00% for ERS and 6.50% for TRS) or 1-percentage point higher (8.00% for ERS and 8.50% for TRS) than the current rate:

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
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NOTE 12 – PENSION REPORTING FOR ASSETS/LIABILITIES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (Continued)

<u>ERS</u>	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension asset (liability)	\$ (14,152,159)	\$ (4,431,132)	\$ 3,787,977
	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
<u>TRS</u> Employer's proportionate share of the net pension asset (liability)	\$ (51,838,106)	\$ (3,973,099)	\$ 36,173,560

Pension Plan Fiduciary Net Position

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

	<u>ERS</u> April 1, 2016	<u>TRS</u> June 30, 2015
Valuation date		
Employers' total pension liability	\$ 177,400,586,000	\$ 108,577,184,039
Plan Net Position	<u>168,004,363,000</u>	<u>107,506,142,099</u>
Employer's net pension asset/(liability)	<u>\$ (9,396,223,000)</u>	<u>\$ (1,071,041,940)</u>
Ration of plan net position to the Employer's total pension asset/(liability)	94.7%	99.01%

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31<sup>st</sup>. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1 through June 30 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$567,403.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October, and November 2017 through a state aid intercept. Accrued retirement contributions represent employee and employer contributions for the fiscal year ended June 30 based on paid TRS wages multiplied by the employer's contribution rate by tier, and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2017 amounted to \$7,497,488.



ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
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NOTE 13 – TAX ABATEMENTS

The District is subject to tax abatement agreements entered into by the Orange County Industrial Development Agency, City of Middletown Industrial Development Agency and Town of Wallkill Industrial Development Agency, pursuant to Title I of Article 18-A of the General Municipal Law of the State of New York. For the year ended June 30, 2017, the District received \$381,349 in tax abatement payments, which resulted in abated property taxes totaling \$500,525.

NOTE 14 – EVENTS OCCURRING AFTER REPORTING DATE

The District has evaluated events and transactions that occurred between June 30, 2017 and October 10, 2017, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to the date of the financial statements, the District issued \$15.1 million in bond anticipation notes to finance the ongoing capital project. The notes were dated July 17, 2017, bear interest at 2.00%, and are due and payable on June 21, 2018. The District received a premium of \$112,497 on the debt issued.

NOTE 16 – RESTATED NET POSITION

The beginning net position in the statement of activities has been increased by \$853,752 to account for a change in net capital assets due to an updated appraisal performed on the District's capital assets. The restatement has no effect on the governmental fund financial statements.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF REVENUES, OTHER SOURCES, EXPENDITURES,  
 OTHER USES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL – GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (WITH COMPARATIVE ACTUALS FOR THE YEAR ENDED JUNE 30, 2016)

REVENUES	ORIGINAL <u>BUDGET</u>	REVISED <u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE <u>(UNFAVORABLE)</u>	<u>2016</u>
Local Sources:					
Real Property Taxes	\$ 65,208,215	\$ 65,208,215	\$ 65,953,184	\$ 744,969	\$ 63,207,722
Other Tax Items	7,757,218	7,757,218	8,089,575	332,357	10,065,170
Non Property Taxes	1,439,687	1,439,687	1,724,275	284,588	1,472,935
Charges For Services	324,500	324,500	1,026,659	702,159	628,049
Use Of Money And Property	171,500	171,500	347,950	176,450	308,833
Sale Of Property And Compensation For Loss	2,500	2,500	74,971	72,471	24,654
Miscellaneous Local Sources	500,000	582,737	2,140,584	1,557,847	1,313,856
Interfund Revenue	-	-	49,371	49,371	55,432
State Sources:					
Basic Formula	74,089,281	74,089,281	69,760,096	(4,329,185)	62,153,426
Lottery Aid	7,000,000	7,000,000	12,700,676	5,700,676	11,648,125
BOCES	4,687,090	4,687,090	4,046,173	(640,917)	4,909,719
Other	6,006,423	6,256,423	1,189,737	(5,066,686)	1,374,994
Federal Sources	<u>305,000</u>	<u>305,000</u>	<u>516,076</u>	<u>211,076</u>	<u>438,242</u>
<b>TOTAL REVENUES</b>	<b>167,491,414</b>	<b>167,824,151</b>	<b>167,619,327</b>	<b>(204,824)</b>	<b>157,601,157</b>
<b>OTHER FINANCING SOURCES</b>					
Interfund Transfers In	<u>190,625</u>	<u>190,625</u>	<u>216,203</u>	<u>25,578</u>	<u>190,717</u>
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b><u>167,682,039</u></b>	<b><u>168,014,776</u></b>	<b><u>167,835,530</u></b>	<b><u>\$ (179,246)</u></b>	<b><u>157,791,874</u></b>
<b>FUND BALANCE</b>					
Appropriated Fund Balance	5,299,227	9,299,227			
Appropriated Reserves	500,000	2,023,469			
Prior Year Encumbrances	<u>-</u>	<u>2,147,308</u>			
<b>TOTAL FUND BALANCE</b>	<b><u>5,799,227</u></b>	<b><u>13,470,004</u></b>			
<b>TOTAL REVENUES, OTHER FINANCING SOURCES AND FUND BALANCE</b>	<b><u>\$ 173,481,266</u></b>	<b><u>\$ 181,484,780</u></b>			

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
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 FOR THE YEAR ENDED JUNE 30, 2017  
 (WITH COMPARATIVE ACTUALS FOR THE YEAR ENDED JUNE 30, 2016)

EXPENDITURES	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	ENCUMBRANCES	UNENCUMBERED BALANCES	2016
General Support:						
Board of Education	\$ 141,493	\$ 145,555	\$ 125,211	\$ -	\$ 20,344	\$ 139,569
Central Administration	340,278	372,933	370,955	-	1,978	337,858
Finance	891,038	1,035,761	921,845	67,681	46,235	837,511
Staff	1,062,312	1,195,000	1,026,879	97,224	70,897	938,910
Central Services	11,738,858	13,112,623	9,595,654	1,241,385	2,275,584	10,281,021
Special Items	2,431,851	2,747,683	2,163,127	-	584,556	1,898,354
Instructional:						
Instruction, Administration And Improvement	5,707,559	5,959,721	5,392,095	15,198	552,428	5,368,491
Teaching:						
Regular School	47,471,510	47,958,463	42,694,337	749,745	4,514,381	41,274,042
Programs For Children With Handicapped						
Conditions	27,367,320	29,669,002	27,750,031	37,687	1,881,284	26,219,373
Occupational Education	3,122,063	3,119,580	2,732,959	-	386,621	2,731,987
Special Schools	712,300	833,329	656,930	-	176,399	304,159
Instructional Media	9,491,654	6,526,829	3,360,166	632,715	2,533,948	3,702,413
Pupil Services	4,318,742	4,354,506	3,666,069	26,740	661,697	3,607,448
Pupil Transportation	8,481,806	8,689,195	8,043,261	6,972	638,962	7,943,428
Community Services	3,985	985	950	-	35	1,900
Employee Benefits	35,950,056	36,787,272	30,006,340	560	6,780,372	29,692,196
Debt Service:						
Principal	10,286,900	10,286,900	10,101,896	-	185,004	10,500,579
Interest	<u>3,297,141</u>	<u>3,816,991</u>	<u>3,523,175</u>	<u>-</u>	<u>293,816</u>	<u>3,458,037</u>
<b>TOTAL EXPENDITURES</b>	<b>172,816,866</b>	<b>176,612,328</b>	<b>152,131,880</b>	<b>2,875,907</b>	<b>21,604,541</b>	<b>149,237,276</b>
<b>OTHER USES</b>						
Interfund Transfers Out	<u>664,400</u>	<u>4,872,452</u>	<u>4,772,452</u>	<u>-</u>	<u>100,000</u>	<u>986,564</u>
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<b><u>\$ 173,481,266</u></b>	<b><u>\$ 181,484,780</u></b>	<b><u>156,904,332</u></b>	<b><u>\$ 2,875,907</u></b>	<b><u>\$ 21,704,541</u></b>	<b><u>150,223,840</u></b>
<b>NET CHANGE IN FUND BALANCE</b>			<b>10,931,198</b>			<b>7,568,034</b>
<b>FUND BALANCE – Beginning of Year</b>			<b><u>47,764,908</u></b>			<b><u>40,196,874</u></b>
<b>FUND BALANCE – End of Year</b>			<b><u>\$ 58,696,106</u></b>			<b><u>\$ 47,764,908</u></b>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
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 OTHER POST EMPLOYMENT BENEFITS  
 JUNE 30, 2017

<u>Fiscal Year Beginning</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Estimated Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
7/1/2010	7/1/2008	\$ -	\$ 55,174,622	\$ 55,174,622	0%	\$ 43,329,688	127%
7/1/2011	7/1/2010	-	78,913,606	78,913,606	0%	52,453,322	150%
7/1/2012	7/1/2012	-	117,536,938	117,536,938	0%	47,854,695	246%
7/1/2013	7/1/2012	-	126,176,174	126,176,174	0%	47,854,695	264%
7/1/2014	7/1/2014	-	150,784,744	150,784,744	0%	64,305,972	235%
7/1/2015	7/1/2015	-	162,537,394	162,537,394	0%	64,946,256	250%
7/1/2016	7/1/2016	-	116,246,518	116,246,518	0%	62,902,623	185%

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET/LIABILITY  
 YEAR ENDED JUNE 30, 2017

TRS System

	<u>2017</u>	<u>2016</u>	<u>2015</u>
The District's proportion of the net pension asset (liability)	0.370956%	0.380979%	0.372463%
The District's proportionate share of the net pension asset (liability)	\$ (3,973,099)	\$ 39,571,540	\$ 41,490,078
The District's covered employee payroll	57,797,975	57,228,163	55,018,321
The District's proportionate share of the net pension asset (liability) as a percentage of covered employee payroll	6.87%	69.15%	75.42%
Plan Fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%

ERS System

	<u>2017</u>	<u>2016</u>	<u>2015</u>
The District's proportion of the net pension liability	0.0471587%	0.0473699%	0.049347%
The District's proportionate share of the net pension liability	\$ (4,431,132)	\$ (7,603,002)	\$ (1,667,063)
The District's covered employee payroll	12,252,462	12,284,218	12,230,543
The District's proportionate share of the net pension liability as a percentage of covered employee payroll	36.17%	61.90%	13.63%
Plan Fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER'S PENSION CONTRIBUTIONS  
 YEAR ENDED JUNE 30, 2017

TRS System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 6,882,510	\$ 7,664,011	\$ 10,032,097	\$ 8,940,477	\$ 5,904,413	\$ 5,590,463	\$ 4,298,402	\$ 3,031,485	\$ 3,448,379	\$ 3,592,738
Contribution in relation to the contractually required contribution	<u>6,882,510</u>	<u>7,664,011</u>	<u>10,032,097</u>	<u>8,940,477</u>	<u>5,904,413</u>	<u>5,590,463</u>	<u>4,298,402</u>	<u>3,031,485</u>	<u>3,448,379</u>	<u>3,592,738</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution as a percentage of covered employee payroll	11.72%	13.26%	17.53%	16.25%	11.84%	11.11%	8.62%	6.19%	7.63%	8.73%

ERS System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 1,896,426	\$ 2,021,960	\$ 2,129,500	\$ 2,437,734	\$ 1,922,745	\$ 1,748,652	\$ 1,501,970	\$ 980,557	\$ 896,290	\$ 870,639
Contribution in relation to the contractually required contribution	<u>1,896,426</u>	<u>2,021,960</u>	<u>2,129,500</u>	<u>2,437,734</u>	<u>1,922,745</u>	<u>1,748,652</u>	<u>1,501,970</u>	<u>980,557</u>	<u>896,290</u>	<u>870,639</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution as a percentage of covered employee payroll	15.48%	16.46%	16.54%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017

ADOPTED BUDGET	\$ 173,481,266
ADDITIONS:	
Encumbrances From Prior Year	2,147,308
Appropriated Reserves	1,523,469
Supplemental Appropriations	<u>4,332,737</u>
FINAL BUDGET	<u>\$ 181,484,780</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
 REAL PROPERTY TAX LIMIT  
 YEAR ENDED JUNE 30, 2017

SECTION 1318 OF REAL PROPERTY TAX LAW CALCULATION

2017-2018 Voter Approved Expenditure Budget		<u>\$ 179,516,780</u>
Maximum allowed (4% of 2017-2018 Budget)		<u>\$ 7,180,671</u>
General Fund Balance subject to Section 1318 of Real Property Tax Law:		
Unrestricted Fund Balance:		
Assigned Fund Balance	\$ 8,175,134	
Unassigned Fund Balance	<u>27,567,922</u>	
Total Unrestricted Fund Balance		35,743,056
Less:		
Appropriated Fund Balance	5,299,227	
Encumbrances included in Assigned Fund Balance	<u>2,875,907</u>	
Total Adjustments		<u>8,175,134</u>
General Fund Balance subject to Section 1318 of Real Property Tax Law:		<u>\$ 27,567,922</u>
Actual Percentage		15.36%

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION



ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
SCHEDULE OF PROJECT EXPENDITURES  
CAPITAL PROJECTS FUND  
YEAR ENDED JUNE 30, 2017

PROJECT TITLE	ORIGINAL APPROPRIATIONS	REVISED APPROPRIATIONS	EXPENDITURES			UNEXPENDED BALANCE	OTHER EXPENDITURES		METHODS OF FINANCING		FUND BALANCE JUNE 30, 2017
			PRIOR YEARS	CURRENT YEARS	TOTAL		INTERFUND TRANSFERS	PROCEEDS OF OBLIGATIONS	LOCAL SOURCES	TOTAL	
Presidential Park Elementary	\$ 66,100,000	\$ 67,150,151	\$ 67,018,192	\$ 90,000	\$ 67,108,192	\$ 41,959	\$ -	\$ 61,490,000	\$ 5,660,151	\$ 67,150,151	\$ 41,958
HS Engraved Pavers	30,000	30,000	-	-	-	30,000	-	-	30,000	30,000	30,000
TT Health And Safety	875,000	1,068,000	819,534	444	819,978	248,022	408	240,000	828,000	1,068,000	247,614
District Wide Security	1,400,000	1,002,000	997,858	3,632	1,001,490	510	510	955,000	47,000	1,002,000	-
MH Parking Lot	1,800,000	2,005,000	1,793,453	72,611	1,866,064	138,936	1	1,726,000	279,000	2,005,000	138,935
HS Clock Tower	5,000	5,000	-	-	-	5,000	-	-	5,000	5,000	5,000
Additions And Alterations	46,200,000	46,200,000	4,901,800	26,226,120	31,127,920	15,072,080	-	2,110,000	3,000,000	5,110,000	(26,017,920)
HS Emergency Lighting	200,000	200,000	99,677	79,024	178,701	21,299	21,299	-	200,000	200,000	-
Carter Parking Lot	9,625,000	9,625,000	-	764,191	764,191	8,860,809	-	-	4,000,000	4,000,000	3,235,809
TT Emergency	225,000	225,000	225,000	(2,200)	222,800	2,200	7,200	-	230,000	230,000	-
MMS Emergency	50,000	50,000	50,000	(1,800)	48,200	1,800	1,800	-	50,000	50,000	-
Additions And Alterations	32,786,512	32,786,512	32,786,512	(6,481)	32,780,031	6,481	6,481	24,983,721	7,802,791	32,786,512	-
				<u>\$ 27,225,541</u>							<u>\$ (22,318,604)</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NET INVESTMENT IN CAPITAL ASSETS  
JUNE 30, 2017

Capital Assets, Net	\$ 226,748,620
Less: Outstanding Bonds	(86,005,000)
Outstanding Energy Performance Contract	(4,526,923)
Outstanding Bond Anticipation Note	<u>(25,990,000)</u>
Net Investment in Capital Assets	<u>\$ 110,226,697</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017

<u>GRANTOR AGENCY</u>	<u>CFDA NUMBER</u>	<u>PASS-THROUGH GRANTORS NUMBER</u>	<u>EXPENDITURES CURRENT YEAR</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Passed Through State Dept. of Education:			
School Lunch Program	10.555	N/A	\$ 2,234,647
School Breakfast Program	10.553	N/A	572,771
Snack Program	10.555	N/A	12,052
Summer Food Service Program	10.559	N/A	<u>104,020</u>
Total Child Nutrition Cluster			2,923,490
Passed Through State Dept. of Health and Human Services:			
Commodity Supplement Food Program (Non-cash)	10.565	N/A	<u>235,555</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>3,159,045</u>
U.S. DEPARTMENT OF EDUCATION			
Race To The Top – District Grants	84.416	B416A-16-0040	5,958,281
Passed Through State Department of Education			
IDEA, Part B	84.027A	032-17-0683	1,844,276
IDEA, Pre-School	84.173A	033-17-0683	<u>70,872</u>
Total Special Education Cluster			<u>1,915,148</u>
Title I	84.010A	021-17-2255	1,904,156
Title I	84.010A	021-16-2255	147,687
Title I, School Improvement	84.010A	011-17-2546	25,010
Title IIA	84.367A	147-17-2255	268,667
Title IIIA, LEP	84.365A	293-15-2255	129,453
Title IIIA, LEP	84.365A	293-16-2255	(573)
Homeless Children	84.196A	212-17-4054	<u>40,000</u>
TOTAL DEPARTMENT OF EDUCATION			<u>10,387,829</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 13,546,874</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2017

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Enlarged City School District of Middletown. The Enlarged City School District of Middletown's reporting entity is defined in Note 1 to the District's financial statements. All federal financial assistance passed through other governmental agencies are included on the schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements.

3. RELATIONSHIP TO GENERAL PUPOSE FINANCIAL STATEMENTS

Federal financial assistance revenues are reported in the District's financial statements as follows:

Governmental Funds:	
Special Aid Fund	\$ 10,387,829
School Lunch Fund	<u>3,159,045</u>
 TOTAL	 <u>\$ 13,546,874</u>

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

To the Board of Education of the  
Enlarged City School District of Middletown  
Middletown, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Enlarged City School District of Middletown, New York as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Enlarged City School District of Middletown, New York's basic financial statements and have issued our report thereon dated October 10, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Enlarged City School District of Middletown, New York'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 Enlarged City School District of Middletown, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Enlarged City School District of Middletown, New York's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or 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 over financial reporting 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 financial reporting 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, as defined above. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Enlarged City School District of Middletown, New York's financial statements are free of 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mongaup Valley, New York  
October 10, 2017

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

To the Board of Education of the  
Enlarged City School District of Middletown  
Middletown, New York

**Report on Compliance for Each Major Federal Program**

We have audited the Enlarged City School District of Middletown, New York's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Enlarged City School District of Middletown, New York's major federal programs for the year ended June 30, 2017. The Enlarged City School District of Middletown, New York'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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Enlarged City School District of Middletown, New York'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 Enlarged City School District of Middletown, New York'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. Our audit does not provide a legal determination on the Enlarged City School District of Middletown, New York's compliance with those requirements.

## **Opinion on Each Major Federal Program**

In our opinion, the Enlarged City School District of Middletown, New York complied, in all material respects, with the 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 Enlarged City School District of Middletown, New York 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 Enlarged City School District of Middletown, New York'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 Enlarged City School District of Middletown, New York'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 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.

Mongaup Valley, New York  
October 10, 2017



ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017

Summary of Auditors' Results:

1. The auditors' report expresses an unmodified opinion on the financial statements of the Enlarged City School District of Middletown.
2. There were no significant deficiencies disclosed during the audit of the financial statements of the Enlarged City School District of Middletown.
3. No instances of non-compliance material to the financial statements of the Enlarged City School District of Middletown, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of internal control over major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Enlarged City School District of Middletown expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported on this schedule.
7. The programs tested as major programs included:

IDEA – Part B	84.027A
IDEA – Pre-School	84.173A
Race To The Top	84.416
Commodity Supplement Food Program	10.565
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Enlarged City School District of Middletown was determined to be a low-risk auditee.

Findings – Financial Statements Audit

None

Findings and Questioned Costs – Major Federal Awards Program Audit

None

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2017

There were no findings in the prior year.

## INDEPENDENT AUDITORS' REPORT

To the Board of Education of the  
Enlarged City School District of Middletown  
Middletown, New York

We have audited the accompanying statements of assets, liabilities and fund balance – cash basis, of the Extraclassroom Activity Funds of the Enlarged City School District of Middletown as of June 30, 2017, and the related statements of cash receipts, disbursements and changes in fund balance – cash basis for the year then ended, and the related notes to the financial statements, which collectively comprise the financial statements of the Extraclassroom Activity Funds of the Enlarged City School District of Middletown 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 the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

### **Auditor's Responsibility**

Our responsibility is to express an opinion of these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position – cash basis, of the Extraclassroom Activity Funds of the Enlarged City School District of Middletown as of June 30, 2017, and the changes in financial position – cash basis, for the year then ended in accordance with the basis of accounting described in Note 2.

### **Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

This report is intended solely for the information and use of the school board governing body and management of the Extraclassroom Activity Funds of Enlarged City School District of Middletown, and for filing with the various offices and agencies of the State of New York. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Mongaup Valley, New York  
October 10, 2017

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
EXTRACLASSROOM ACTIVITY FUND  
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE-CASH BASIS  
JUNE 30, 2017

ASSETS	
Cash-High School	\$ 127,208
Cash-Middle School	77,541
Cash-Elementary	<u>19,947</u>
 TOTAL ASSETS	 <u>224,696</u>
 FUND BALANCE	 <u>\$ 224,696</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
EXTRACLASSROOM ACTIVITY FUND  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCE-CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

<u>ACTIVITY</u>	CASH & FUND BALANCE <u>07/01/16</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	CASH & FUND BALANCE <u>06/30/17</u>
<b><u>HIGH SCHOOL:</u></b>				
Class of 2016	\$ 9,383	\$ -	\$ 9,383	\$ -
Class of 2017	5,724	23,450	20,102	9,072
Class of 2018	1,643	26,958	22,301	6,300
Class of 2019	1,690	276	-	1,966
Class of 2020	-	1,293	-	1,293
Boys Soccer	464	-	180	284
Mock Trial	11	45	-	56
Chess Club	546	-	-	546
Student Council	5,699	132	600	5,231
MHS Choirs Club	2,812	40,324	41,648	1,488
Graduate-Service Account	41,139	24,871	19,946	46,064
Epilogue	17,202	11,478	15,354	13,326
Ski Club	1	600	589	12
Key Club	21	-	-	21
Softball Club	1,001	2,440	2,913	528
Art Honor Society	853	563	659	757
Volleyball Club	1,593	-	-	1,593
Library Club	262	-	-	262
MHS Band	5,832	-	-	5,832
Tennis Club	2,128	2,006	1,644	2,490
FBLA Club	273	-	-	273
Science Club	1,158	1,226	1,134	1,250
Academy Of Finance Club	2,812	-	-	2,812
Drama Club	1,849	2,430	1,635	2,644
MAC-Athletes	174	-	-	174
Girls Lacrosse	5	336	-	341
MHS Musical	4,666	8,701	5,425	7,942
Youth In Government	377	-	236	141
Boys Basketball Club	288	21,231	21,194	325
Dance Club	529	45	531	43
Girls Soccer	7,288	-	1,926	5,632
Sports Medicine	1,703	-	-	1,703

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
EXTRACLASSROOM ACTIVITY FUND  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCE-CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

(Continued)

<u>ACTIVITY</u>	<u>CASH &amp; FUND BALANCE 07/01/16</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>CASH &amp; FUND BALANCE 06/30/17</u>
<b><u>HIGH SCHOOL:</u></b>				
College Ambassadors	\$ 449	\$ 260	\$ -	\$ 709
National Honor Society	975	10,304	9,207	2,072
Newspaper	1,787	-	-	1,787
Track Club	87	-	-	87
Scholastic Bowl	305	520	397	428
Interact Club	1,310	2,952	2,656	1,606
Sales Tax Collected/Paid	<u>318</u>	<u>3,551</u>	<u>3,481</u>	<u>388</u>
	<u>124,357</u>	<u>185,992</u>	<u>183,141</u>	<u>127,208</u>
<b><u>MIDDLE SCHOOL:</u></b>				
Student Council	967	567	1,534	-
MS Ski Club	-	590	589	1
Monhagen, Other Expenses	16,021	68,996	63,680	21,337
Library	290	-	-	290
Kleen Tweeds	76	-	-	76
Yearbook	1,512	2,305	1,859	1,958
Drama	21,922	3,184	2,003	23,103
Locks	2,102	2,047	4,149	-
Twin Towers, Other Expenses	24,751	50,016	44,989	29,778
Bookfair	697	1	-	698
Locks	6,124	2,548	8,672	-
Yearbook	<u>529</u>	<u>4,657</u>	<u>4,886</u>	<u>300</u>
	<u>74,991</u>	<u>134,911</u>	<u>132,361</u>	<u>77,541</u>
<b><u>ELEMENTARY:</u></b>				
Presidential Park, Other	48	40	-	88
Other Expenses	3,265	1,155	2,313	2,107
Maplehill	1,893	1	618	1,276
JROTC	4,632	1,125	585	5,172
A/P Club	<u>11,292</u>	<u>12</u>	<u>-</u>	<u>11,304</u>
	<u>21,130</u>	<u>2,333</u>	<u>3,516</u>	<u>19,947</u>
	<u>\$ 220,478</u>	<u>\$ 323,236</u>	<u>\$ 319,018</u>	<u>\$ 224,696</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN  
HIGH SCHOOL EXTRACLASSROOM ACTIVITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 1 - DESCRIPTION OF OPERATIONS**

Student activity funds are defined by the New York State Education Department as “funds raised other than by taxation, or through charges of a Board of Education, for, by or in the name of a school, student body or any subdivision thereof.”

Activity funds are raised and expended by student bodies to promote the general welfare, education, and morale of all pupils, and to finance the normal, legitimate extracurricular activities of the student body organization.

The Superintendent of the District has responsibility and authority to implement all policies and rules pertaining to the supervision and administration of school activity funds in accordance with established policies and rules of the District’s Board of Education.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The books and records of the High School Extraclassroom Activity Fund of Enlarged City School District of Middletown are maintained on the cash basis of accounting. Consequently, receipts and related assets are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligation is incurred.

**Interest Income**

Interest earned from the investment of the activity fund is distributed pro-rata to all activities having a cash balance.

**Bank Charges**

All bank service charges have been charged to the respective activity fund.

**Inactive Accounts**

The District’s policy is to transfer account balance of inactive clubs to the Student Council Fund.