KINDERHOOK CENTRAL SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL SCHEDULES

JUNE 30, 2017

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, 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 Kinderhook 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Kinderhook Central School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress - other post-employment benefits plan and schedules of local government's proportionate share of the net pension liability and contributions on pages 3 through 11 and pages 46 through 50 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 introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplementary information on pages 51 through 53, as described in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

WEST & COMPANY CPAs PC

Gloversville, New York
September 18, 2017

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

FINANCIAL HIGHLIGHTS

- Net Position of the School District was a (deficit) of $(20,582,609).

- 77% of all function/program expenses were for instruction.

- State and federal aid made up 37% and real property taxes made up 51%, respectively, of all revenues generated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (this section), the financial statements and required supplementary information. The financial statements include two kinds of statements that present different views of the School District:

The first two statements are *District-wide* financial statements that provide both *short-term* and *long-term* information about the School District's *overall* financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the School District, reporting the School District's operations in *more detail* than the District-wide statements. *The fund financial statements* concentrate on the School District's most significant funds with all other nonmajor funds listed in total in one column.

The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short-term*, as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the School District acts solely as a *trustee* or agent for the benefit of others.

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 School District's budget for the year.

Table A-1 summarizes the major features of the School District's financial statements, including the portion of the School District's activities that they cover and the types of information that they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

Table A-1 Major Features of the District-wide and Fund Financial Statements

		Fund Financial Statements	
	District-Wide	**Governmental Funds**	**Fiduciary Funds**
Scope	Entire District (except fiduciary funds)	The daily operating activities of the School District, such as instruction and special education	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities and deferred inflows of resources (if any), both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	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 School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

- For assessment of the overall health of the School District, additional nonfinancial factors such as changes in the property tax bases and the condition of buildings and other facilities should be considered.

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

Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.

- The School District establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

- Governmental Funds: Most of the School District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can be readily 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 School District's programs.

  Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The governmental fund statements focus primarily on current financial resources and often have a budgetary orientation. Governmental funds include the general fund, special aid fund, school lunch fund and the capital project fund. Required financial statements are the balance sheet and the statement of revenues, expenditures and changes in fund balances.

- Fiduciary Funds: The School District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these 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

Table A-2

Condensed Statement of Net Position (in thousands)

	Fiscal Year 2017	Fiscal Year 2016	% Change (Incr.; - Decr.)
Assets			
Current and other assets	$ 8,308	$ 17,933	-54
Capital assets - net	19,289	17,484	10
Total Assets	27,597	35,417	-22
Deferred Outflows of Resources			
Pensions	10,416	3,711	181
Total Deferred Outflows of Resources	10,416	3,711	181
Liabilities			
Current liabilities	1,763	1,329	33
Long-term liabilities	56,281	50,176	12
Total Liabilities	58,044	51,505	13
Deferred Inflows of Resources			
Pensions	551	3,573	-85
Total Deferred Inflows of Resources	551	3,573	-85
Net Position			
Net investment in capital assets	7,688	6,486	19
Restricted	2,700	2,503	8
Unrestricted	(30,971)	(24,939)	-24
Total Net Position	$ (20,583)	$ (15,950)	-29

Table A-3

Changes in Net Position from Operating Results (in thousands)

	Fiscal Year 2017	Fiscal Year 2016	% Change Incr.; - Decr.)
Revenues			
Program Revenues			
Charges for services	$ 467	$ 560	-17
Operating grants and contributions	1,225	1,126	9
General Revenues			
Property taxes	22,581	22,396	1
State sources	14,523	13,310	9
Federal sources	174	152	14
Use of money and property	115	117	-2
Sale of property and compensation for loss	0	14	-100
Miscellaneous	588	512	15
Total Revenues	39,673	38,187	4
Expenses			
General support	6,193	5,950	4
Instruction	34,072	31,237	9
Transportation	3,134	2,788	12
Debt service	284	308	-8
Cost of sales – Lunch Program	703	666	6
Total Expenses	44,386	40,949	8
Change in Net Position	(4,713)	(2,762)	-71
Other Change in Net Position	80	0	100
Total Change in Net Position	$ (4,633)	$ (2,762)	-68

Table A-4 Revenues by Source – Governmental Activities

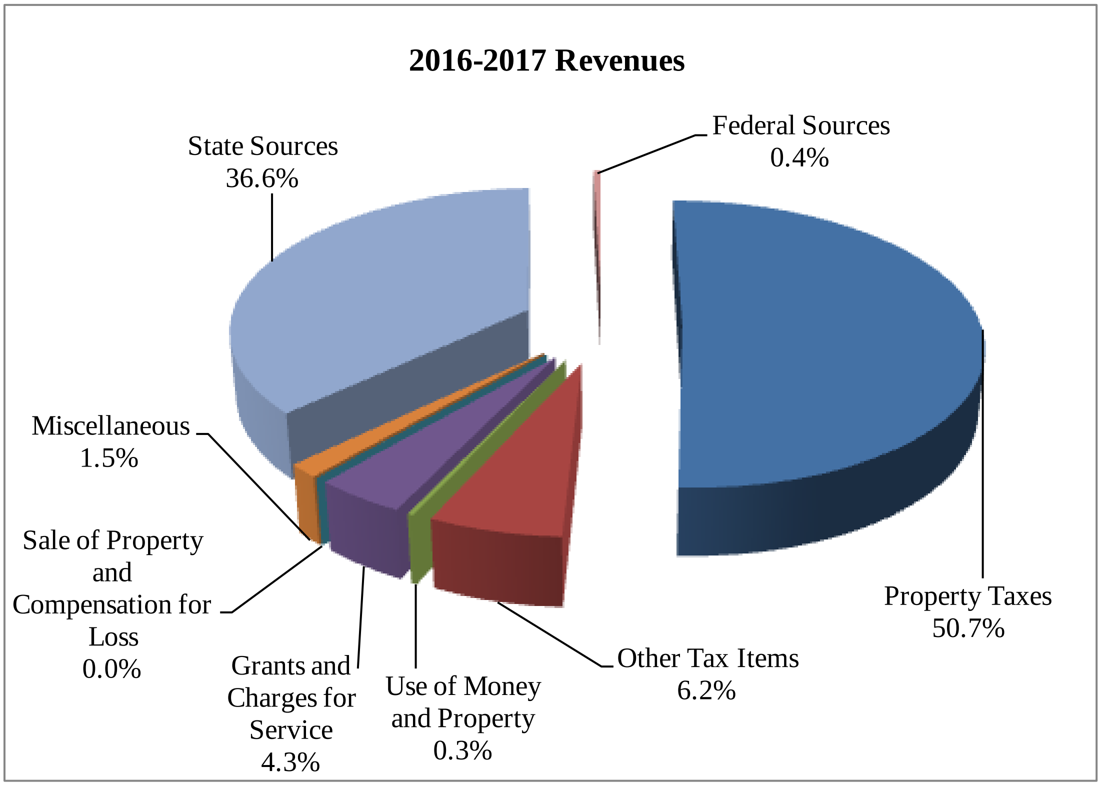
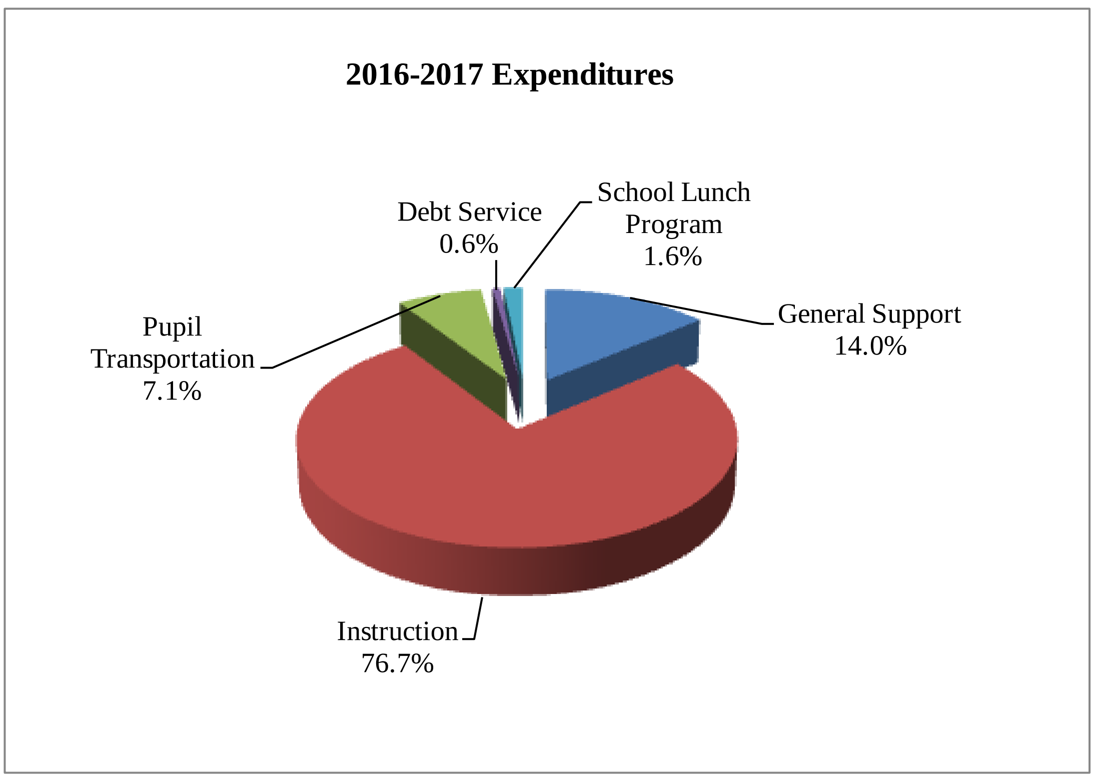


Table A-5 Expenditures by Function – Governmental Activities



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Table A-6 presents the cost of several of the School District's major activities. The table also shows each activity's net cost (total cost less fees generated by the activity and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the School District's taxpayers by each of these functions.

Table A-6

Net Cost of Governmental Activities (in thousands)

	Total Cost of Services 2017	Total Cost of Services 2016	Percentage Change (Incr.; -Decr.)	Net Cost of Services 2017	Net Cost of Services 2016	Percentage Change (Incr.; -Decr.)
General support	$ 6,193	$ 5,950	4%	$ 6,193	$ 5,950	4%
Instruction	34,072	31,237	9%	32,971	30,135	9%
Pupil transportation	3,134	2,788	12%	3,134	2,788	12%
Debt service - interest	284	308	-8%	284	308	-8%
Cost of sales - lunch program	703	666	6%	112	81	38%
Totals	$ 44,386	$ 40,949	8%	$ 42,694	$ 39,262	9%

- The cost of all governmental activities for the year was $44,385,760.
- The users of the School District's programs financed $467,280 of the costs.
- The federal and state government grants financed $1,225,392.

Changes in Net Position

The School District's revenue for 2017 was $39,673,150. See Table A-3 for a breakdown of this revenue.

The total cost for all School District programs and services for 2017 was $44,385,760. See Table A-3 for a breakdown of this total cost by program and service.

Significant variances between the government-wide and the governmental fund financial statements for 2017 were:

> In 2014-2015, the District agreed to a settlement with QUESTAR III BOCES related to amounts that the BOCES had accrued for funding future OPEB liabilities. Under this agreement, the District was owed $926,614 back from the BOCES. That amount is to be received by the District over the next five years as a reduction to the District's administrative charges due to the BOCES. During the 2016-2017 year, the District received $222,387 of this balance so the remaining amount outstanding at June 30, 2017 is $472,573.

General Fund Budgetary Highlights

<u>**Revenue Variances**</u>

The majority of the excess miscellaneous revenue over the budgeted amount derived from higher than expected refunds from BOCES, RCG Medicare and Health Trust, and energy rebates (oil and electric). The District also received an unanticipated dividend from Utica National Insurance.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2017, the School District had $19,289,352 invested in a broad range of capital assets including land, buildings, buses, athletic facilities, computers and other educational equipment.

Capital Assets

Table A-7

Capital Assets (net of depreciation) (in thousands)

	Fiscal Year 2017	Fiscal Year 2016
Land, land improvements and construction in progress	$ 13,320	$ 11,037
Buildings and equipment	5,970	6,447
Totals	$ 19,290	$ 17,484

Long-Term Debt

More detailed information about the School District's long-term debt is included in the notes to the financial statements.

Table A-8

Outstanding long-term debt (in thousands)

	Fiscal Year 2017	Fiscal Year 2016
General obligation bonds (financed with property taxes)	$ 10,510	$ 10,015
All other debt	41,770	36,178
Totals	$ 52,280	$ 46,193

During 2017, the School District made $990,000 of payments on bonds and issued $1,485,000 of new bonds. Other debt represented compensated absences and other post-employment benefits.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

1. The District currently has four active collective bargaining agreements, including: Ichabod Crane Teachers' Association (2015-2020), CSEA (2016-2020), Ichabod Crane Administrator's Association (2017-2021) and the Ichabod Crane Nurse's Association (2017-2021). The District has continued to experience budget savings due to the updated collective bargaining agreements and expects this to continue through the end of each agreement. Additionally, settled contracts provide the District with increased financial stability and a higher degree of predictability in terms of budget development.

2. Factors such as: tax cap legislation, property assessment trends, the uncertainty of future state aid allocation methodology, and rising health insurance expenses will continue to play a significant role in the District's capacity to raise adequate revenue. Tax cap legislation has renewed and will continue to challenge the District's levy abilities. While property assessments increased from last year's assessments, they are still lower than 2011-2012. Since the Gap Elimination Adjustment (GEA) has been restored to completion, the District can no longer anticipate large increases in year-to-year state aid. The anticipated 2017-2018 aid has reached the level of 2008-2009 for the first time. With the low tax cap, state aid will need to increase significantly to maintain the services presently provided by the District. Rising health insurance expenses have been a significant issue for the District in recent years and will persist in the foreseeable future. The District attempts to maintain health insurance costs through participation in the RCG Health Trust, collective bargaining, and proper budgeting practices.

3. The District passed a $2.35 million capital project referendum in May, 2014, and the project was completed in August, 2017. The project included a four classroom addition at the Primary School (K-3), added security features at each of the three schools, including upgrading secure entrances for all three buildings, and an electronic sign in the front of the High School along the Route 9 entrance. The Primary School project addressed overcrowding issues, which the facility has experienced since the closure of the Martin Van Buren and Martin H. Glynn buildings. The secure vestibules were completed during the summer of 2016 and the four classroom addition at the Primary School was completed in December, 2016. As part of the bond issuance, the District was again required to be rated by Moody's. As with the previous two ratings, the District received a favorable rating Aa3. Moody's stated, "The Aa3 rating reflects the District's well-managed financial operations and sound reserve levels, moderately sized tax base with above average wealth levels and manageable debt position." Future capital projects will be considered in 2017-2018 once a thorough analysis of current debt is completed, along with an examination of the District's 5-Year Facilities Plan and stakeholder input.

4. The Smart Schools Bond Act was passed by New York State voters in November, 2014. The District's share of this bond is $1.3 million to be used for technology and security upgrades. The funds will be used to enhance District-wide technology and security programs. On July 5, 2016 our initial Smart School Investment Plan (Phase 1) was approved. The plan spent $689,678 on computers, iPads, interactive whiteboard projectors, wireless access points, and security cameras. A second Smart School Investment Plan (Phase 2) was submitted and approved in 2016-2017 identifying the District's $256,098 of intended classroom technology purchases. In 2017-2018 the Technology Committee will determine how the remaining $363,358 will be allocated.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Kinderhook Central School District
Michael Brennan, Business Manager
2910 Route 9
Valatie, NY 12184
(518) 758-7575

KINDERHOOK CENTRAL SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2017

ASSETS	
Cash	
Unrestricted	$ 4,846,101
Restricted	1,472,478
Receivables	
State and Federal aid	1,269,421
Due from fiduciary funds	49,068
Other receivables	181,269
BOCES OPEB settlement receivable	472,573
Inventories	17,057
Capital assets, net of depreciation	19,289,352
Total Assets	27,597,319
DEFERRED OUTFLOW OF RESOURCES	
Pensions	10,415,510
Total Deferred Outflow of Resources	10,415,510
LIABILITIES	
Payables	
Accounts payable	374,570
Accrued liabilities	236,512
Accrued interest payable	40,724
Due to other governments	601
Unearned grant revenue	19,252
Bond anticipation notes payable	1,091,467
Long-term liabilities	
Due and payable within one year	
Due to Teachers' Retirement System	1,853,451
Due to Employees' Retirement System	125,344
Bonds payable	1,115,000
Due and payable after one year	
Bonds payable	9,395,000
Other post-employment benefits	40,675,200
Net pension liability - proportionate share	2,023,000
Compensated absences payable	1,094,382
Total Liabilities	58,044,503
DEFERRED INFLOWS OF RESOURCES	
Pensions	550,935
Total Deferred Inflows of Resources	550,935
NET POSITION	
Net investment in capital assets	7,687,885
Restricted	
Reserve for employee benefit liability	348,277
Reserve for debt service	1,073,925
Unemployment insurance reserve	456,046
Reserve for retirement contribution	622,577
Workers compensation reserve	119,515
Reserve for repairs	79,880
Unrestricted	(30,970,714)
Total Net Position	$ (20,582,609)

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS				
General support	$ 6,192,671	$ 0	$ 0	$ (6,192,671)
Instruction	34,072,165	(198,810)	(902,274)	(32,971,081)
Pupil transportation	3,133,718	0	0	(3,133,718)
Debt service	284,085	0	0	(284,085)
School lunch program	703,121	(268,470)	(323,118)	(111,533)
Total Functions and Programs	$ 44,385,760	$ (467,280)	$ (1,225,392)	(42,693,088)
GENERAL REVENUES				
Real property taxes				20,129,001
Other tax items				2,452,016
Use of money and property				114,963
Sale of property and compensation for loss				333
Miscellaneous				587,891
State sources				14,522,503
Federal sources				173,771
Total General Revenues				37,980,478
CHANGE IN NET POSITION (DECREASE)				(4,712,610)
TOTAL NET POSITION - BEGINNING OF YEAR				(15,949,803)
OTHER CHANGE IN NET POSITION				79,804
TOTAL NET POSITION - END OF YEAR				$ (20,582,609)

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	General	Special Aid	School Lunch	Debt Service	Capital	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	$ 4,497,480	$ 72,053	$ 30,997	$ 0	$ 245,571	$ 4,846,101
Restricted	411,272	0	0	1,061,206	0	1,472,478
Due from other funds	554,951	0	0	12,719	0	567,670
Due from fiduciary funds	49,068	0	0	0	0	49,068
State and Federal aid receivable	928,189	316,690	24,542	0	0	1,269,421
Other receivables	177,690	0	3,579	0	0	181,269
Inventories	0	0	17,057	0	0	17,057
TOTAL ASSETS	$ 6,618,650	$ 388,743	$ 76,175	$ 1,073,925	$ 245,571	$ 8,403,064
LIABILITIES						
Accounts payable	$ 340,156	$ 2,068	$ 12,837	$ 0	$ 19,509	$ 374,570
Accrued liabilities	233,975	0	2,537	0	0	236,512
Due to other funds	0	367,423	151,178	0	49,069	567,670
Bond anticipation notes payable	0	0	0	0	1,091,467	1,091,467
Due to other governments	0	0	601	0	0	601
Due to Employees' Retirement System	125,344	0	0	0	0	125,344
Due to Teachers' Retirement System	1,853,451	0	0	0	0	1,853,451
Unearned grant revenue	0	19,252	0	0	0	19,252
Total Liabilities	2,552,926	388,743	167,153	0	1,160,045	4,268,867
FUND BALANCE						
Nonspendable						
Reserved for inventory	0	0	17,057	0	0	17,057
Restricted						
Reserve for employee benefit liability	348,277	0	0	0	0	348,277
Reserve for debt service	0	0	0	1,073,925	0	1,073,925
Unemployment insurance reserve	456,046	0	0	0	0	456,046
Reserve for retirement contribution	622,577	0	0	0	0	622,577
Workers compensation reserve	119,515	0	0	0	0	119,515
Reserve for repairs	79,880	0	0	0	0	79,880
Assigned	641,082	0	395	0	0	641,477
Unassigned	1,798,347	0	(108,430)	0	(914,474)	775,443
Total Fund Balance	4,065,724	0	(90,978)	1,073,925	(914,474)	4,134,197
TOTAL LIABILITIES AND FUND BALANCE	$ 6,618,650	$ 388,743	$ 76,175	$ 1,073,925	$ 245,571	$ 8,403,064

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET POSITION

JUNE 30, 2017

Total fund balance - governmental funds balance sheet (page 14)	$	4,134,197
Add:		
Pensions		10,415,510
Land, building and equipment, net of accumulated depreciation		19,289,352
BOCES OPEB settlement receivable		472,573
Total		30,177,435
Deduct:		
Compensated absences		1,094,382
Other post-employment benefits		40,675,200
Accrued interest payable		40,724
Pensions		550,935
Net pension liability - proportionate share		2,023,000
Long term bonds payable		10,510,000
Total		54,894,241
NET POSITION, GOVERNMENTAL ACTIVITIES	$	(20,582,609)

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	General	Special Aid	School Lunch	Debt Service	Capital	Total Governmental Funds
REVENUES						
Real property taxes	$ 20,129,001	$ 0	$ 0	$ 0	$ 0	$ 20,129,001
Other tax items	2,452,016	0	0	0	0	2,452,016
Charges for services	198,810	0	0	0	0	198,810
Use of money and property	106,487	0	5	8,471	0	114,963
Sale of property and compensation for loss	333	0	0	0	0	333
Miscellaneous	567,214	5,685	2,273	12,719	0	587,891
State sources	14,105,457	179,151	11,720	0	417,046	14,713,374
Federal sources	173,771	723,123	273,470	0	0	1,170,364
Surplus food	0	0	37,928	0	0	37,928
Sales - school lunch	0	0	268,470	0	0	268,470
Total Revenues	37,733,089	907,959	593,866	21,190	417,046	39,673,150
EXPENDITURES						
General support	3,622,674	0	241,972	0	0	3,864,646
Instruction	19,808,641	865,809	0	0	0	20,674,450
Pupil transportation	1,859,341	42,150	0	0	0	1,901,491
Employee benefits	10,644,394	0	16,940	0	0	10,661,334
Debt service						
Principal	1,276,223	0	0	0	0	1,276,223
Interest	289,983	0	0	0	0	289,983
Cost of sales	0	0	307,328	0	0	307,328
Capital outlay	0	0	0	0	2,676,589	2,676,589
Total Expenditures	37,501,256	907,959	566,240	0	2,676,589	41,652,044
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	231,833	0	27,626	21,190	(2,259,543)	(1,978,894)
OTHER FINANCING SOURCES AND USES						
Proceeds from debt	0	0	0	0	1,485,000	1,485,000
BANs redeemed from appropriations	0	0	0	0	286,221	286,221
Total Other Sources (Uses)	0	0	0	0	1,771,221	1,771,221
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND USES	231,833	0	27,626	21,190	(488,322)	(207,673)
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	3,645,087	0	(118,604)	1,161,735	(426,152)	4,262,066
OTHER CHANGE IN FUND BALANCE	188,804	0	0	(109,000)	0	79,804
FUND BALANCE (DEFICIT) - END OF YEAR	$ 4,065,724	$ 0	$ (90,978)	$ 1,073,925	$ (914,474)	$ 4,134,197

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

REVENUES - STATEMENT OF ACTIVITIES		$ 39,673,150
EXPENDITURES	41,652,044	
Add:		
Depreciation	948,985	
Accrued interest	40,724	
Reduction of BOCES expense from OPEB settlement	222,387	
Pensions	7,101	
Increase in other post-employment benefits	5,604,635	
	6,823,832	
Deduct:		
Principal payments of long-term debt (General Fund)	990,000	
Prior year accrued interest	46,622	
Decrease in compensated absences	13,293	
BANs redeemed from appropriations	286,221	
Change in fixed assets	2,753,980	
	4,090,116	
EXPENDITURES - STATEMENT OF ACTIVITIES		44,385,760
CHANGE IN NET POSITION		$ (4,712,610)

See notes to basic financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Private Purpose Trust	Agency
ASSETS		
Cash	$ 330,488	$ 190,139
Accounts receivable	0	7,313
Total Assets	$ 330,488	$ 197,452
LIABILITIES		
Due to governmental funds	$ 0	$ 49,068
Extraclassroom activity balances	0	133,397
Other liabilities	0	14,987
Total Liabilities	0	$ 197,452
NET POSITION	$ 330,488	

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

ADDITIONS	
Interest	$ 14,154
Gifts and contributions	2,425
Total additions	16,579
DEDUCTIONS	
Scholarships and awards	12,438
Change in Net Assets	4,141
NET POSITION - BEGINNING OF YEAR	326,347
NET POSITION - END OF YEAR	$ 330,488

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Kinderhook Central School District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Significant accounting principles and policies used by the District are described below:

A) Reporting Entity

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

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Component Units*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

i) Extraclassroom Activity Funds

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

B) Joint Venture

The District is a component district in Rensselaer-Greene-Columbia Counties (Questar III) Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services and programs that provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

B) Joint Venture – (Continued)

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

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

During the year, the District was billed $3,736,960 for BOCES administrative and program costs.

Participating school districts issue debt on behalf of BOCES. During the year, the District issued $-0- of serial bonds on behalf of BOCES. As of year end, the District had outstanding BOCES debt of $-0-.

The District's share of BOCES aid amounted to $898,693.

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

C) Basis of Presentation

1) District-Wide Statements

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

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

The Statement of Net Position presents the financial position of the District at fiscal year-end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended in 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 and basic state aid, are presented as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

C) Basis of Presentation – (Continued)

2) Funds Statements

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

The District reports the following major governmental funds:

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

Special Revenue Funds: These funds account for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specified purposes, child nutrition and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

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

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

The District reports the following fiduciary funds:

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

D) Measurement Focus and Basis of Accounting

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

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

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year.

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

E) Property Taxes

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

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

F) Restricted Resources

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

G) Interfund Transactions

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

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

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

Refer to Note 8 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

H) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

I) Cash (and Cash Equivalents)/Investments

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

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

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

Investments are stated at fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

J) Receivables

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

K) Inventories and Prepaid Items

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

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

A reserve for the nonliquid asset (inventory and prepaids) has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

L) Other Assets

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 convenants.

In the District-wide financial statements, bond issuance costs are capitalized and amortized over the life of the debt issue. In the fund statements, these same costs are netted against bond proceeds and recognized in the period of issuance.

M) Capital Assets

Capital assets are reported at actual cost or estimated historical costs. Donated assets are reported at estimated fair market value at the time received.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	$ 5,000	Straight-line	40
Building improvements	5,000	Straight-line	20
Furniture and equipment	5,000	Straight-line	5-15

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

N) Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has 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 asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Lastly is the District contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

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 the following items that qualify for reporting in this category. First arises only under a modified accrual basis of accounting and is reported as unavailable revenue – property taxes. The second item is related to pensions reported in the District's proportion of the collective net pension liability (ERS System) and net pension asset (TRS System) and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense.

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

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

	ERS	TRS
Measurement date	March 31, 2017	June 30, 2016
District's proportionate share of the net pension asset (liability)	$ (1,037,581)	$ (985,419)
District's portion of the Plan's total net pension asset (liability)	0.0110425%	0.092006%
Change in proportion since the prior measurement date	(0.0004845)%	(0.000044)%

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

N) Deferred Outflows and Inflows of Resources – (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – (Continued)

For the year ended June 30, 2017, the District's recognized pension expense of $501,631 for ERS and $1,753,750 for TRS. At June 30, 2017 the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources were:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	ERS	**TRS**	**ERS**	**TRS**
Differences between expected and actual experience	$ 26,001	$ 0	$ 157,563	$ 320,119
Changes of assumptions	354,476	5,613,571	0	0
Net difference between projected and actual earnings on pension plan investments	207,247	2,215,739	0	0
Changes in proportion and differences between the District's contributions and proportionate share of contributions	116,766	2,616	21,158	52,095
District's contributions subsequent to the measurement date	125,344	1,753,750	0	0
Total	$ 829,834	$ 9,585,676	$ 178,721	$ 372,214

District contributions subsequent to the measurement date which 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:

Year ended:	**ERS**	**TRS**
2018	$ 229,377	$ 678,427
2019	229,377	2,399,231
2020	197,182	1,863,838
2021	(130,167)	851,046
2022	0	988,744
Thereafter	0	0

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

N) Deferred Outflows and Inflows of Resources – (Continued)

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:

	ERS	TRS
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.0%	7.5%
Salary scale	3.8%	1.90 - 4.72%
Decrement tables	April 1, 2010 - March 31, 2015 Systems experience	July 1, 2009 - June 30, 2014 Systems experience
Inflation rate	2.5%	2.5%

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

N) Deferred Outflows and Inflows of Resources – (Continued)

Actuarial Assumptions – (Continued)

	ERS	TRS
Measurement date	March 31, 2017	June 30, 2016
Asset type		
Domestic equity	4.55%	6.10%
International equity	6.36	7.30
Real estate	5.80	5.40
Domestic fixed income securities	0	1.00
Global fixed income securities	0	0.80
Mortgages	0	3.10
Short-term	0	0.10
Private equity/alternative investments	7.75	9.20
Absolute return strategies	4.00	0
Opportunistic portfolio	5.89	0
Real assets	5.54	0
Bonds and mortgages	1.31	0
Cash	(0.25)	0
Inflation index bonds	1.50	0

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. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension asset (liability) calculated using the discount rate of 7.0% for 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:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

N) Deferred Outflows and Inflows of Resources – (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption – (Continued)

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension asset (liability)	$(3,313,829)	$(1,037,581)	$ 886,982

TRS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension asset (liability)	$(12,857,025)	$ (985,419)	$ 8,971,862

Pension Plan Fiduciary Net Position

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

	(Dollars in thousands)		
	ERS	TRS	Total
Measurement date	March 31, 2017	June 30, 2016	
Employers' total pension asset (liability)	$(177,400,586)	$(108,577,184)	$(285,977,770)
Plan fiduciary net position asset (liability)	168,004,363	107,506,142	275,510,505
Employers' net pension asset (liability)	(9,396,223)	(1,071,042)	(10,467,265)
Ratio of plan fiduciary net position to the employers' total pension asset (liability)	94.7%	99.0%	96.3%

Payables to the Pension Plans

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31. 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 $125,344.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

N) Deferred Outflows and Inflows of Resources – (Continued)

Payables to the Pension Plans – (Continued)

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 amount to $1,853,451.

Additional pension information can be found in Note 9.

O) Unearned Revenue

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

P) Vested Employee Benefits

Compensated Absences

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Q) Other Benefits

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

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

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

R) Short-Term Debt

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

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

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

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

S) Accrued Liabilities and Long-Term Obligations

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

S) Accrued Liabilities and Long-Term Obligations – (Continued)

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

T) Equity Classifications

District-Wide Statements

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

i) Net Investment in Capital Assets

Consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets.

ii) Restricted Net Position

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

iii) Unrestricted Net Position

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

Fund Statements

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

1. Nonspendable

Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes the inventory recorded in the School Lunch Fund of $17,057.

2. Restricted

Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balance.

The District has established the following restricted fund balances:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

T) Equity Classifications – (Continued)

Fund Statements – (Continued)

2. Restricted – (Continued)

Currently Utilized by the District:

Employee Benefit Accrued Liability

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

Repairs

According to General Municipal Law §6-d, must be used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. The Board of Education without voter approval may establish a repair reserve fund by a majority vote of its members. Voter approval is required to fund this reserve (Opinion of the New York State Comptroller 81-401). Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years. This reserve is accounted for in the General Fund under Restricted Fund Balance.

Retirement Contributions

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

Workers' Compensation

According to General Municipal Law §6-j, must be used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. This reserve is accounted for in the General Fund under Restricted Fund Balance.

Debt Service

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

T) Equity Classifications – (Continued)

Fund Statements – (Continued)

2. Restricted – (Continued)

Currently Utilized by the District: – (Continued)

Unemployment Insurance

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

Encumbrances

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

T) Equity Classifications – (Continued)

Fund Statements – (Continued)

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.

Order of Use of Fund Balance

The District's policy is to annually determine the appropriate use of fund balance upon recommendation of the Superintendent and Board of Education.

U) New Accounting Standards

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

GASB has issued Statement No. 77, *Tax Abatement Disclosures,* effective for the year ending June 30, 2017.

GASB has issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* effective for the year ending June 30, 2017.

V) Future Changes in Accounting Standards

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

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

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the funds statements and the District-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the District-wide statements compared with the current financial resources focus of the governmental funds.

A) Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities

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

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

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

i) Long-Term Revenue Differences

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

ii) Capital Related Differences

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

iii) Long-Term Debt Transaction Differences

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

iv) Pension Differences

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

The voters of the District approved the proposed appropriation budget for the general fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them, because of a need that exists which was not determined at the time the budget was adopted. The following supplemental appropriations occurred during the year:

Funding Sources	
Gifts and donations	$ 10,922

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

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

Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year end are presented as restrictions or assignments fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

Deficit Fund Balance

The School Lunch Fund had a deficit fund balance of $90,978. This will be funded with future transfers from the General Fund.

The Capital Fund had a deficit fund balance of $914,474. This will be eliminated as permanent financing is received.

NOTE 4 – CASH (AND CASH EQUIVALENTS) – CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE AND FOREIGN CURRENCY RISKS

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

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

Uncollateralized	$ 0
Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the District's name	6,791,926

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year end includes $1,472,478 within the governmental funds and $520,627 in fiduciary funds.

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	$ 10,001	$ 0	$ 0	$ 10,001
Construction in process	9,845,498	2,282,295	0	12,127,793
Total nondepreciable historical cost	9,855,499	2,282,295	0	12,137,794
Capital assets that are depreciated:				
Land improvements	1,181,916	0	0	1,181,916
Buildings	16,777,267	0	0	16,777,267
Furniture and equipment	6,441,842	471,685	536,252	6,377,275
Total depreciable historical cost	24,401,025	471,685	536,252	24,336,458
Less accumulated depreciation:				
Buildings, furniture and equipment	16,772,167	948,985	536,252	17,184,900
Total accumulated depreciation	16,772,167	948,985	536,252	17,184,900
Net depreciable historical cost	7,628,858	(477,300)	0	7,151,558
GRAND TOTAL	$ 17,484,357	$ 1,804,995	$ 0	$ 19,289,352

Depreciation was allocated to the following programs as follows:

General support	$ 128,447
Instruction	733,041
Pupil transportation	67,420
School lunch program	20,077
TOTAL	$ 948,985

NOTE 6 – SHORT-TERM DEBT

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

	Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
BAN	10/27/2017	1.240	$ 983,393	$ 394,295	$ 286,221	$1,091,467

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

Interest paid	$ 30,291
Less interest accrued in the prior year	(8,184)
Add interest accrued in the current year	8,251
TOTAL	$ 30,358

NOTE 7 – LONG-TERM DEBT

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

Interest paid	$ 259,692
Less interest accrued in the prior year	(38,438)
Add interest accrued in the current year	32,473
TOTAL EXPENSE	$ 253,727

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

	Beginning Balance	Issued	Redeemed	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds and notes payable	$ 10,015,000	$ 1,485,000	$ 990,000	$10,510,000	$1,115,000
Other liabilities:					
Other post-employment benefits	35,070,565	5,604,635	0	40,675,200	0
Compensated absences, net	1,107,675	0	13,293	1,094,382	0
TOTAL LONG-TERM LIABILITIES	$ 46,193,240	$ 7,089,635	$ 1,003,293	$52,279,582	$1,115,000

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

NOTE 7 – LONG-TERM DEBT – (CONTINUED)

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

Description of Issue	Serial Bond	Serial Bond	Serial Bond	Serial Bond
Issue date	5/15/2014	6/24/2010	6/23/2015	6/22/2017
Final maturity	6/15/2020	6/15/2025	6/15/2030	6/15/2037
Interest rate	2-4%	2-4%	1-3%	2-3.125%
Outstanding at year end	$ 1,845,000	$ 2,070,000	$ 5,110,000	$ 1,485,000

	Principal	Interest	Total
Fiscal year ended June 30:			
2018	$ 1,115,000	$ 277,649	$ 1,392,649
2019	1,125,000	248,535	1,373,535
2020	935,000	219,360	1,154,360
2021	910,000	194,536	1,104,536
2022	1,185,000	171,556	1,356,556
Thereafter	5,240,000	754,406	5,994,406
TOTALS	$10,510,000	$ 1,866,042	$12,376,042

In the prior year, the District defeased certain general obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

NOTE 8 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	$ 604,019	$ 0	$ 0	$ 0
Special Aid Fund	0	367,423	0	0
School Lunch Fund	0	151,178	0	0
Debt Service Fund	12,719	0	0	0
Capital Projects Fund	0	49,069	0	0
Total Governmental Activities	616,738	567,670	0	0
Fiduciary Agency Fund	0	49,068	0	0
TOTALS	$ 616,738	$ 616,738	$ 0	$ 0

The District typically loans resources between the Special Aid and School Lunch Funds for the purpose of mitigating the effects of transient cash flow issues.

NOTE 9 – PENSION PLANS

General Information

The District participates in the New York State Employees' Retirement System (NYSERS) and the New York State Teachers' Retirement System (NYSTRS). 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.

Plan Descriptions and Benefits Provided:

Teachers' Retirement System (TRS)

The District participates in the New York State Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer retirement system. The 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 NYSSTR Comprehensive Annual Financial report which can be found on the System's website at www.nystrs.org.

Employees' Retirement System (ERS)

The District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The 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.

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 2, 2010 who generally contribute 3.0% to 3.5% of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For 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 31. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education Law.

NOTE 9 – PENSION PLANS – (CONTINUED)

The District is required to contribute at a rate determined actuarially by the Systems. The District contributions made to the Systems were equal to 100% of the contributions required for each year. Required contributions for the current and two preceding years were:

	NYSTRS	NYSERS
2016-2017	$ 1,753,750	$ 501,631
2015-2016	1,895,076	530,732
2014-2015	2,354,946	637,263

Since 1989, the NYSERS billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 over a 17 year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability, which the District did not exercise.

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

NOTE 10 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS

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

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

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the funds financial statements as payments are made. For the year ended June 30, 2017, the District recognized $2,533,194 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of July 1, 2016 which indicates that the total liability for other post-employment benefits is $40,675,200, which is reflected in the Statement of Net Position.

Plan Description

Kinderhook Central School District provides medical and Medicare Part B, dental and vision benefits to its eligible retirees. The benefits are provided through fully insured plans that are sponsored by a regional health consortium. Employees are required to reach age 55 and have 10 years of service to qualify for OPEB. The School District pays between 88% and 100% of the retiree's medical benefits depending on the employee group. The School District also reimburses the employee and dependent spouse for the full cost of Medicare Part B. The School District contributes towards the cost of eligible spouses during the retiree's lifetime. Spouses pay 50% for coverage. Once the spouse or retiree reach age 65, the coverage changes to two individual policies. The spouse is required to pay 100% of the cost of the benefits following the death of the retired employee.

The District issues a publicly available financial report that includes financial statements and required supplementary information.

NOTE 10 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS – (CONTINUED)

Funding Policy

The contribution requirements of the plan members and the District are established by the Board of Education. The required contribution is based on projected pay-as-you-go financing requirements.

For the fiscal year ended June 30, 2017, the District contributed $6,859,391 to the employee health insurance.

Annual Other Post-employment Benefit (OPEB) Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	$	8,685,538
Interest on net OPEB obligation		1,402,823
Adjustment to annual required contribution		(1,950,532)
Annual OPEB cost (expense)		8,137,829
Contributions made		2,533,194
Increase in net OPEB obligation		5,604,635
Net OPEB obligation - beginning of year		35,070,565
Net OPEB obligation - end of year	$	40,675,200

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/17	$ 8,137,829	31%	$ 40,675,200
06/30/16	8,085,874	31%	35,070,565
06/30/15	8,040,479	30%	29,496,934

NOTE 10 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS – (CONTINUED)

Funding Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $84,291,236 and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability (UAAL) of $84,291,236. The covered payroll (annual payroll of active employees covered by the plan) was $18,808,000, and the ratio of the UAAL to the covered payroll was 448%. Actuarial valuations of an ongoing plan involves estimates of the value of reported amounts and assumption about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2016, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3% investment rate of return (net of administrative expenses), which is based on the expected earnings of the District’s General Fund investments at the valuation date, and an annual healthcare cost trend rate of 7.5%, initially reduced by decrements to an ultimate rate of 4.5% after seven years. The UAAL is being amortized as a level percentage of projected unit credit basis. The remaining amortization period at June 30, 2017, was 30 years.

NOTE 11 – RISK MANAGEMENT

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

Consortiums and Self Insured Plans

For its employee health and accident insurance coverage, the District is a participant in the Rensselaer-Columbia-Greene Counties Health Insurance Trust, a public entity risk pool operated for the benefit of 23 districts located within Rensselaer-Columbia-Greene Counties BOCES region and the Rensselaer-Columbia-Greene Counties BOCES. The School District pays an annual premium to the Plan for this health insurance coverage. The Rensselaer-Columbia-Greene Health Insurance Trust obtains independent coverage for insured events in excess of set limits. The District’s share of the liability for unbilled and open claims is $191,577.

The District participates in the Rensselaer-Columbia-Greene Workers’ Compensation Consortium, a risk-sharing pool, to insure workers’ compensation claims. This is a public entity risk pool created under Article 5 of the Workers’ Compensation Law, to finance liability and risks related to workers’ compensation claims.

NOTE 12 – DONOR-RESTRICTED ENDOWMENTS

The District administers endowment funds, which are restricted by the donor for the purpose of scholarships.

The District authorizes expenditures from donor-restricted endowments in compliance with the wishes expressed by the donor, which varies among the unique endowments administered by the District.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

NOTE 14 – TAX ABATEMENTS

The County of Columbia, enters into various property tax and sales tax (if applicable) abatement programs for the purpose of economic development. The School District's property tax revenue was reduced $74,832. The District received Payment in Lieu of Tax (PILOT) payment totaling $64,148.

NOTE 15 – OTHER CHANGES IN FUND BALANCE

The fund balance in the debt service fund decreased by $109,000, to properly record a prior year transfer to the general fund.

The fund balance in the general fund increased by $188,809. $109,000 was a result of the transfer noted above. $79,804 was an increase due to an adjustment to properly record prior year accruals.

Net position increased $79,804 as from the increase noted above.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 18, 2017, the date of the issuance of the audit report. There were no issues to report that would have a material effect on the financial statements.

KINDERHOOK CENTRAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual Revenues	Final Budget Variance with Budgetary Actual Over (Under)
REVENUES:				
Local Sources				
Real property taxes	$ 22,451,460	$ 20,136,536	$ 20,129,001	$ (7,535)
Real property tax items	99,871	2,414,795	2,452,016	37,221
Charges for services	186,000	186,000	198,810	12,810
Use of money and property	112,000	112,000	106,487	(5,513)
Sale of property and compensation for loss	4,000	4,000	333	(3,667)
Miscellaneous	270,000	280,923	567,214	286,291
Total Local Sources	23,123,331	23,134,254	23,453,861	319,607
State Sources	14,192,620	14,192,620	14,105,457	(87,163)
Federal Sources	135,000	135,000	173,771	38,771
Total Revenues	37,450,951	37,461,874	37,733,089	271,215
OTHER FINANCING SOURCES				
Transfers from other funds	83,036	83,036	0	(83,036)
Total Revenues and Other Financing Sources	37,533,987	37,544,910	37,733,089	$ 188,179

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

KINDERHOOK CENTRAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual Expenditures	Year-End Encumbrances	Final Budget Variance With Budgetary Actual and Encumbrances (Over) Under
EXPENDITURES					
General Support					
Board of Education	67,296	70,458	65,922	$ 0	$ 4,536
Central administration	227,945	260,503	258,317	0	2,186
Finance	344,826	343,607	336,740	1,916	4,951
Staff	185,383	195,605	155,257	0	40,348
Central services	3,149,089	2,835,432	2,600,157	104,063	131,212
Special items	230,427	206,283	206,281	0	2
Instructional					
Instruction, administration and improvements	1,180,092	1,243,372	1,222,853	0	20,519
Teaching – regular school	10,017,320	10,123,068	10,074,100	152	48,816
Programs for children with handicapping conditions	5,662,106	5,915,873	5,798,328	8,659	108,886
Occupational education	871,598	936,788	935,990	0	798
Teaching - special school	103,321	52,252	34,181	0	18,071
Instructional media	685,123	698,141	635,892	1,200	61,049
Pupil services	1,111,361	1,148,503	1,107,297	0	41,206
Pupil Transportation	1,949,712	1,952,013	1,859,341	25,092	67,580
Employee Benefits	10,821,401	10,647,135	10,644,394	0	2,741
Debt Service	1,526,987	1,566,333	1,566,206	0	127
Total Expenditures	38,133,987	38,195,366	37,501,256	$ 141,082	$ 553,028
NET CHANGE IN FUND BALANCE	(600,000)	(650,456)	231,833		
OTHER CHANGES IN FUND BALANCE	0	0	188,804		
FUND BALANCE – BEGINNING	3,645,087	3,645,087	3,645,087		
FUND BALANCE – ENDING	$ 3,045,087	$ 2,994,631	$ 4,065,724		

See paragraph on supplemental schedules included in independent auditors’ report.

KINDERHOOK CENTRAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFITS PLAN

FOR THE YEAR ENDED JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/16	$ 0	$ 84,291,236	$ 84,291,236	0%	$ 18,808,000	448%
07/01/14	0	89,416,952	89,416,952	0%	16,688,288	536%
07/01/12	0	70,520,812	70,520,812	0%	16,098,712	438%

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

KINDERHOOK CENTRAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE LOCAL GOVERNMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

FOR THE YEARS ENDED JUNE 30, 2017, 2016 AND 2015

NYS Teachers' Retirement System

	2017	2016	2015
District's proportion of the net pension liability (asset)	0.092006%	0.092050%	0.090809%
District's proportionate share of the net pension liability (asset)	$ 985,419	$ (9,561,079)	$ (10,115,581)
District's covered-employee payroll	14,916,599	14,327,577	14,090,834
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	6.6%	66.7%	71.8%
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.00%	110.50%	111.48%

NYS Employees' Retirement System

	2017	2016	2015
District's proportion of the net pension liability (asset)	0.0110425%	0.0115270%	0.0118614%
District's proportionate share of the net pension liability (asset)	$ 1,037,581	$ 1,850,119	$ 400,708
District's covered-employee payroll	3,225,573	3,080,961	3,120,834
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	32.2%	60.1%	12.8%
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%

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

KINDERHOOK CENTRAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF LOCAL GOVERNMENT CONTRIBUTIONS

FOR THE YEARS ENDED JUNE 30, 2017, 2016 AND 2015

NYS Teachers' Retirement System

	2017	2016	2015
Contractually required contribution	$ 1,748,225	$ 1,899,837	$ 2,423,906
Contributions in relation to the contractually required contribution	1,748,225	1,899,837	2,423,906
Contribution deficiency (excess)	$ 0	$ 0	$ 0
District's covered-employee payroll	$14,916,599	$14,327,577	$ 14,090,834
Contribution as a percentage of covered-employee payroll	11.72%	13.26%	17.20%

NYS Employees' Retirement System

	2017	2016	2015
Contractually required contribution	$ 501,615	$ 488,525	$ 645,420
Contributions in relation to the contractually required contribution	501,615	488,525	645,420
Contribution deficiency (excess)	$ 0	$ 0	$ 0
District's covered-employee payroll	$ 3,225,573	$ 3,080,961	$ 3,120,834
Contribution as a percentage of covered-employee payroll	15.55%	15.86%	20.68%

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

KINDERHOOK CENTRAL SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

ADOPTED BUDGET	$ 38,133,987
ADDITIONS:	
Prior year's encumbrances	50,457
Donations	10,922
FINAL BUDGET	$ 38,195,366

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

FOR THE YEAR ENDED JUNE 30, 2017

2017-2018 voter-approved expenditure budget	$ 39,189,544
Maximum allowed (4% of 2017-2018 budget)	1,567,582
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law:	
Unrestricted fund balance:	
Assigned fund balance	641,082
Unassigned fund balance	1,798,347
Total unrestricted fund balance	2,439,429
Less:	
Appropriated fund balance	500,000
Encumbrances included in assigned fund balance	141,082
Tax Reduction reserve	229,036
Total Adjustments	870,118
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law	$ 1,569,311
Actual percentage	4.0%

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

KINDERHOOK CENTRAL SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

SCHEDULE OF PROJECT EXPENDITURES – CAPITAL PROJECTS FUND

FOR THE YEAR ENDED JUNE 30, 2017

			Expenditures				Methods of Financing			
Project Title	**Original Appropriation**	**Revised Appropriation**	**Prior Year**	**Current Year**	**Total**	**Unexpanded Balance**	**Local Sources**	**State Aid**	**Proceeds of Obligations**	**Fund Balances**
Project 73 Phase I & II	$ 4,360,000	$ 4,360,000	$ 3,775,867	$ 0	$ 3,775,867	$ 584,133	$ 0	$ 585,867	$ 3,190,000	$ 0
Project 74 Transfer 08-09	203,300	203,300	235,259	0	235,259	(31,959)	251,648	0	0	16,389
Project 82 Phases I & II	2,385,000	2,385,000	359,152	1,838,286	2,197,438	187,562	900,000	0	1,485,000	187,562
Smart School Bond	1,309,134	1,309,134	0	444,008	444,008	865,126	0	417,046	0	(26,962)
Various buses	1,843,239	1,843,239	1,431,107	394,295	1,825,402	17,837	733,939	0	0	(1,091,463)
TOTALS	$ 10,100,673	$ 10,100,673	$ 5,801,385	$ 2,676,589	$ 8,477,974	$ 1,622,699	$ 1,885,587	$ 1,002,913	$ 4,675,000	$ (914,474)

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

KINDERHOOK CENTRAL SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

NET INVESTMENT IN CAPITAL ASSETS

FOR THE YEAR ENDED JUNE 30, 2017

CAPITAL ASSETS, NET		$ 19,289,352
DEDUCT:		
Bond anticipation note payable	$ 1,091,467	
Short-term portion of bonds payable	1,115,000	
Long-term portion of bonds payable	9,395,000	
		11,601,467
NET INVESTMENT IN CAPITAL ASSETS		$ 7,687,885

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

KINDERHOOK CENTRAL SCHOOL DISTRICT

FEDERAL AWARD PROGRAM INFORMATION
(SINGLE AUDIT)

(UNIFORM GUIDANCE)

JUNE 30, 2017

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

To the President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, 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 Kinderhook Central School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 18, 2017.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kinderhook Central School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

WEST & COMPANY CPAs PC

Gloversville, New York
September 18, 2017

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

To the President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, New York

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Kinderhook Central School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulation* 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 Kinderhook Central School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Kinderhook Central School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kinderhook Central School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance 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 Kinderhook Central School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material 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.

WEST & COMPANY CPAs PC

Gloversville, New York
September 18, 2017

KINDERHOOK CENTRAL SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through NYS Education Department:			
Special Education Cluster:			
Special Education Grants to States	84.027	0032170149	$ 410,776
Special Education Grants to States	84.027	0032160149	6,980
Special Education Preschool Grants	84.173	0033170149	13,762
Total Special Education Cluster			431,518
Title I Grants to Local Educational Agencies	84.010	0021170545	221,965
Title I Grants to Local Educational Agencies	84.010	0021160545	1,143
Improving Teacher Quality State Grants	84.367	0147170545	66,548
English Language Acquisition State Grants	84.365	0293170545	1,949
Total U.S. Department of Education			723,123
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through NYS Education Department:			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution)			
National School Lunch Program	10.555	Not Applicable	37,928
Cash Assistance			
National School Lunch Program	10.555	Not Applicable	225,949
School Breakfast Program	10.553	Not Applicable	47,521
Total Child Nutrition Cluster			311,398
Total U.S. Department of Agriculture			311,398
TOTAL FEDERAL AWARDS			$ 1,034,521

See notes to schedule of expenditures of federal awards.

KINDERHOOK CENTRAL SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE A – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

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

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented. Certain of the District's federal award programs have been charged with indirect costs, based upon an established rate applied to overall expenditures. There is no other indirect cost allocation plan in effect.

Matching costs (the District's share of certain program costs) are not included in the reported expenditures.

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

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

NOTE B – SUBRECIPIENTS

No amounts were provided to subrecipients.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the District had food commodities totaling $10,978 in inventory.

NOTE D – INDIRECT COST RATE

The District has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE E – CLUSTERS

The Special Education Cluster consists of Special Education Grants to States and Special Education Preschool Grants. The Child Nutrition Cluster consists of Food Distribution, School Breakfast Program and National School Lunch Program.

KINDERHOOK CENTRAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. Type of auditors' report issued: unmodified
2. Internal control over financial reporting:
   a. Material weakness(es) identified? ___Yes _X_ No
   b. Significant deficiency(ies) identified? ___Yes _X_ No
3. Noncompliance material to financial statements noted? ___Yes _X_ No

Federal Awards

1. Internal control over major programs:
   a. Material weakness(es) identified? ___Yes _X_ No
   b. Significant deficiency(ies) identified? ___ Yes _X_ No
2. Type of auditors' report issued on compliance for major programs: unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516? ___ Yes __X__ No
4. Identification of major programs:

CFDA Number	Name of Federal Program
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants

5. Dollar threshold used to distinguish between type A and B programs: $750,000.
6. Auditee qualified as low-risk auditee? _X_ Yes ____ No

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

KINDERHOOK CENTRAL SCHOOL DISTRICT

EXTRACLASSROOM ACTIVITY FUNDS

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2017

WEST & COMPANY
CPAs PC

INDEPENDENT AUDITORS' REPORT

To the President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, New York

We have audited the accompanying statement of assets and liabilities arising from cash transactions of the Extraclassroom Activity Funds of Kinderhook Central School District as of June 30, 2017, and the related statement of revenues collected and expenses paid for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

Insufficient accounting controls are exercised over cash receipts at the point of collections to the time of submission to the Central Treasurer. Accordingly, it was impracticable to extend our audit of such receipts beyond the amounts recorded.

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Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Extraclassroom Activity Funds of the Kinderhook Central School District as of June 30, 2017, and the revenues collected and expenses paid for 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 statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

WEST & COMPANY CPAs PC

Gloversville, New York
September 18, 2017

KINDERHOOK CENTRAL SCHOOL DISTRICT

EXTRACLASSROOM ACTIVITY FUNDS

STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS

JUNE 30, 2017

ASSETS	
Cash	$ 133,397
TOTAL ASSETS	$ 133,397
LIABILITIES AND CLUB BALANCES	
Club balances	$ 133,397
TOTAL LIABILITIES AND CLUB BALANCES	$ 133,397

See independent auditors' report.

KINDERHOOK CENTRAL SCHOOL DISTRICT

EXTRACLASSROOM ACTIVITY FUNDS

STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID

FOR THE YEAR ENDED JUNE 30, 2017

	Balance July 1, 2016	Receipts	Disbursements	Balance June 30, 2017
High School and Middle Schools:				
Class of 2019	$ 1,466	$ 3,428	$ 2,456	$ 2,438
Class of 2016	1,816	9	1,825	0
Class of 2017	1,721	29,603	30,338	986
Class of 2018	2,047	19,971	17,872	4,146
Class of 2020	0	4,871	1,805	3,066
Student Council	2,162	580	377	2,365
High School Yearbook	1,632	10,742	9,454	2,920
Music	3,073	5,918	6,337	2,654
Honor Society	244	2,060	1,751	553
Crane Acting Troupe	23,257	16,143	19,284	20,116
Ski Club	927	26,728	27,488	167
Girls Athletic Council	7,220	2,457	2,430	7,247
Varsity Club	1,789	520	686	1,623
Magazine	1,271	138	0	1,409
French Club	1,180	6,187	5,508	1,859
Spanish Club	211	6,896	7,082	25
S.A.V. E.	763	383	657	489
Intereact	0	3,588	3,196	392
School Store	149	355	50	454
Sala Latina	0	601	325	276
Art Club	1,079	3,078	1,579	2,578
Habitat for Humanity	629	3	400	232
Garden Club	472	103	100	475
Pride	218	215	187	246
Middle School:				
Student Council	3,559	13,481	7,228	9,812
School Store	152	147	175	124
Yearbook	1,831	661	957	1,535
DC Club	66,562	107,404	108,777	65,189
JR Save	21	0	0	21
TOTALS	$ 125,451	$ 266,270	$ 258,324	$ 133,397

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Extraclassroom Activity Funds of the Kinderhook Central School District represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the School District with respect to its financial transactions, and the designation of student management. However, since the Board of Education does exercise general oversight, these funds and their corresponding cash accounts are reflected in the Trust and Agency Funds of the basic financial statements of the District.

The books and records of the Kinderhook Central School 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 expenditures are recognized when cash is disbursed.

NOTE 2 – MANAGEMENT LETTER

Management letter items associated with the Extraclassroom Activity Funds are included in the management letter accompanying the District's financial statements.

WEST & COMPANY CPAs PC

September 18, 2017

To the President and the Other Members
of the Board of Education of the
Kinderhook Central School District
Valatie, New York

Re: Management Letter
June 30, 2017

Dear Board Members:

In planning and performing our audit of the financial statements of the Kinderhook Central School District for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and improving operating efficiency. We previously reported on the District's internal control in our report dated September 18, 2017. This letter does not affect our report dated September 18, 2017, on the financial statements of Kinderhook Central School District.

Our comments and recommendations for the year ended June 30, 2017, are as follows:

Prior-Year Conditions and Recommendations

1. **School Lunch Fund Deficit**

   Prior Condition: For the year ended June 30, 2016, the District had a deficit balance in the School Lunch Fund of $118,604.

   Status: This condition has improved as of June 30, 2017. The deficit has decreased to $90,978 in the current year.

   Recommendation: We recommend that the District continue to evaluate pricing and costs within the School Lunch Fund and the support provided from the General Fund in order to eliminate deficits in future years.

2. **Accounts Payable**

   Prior Condition: Although not material, we noted a few invoices received after year-end that related to services performed prior to June 30, 2016 and should have been recorded in accounts payable at year-end.

   Status: This condition has been corrected as of June 30, 2017.

3. Purchasing

Prior Condition: Through our June 30, 2016 testing of disbursements we noted instances where purchase orders were dated after the invoice date.

Status: This condition has been corrected as of June 30, 2017.

4. Free and Reduced Lunch Eligibility Determinations

Prior Condition: Through testing of free and reduced lunch applications we noted one application that was not properly categorized based on family size and income.

Status: This condition has been corrected as of June 30, 2017.

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This report is intended solely for the information and use of the Board of Education, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

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

We appreciate the courtesies, assistance and cooperation given us during our audit by Mr. Brennan, Ms. Mazure and the other Business Office personnel.

Very truly yours,

WEST & COMPANY CPAs PC

WEST & COMPANY CPAs PC