

**AUDITED
BASIC FINANCIAL STATEMENTS**

PEMBROKE CENTRAL SCHOOL DISTRICT
CORFU, NEW YORK

JUNE 30, 2017

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

PEMBROKE CENTRAL SCHOOL DISTRICT

TABLE OF CONTENTS

FINANCIAL SECTION

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Balance Sheet - Governmental Funds	16-17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18-19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Net Position – Fiduciary Funds	21
Statement of Changes in Net Position – Fiduciary Funds	22
Notes to Basic Financial Statements	23-46
Required Supplementary Information:	
Schedule of District's Proportionate Share of the Net Pension Liability/ (Asset) – Employees' and Teachers' Retirement Systems	47
Schedule of District's Pension Contributions – Employees' and Teachers' Retirement Systems	48
Budgetary Comparison Schedule for the General Fund	49-50
Note to Required Supplementary Information	51

PEMBROKE CENTRAL SCHOOL DISTRICT

TABLE OF CONTENTS
(Continued)

SUPPLEMENTRY INFORMATION

	<u>Page</u>
Schedule of Change from Adopted Budget to Final Budget - General Fund and the Real Property Tax Limit	52
Schedule of Project Expenditures - Capital Projects Fund	53
Schedule of Net Investment in Capital Assets	54

FEDERAL FINANCIAL ASSISTANCE

Schedule of Expenditures of Federal Awards	55
Notes to Schedule of Expenditures of Federal Awards	56

INTERNAL CONTROL AND COMPLIANCE

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 <i>Government Auditing Standards</i>	57-58
Independent Auditor's Report on Compliance for Each Major Federal Program; and Report on Internal Control over Compliance Required by the Uniform Guidance	59-60
Schedule of Findings and Questioned Costs	61-62

EXTRACLASSROOM ACTIVITY

Independent Auditor's Report on the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Position of the Extraclassroom Activity Funds	63-64
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Position of the Extraclassroom Activity Funds	65
Note to Financial Statement	66

FINANCIAL SECTION

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

INDEPENDENT AUDITOR'S REPORT

The President and Members of the
Board of Education of
Pembroke Central School District
Corfu, New York

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As stated in Note 1, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Batavia, New York
September 19, 2017

Management's Discussion and Analysis Pembroke Central School District Fiscal Year ended June 30, 2017

This section of Pembroke Central School District's (the District) annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

The net position of the District decreased by \$831,328. The net position of the District includes all of the governmental funds and the value of the District's land, buildings, and equipment (net of accumulated depreciation). At June 30, 2017 unrestricted net position was \$354,978. Other components of net position were capital assets, net of accumulated depreciation and related debt of \$8,936,289, net position restricted for capital projects of \$3,004,951, restricted for unemployment insurance of \$59,603, restricted for workers' compensation insurance of \$503,936, restricted for employees retirement system costs of \$595,148, and restricted for employee benefit accrued liability for \$2,403,592.

Other issues of significance for the fiscal year ended June 30, 2017 included:

- The General Fund's (the primary operating fund) fund balance increased by \$385,427.
- The governmental activities revenues increased by approximately \$1,205,000. In 2017 the results of activities produced a decrease in net position of \$831,328 and an increase of \$1,430,583 in 2016.
- The net cost of all the District's activities increased by approximately \$3,080,000 (or 22%).

Overview of the Financial Statements

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

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

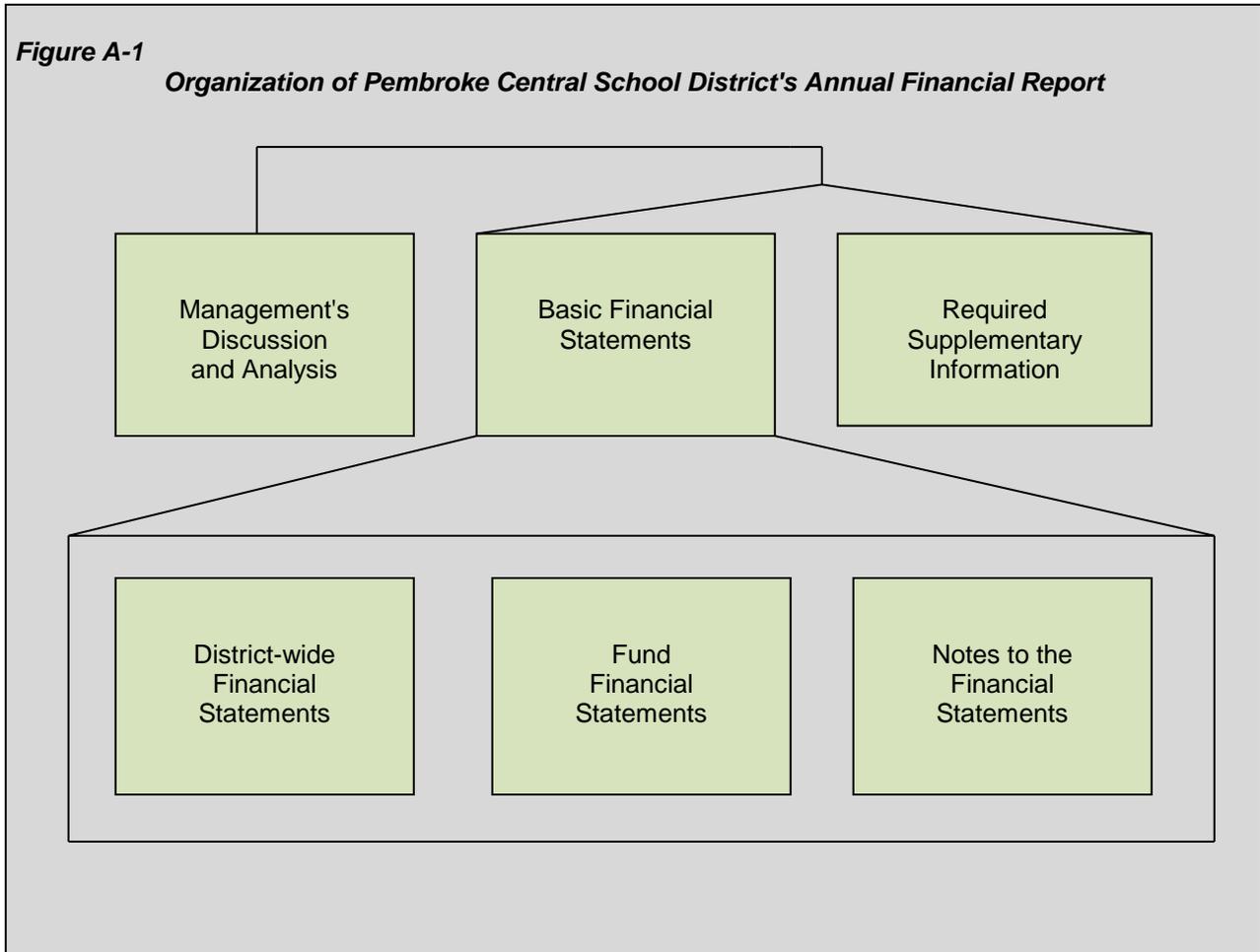


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents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

Figure A-2**Major Features of the District-wide and Fund Financial Statements**

		Fund Financial Statements	
	District-wide Statements	Governmental Funds	Fiduciary Funds
Scope	Entire District (except Fiduciary funds)	The activities of the District that are not proprietary or fiduciary	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position – Fiduciary Funds • Statement of Changes in Net Position – Fiduciary Fund
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; generally no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out-flow information	All revenues and expenditures during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

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

The two district-wide statements report the District's net positions and how they have changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net positions are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

Fund Financial Statements

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

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

The District has two kinds of funds:

- **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information reported on the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets explains the relationship (or differences) between them.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Overall, the District's financial picture remains positive. Due to the volatility of state aid, the District responsibly took a very conservative approach to its budgeting. Fortunately, this resulted in favorable budget variances for both revenues and expenditures.

The District monitored the budget tirelessly and attempted to reduce controllable expenses.

Areas of expense over which the District has little control will continue to dictate future budgets. In the 2016/2017 school year, the District's budget once again received relief from a reduction in retirement costs. NYS Teacher Retirement System employer contribution rate was reduced by approximately 1.5% and Employees Retirement System employer average contribution rate by approximately 3%. The District also benefited from only a moderate increase in hospitalization costs due to the favorable financial position of the Genesee Area Healthcare Plan consortium.

The significance of the impact of the economic recovery or decline will most likely be the major indicator of this District's financial position through the next year.

Figure A-3

Condensed Statement of Net Assets
(in thousands of dollars)

	Governmental Activities and Total District		Total Percentage Change
	2017	2016	2016-2017
Current and other assets	\$ 12,993	\$ 13,700	-5.16%
Capital assets not being depreciated	51	51	0.00%
Capital assets, net of accumulated depreciation	23,720	23,856	-0.57%
TRS pension asset	-	5,083	-100.00%
Total assets	<u>36,764</u>	<u>42,690</u>	<u>-13.88%</u>
Deferred outflow of resources - Pension	5,653	2,147	163.30%
Deferred outflow of resources - OPEB	628	-	100.00%
	<u>6,281</u>	<u>2,147</u>	<u>192.55%</u>
Current liabilities	1,924	2,028	-5.13%
Long term liabilities	24,589	20,534	19.75%
Total liabilities	<u>26,513</u>	<u>22,562</u>	<u>17.51%</u>
Deferred inflow of resources - Pension	402	1,974	-79.64%
Deferred inflow of resources - OPEB	272	-	100.00%
	<u>674</u>	<u>1,974</u>	<u>-65.86%</u>
Invested in capital assets, net of related debt	10,263	8,727	17.60%
Restricted for:			
Unemployment insurance	60	60	0.00%
Workers' compensation	504	504	0.00%
Retirement	595	595	0.00%
Employee benefit accrued liability	2,403	2,602	-7.65%
Capital projects	3,005	2,449	22.70%
Unrestricted (deficit)	(972)	5,364	-118.12%
Total net assets	<u>\$ 15,858</u>	<u>\$ 20,301</u>	<u>-21.89%</u>

Figure A-4

*Changes in Net Position
(in thousands of dollars)*

	Governmental Activities and Total District		Total Percentage Change
	2017	2016	2016-2017
Revenues:			
Real property taxes	\$ 7,798	\$ 7,803	-0.06%
Real property tax items	72	67	7.46%
Charges for services	70	55	27.27%
Use of money and property	18	22	-18.18%
Sale of property and compensation for loss	1	2	-50.00%
Other miscellaneous revenues	146	198	-26.26%
State and federal aid	13,967	12,714	9.86%
School lunch	102	108	-5.56%
Total revenues	<u>22,174</u>	<u>20,969</u>	<u>5.75%</u>
Expenses:			
General support	3,619	3,282	10.27%
Instruction	15,141	13,103	15.55%
Pupil transportation	1,366	1,180	15.76%
Debt service	1,531	663	130.92%
School lunch	295	307	-3.91%
Depreciation	1,053	1,003	4.99%
Total expenses	<u>23,005</u>	<u>19,538</u>	<u>17.74%</u>
Changes in net positions	<u>\$ (831)</u>	<u>\$ 1,431</u>	<u>-158.07%</u>

Governmental Activities

This section presents the cost of six major District activities: general support, instruction, pupil transportation, debt service, depreciation and school lunch. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

The most significant changes uncovered in this analysis are in the areas of pupil transportation, debt service – interest, and school lunch.

The total cost and net cost of services related to pupil transportation in 2016/17 increased from 2015/16 due to the substantial increase in employee benefits allocated to this activity. Required government-wide reporting adjustments for TRS, ERS, and OPEB resulted in a total of \$561,291 of additional costs above fund basis reporting which were allocated to general support, instruction, and pupil transportation. Transportation costs other than employee benefits increased \$67,952 over the prior year.

The significant increase recognized in the area of debt service –interest is due to the inclusion of \$1,054,867 total interest cost of the new bond acquired as the result of the November 2016 partial advanced bond refunding of outstanding serial bonds. However, the advanced bond refunding resulted in an economic gain of \$365,488.

Lastly, in the area of school lunch, various factors contributed to the decrease in both the total cost of services and net cost of services. There was a reduction in the material and supply cost from 15/16 and an additional Nutrikids point of sale station was purchased in the prior year. The District's contract with its food service management company, Personal Touch Food Service, Inc., being tied to CPI, increased only slightly at .9% and district-wide lunch prices were increased 10 cents to remain compliant with the paid lunch equity requirement. In addition, state and federal reimbursement rates went up from the prior year and there was a significant increase in the number of free meals served.

Figure A-7

Net Cost of Governmental Activities (in thousands of dollars)

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2017	2016	2016-2017	2017	2016	2016-2017
General support	\$ 3,619	\$ 3,282	10.27%	\$ 3,619	\$ 3,282	10.27%
Instruction	15,141	13,103	15.55%	10,687	9,076	17.75%
Pupil transportation	1,366	1,180	15.76%	330	98	236.73%
Debt service - interest	1,531	663	130.92%	1,531	663	130.92%
School lunch	295	307	-3.91%	(26)	(8)	-225.00%
Depreciation	1,053	1,003	4.99%	1,053	1,003	4.99%
Total	<u>\$ 23,005</u>	<u>\$ 19,538</u>	<u>17.74%</u>	<u>\$ 17,194</u>	<u>\$ 14,114</u>	<u>21.82%</u>

Financial Analysis of The District's Funds

General Fund

Revenues exceeded expenditures in the General Fund, resulting in an increase of fund balance of \$385,427 for the year ended June 30, 2017.

Actual revenues exceeded budgeted amounts by \$413,559 mainly due to the receipt of additional BOCES aid, lottery aid, and unanticipated medicaid revenue. Actual expenditures were less than originally budgeted in all budgeted categories for 2016/2017. These reductions allowed for the funding of the \$5M capital reserve authorized by voters on May 20, 2014 in the amount of \$254,009. This was in addition to the budgetary provision to fund the capital reserve for \$300,000.

In July 2016, Pembroke Central School District was awarded a \$152,000 grant (bullet aid) for the purpose of enhancing Science, Math, Engineering and Technology (STEM) programs. A budget amendment was BOE approved to accommodate the tracking of these funds. All but \$691 of the funds were expended by June 30, 2017. The monies were spent district-wide to support and evolve the STEM classes and coursework in the STEM related classes at all grade levels. Items purchased include makerspace tools including makey makeys, ozobots, Dash and Dot robots, little bits circuitry kits, VR headsets, digital microscopes, Bloxels, stop motion animation kits, lego kits, Raspberry Pi laptops, 3D pens, furniture for the labs, and a CNC machine. Additional purchases acquired for the Primary School included K-2 science kits, a greenhouse, incubators, and a weather station.

School Lunch Fund

The operations of the School Lunch Fund 2016/17 resulted in a gain of \$20,493 and available assigned fund balance of \$92,379 remains available for future use.

Special Aid Fund

In the Fall of 2016, Pembroke Central School District was awarded a Carol M. Wright Physical Education Program (PEP), three year grant for a total of \$1,842,890. Although, Pembroke is the recipient of the grant award, it is shared with Alexander Central School District who "partnered" with the District in the grant application. The total grant period is from October 1, 2016 to September 30, 2019. Pembroke's share of the budget for year 1 of the grant was \$418,219, of which \$150,192 was spent as of June 30, 2017. Alexander's share of the budget for year 1 was \$322,485, of which \$156,263 was spent as of June 30, 2017.

Through the use of PEP Grant funds both districts have benefited immensely. Alexander Central School District used funds to purchase new equipment for the Jr./Sr. HS weight room. This equipment included new treadmills, stairmaster, and power racks. In addition to the weight room equipment, funds were used to purchase Ipads for the PE teachers to use during instruction, and a fitness path was created in the Outdoor Classroom. The Pembroke Central School District used funds to convert two classrooms to promote functional fitness. Equipment in these rooms included a rock wall, TRX suspension equipment, kettle bells, medicine balls, bicycle, rower, xbox kinect, bosu balls, yoga mats, dumbbells and fitness curriculum.

The Grant also promoted nutrition in both districts as students were taught the importance of healthy eating, fruits and vegetables. Funds were also used for healthy tastings, cooking clubs, and to promote family fitness nights.

Capital Projects Fund

During the 2016/17 school year, the purchase of three new school buses was completed for a total cost of \$282,814.

A \$100,000 capital outlay exception project was performed for a total cost of \$96,985. The project included new sidewalks and the removal and replacement of rooftop unit controls for HVAC at the JR/SR High School.

The District expended \$58,725 of its own funds for architect services needed for the preparation of the Smart Schools Bond Act project application. We are currently awaiting project approval from the NYS Education Department. Smart Schools Bond Act funds have not yet been received.

General Fund Budgetary Highlights

A very conservative approach to the budget process was again taken for the 2016/17 school year due to the volatility of the economy and the uncertainty of state aid revenue due to the uncertainty of the State of New York's financial priorities.

Cautious budget administration continued to be practiced to protect against revenue cuts by pulling back on certain expenses and programs. Revenues exceeded budgeted amounts mainly due to the receipt of additional BOCES aid, lottery aid and unanticipated medicaid revenue. Expenditures resulted in favorable budget variances mainly due to less than anticipated expenditures in the areas of teaching- regular school, programs for the handicapped and employee benefits.

A budget amendment to increase the budget in the amount of \$152,000 was BOE approved to record the receipt of the award of bullet aid for the purpose of enhancing Science, Math, Engineering and Technology (STEM) programs.

The 2016/2017 General Fund budget included a \$300,000 budgetary provision to fund the Capital Reserve which was fully executed.

The District was also able to continue funding the \$5M capital reserve that was voter authorized on May 20, 2014 by transferring an additional \$254,009 into the reserve. Per Section 3651 of Education Law, the Board of Education authorized the funding up to \$500,000 from General Fund excess appropriations for the fiscal year ending June 30, 2017.

Figure A-8

Revenues, Expenditures and Changes in Fund Balances - Governmental Major Funds (in thousands of dollars)

	2017		
	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balances</u>
General Fund	\$ 20,784	\$ 20,399	\$ 8,692
Capital Projects Fund	315	439	(503)
Debt Service Fund	11,117	12,002	2,768
Special Aid Fund	1,043	1,043	-
	2016		
	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balances</u>
General Fund	\$ 19,921	\$ 19,718	\$ 8,307
Capital Projects Fund	237	219	(379)
Debt Service Fund	1,493	1,996	3,652
Special Aid Fund	722	722	-

Capital Asset and Debt Administration

The decrease in net capital assets is due to depreciation. Three buses were purchased in 2016/17, however, capital retirements included two buses that were traded in during the year. The buses are being financed with a bond anticipation note. Various equipment was also purchased and paid for out of current appropriations.

Figure A-9

Capital Assets Net of Depreciation
(in thousands of dollars)

	Governmental Activities and Total District		Percentage Change
	2017	2016	2016-2017
Land	\$ 51	\$ 51	0.00%
Buildings	18,089	18,699	-3.26%
Vehicles and equipment	5,631	5,156	9.21%
Total	<u>\$ 23,771</u>	<u>\$ 23,906</u>	<u>-0.56%</u>

Long-Term Debt

In 2009, the District implemented the provisions of GASB Statement No. 45 *Accounting and Reporting by Employers for Post Employment Benefits other than Pensions*. GASB Statement No. 45 required the recording of a liability for current and future retirees and their spouses for post employment health insurance. A portion of that liability related to past service costs was being amortized over 30 years. However, as of June 30, 2017 the District voluntarily opted to early implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This resulted in the reporting of deferred postemployment outflow of resources, postemployment liability and deferred postemployment inflow of resources related to the District's single-employer defined benefit other postemployment plan.

Figure A-10

Outstanding Long-Term Debt
(in thousands of dollars)

	Governmental Activities and Total District		Percentage Change
	2017	2016	2016-2017
Serial bonds payable	\$ 14,332	\$ 14,800	-3.16%
Compensated absences	992	927	7.01%
Pensions	1,206	1,190	1.34%
Post employment benefits	8,059	3,617	122.81%
	<u>\$ 24,589</u>	<u>\$ 20,534</u>	<u>19.75%</u>

Factors Bearing on the District's Future

The State of New York continues to demonstrate a commitment to education. As the major source of revenues used to support the operations and objectives of the District, as revenue to the State is impacted, so is the revenue available to support state funded educational activities. Pembroke CSD has benefited from the award of state aid for the 2017/18 school year with a \$229,000 increase in foundation aid. The District's second major source of revenue, property taxes, still subject to limitation due to adopted Real Property Tax Cap legislation along with the uncertainty of future state aid revenue, necessitates the continuation of conservative budget administration.

Although the GEA has been fully restored, the total loss of revenue over the six years that the GEA was implemented negatively impacted the growth of academic programs made available to students. In the ever changing technological world we live in today, it is imperative to grow and advance the educational programs offered to students so that they are prepared for entrance into college or the work force. Pembroke CSD was granted \$152,000 of bullet aid through Senator Ranzenhofer's office in the 2016/2017 school year for the purpose of enhancing Science, Math, Engineering and Technology (STEM) programs. The grant allowed the District to "jump start" this curriculum throughout all grade levels. Pembroke CSD will continue to support these essential programs in the years to come.

The District's budget received relief from a reduction in retirement system contribution rates. However, future financial market performance which directly affects retirement cost rates are unknown. Health insurance is another uncontrollable cost that has to be carefully considered. Participation in the Genesee Area Healthcare Plan consortium over many years has greatly benefited the District. Due to its wise management and favorable claim experiences, increase in premiums have been extremely moderate in past years. However, due to a sharp increase in average weekly claims and in high cost claimants, the 2017-2018 budget was forced to bear a 12% increase. The District plans to stay poised to withstand possible additional adverse effects in both of these areas on future budgets.

Assuming that the State of New York does not implement another gap elimination adjustment in the future and remains committed to funding our current capital project at the projected level, the District should remain in a fairly strong financial position.

During the 2016/2017 school year, the District initiated two separate processes to be used to plan for the future. They are the *Thought Exchange* process and the *Educational Legacy Planning* process. *Thought Exchange* is a social media style platform that provides all stakeholders the opportunity to engage in a three-step process to help identify priorities for future planning. *Educational Legacy Planning* entails extended school and community dialogue about the future of education in the District in order to identify educational aspirations and desired future outcomes for students, the effect on academic and extracurricular programs, and identify what facility changes need to be accomplished to align the physical space to a new vision. In 2017/2018, the District looks forward to continuing these processes which will lead to the development of building- level action plans. The District and the Board of Education will strive to make effective and fiscally prudent decisions regarding future capital improvements to enhance the academic experience for all students.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Pembroke Central School District, Corfu, New York.

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

**PEMBROKE CENTRAL SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017**

ASSETS

Cash and cash equivalents	\$ 9,093,025
Cash and cash equivalents - restricted	2,715,713
Accounts receivable	42,801
State and federal aid receivable	1,136,261
Inventory	5,608
Capital assets not being depreciated	50,671
Capital assets, net of accumulated depreciation	<u>23,720,065</u>

Total assets 36,764,144

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension outflows	5,652,985
Deferred postemployment outflows	<u>627,564</u>

Total deferred outflows of resources 6,280,549

LIABILITIES

Accounts payable	90,346
Accrued liabilities	68,872
Bond anticipation notes payable	685,807
Due to retirement systems	1,074,662
Due to fiduciary funds	261
Unearned revenue	3,207
Long-term liabilities:	
Due and payable within one year	1,735,037
Due and payable after one year	<u>22,854,324</u>

Total liabilities 26,512,516

DEFERRED INFLOWS OF RESOURCES

Deferred pension inflows	401,824
Deferred postemployment inflows	<u>271,856</u>

Total deferred inflows of resources 673,680

NET POSITION

Net investment in capital assets	8,936,289
Restricted for:	
Unemployment insurance	59,603
Workers' compensation	503,936
Retirement	595,148
Employee benefit accrued liability	2,403,592
Capital projects	3,004,951
Unrestricted (deficit)	<u>354,978</u>

Total net position \$ 15,858,497

**PEMBROKE CENTRAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Indirect Cost Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
Governmental activities					
General support	\$ 3,075,932	\$ 543,952	\$ -	\$ -	\$ (3,619,884)
Instruction	10,924,062	4,216,684	70,250	4,383,743	(10,686,753)
Transportation	986,677	378,744	-	1,036,465	(328,956)
Interest	1,531,388	-	-	-	(1,531,388)
School lunch	294,571	-	101,441	219,087	25,957
Unallocated employee benefits	5,139,380	(5,139,380)	-	-	-
Unallocated depreciation	1,052,858	-	-	-	(1,052,858)
Total governmental activities	<u>\$ 23,004,868</u>	<u>\$ -</u>	<u>\$ 171,691</u>	<u>\$ 5,639,295</u>	<u>(17,193,882)</u>
General revenues:					
					7,798,047
					71,503
					17,722
					1,048
					8,327,919
					146,315
					<u>16,362,554</u>
					<u>(831,328)</u>
					20,301,348
					<u>(3,611,523)</u>
					<u>16,689,825</u>
					<u>\$ 15,858,497</u>

See notes to basic financial statements.

**PEMBROKE CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Special Aid</u>	<u>Nonmajor School Lunch</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 8,392,119	\$ -	\$ 133,886	\$ 510,596	\$ 56,424	\$ 9,093,025
Cash and cash equivalents - restricted	-	182,037	2,533,676	-	-	2,715,713
Accounts receivable	42,801	-	-	-	-	42,801
State and federal aid receivable	853,132	-	-	269,490	13,639	1,136,261
Due from other funds	796,246	1,220	100,004	18,429	40,499	956,398
Inventory	-	-	-	-	5,608	5,608
Total assets	<u>\$ 10,084,298</u>	<u>\$ 183,257</u>	<u>\$ 2,767,566</u>	<u>\$ 798,515</u>	<u>\$ 116,170</u>	<u>\$ 13,949,806</u>
LIABILITIES						
Accounts payable	\$ 87,964	\$ -	\$ -	\$ 2,240	\$ 142	\$ 90,346
Accrued liabilities	68,872	-	-	-	-	68,872
Bond anticipation notes payable	-	685,807	-	-	-	685,807
Due to other funds	160,409	4	-	796,246	-	956,659
Due to retirement systems	1,074,662	-	-	-	-	1,074,662
Unearned revenue	-	-	-	29	3,178	3,207
Total liabilities	<u>1,391,907</u>	<u>685,811</u>	<u>-</u>	<u>798,515</u>	<u>3,320</u>	<u>2,879,553</u>
FUND BALANCES (DEFICIT)						
Nonspendable	-	-	-	-	5,608	5,608
Restricted	6,567,230	-	-	-	-	6,567,230
Assigned	1,233,778	-	2,767,566	-	107,242	4,108,586
Unassigned (deficit)	891,383	(502,554)	-	-	-	388,829
Total fund balances (deficit)	<u>8,692,391</u>	<u>(502,554)</u>	<u>2,767,566</u>	<u>-</u>	<u>112,850</u>	<u>11,070,253</u>
Total liabilities and fund balances (deficit)	<u>\$ 10,084,298</u>	<u>\$ 183,257</u>	<u>\$ 2,767,566</u>	<u>\$ 798,515</u>	<u>\$ 116,170</u>	

See notes to basic financial statements.

PEMBROKE CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017
(Continued)

Amounts reported for governmental activities in the statement of net position (page 14) are different because:

Total fund balances - governmental funds (page 16)	11070253.00
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	23,770,736
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Serial bonds payable	(14,331,897)
Compensated absences	(991,763)
Net postemployment benefits	(8,059,738)
Net pension liabilities	(1,205,963)
Deferred outflows and inflows are not assets or liabilities of the current period and therefore are not reported in the funds:	
Net postemployment deferred outflows and inflows of resources	355,708
Net pension deferred outflows and inflows of resources	<u>5,251,161</u>
Net position of governmental activities	<u>\$ 15,858,497</u>

See notes to basic financial statements.

**PEMBROKE CENTRAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Special Aid</u>	<u>Nonmajor School Lunch</u>	<u>Total Governmental Funds</u>
REVENUES						
Real property taxes	\$ 7,798,047	\$ -	\$ -	\$ -	\$ -	\$ 7,798,047
Real property tax items	71,503	-	-	-	-	71,503
Charges for services	70,250	-	-	-	-	70,250
Use of money and property	15,247	-	2,473	-	2	17,722
Sale of property and compensation for loss	1,048	-	-	-	-	1,048
Miscellaneous local sources	116,560	-	-	-	29,755	146,315
State sources	12,612,508	-	-	217,290	7,334	12,837,132
Federal sources	99,174	-	-	819,155	211,753	1,130,082
School lunch	-	-	-	-	101,441	101,441
Total revenues	<u>20,784,337</u>	<u>-</u>	<u>2,473</u>	<u>1,036,445</u>	<u>350,285</u>	<u>22,173,540</u>
EXPENDITURES						
Current:						
General support	3,200,396	-	-	-	-	3,200,396
Instruction	10,199,532	-	-	1,043,483	-	11,243,015
Pupil transportation	986,677	-	-	-	-	986,677
School lunch	-	-	-	-	329,792	329,792
Employee benefits	4,578,089	-	-	-	-	4,578,089
Debt service:						
Principal	218,148	-	1,555,000	-	-	1,773,148
Interest	12,045	-	432,445	-	-	444,490
Capital outlay:						
General support	-	155,709	-	-	-	155,709
Transportation	-	282,814	-	-	-	282,814
Total expenditures	<u>19,194,887</u>	<u>438,523</u>	<u>1,987,445</u>	<u>1,043,483</u>	<u>329,792</u>	<u>22,994,130</u>
Excess (deficit) of revenues over expenditures	1,589,450	(438,523)	(1,984,972)	(7,038)	20,493	(820,590)

See notes to basic financial statements.

**PEMBROKE CENTRAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Special Aid</u>	<u>Nonmajor School Lunch</u>	<u>Total Governmental Funds</u>
OTHER FINANCING SOURCES (USES)						
Interfund transfers out	(1,204,023)	-	-	-	-	(1,204,023)
Interfund transfers in	-	96,985	1,100,000	7,038	-	1,204,023
Premium on refunding bonds	-	-	1,409,828	-	-	1,409,828
Proceeds of advanced refunding	-	-	8,605,000	-	-	8,605,000
Payment to refunded bond escrow agent	-	-	(10,014,829)	-	-	(10,014,829)
Bond anticipation notes redeemed from appropriations	-	218,148	-	-	-	218,148
Total other financing sources (uses)	<u>(1,204,023)</u>	<u>315,133</u>	<u>1,099,999</u>	<u>7,038</u>	<u>-</u>	<u>218,147</u>
Net change in fund balances	385,427	(123,390)	(884,973)	-	20,493	(602,443)
Fund balances (deficit) - beginning	<u>8,306,964</u>	<u>(379,164)</u>	<u>3,652,539</u>	<u>-</u>	<u>92,357</u>	<u>11,672,696</u>
Fund balances (deficit) - ending	<u>\$ 8,692,391</u>	<u>\$ (502,554)</u>	<u>\$ 2,767,566</u>	<u>\$ -</u>	<u>\$ 112,850</u>	<u>\$ 11,070,253</u>

See notes to basic financial statements.

**PEMBROKE CENTRAL SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Amounts reported for governmental activities in the statement of activities (page 15) are different because:

Net change in fund balances - total governmental funds (page 19)	\$ (602,443)
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$1,052,858) exceeded capital outlays (\$917,161) in the current period.	(135,697)
Change in proportionate share of net pension liability reported in the statement of net position does not provide for or require the use of current financial resources and therefore is not reported as revenues or expenditures in the governmental funds.	(5,098,600)
Change in proportionate share of net pension deferred inflows and outflows reported in the statement of net position during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems subsequent to the measurement date do not provide for or require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	5,077,523
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net position. Additionally, in the statement of activities, certain operating expenses measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of the financial resources used (essentially, the amounts actually paid). The net effect of these differences in the treatment of long-term debt and the related items is as follows:	
Proceeds of serial bonds	(8,605,000)
Bond premium	(1,409,828)
Repayment of serial bonds	10,400,000
Change in compensated absences	(64,602)
Amortization of debt premium in the statement of activities does not use current financial resources and therefore is not reported as an expenditure in the governmental funds.	82,931
Change in the net postemployment liability reported in the statement of net position does not provide for or require the use of current financial resources and therefore is not reported as revenues or expenditures in the governmental funds.	(831,320)
Change in the net postemployment deferred inflows and outflows reported in the statement of net position during the measurement period between the District's contributions to its postemployment liability subsequent to the measurement date do not provide for or require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	<u>355,708</u>
Change in net position of governmental activities	<u>\$ (831,328)</u>

See notes to basic financial statements.

**PEMBROKE CENTRAL SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2017**

	<u>Private Purpose Trust</u>	<u>Agency</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 66,799
Cash and cash equivalents - restricted	4,346	34,723
Due from other funds	-	261
	<u>4,346</u>	<u>101,783</u>
Total assets	<u>4,346</u>	<u>\$ 101,783</u>
LIABILITIES		
Accounts payable	-	22,945
Agency liabilities	-	44,115
Extraclassroom activity balances	-	34,723
	<u>-</u>	<u>101,783</u>
Total liabilities	<u>-</u>	<u>\$ 101,783</u>
NET POSITION		
Reserved for scholarships	<u>\$ 4,346</u>	

See notes to basic financial statements.

**PEMBROKE CENTRAL SCHOOL DISTRICT
 STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND
 FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Private Purpose Trust</u>
ADDITIONS	
Interest	\$ 4
DEDUCTIONS	
Scholarships	<u>150</u>
Change in net position	(146)
Net position - beginning	<u>4,492</u>
Net position - end	<u><u>\$ 4,346</u></u>

See notes to basic financial statements.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Pembroke Central School District (the District) 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. REPORTING ENTITY

The District is governed by the Education Law and other laws of the State of New York. The District is an independent entity governed by an elected Board of Education. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and are primarily accountable for all fiscal matters.

The scope of activities included within the accompanying financial statements are those transactions which comprise District operations and are governed by, or significantly influenced by, the Board of Education. Essentially, the primary function of the 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 District officials exercise oversight responsibility.

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

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District's reporting entity.

1. INCLUDED IN THE REPORTING ENTITY

The Extraclassroom Activity Funds of the District represent funds of the students within the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to financial transactions and designation of student management. The District accounts for assets held as an agent for various student organizations in the Agency Fund of the District.

2. JOINT VENTURE

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

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 enrollment as defined in Education Law Section 1950 (4)(b)(7). BOCES charges districts for program costs based on participation and for administrative costs. During the year ended June 30, 2017, the District was billed \$2,019,223 for BOCES administrative and program costs. Financial statements for the BOCES are available from the BOCES administrative office at 80 Munson Street, LeRoy, New York 14482.

There is no authority or process by which a school district can terminate its status as a BOCES component school district. 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 NYS Education Law.

B. BASIS OF PRESENTATION

1. DISTRICT-WIDE STATEMENTS:

While separate district-wide and fund financial statements are presented, they are interrelated. 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 District 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 property taxes. State aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include specific operating and discretionary (either operating or capital) grants.

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. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. FUND FINANCIAL STATEMENTS:

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

Capital Projects Fund: This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

Debt Service Fund: This fund is used to account for the accumulation of resources and the payment of debt of the District (principal and interest) on general long-term obligations.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Aid Fund: This fund accounts for the proceeds of specific revenue sources, such as Federal and State grants that are legally restricted to expenditures for a specific purpose. These legal restrictions may be imposed either by governments that provide the funds or by outside parties.

Additionally, the District reports the following fund types:

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

Private Purpose Trust Funds: These funds are used to account for trust arrangements in which principal and income benefits 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 from these trust arrangements.

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the district-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the district-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within one year of the end of the current fiscal period with the exception of property taxes, which the period of availability is sixty days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within one year of year end).

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within one year of year-end). All other revenue items are considered to be measurable and available only when cash is received by the District.

The Agency Fund has no measurement focus but utilized the accrual basis of accounting for reporting its assets and liabilities.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

1. CASH AND CASH EQUIVALENTS

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

2. RESTRICTED ASSETS

Certain assets are classified on the balance sheet as restricted because their use is limited. Donations to be used towards scholarships in the Private Purpose Trust Fund and funds supporting extraclassroom activities in the Agency Fund, are restricted specifically for those purposes. Certain proceeds from serial bonds and bond anticipation notes, as well as resources set aside for their repayment, are classified as restricted assets in the district-wide financial statements and their use is limited by applicable bond covenants.

3. RECEIVABLES

Accounts receivables are carried at their net realizable value. Accounts are written-off as uncollectible after the likelihood of payment is considered remote by management. Generally accepted accounting principles require the establishment of an allowance for uncollectible accounts, however, no allowance for uncollectible accounts has been provided since management believes that such allowance would not be material.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

These assets are classified as nonspendable to signify that portion of fund balance that is not in a spendable form.

5. CAPITAL ASSETS

Capital assets, which include property and equipment are reported in the district-wide financial statements.

Capital assets are reported at actual cost for acquisitions subsequent to June 30, 2004. For assets acquired prior to June 30, 2004, estimated historical costs, based on appraisals conducted by independent third-party professionals were used. Donated assets are reported at estimated fair value at the time received. As the District constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life.

Land and construction in process are not depreciated. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the district-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 50,000	straight-line	40 years
Building improvements	50,000	straight-line	40 years
Site improvements	50,000	straight-line	15 years
Vehicles	25,000	straight-line	10 years
Furniture and equipment	2,000	straight-line	5 years

6. INSURANCE

The District insures against liability for most risks including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first 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 and difference during the measurement period between the District's contributions and its proportional share of total contributions to the pension systems not included in pension expense. Also included are any contributions to pension systems subsequent to the measurement date. See details of deferred pension outflows in Note 2.D. The second item is related to OPEB reported in the district-wide Statement of Net Position. This represents the effect of the net change in the actual and expected experience. See details of deferred OPEB outflows in Note 2.F.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first 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 and difference during the measurement periods between the District's contributions and its proportional share of total contributions to the pension systems not included in pension expense. See details of deferred pension inflows in Note 2.D. The second item is related to OPEB reported in the district-wide Statement of Net Position. This represents the net effect of the changes of assumptions or other inputs. See details of deferred OPEB inflows in Note 2.F.

8. UNEARNED REVENUE

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

9. VESTED EMPLOYEE BENEFITS

Compensated Absences

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

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Sick leave use is based on a last-in first-out (LIFO) basis. Upon retirement, resignation or death, employees may receive a payment or a credit to be used towards health insurance based on unused accumulated sick leave, based on contractual provisions. These payments are budgeted annually without accrual.

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.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, an accrual for accumulated sick leave is included in the compensated absences liability at year-end in the district-wide financial statements. The compensated absences liability is calculated based on contractually negotiated rates in effect at year end.

In the governmental fund statements only, the amount of matured vacation time is accrued within the General Fund based on expendable and available financial resources. Sick time is expensed on a pay-as-you-go basis.

10. ACCRUED LIABILITIES AND LONG-TERM LIABILITIES

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

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

11. POSTEMPLOYMENT BENEFITS/OTHER BENEFITS

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

In addition to providing pension benefits, the District provides postemployment benefits health insurance coverage and survivor benefits to retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirements. The obligation of the District and its retirees to contribute to the cost of providing these benefits has been established pursuant to Board resolution and various collective bargaining agreements. Payments are budgeted annually without accrual and are based on the pay-as-you go method (see Note 2.E).

12. NET POSITION FLOW ASSUMPTION

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the district-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. FUND BALANCE FLOW ASSUMPTIONS

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy that the District's Board of Education will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classifications will be charged.

14. FUND BALANCE POLICIES

Fund balance of the District's funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education has by resolution authorized the Business Manager to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

F. REVENUES AND EXPENDITURES/EXPENSES

1. PROGRAM REVENUES

Amounts reported as *program revenues* include 1) charges to taxpayers or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. PROPERTY TAXES

Real property taxes are levied annually by the Board of Education no later than September 1. Taxes are collected during the period of September through November. Uncollected real property taxes are subsequently enforced by the Counties of Erie/ Genesee /Wyoming, in which the District is located. Uncollected real property taxes transmitted to the Counties for enforcement are paid by the Counties to the District no later than the forthcoming April 1.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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 assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

H. ACCOUNTING PRONOUNCEMENTS

During the fiscal year ended June 30, 2017, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits Other than Pensions*; Statement No. 77, *Tax Abatement Disclosures*; Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; Statement No. 79, *Certain External Investment Pools and Pool Participants*; Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*; and Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, 68 and 73*.

The primary objective of Statement No. 75 is to improve accounting and financial reporting by governments, such as the District, for postemployment benefits. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

The primary objective of Statement No. 77 is to require governments, such as the District, that enter into tax abatement agreements to disclose information about the tax abatement agreements that are entered into by other governments and that reduce the District's tax revenues.

The District has evaluated Statements No. 74, 78, 79, 80 and 82 and have determined that they have no impact on the District's operations.

The GASB has issued the following new pronouncements:

- Statement No. 81, *Split-Interest Agreements*, which will be effective for the year ending June 30, 2018;
- Statement No. 83, *Certain Asset Retirement Obligations*, which will be effective for the year ending June 30, 2019;
- Statement No. 84, *Fiduciary Activities*, which will be effective for the year ending June 30, 2020;
- Statement No. 85, *Omnibus*, which will be effective for the year ending June 30, 2018;
- Statement No. 86, *Certain Debt Extinguishment Issues*, which will be effective for the year ending June 30, 2018; and
- Statement No. 87, *Leases*, which will be effective for the year ending June 30, 2021.

The District is currently reviewing these statements and plans on adoption, as required.

I. SUBSEQUENT EVENTS

These financial statements have not been updated for subsequent events occurring after September 19, 2017 which is the date these financial statements were available to be issued.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. DEPOSITS AND INVESTMENTS

The District's investment policies are governed by State statutes. In addition, the District has its own written investment policy. The District funds must be deposited in FDIC insured commercial banks or trust companies located within the State. Permissible investments include demand accounts and certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposits, time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

The District's aggregate bank balances were fully collateralized at June 30, 2017.

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute or contract to be reserved for various purposes. Restricted cash as of year-end includes \$34,723 within the Agency Fund restricted for extraclassroom activities, \$4,346 in the Private Purpose Trust Fund restricted for scholarships, \$182,037 in the Capital Projects Fund for unexpended debt proceeds and \$2,533,676 in the Debt Service Fund restricted for debt payments.

Investment and Deposit Policy

The District follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Business Manager of the District.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The District's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The District's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of New York State and its localities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the District's investment and deposit policy, all deposits of the District including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 102% of the aggregate amount of deposits. The District restricts the securities to the following eligible items:

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by New York State and its localities.
- Obligations issued by other than New York State rated in one of the three highest rating categories by at least one nationally recognized statistical rating organizations.

B. RECEIVABLES

Significant revenues accrued by the District include the following:

State and federal aid receivable, consist of the following at June 30, 2017:

General Fund	
State aid - general aid	\$ 17,057
State aid - BOCES	589,027
State aid - excess cost aid	<u>247,048</u>
	853,132
Special Aid Fund	269,490
School Lunch Fund	<u>13,639</u>
Total	<u>\$ 1,136,261</u>

C. CAPITAL ASSETS

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

	Balance <u>7/1/16</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/17</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 50,671	\$ -	\$ -	\$ 50,671
Capital assets being depreciated:				
Buildings	25,213,788	-	-	25,213,788
Vehicles and equipment	<u>9,629,451</u>	<u>917,161</u>	<u>38,109</u>	<u>10,508,503</u>
Total capital assets, being depreciated	<u>34,843,239</u>	<u>917,161</u>	<u>38,109</u>	<u>35,722,291</u>
Less accumulated depreciation:				
Buildings	6,514,376	610,202	-	7,124,578
Vehicles and equipment	<u>4,473,101</u>	<u>442,656</u>	<u>38,109</u>	<u>4,877,648</u>
Total accumulated depreciation	<u>10,987,477</u>	<u>1,052,858</u>	<u>38,109</u>	<u>12,002,226</u>
Total capital assets being depreciated, net	<u>23,855,762</u>	<u>(135,697)</u>	<u>-</u>	<u>23,720,065</u>
Governmental activities capital assets, net	<u>\$ 23,906,433</u>	<u>\$ (135,697)</u>	<u>\$ -</u>	<u>\$ 23,770,736</u>

Depreciation has not been allocated to the individual functions of the District operation as no allocation methodology has been established.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

D. PENSION OBLIGATIONS

The District participates in the New York State Teachers' Retirement System (TRS) and the New York State and Local Employees' Retirement System (ERS). These are cost-sharing multiple employer public employee retirement systems. The Systems offer a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

Provisions and Administration

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

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

Funding Policies

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

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (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 liability for its proportionate share of the net pension liability for each of the Systems. The net pension liability was measured as of June 30, 2016 for TRS and March 31, 2017 for ERS. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and ERS Systems in reports provided to the District.

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2016	March 31, 2017
Net pension liability	\$ 532,629	\$ 673,334
District's portion of the Plan's total net pension liability	.048933%	.007166%
Change in proportion since the prior measurement date	.000797	(.000248)

For the year ended June 30, 2017, the District recognized pension expense of \$382,071 and \$865,360 for ERS and for TRS, respectively. At June 30, 2017 the District's reported deferred outflows of resources and deferred inflows of resources related to pensions arose from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expected and actual experience	\$ 16,873	\$ -	\$ 102,250	\$ 173,028
Changes of assumptions	230,036	3,034,195	-	-
Net difference between projected and actual earnings on pension plan investments	134,492	1,197,630	-	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	13,865	-	20,120	106,426
District's contributions subsequent to the measurement date	<u>80,902</u>	<u>944,992</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 476,168</u>	<u>\$5,176,817</u>	<u>\$ 122,370</u>	<u>\$ 279,454</u>

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 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>
Year ended:		
2018	\$123,818	\$ 354,796
2019	123,818	354,796
2020	115,389	1,284,909
2021	(90,129)	995,524
2022	-	448,098
Thereafter	-	514,248

Actuarial Assumptions

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

Significant actuarial assumptions used in the valuations were as follows:

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2016	March 31, 2017
Actuarial valuation date	June 30, 2015	April 1, 2016
Interest rate	7.5%	7.0%
Salary scale	1.9% - 4.7%	3.8%
Decrement tables	July 1, 2009 – June 30, 2014 System's Experience	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%	2.5%
Cost of living adjustments	1.5%	1.3%

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

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

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by 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>Target Allocation</u>		<u>Long-Term Expected Real Rate of Return</u>	
	<u>TRS</u>	<u>ERS</u>	<u>TRS</u> <u>June 30, 2016</u>	<u>ERS</u> <u>March 31, 2017</u>
Asset Class:				
Domestic equities	37.0%	36.0%	6.1%	4.6%
International equities	18.0	14.0	7.3	6.4
Private equity	-	10.0	-	7.8
Real estate	10.0	10.0	5.4	5.8
Alternative Investments	7.0	-	9.2	-
Absolute return strategies	20.0	2.0	1.9	4.0
Opportunistic portfolio	-	3.0	-	5.9
Real assets	-	3.0	-	5.5
Bond and Mortgages	8.0	17.0	3.1	1.3
Cash	-	1.0	-	(0.3)
Inflation-indexed bonds	-	4.0	-	1.5
Total	<u>100.0%</u>	<u>100.0%</u>		

Discount Rate

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

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

The following tables present the District's proportionate share of the net pension liability calculated using the discount rate of 7.0% for ERS and 7.5% 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 (6.0% for ERS and 6.5% for TRS) or 1-percentage point higher (8.0% for ERS and 8.5% for TRS) than the current rate:

TRS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension liability (asset)	\$6,949,358	\$532,629	(\$4,849,386)

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

ERS	1% Decrease <u>(7.0%)</u>	Current Assumption <u>(8.0%)</u>	1% Increase <u>(9.0%)</u>
Employer's proportionate share of the net pension liability (asset)	2,150,497	673,334	(575,604)

Pension Plan Fiduciary Net Position

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

	ERS	TRS (Dollars in Thousands)	Total
Measurement date	March 31, 2017	June 30, 2016	
Employers' total pension liability	\$ 177,400,586	\$ 108,577,184	\$ 285,977,770
Plan net position	<u>168,004,363</u>	<u>107,506,142</u>	<u>275,510,505</u>
Employers' net pension liability	<u>\$ 9,396,223</u>	<u>\$ 1,071,042</u>	<u>\$ 10,467,265</u>
Ratio of Plan net position to the employers' total pension liability	94.7%	99.0%	

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017 represent employee and employer contributions for the fiscal year ended June 30, 2017 based on paid TRS 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 \$993,760.

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$80,902.

E. OTHER POSTEMPLOYMENT BENEFITS OBLIGATIONS (OPEB)

Plan Description

The Pembroke Central School District administers the Pembroke Central School District Retiree Medical, Prescription Vision and Dental Plan (the Plan) as a single-employer defined benefit Other Postemployment Benefit Plan (OPEB). The Plan provides for continuation of medical, prescription vision and dental benefits for certain retirees and their spouses and can be amended by action of the District subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the plan members, employers and other entities are established by action of the District pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The employer currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the District.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Employees Covered by Benefit Terms

As of June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	83
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>173</u>
Total	<u>256</u>

The District's total OPEB liability of \$8,059,738 was measured as of April 1, 2017, and was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions and Other Inputs

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

Inflation	2.20%
Salary Increases	3.31%, average, including inflation
Discount Rate	3.80%
Healthcare Cost Trend Rates	5.30% of 2017, with an ultimate rate of 4.17% for 2051 and later years
Retirees' Share of Benefit-Related Costs	100% of future retirees eligible for an employer subsidy. 25% of future retirees required to pay 100% of premiums.

The discount rate was based on the Fidelity Mutual General Obligation AA 20 year Bond rate as of the measurement date.

Mortality rates for active members were based on the 2015 New York State Teacher Retirement System mortality rates for active members and all active employees. Mortality rates for retirees and surviving spouses were based on the 2015 New York State Teacher Retirement System mortality base rates for service and deferred annuitants and beneficiaries, fully generational using Mortality Improvement Scale MP-2016.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 – June 30, 2017.

Changes in the Total OPEB Liability

Balance at July 1, 2016	\$ 7,228,418
Changes for the year-	
Service cost	256,960
Interest	242,848
Changes of benefit terms	253,229
Differences between expected and actual experience	612,217
Changes in assumptions or other inputs	(297,747)
Benefit payments	<u>(236,187)</u>
Net changes	<u>831,320</u>
Balance at June 30, 2017	<u>\$ 8,059,738</u>

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Changes of assumptions and other inputs reflect a change in the discount rate from 3.35 percent in 2016 to 3.80 percent in 2017.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following present the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.80 %) or 1 percentage point higher (4.80 %) than the current discount rate.

	<u>1% Decrease (2.80%)</u>	<u>Discount Rate (3.80%)</u>	<u>1% Increase (4.80%)</u>
Total OPEB Liability	\$ <u>8,555,141</u>	\$ <u>8,059,738</u>	\$ <u>7,342,147</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (3.17 %) or 1 percentage point higher (5.17 %) than the current healthcare cost trend rate:

	<u>1% Decrease (4.30% to 3.17%)</u>	<u>Healthcare Cost Trend Rates (5.30% to 4.17%)</u>	<u>1% Increase (6.30% to 5.17%)</u>
Total OPEB Liability	\$ <u>7,038,744</u>	\$ <u>8,059,738</u>	\$ <u>9,297,599</u>

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB
For the year ended June 30, 2017, the District recognized OPEB expense of \$780,032. At June 30, 2017, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 558,981	\$ -
Changes of assumptions	-	271,856
District contributions subsequent to the measurement date	<u>68,583</u>	<u>-</u>
Total	\$ <u>627,564</u>	\$ <u>271,856</u>

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 27,345
2019	27,345
2020	27,345
2021	27,345
2022	27,345
Thereafter	<u>150,400</u>
	\$ <u>287,125</u>

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

F. SHORT-TERM DEBT

The purpose of all of the short-time borrowings was to provide resources for bus purchases. The form of financing used in all cases was bond anticipation notes (BAN). The amounts issued are accounted for in the capital projects fund.

State law requires that bond anticipation notes issued for capital purposes be converted to long-term obligations within five years after the original issue date, if not completely repaid. However, bond anticipation notes issued for assessable improvement projects may be renewed for period's equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

The schedule below details the changes in short-term capital borrowings during the year ended June 30, 2017:

	<u>Balance</u> <u>7/1/16</u>	<u>Issues</u>	<u>Redeemed</u>	<u>Balance</u> <u>6/30/17</u>
BAN maturing 8/21/16 at 2.60%	\$ 621,141	\$ -	\$ 621,141	\$ -
BAN maturing 8/19/17 at 1.95%	-	685,807	-	685,807

G. LONG-TERM LIABILITIES

GENERAL OBLIGATION BONDS

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Further, the unmatured principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

The District's outstanding long-term liabilities include serial bonds, compensated absences, other postemployment benefit obligations and net pension liability.

The following is a summary of maturities of indebtedness:

<u>Description</u>	<u>Issue</u> <u>Date</u>	<u>Original Issue</u> <u>Amount</u>	<u>Final</u> <u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>Outstanding</u> <u>6/30/17</u>
Governmental activities:					
2016 Refunding	11/22/16	\$8,605,000	06/15/25	1.0%-5.0%	\$ 4,550,000
2010 Various Purpose	06/21/10	\$22,392,643	06/15/25	2.0%-4.0%	<u>8,455,000</u>
					<u>\$ 13,005,000</u>

OTHER LONG-TERM LIABILITIES

In addition to the above long-term debt, the District had a non-current liability for other postemployment benefits (See Note 2.F.) and net pension liability (See Note 2.E.).

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

CHANGES IN LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2017 are as follows:

	<u>Balance</u> <u>7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/17</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 14,800,000	\$ 8,605,000	\$ 10,400,000	\$ 13,005,000	\$ 1,470,000
Unamortized premium	<u>-</u>	<u>1,409,828</u>	<u>82,931</u>	<u>1,326,897</u>	<u>165,862</u>
Total bonds payable	14,800,000	10,014,828	10,482,931	14,331,897	1,635,862
Other liabilities:					
Compensated absences	927,161	138,488	73,886	991,763	99,175
Net pension liabilities*	(3,892,637)	5,098,600	-	1,205,963	-
Postemployment benefit obligations	<u>7,228,418</u>	<u>1,067,507</u>	<u>236,187</u>	<u>8,059,738</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 19,062,942</u>	<u>\$16,319,423</u>	<u>\$ 10,793,004</u>	<u>\$ 24,589,361</u>	<u>\$ 1,735,037</u>

*Additions to net pension liability are presented net of reductions.

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

The following is a summary of maturing debt service requirements for the District's serial bonds:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Premium</u>
2018	\$ 1,470,000	\$ 527,219	\$ 165,862
2019	1,520,000	468,569	165,862
2020	1,575,000	407,913	165,862
2021	1,570,000	345,050	165,862
2022	1,615,000	291,000	165,862
2023-2025	<u>5,255,000</u>	<u>476,400</u>	<u>497,587</u>
Total	<u>\$ 13,005,000</u>	<u>\$2,516,150</u>	<u>\$1,326,897</u>

On November 22, 2016, the District issued \$8,605,000 in general obligation bonds with an average interest rate of 4.17% to advance refund \$8,845,000 of outstanding 2010 School District Serial Bonds with an average interest rate of 4.00%. The net proceeds of \$9,973,094 (after payment of \$41,734 in underwriting fees, insurance and other issuance costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements. The economic gain on the transactions (the difference between the present values of the debt service payments on the old and new debt) is approximately \$365,488.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

H. INTERFUND ACTIVITY

Interfund activity at June 30, 2017 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General Fund	\$ 796,246	\$ 160,409	\$ -	\$ 1,204,023
Capital Projects Fund	1,220	4	96,985	-
Special Aid Fund	18,429	796,246	7,038	-
School Lunch Fund	40,499	-	-	-
Agency Fund	261	-	-	-
Debt Service Fund	<u>100,004</u>	<u>-</u>	<u>1,100,000</u>	<u>-</u>
Total	<u>\$ 956,659</u>	<u>\$ 956,659</u>	<u>\$ 1,204,023</u>	<u>\$ 1,204,023</u>

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

Interfund receivables and payables were incurred primarily due to salaries and other expenditures paid by General Fund on behalf of the Special Aid Fund, amounts owed by General Fund to Special Aid and School Lunch Funds for state aid received in the general fund and amounts owed by the General Fund to the Debt Service Fund for interfund transfers not transferred before the end of the year. Also, the majority of the interfund revenues and expenses were a transfer to the debt service fund to fund future debt payments related to capital outlay projects.

I. DETAIL OF FUND BALANCES

As of June 30, 2017, fund balances were classified as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor School Lunch</u>	<u>Total</u>
<u>Nonspendable</u>					
Inventory	\$ -	\$ -	\$ -	\$ 5,608	\$ 5,608
<u>Restricted:</u>					
Unemployment Workers' compensation	59,603 503,936	- -	- -	- -	59,603 503,936
Retirement	595,148	-	-	-	595,148
Capital	3,004,951	-	-	-	3,004,951
Employee benefit accrued liability	2,403,592	-	-	-	2,403,592
<u>Assigned:</u>					
Subsequent years' expenditures	1,100,000	-	-	-	1,100,000
Debt service	-	-	2,767,566	-	2,767,566
School lunch	-	-	-	92,379	92,379
<u>Encumbrances:</u>					
General support	20,783	-	-	-	20,783
Instruction	100,026	-	-	-	100,026
Transportation	12,969	-	-	-	12,969
School lunch	-	-	-	14,863	14,863
<u>Unassigned:</u>					
General fund	891,383	-	-	-	891,383
Capital projects	<u>-</u>	<u>(502,554)</u>	<u>-</u>	<u>-</u>	<u>(502,554)</u>
Total	<u>\$8,692,391</u>	<u>\$ (502,554)</u>	<u>\$2,767,566</u>	<u>\$ 112,850</u>	<u>\$11,070,253</u>

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Assigned to subsequent year's expenditure – Represents available fund balance being appropriated to meet expenditure requirements in the 2018 fiscal year.

Assigned to specific use – Represents fund balance within the special revenue funds that is assigned for a specific purpose. The assignment's purpose related to each fund's operations and represents amounts within funds that are not restricted or committed.

Unassigned fund balance – Represents the residual classification of the District's General Fund surplus and funds with deficit fund balances.

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

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

DEFICIT FUND EQUITY

At June 30, 2017, the Capital Projects Fund, a major fund, has a deficit fund balance of \$502,554. The deficit is the result of the issuance of bond anticipation notes (BANs), which do not qualify for treatment as a long-term liability. Accordingly, the BANs are reported as a fund liability in the Capital Projects Fund balance sheet (rather than an inflow on the statement of revenues, expenditures, and changes in fund balances). When the cash from the BANs is spent, expenditures are reported and fund balance is reduced. Because the BANs are the main source of resources for the fund, the result is an overall fund deficit. This deficit will be eliminated as resources are obtained (e.g., from revenues, long-term debt issuances, and transfers in) to make the scheduled debt service principal and interest payments on the BANs.

NOTE 4 - RISK MANAGEMENT

A. WORKERS' COMPENSATION PLAN

Genesee County Plan

The District is a participant in the Genesee County Self-Insurance Workers' Compensation Plan (the Plan). The Plan was established under the provisions of Workers' Compensation Law of the State of New York and is administered and sponsored by its predominant participant, Genesee County. The Plan is a public entity risk pool which provides the District the opportunity to participate in a cooperative program for providing workers' compensation benefits to its employees.

The District is one of over 45 municipal corporations that participate in the Plan. Eligible participants may become members upon filing with the Executive Secretary of the Plan a certified copy of the resolution of the prospective member's governing board electing to participate in the Plan on or before July 15th. Voluntary withdrawal from the Plan is effective once annually. Withdrawal from the Plan is effective at the end of the current operating year, upon filing with the Executive Secretary of the Plan a certified copy of the resolution of the member's governing board electing to withdraw from the Plan before July 15th. Upon withdrawal, the participant shall pay, in a lump sum or in installments, an equitable share of the outstanding liabilities of the Plan as of the date of withdrawal, as determined by the Plan administrator. Contributions to the Plan are determined annually based upon claim payment experience and real property tax assessments.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4 - RISK MANAGEMENT (Continued)

No refunds or assessments, other than periodic premiums, are charged to the participant organizations, except in the case where the Plan's assets are not sufficient to meet liabilities. In that instance, a special assessment may be assessed against the participant organizations. The Plan has established reserve liabilities which provide for current claim expenses. At June 30, 2017 the Plan did not provide sufficient information to disclose the funding status or future claim liabilities for the District.

Since actual claim costs depend on such complex factors as inflation and changes in doctrines of legal liability, the process used in estimating future claim liability does not result in an exact amount. Estimated claim liability is calculated based on actuarial and statistical information, which reflects recent settlements and other social and economic factors, as well as past experience. As of December 31, 2016, the Plan had an unfunded liability of \$169,491.

B. HEALTH INSURANCE PLAN

The District is allowed to participate and incur costs related to an employee health insurance plan (the Plan) sponsored by the Genesee Valley Educational Partnership and its component districts, which is a public entity risk pool under Article 5-G of General Municipal Law. The Plan's objectives are to formulate, develop and administer a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

Districts joining the Plan must remain members for a minimum of one year. A member may withdraw from the Plan after that time by written notification to be provided prior to March 1st of the respective year. Plan members are subject to a supplemental assessment in the event of deficiencies. If the Plan's assets were to be exhausted, members would be responsible for the Plan's liabilities. The Plan uses a reinsurance agreement to reduce its exposure to large losses on insured events.

Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the Plan as direct insurer of the risks reinsured. The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims (including future claim adjustment expenses) costs depend on complex factors, the process used in computing claim liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they occur.

As of June 30, 2015, the date of the most recent audited financial statements, the Plan accrued a liability for incurred but not reported and incurred but not paid healthcare claims. The accrual was based upon historical trend information. As of June 30, 2017, the Plan's equity after provision for liabilities was \$13,648,305.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

A. ENCUMBRANCES

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were \$133,778 recorded in the General Fund.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5 - COMMITMENTS AND CONTINGENCIES (Continued)

B. CONTINGENCIES

The District participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the District's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District anticipates such amounts, if any, will be immaterial.

NOTE 6 – TAX ABATEMENTS

The Genesee County Industrial Development Agency d/b/a Genesee County Economic Development Center (the Agency), created by Chapter 565 of the Laws of 1970 of the State of New York pursuant to Title I of Article 18-A of General Municipal Law of the State of New York (collectively "the Act"), has seven real property tax abatement agreements with various businesses in the District under Section 412-a of the New York State Real Property Tax Law and Section 874 of the Act for the purpose of economic development in the District.

The Town of Batavia has one property tax abatement agreement with a business in the District under Subdivision 1(b) of Section 577 of General Municipal Law of the State of New York.

Generally, these agreements provide for a 100 percent abatement of real property taxes in exchange for a payment in lieu of taxes (PILOT) based on the requirements noted in said individual agreements. Should the property owner not comply with the policies and laws as set forth in each agreement, the PILOT will discontinue as outlined in each agreement.

As a result of these tax abatement agreements, for the year ended June 30, 2017, the District's total tax revenues were reduced by \$184,838.

Copies of the agreements may be obtained from the Pembroke Central School District, Route 5 & 77, Corfu, NY 14036.

NOTE 7 – RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2017, the District implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The implementation of Statement No. 75 resulted in the reporting of a deferred postemployment outflow of resources, postemployment liability and deferred postemployment inflow of resources related to the District's single-employer defined benefit other postemployment plan.

Net position beginning of year, as previously stated	\$ <u>20,301,348</u>
GASB Statement No. 75 implementation	
Beginning plan liability under GASB Statement No. 75	(7,228,418)
Beginning plan liability under GASB Statement No. 45	<u>3,616,895</u>
Net position beginning of year, as restated	\$ <u>16,689,825</u>

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

REQUIRED SUPPLEMENTARY INFORMATION

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

**PEMBROKE CENTRAL SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
LAST THREE FISCAL YEARS***

	Year Ended June 30,		
	2015	2016	2017
Teachers' Retirement System (TRS)			
Measurement date	June 30, 2014	June 30, 2015	June 30, 2016
District's proportion of the net pension liability (asset)	0.468350%	0.048933%	0.049730%
District's proportionate share of the net pension liability (asset)	\$ <u>(5,217,167)</u>	\$ <u>(5,082,607)</u>	\$ <u>532,629</u>
District's covered-employee payroll	\$ 6,918,313	\$ 7,351,041	\$ 7,687,897
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-75.4%	-69.1%	6.9%
Plan fiduciary net position as a percentage of the total pension liability (asset)	-111.50%	-110.5%	99.0%
Employees' Retirement System (ERS)			
Measurement date	March 31, 2015	March 31, 2016	March 31, 2017
District's proportion of the net pension liability	.007663%	.007414%	.007166%
District's proportionate share of the net pension liability	\$ <u>258,868</u>	\$ <u>1,189,970</u>	\$ <u>673,334</u>
District's covered-employee payroll	\$ 1,948,097	\$ 2,077,145	\$ 2,152,899
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	13.2%	57.3%	34.3%
Plan fiduciary net position as a percentage of the total pension liability	97.9%	90.7%	97.9%

* Information prior to the year ended June 30, 2015 is not available

**PEMBROKE CENTRAL SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
LAST 10 FISCAL YEARS
FOR THE YEAR ENDED JUNE 30,**

TEACHERS' RETIREMENT SYSTEM (ERS)										
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 635,637	\$ 577,445	\$ 468,451	\$ 617,248	\$ 756,257	\$ 804,825	\$ 1,124,226	\$ 1,288,637	\$ 1,017,551	\$ 942,774
Contributions in relation to the contractually required contribution	<u>635,637</u>	<u>577,445</u>	<u>468,451</u>	<u>617,248</u>	<u>756,257</u>	<u>804,825</u>	<u>1,124,226</u>	<u>1,288,637</u>	<u>1,017,551</u>	<u>942,774</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
District's covered-employee payroll	\$ 7,281,068	\$ 7,572,013	\$ 7,567,864	\$ 7,160,654	\$ 6,888,004	\$ 6,797,513	\$ 6,918,313	\$ 7,351,041	\$ 7,687,897	\$ 8,063,070
Contributions as a percentage of covered-employee payroll	9%	8%	6%	9%	11%	12%	16%	18%	13%	12%
EMPLOYEES' RETIREMENT SYSTEM (ERS)										
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 134,998	\$ 143,233	\$ 153,563	\$ 239,022	\$ 302,923	\$ 377,684	\$ 369,003	\$ 351,482	\$ 333,093	\$ 283,026
Contributions in relation to the contractually required contribution	<u>134,998</u>	<u>143,233</u>	<u>153,563</u>	<u>239,022</u>	<u>302,923</u>	<u>377,684</u>	<u>369,003</u>	<u>351,482</u>	<u>333,093</u>	<u>283,026</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
District's covered-employee payroll	\$ 1,792,941	\$ 1,842,004	\$ 2,051,252	\$ 2,117,193	\$ 1,999,226	\$ 2,030,786	\$ 1,964,853	\$ 1,948,097	\$ 2,077,145	\$ 2,152,899
Contributions as a percentage of covered-employee payroll	8%	8%	7%	11%	15%	19%	19%	18%	16%	13%

**PEMBROKE CENTRAL SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Current Year's Revenues</u>	<u>Over (Under) Amended Budget</u>
REVENUES				
Local sources:				
Real property taxes	\$ 7,798,406	\$ 7,798,406	\$ 7,798,047	\$ (359)
Real property tax items	65,061	65,061	71,503	6,442
Charges for services	22,000	22,000	70,250	48,250
Use of money and property	8,800	8,800	15,247	6,447
Sale of property and compensation for loss	-	-	1,048	1,048
Miscellaneous local sources	80,000	80,000	116,560	36,560
State sources:				
Basic formula	9,831,873	9,831,873	9,753,079	(78,794)
Lottery aid	1,445,254	1,445,254	1,545,447	100,193
BOCES aid	878,684	878,684	1,072,303	193,619
Other state aid	88,700	240,700	241,679	979
Federal sources	-	-	99,174	99,174
Total revenues	20,218,778	20,370,778	20,784,337	413,559
Other sources:				
Appropriated reserves	1,100,000	1,100,000	-	(1,100,000)
Appropriated fund balance	401,960	530,800	-	(530,800)
Total other sources	1,501,960	1,630,800	-	(1,630,800)
Total revenues and other sources	\$ 21,720,738	\$ 22,001,578	\$ 20,784,337	\$ (1,217,241)

The note to required supplementary information is an integral part of this schedule.

**PEMBROKE CENTRAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Current Year's Expenditures</u>	<u>Encumbrances</u>	<u>Unencumbered Balances</u>
EXPENDITURES					
General support:					
Board of education	\$ 70,433	\$ 85,263	\$ 83,166	\$ 523	\$ 1,574
Central administration	155,750	156,040	147,347	-	8,693
Finance	281,520	286,870	261,808	518	24,544
Staff	18,700	204,318	167,073	-	37,245
Central services	1,980,221	2,297,877	2,151,536	28,279	118,062
Special items	399,623	399,623	389,466	-	10,157
Instruction:					
Instruction, administration, and improvements	686,883	712,627	698,876	234	13,517
Teaching - regular school	5,925,230	5,997,036	5,722,630	54,886	219,520
Programs for children with handicaps	2,433,729	2,248,020	2,089,490	967	157,563
Occupational education	472,444	472,444	469,944	-	2,500
Teaching - special schools	56,533	56,533	38,713	-	17,820
Instructional media	444,997	453,679	373,997	11,331	68,351
Pupil services	864,530	879,759	805,882	32,615	41,262
Pupil transportation	1,060,798	1,067,142	986,677	4,425	76,040
Debt service - principal	218,148	218,148	218,148	-	-
Debt service - interest	12,112	12,112	12,045	-	67
Employee benefits	<u>5,119,087</u>	<u>4,934,087</u>	<u>4,578,089</u>	<u>-</u>	<u>355,998</u>
 Total expenditures	 20,200,738	 20,481,578	 19,194,887	 133,778	 1,152,913
Other uses:					
Interfund transfer out	<u>1,520,000</u>	<u>1,520,000</u>	<u>1,204,023</u>	<u>-</u>	<u>315,977</u>
 Total expenditures and other uses	 <u>\$ 21,720,738</u>	 <u>\$ 22,001,578</u>	 <u>20,398,910</u>	 <u>\$ 133,778</u>	 <u>\$ 1,468,890</u>
 Net change in fund balance			 <u>\$ 385,427</u>		

The note to the required supplementary information is an integral part of this schedule.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

1. BUDGETARY INFORMATION

BUDGETARY BASIS OF ACCOUNTING

A. BUDGET POLICIES

The District's administration prepares a proposed budget for approval by the Board of Education for the general fund. The proposed appropriation budget is then approved by the voters within the District. Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. The appropriated budget is prepared by fund and function. Transfers of appropriations between functions require the approval of the Board of Education.

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

B. BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

The General Fund is the only fund with a legally approved budget for the fiscal year ended June 30, 2017, and therefore, is the only fund presented on the Budgetary Comparison Schedule.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

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

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

Other special revenue funds and the permanent fund do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

SUPPLEMENTARY INFORMATION

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

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

Adopted Budget	\$ 21,720,738
Additions:	
Carryover encumbrances	<u>128,840</u>
Original Budget	21,849,578
Budget Revision:	
Legislative grant	<u>152,000</u>
Final Budget	\$ <u>22,001,578</u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2017-18 expenditure budget	\$ 22,284,632
Maximum allowed	891,385

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

Unrestricted fund balance:	
Assigned fund balance	1,233,778
Unassigned fund balance	<u>891,383</u>
Total unrestricted fund balance	<u>2,125,161</u>

Less:	
Appropriated fund balance	1,100,000
Encumbrances included in assigned fund balance	<u>133,778</u>
Total adjustments	<u>1,233,778</u>

General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law \$ 891,383

Actual percentage 4.00%

**PEMBROKE CENTRAL SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES-
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2017**

Project Title	Original Appropriations	Revised Appropriations	Capital Expenditures			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2017
			Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total	
Renovations	\$ 24,812,125	\$ 24,613,040	\$ 24,613,040	\$ -	\$ 24,613,040	\$ -	\$ 22,193,532	\$ 419,482	\$ 2,060,785	\$ 24,673,799	\$ 60,759
Sewer Renovations	-	199,085	214,171	-	214,171	(15,086)	199,111	-	15,060	214,171	-
Bus Purchases	3,254,583	3,537,397	3,117,510	282,814	3,400,324	137,073	2,895,263	-	473	2,895,736	(504,588)
Smart School Bond Technology Project	701,000	-	-	58,725	58,725	(58,725)	-	-	-	-	(58,725)
2017 Project	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>96,984</u>	<u>96,984</u>	<u>(96,984)</u>	<u>-</u>	<u>-</u>	<u>96,984</u>	<u>96,984</u>	<u>-</u>
Total	<u>\$ 28,867,708</u>	<u>\$ 28,349,522</u>	<u>\$ 27,944,721</u>	<u>\$ 438,523</u>	<u>\$ 28,383,244</u>	<u>\$ (33,722)</u>	<u>\$ 25,287,906</u>	<u>\$ 419,482</u>	<u>\$ 2,173,302</u>	<u>\$ 27,880,690</u>	<u>\$ (502,554)</u>

**PEMBROKE CENTRAL SCHOOL DISTRICT
SCHEDULE OF NET INVESTMENT IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2017**

Capital assets, net	\$ 23,770,736
Add:	
Unspent bond proceeds	183,257
Deduct:	
Bond anticipation notes payable	(685,807)
Bonds payable	(13,005,000)
Unamortized bond premium	<u>(1,326,897)</u>
Net investment in capital assets	<u>\$ 8,936,289</u>

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

FEDERAL FINANCIAL ASSISTANCE

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

**PEMBROKE CENTRAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Pass-Through to to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture				
<i>Passed through New York State Bureau of School Food Management:</i>				
<i>Child Nutrition Cluster</i>				
School Breakfast Program	10.553	N/A	\$ -	\$ 42,375
National School Lunch Program	10.555	N/A	-	146,455
National School Lunch Program - Food Distribution	10.555	N/A	-	22,923
<i>Total Child Nutrition Cluster</i>			-	211,753
<i>Total U.S. Department of Agriculture</i>			-	211,753
U.S. Department of Education				
<i>Direct Program:</i>				
Fund for the Improvement of Education	84.215	N/A	-	306,455
<i>Passed through New York State Education Department:</i>				
Title I Grants to Local Educational Agencies	84.010	0021-17-1030	-	199,093
<i>Special Education Cluster</i>				
Special Education_Grants to States	84.027	0032-17-0283	-	259,332
Special Education_Preschool Grants	84.173	0033-17-0283	-	17,694
<i>Total Special Education Cluster</i>			-	277,026
<i>Supporting Effective Instruction State Grant</i>				
Supporting Effective Instruction State Grant	84.367	0147-17-1030	-	25,570
Supporting Effective Instruction State Grant	84.367	0147-16-1030	-	11,011
<i>Total Supporting Effective Instruction State Grant</i>			-	36,581
<i>Total U.S Department of Education</i>			-	819,155
Total Expenditures of Federal Awards			\$ -	\$ 1,030,908

See notes to schedule of expenditures of federal awards.

**PEMBROKE CENTRAL SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal financial assistance programs administered by the District, an entity as defined in Note 1 to the District's basic financial statements. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Federal awards received directly from federal agencies as well as federal awards passed through from other government agencies are included in the schedule. Because the schedule presents only a selected portion of the operations of the District, it is not intended and does not present the financial position, changes in net position, or cash flows of the District.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. The amounts reported as federal expenditures were obtained from the District's financial reporting system, which is the source of the District's basic financial statements.

NOTE 3 - PASS-THROUGH GRANTOR

Some of the federal financial assistance received was passed-through departments of the State of New York.

NOTE 4 - NON-MONETARY FEDERAL PROGRAM

The District is the recipient of a federal award program that does not result in cash receipts or disbursements, termed a "non-monetary program." During the year ended June 30, 2017, the District received \$22,923 of commodities under the Surplus Food Distribution Program (CFDA 10.555).

NOTE 5 - INDIRECT COST RATE

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

INTERNAL CONTROL AND COMPLIANCE

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

**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**

INDEPENDENT AUDITOR'S REPORT

The President and Members of the
Board of Education of
Pembroke Central School District
Corfu, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pembroke Central School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 19, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Freed Maxick CPAs, P.C.

Batavia, New York
September 19, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

The President and Members of the
Board of Education of
Pembroke Central School District
Corfu, New York

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Freed Maxick CPAs, P.C.

Batavia, New York
September 19, 2017

**PEMBROKE CENTRAL SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2017**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report(s) issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? yes none reported

Type of auditor's report(s) issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major programs:

CFDA#

PEP Grant 84.215F
 Nutrition Cluster 10.553/10.555

Dollar threshold used to distinguish between Type A and Type B Programs

\$750,000

Auditee qualified as low risk auditee? yes no

**PEMBROKE CENTRAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

II. FINDINGS - FINANCIAL STATEMENT AUDIT

There were no findings related to the financial statement audit noted in the current fiscal year.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings or questioned costs related to federal awards noted in the current fiscal year.

EXTRACLASSROOM ACTIVITY

*****THIS PAGE INTENTIONALLY LEFT BLANK*****

**INDEPENDENT AUDITOR'S REPORT ON THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN CASH BASIS NET POSITION OF THE
EXTRACLASROOM ACTIVITY FUNDS**

The President and Members of the
Board of Education of
Pembroke Central School District
Corfu, New York

Report on the Financial Statements

We have audited the accompanying Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Position of the Extraclassroom Activity Funds of Pembroke Central School District (the District), as of and for the year ended June 30, 2017 and the related note to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control over Extraclassroom Activity relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

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

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash receipts, disbursements and changes in cash basis net position of the Extraclassroom Activity Funds of the District for the year ended June 30, 2017, arising from cash collected and disbursements made during the year then ended on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statement is prepared on a 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 this matter.

Freed Maxick CPAs, P.C.

Batavia, New York
September 19, 2017

**PEMBROKE CENTRAL SCHOOL DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS
NET POSITION OF THE EXTRACLASSROOM ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Balance <u>July 1, 2016</u>	Cash <u>Receipts</u>	Cash <u>Disbursements</u>	Balance <u>June 30, 2017</u>
Class of 2017	\$ 9,138	\$ 23,679	\$ 32,817	\$ -
Class of 2018	2,082	21,396	20,259	3,218
Class of 2019	2,135	11,294	10,164	3,265
Class of 2020	-	1,969	561	1,408
Art Club	115	284	233	166
Baseball	165	-	-	165
Basketball - Boys	17	7,155	6,258	914
Basketball - Girls	156	10,554	10,356	354
Builders Club	72	185	142	115
Cheerleading	88	-	-	88
Club for Life	1	-	1	-
Cross Country	29	2,140	1,713	456
D.E.C.A.	3,350	8,457	7,576	4,231
Drama Club	5,239	2,470	3,279	4,431
English Club	913	2,568	2,502	979
Football	721	4,625	3,797	1,549
Future Teachers	27	66	55	38
German Club	125	-	40	85
JH Student Council	2,027	3,937	4,109	1,854
Key Club	154	427	415	166
K-Kids Intermediate	901	462	222	1,140
Mock Trial I.S.	27	-	-	27
National Honor Society	130	266	334	62
PageTurners	13	-	-	13
Photography	200	100	208	92
Pink Dragons	142	-	-	142
SADD	577	661	705	532
SADD Intermediate	190	-	-	190
Softball	6,964	23,206	30,168	3
Scholastic Bowl	17	-	-	17
School Store	2,687	729	2,597	820
Science Club	-	448	448	-
SH Student Council	3,558	6,271	4,559	5,271
Ski Club	142	-	41	101
Soccer	494	609	999	104
Spanish Club	4	1	-	5
Student Council I.S.	806	1,232	79	1,958
Swimming	700	5,250	5,731	220
Technology Club	99	140	-	239
Varsity Club	73	-	73	0
Yearbook	1,091	6,065	6,851	305
Total	\$ 45,369	\$ 146,646	\$ 157,292	\$ 34,723

See note to financial statement.

**PEMBROKE CENTRAL SCHOOL DISTRICT
EXTRAClassroom Activity Funds
NOTE TO FINANCIAL STATEMENT**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The transactions of the Extraclassroom Activity Funds are not considered part of the reporting entity of the Pembroke Central School District (the District). Consequently, such transactions are included in the basic financial statements of the District only to the extent that cash and a corresponding liability are recorded in the Agency Fund in the District's Statement of Net Position-Fiduciary Funds at June 30, 2017.

The books and records of the District's Extraclassroom Activity Funds are maintained on the cash basis of accounting. Under this basis of accounting, revenues are recognized when cash is received and expenses are recognized when cash is disbursed.

*****THIS PAGE INTENTIONALLY LEFT BLANK*****