HANCOCK
CENTRAL SCHOOL DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

HANCOCK CENTRAL SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Hancock Central School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the fiduciary funds of the Hancock 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 Hancock Central School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

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 and the schedule of funding progress of other postemployment benefits, the District's proportionate share of the net pension asset/liability, and District contributions on pages M1-M10 and 46-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 an opinion on the financial statements that collectively comprise the Hancock Central School District's basic financial statements as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by the New York State Education Department. The other supplementary information 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 it.

Other Reporting Required by *Government Auditing Standards*

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

Claverack, New York
October 18, 2017

HANCOCK CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

The financial statements of the Hancock Central School District have been prepared in conformity with generally accepted accounting principles (GAAP). Those principles are as 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 utilized by the District are described below:

A. Reporting Entity

The Hancock 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 5 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. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the School 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 review of certain entities included in the School District's reporting entity:

The Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the Hancock 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. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds are included in these financial statements. The District accounts for assets held as an agent for various student organizations in an agency fund.

I. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Public Library
In an agreement dated August 9, 1955 the Read Foundation conveyed the title to real property and its contents to Hancock Central School District. The District agreed to carry on the library in perpetuity. The Public Library has their own Treasurer and Trustees. For library purposes it is shown as a Private Purpose Trust Fund in the accompanying financial statements.

B. Joint Venture

The Hancock Central School District is one of 17 component school districts in the Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities.

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

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

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

During the year ended June 30, 2017, the Hancock Central School District was billed $1,485,879 for BOCES administrative and program costs. The District’s share of BOCES Aid amounted to $275,026. Financial statements for the BOCES Aid are available from the BOCES administrative office.

I. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation

1. Districtwide Statements

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

2. Fund Financial Statements

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

The District reports the following funds:

a. **Major Governmental Funds**

(1) 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.

I. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

2. Fund Financial Statements (Continued)

a. Major Governmental Funds (Continued)

(2) **Special Aid Fund** – 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 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.

(3) **School Lunch Fund** – Used to account for transactions of the District's lunch and breakfast programs.

(4) **Debt Service Fund** – This fund accounts for the accumulation of resources and the payment of principal and interest on long-term obligations for governmental activities.

(5) **Capital Projects Fund** – This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

b. Fiduciary Funds

Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the districtwide 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:

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

(2) **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.

I. 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 districtwide 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. Revenues from grants and donations are 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 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, 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. Cash and 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. Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves and debt agreements.

I. Summary of Significant Accounting Policies (Continued)

F. Property Taxes

Real property taxes are levied annually by the Board of Education no later than September 1, and become a lien on August 22. Taxes are collected during the period September 1 to November 15.

Uncollected real property taxes are subsequently enforced by the County of Delaware. An amount representing uncollected real property taxes is transmitted to the County for enforcement and is paid by the County to the District no later than the forthcoming April 1.

G. Restricted Resources

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

H. Interfund Transactions

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

In the districtwide 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 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 IV for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

I. Summary of Significant Accounting Policies (Continued)

I. Estimates

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

J. Receivables

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

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 that 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. Under 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 portion of fund balance has been classified as nonspendable to indicate that inventory and prepaids do not constitute available spendable resources.

L. Other Assets/Restricted 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 districtwide financial statements and their use is limited by applicable bond covenants.

I. Summary of Significant Accounting Policies (Continued)

L. Other Assets/Restricted Assets (Continued)

In the districtwide financial statements, bond discounts and premiums, and any prepaid bond insurance costs are deferred and amortized over the life of the debt issue. Bond issuance costs are recognized as an expense in the period incurred.

M. Capital Assets

Capital assets are reflected in the districtwide financial statements. Capital assets are reported at historical cost or estimated historical costs, based on appraisals conducted by independent third party professionals. Donated assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Capital assets, except land, are depreciated on a straight-line basis over their estimated useful lives. Capitalization thresholds and estimated useful lives of capital assets reported in the districtwide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Buildings and Improvements	$ 500	40 years
Furniture, Equipment and Vehicles	$ 500	5-15 years

N. 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.

I. Summary of Significant Accounting Policies (Continued)

N. Compensated Absences (Continued)

Consistent with GASB Statement 16, Accounting for Compensated Absences, the liability has been calculated using the vested method and an accrual for that liability is included in the Districtwide 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 resources. These amounts are expensed on a pay-as-you-go basis.

O. Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the districtwide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources.

Claims and judgments and 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.

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.

P. Deferred Outflows of Resources

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category, both of which relate to pensions. The first item represents the effect of the net change in the District's proportion of the collective net pension asset or liability and the difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. The second item is the District's contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

I. Summary of Significant Accounting Policies (Continued)

Q. Deferred Inflows of Resources

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 one item that qualifies for reporting in this category. The item is related to pensions reported in the Districtwide Statement of Net Position. This represents the effect of net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense, and the net difference between projected and actual earnings on pension plan investments.

R. Unearned Revenue

Unearned revenues arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures or when charges for service monies are received in advance from payers prior to the services being rendered by the District. These amounts are recorded as liabilities in the financial statements. The liabilities are removed and revenues are recognized in subsequent periods when the District has legal claim to the resources.

S. Other Benefits

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

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

In addition to providing pension benefits, the District provides postemployment 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.

I. Summary of Significant Accounting Policies (Continued)

T. Short-Term Debt

The School District may issue Revenue and Tax Anticipation Notes in anticipation of 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 revenue anticipation and tax anticipation notes 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 School District may issue Bond Anticipation Notes in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as a current liability of the fund that will actually receive the proceeds from the issuance of bonds. State law requires that bond anticipation notes issued for capital purposes be converted to long-term financing within five years after the original issue date.

U. Equity Classifications

1. Districtwide Statements

In the districtwide statements there are three classes of net position:

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

Restricted net position – reports net position when constraints placed on the assets 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.

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

I. Summary of Significant Accounting Policies (Continued)

U. Equity Classifications (Continued)

2. Fund Statements

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

Non-spendable – includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the School Lunch Fund of $5,664.

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 School District has established the following restricted fund balances:

1. Encumbrances
   Encumbrance accounting, under which purchase orders, contracts and 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.

2. Unemployment Insurance
   This reserve is 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. This reserve is accounted for in the General Fund.

I. Summary of Significant Accounting Policies (Continued)

U. Equity Classifications (Continued)

2. Fund Statements (Continued)

3. Employee Benefit Accrued Liability
This reserve is used to set aside funds 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. This reserve is accounted for in the General Fund.

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

5. Employee Retirement Contributions
This reserve is used for future employee's retirement obligations. 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.

6. Property Loss
This reserve is used to accumulate funds to pay property loss claims incurred. The total amount accumulated in the reserve may not exceed 3% of the total annual budget. This reserve is accounted for in the General Fund.

7. Capital Projects
Used to account for the financial resources that are restricted by voter approved propositions for acquisition, construction or major repair of capital facilities. This reserve is accounted for in the general fund.

I. Summary of Significant Accounting Policies (Continued)

U. Equity Classifications (Continued)

2. Fund Statements (Continued)

8. Repair

This reserve is 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. 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.

Restricted fund balance includes the following:

General Fund:		
Employee Benefit Accrued Liability	$	574,434
Unemployment		33,307
Employee Retirement Contributions		1,382,000
Repair		50,255
Capital- Buses		409,607
Capital		810,000
Tax Certiorari		148,648
Debt Service Fund		43,166
Total restricted funds	$	3,451,417

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

Assigned – Includes amounts that are constrained by the School District's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the General Fund are classified as **Assigned Fund Balance** in the General Fund. Encumbrances reported in the General Fund amounted to $36,246 and the assigned fund balance amounted to $252,114.

I. Summary of Significant Accounting Policies (Continued)

U. Equity Classifications (Continued)

2. Fund Statements (Continued)

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 over spending for specific purposes for which amounts had been restricted or assigned.

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a School District can retain to no more than 4% of the 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 apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

V. 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 standard issued by GASB:

GASB has issued Statement 77, *Tax Abatement Disclosures*, effective for the year ending June 30, 2017.

GASB has issued Statement 82, *Pension Issues*, effective for June 30, 2017.

I. Summary of Significant Accounting Policies (Continued)

W. Future Changes in Accounting Standards

GASB has issued Statement 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 Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. For Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* established new accounting and financial reporting requirements for OPEB plans.

GASB Statement 84, *Fiduciary Activities,* effective for the year ending June 30, 2019.

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

II. Explanation of Certain Differences between Governmental Fund Statements and Districtwide Statements

Due to differences in the measurement focus and basis of accounting used in the governmental fund statements and the districtwide 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 Statement of Activities, compared with the current financial resources focus of the governmental funds.

1. Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities:

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

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

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

II. Explanation of Certain Differences between Governmental Fund Statements and Districtwide Statements (Continued)

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

a. Long-term revenue differences:
Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities 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.

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

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

d. 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.

The costs of building and acquiring capital assets (land, buildings, and equipment) financed from governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually of their useful lives.

Original cost of capital assets	$26,591,956
Accumulated depreciation	10,597,199
Capital assets, net	$15,994,757

II. Explanation of Certain Differences between Governmental Fund Statements and Districtwide Statements (Continued)

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

Long-term liabilities are reported in the Statement of Net Position, but not in the governmental funds, because they are not due and payable in the current period. Balances at year end were:

Bonds payable	$ 7,965,000
OPEB obligations	$11,324,465
Compensated Absences	$ 433,614
Net Pension Liability-Proportionate Share	$ 569,388

When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation of $838,994 was less than capital expenditures of $5,084,907 in the current year.

Repayment of bond principal of $320,000 is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position, and does not affect the Statement of Activities.

Interest on long-term debt and short-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the Statement of Activities increased by $994.

III. Cash and Investments

A. Deposits

The Hancock Central School District's investment policies are governed by State statutes. The Hancock Central School District's monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

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

III. Cash and Investments (Continued)

A. Deposits (Continued)

Custodial credit risk is the risk that in an event of a bank failure, the District's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

A. Uncollateralized
B. Collateralized by securities held by the pledging financial institution, or
C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the District's name.

Deposits and investments at year end were entirely covered by Federal Deposit Insurance or by collateral held by the School District's custodial bank in the School District's name.

The District did not have any investments at year end or during the year.

IV. Interfund Transaction

Interfund balances at June 30, 2017 are as follows:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	$ 42,019	$ 54,916	$ -	$ 103,820
Special Aid Fund	2,348	41,900	3,820	-
School Lunch Fund	9,101	-	100,000	-
Debt Service Fund	43,166	-	-	-
Capital Fund	-	134	-	-
Total governmental activities	96,634	96,950	$ 103,820	$ 103,820
Fiduciary Agency Fund	316	-		
Totals	$ 96,950	$ 96,950		

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

V. Capital Assets

A summary of changes in general fixed assets follows:

	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017
Capital assets-not depreciated:				
Land	$ 107,750	$ -	$ -	$ 107,750
Construction in progress	1,204,739	4,660,947		5,865,686
Total capital assets-not depreciated:	1,312,489	4,660,947	-	5,973,436
Other capital assets:				
Buildings and improvements	16,917,821	-	-	16,917,821
Furniture, Equipment and Vehicles	3,419,379	423,960	(142,640)	3,700,699
Total other capital assets:	20,337,200	423,960	(142,640)	20,618,520
Less accumulated depreciation:				
Buildings and improvements	7,378,124	530,679	-	7,908,803
Furniture, Equipment and Vehicles	2,522,721	308,315	(142,640)	2,688,396
Total accumulated depreciation	9,900,845	838,994	(142,640)	10,597,199
Other capital assets, net	10,436,355	(415,034)	-	10,021,321
Total	$ 11,748,844	$ 4,245,913	$ -	$ 15,994,757

Depreciation expense was not allocated in the Statement of Activities.

VI. Pension Plans

1. General Information

New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems).

2. 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.

VI. Pension Plans (Continued)

Funding Policies:

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0 to 3.5 percent of their salary for their entire length of service. In addition, employee contribution rates under ERS Tier 6 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.

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

Contributions

	ERS	TRS
2017	$210,305	$423,002
2016	$257,495	$519,185
2015	$231,981	$487,423

3. 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.

Actuarial valuation date	31-Mar-17	30-Jun-16
Net pension liability	$360,977	$208,411
District's portion of the Plan's total net pension liability	.0038417%	.019459%
Change in proportion since the prior measurement date	.0002557%	.000678%

VI. Pension Plans (Continued)

For the year ended June 30, 2017, the District's recognized pension expense of $239,517 for ERS and $340,997 for TRS. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resource		Deferred Inflows of Resources	
	ERS	TRS	ERS	TRS
Differences between expected and actual experience	$9,046	$0	$54,816	$67,703
Changes of assumptions	123,323	1,187,244	0	0
Net difference between projected and actual earnings on pension plan investments	72,102	468,619	0	0
Changes in proportion and differences between the District's contributions and proportionate share of contributions	109,719	19,480	8,326	39,802
District's contributions subsequent to the measurement date	57,806	333,092	0	0
Total	$371,996	$2,008,435	$63,142	$107,505

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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	ERS	TRS
Year ended:		
2017	$ -	$ 141,219
2018	101,067	141,219
2019	101,067	505,161
2020	87,750	391,928
2021	(38,836)	177,727
2022	0	0
Thereafter	0	210,582

VI. Pension Plans (Continued)

4. 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	3.80%	1.90%-4.72%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience	July 1, 2005 - June 30, 2010 System's Experience
Inflation rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014. For TRS, annuitant mortality rates are based on July 1, 2005 – June 30, 2010 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 – March 31, 2015. For TRS, the actuarial assumptions used in the June 30, 2016 valuation are based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2014.

VI. Pension Plans (Continued)

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

	ERS	TRS
Measurement date	March 31, 2017	June 30, 2016
Asset Type	**%**	**%**
Domestic Equity	36%	37%
International Equity	14%	18%
Private Equity	10%	7%
Real Estate	10%	10%
Domestic fixed income securities	0%	17%
Global fixed income securities	0%	2%
Bonds and Mortgages	17%	8%
Short-term	0%	1%
Absolute return strategies	2%	0%
Opportunistic portfolio	3%	0%
Real Assets	3%	0%
Cash Equivalents	1%	0%
Inflation-Indexed bonds	4%	0%

5. 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.

VI. Pension Plans (Continued)

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

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

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share Of the net pension (asset) liability	$1,152,888	$360,977	($308,583)

TRS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share Of the net pension (asset) liability	$2,719,201	$208,411	($1,897,507)

7. 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
Measurement date	March 31, 2017	June 30, 2016
Employers' total pension liability	$ 177,400,586	$ 108,577,184,039
Plan Fiduciary Net Position	(168,004,363)	107,506,142,099
Employers' net pension liability	9,396,223	1,071,041,940
Ration of plan fiduciary net position to the Employers' total pension liability	94.7000%	99.0100%

VI. Pension Plans (Continued)

8. Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to $57,806.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017 represent employee and employer contributions for the fiscal year ended June 30, 2017 based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2017 amounted to $354,449.

VII. Long-Term Debt Obligations

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

1. Long-Term Debt Interest

Interest paid	$ 202,438
Less interest accrued in the prior year	(4,381)
Plus interest accrued in the current year	5,375
Total expense	$ 238,432

2. Changes

	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017	Due Within One Year
Serial Bonds	$ 3,950,000	$ 4,335,000	$ 320,000	$ 7,965,000	$ 390,000
Compensated Absences	577,434	-	143,820	433,614	
OPEB Obligations	10,509,447	815,018	-	11,324,465	
Net Pension Liability-Proportionate Share	-	569,388	-	569,388	
Totals	$ 15,036,881	$ 5,719,406	$ 463,820	$ 20,292,467	

Additions and deletions to compensated absences are shown net since it is impractical to determine these amounts separately. In addition, the compensated absences has been reserved by the District.

3. Maturity

a. The following is a summary of the debt issued:

Purpose	Issue Date	Final Maturity	Interest Rate	Outstanding 6/30/2017
Serial Bonds:				
Reconstruction	6/15/2009	6/15/2028	3.125-4.375%	$ 295,000
Adv. Refunding	6/15/2016	6/15/2029	2-4%	3,335,000
Reconstruction	6/15/2017	6/15/2032	5.00%	4,335,000
				$ 7,965,000

VII. Long-Term Debt Obligations (Continued)

3. Maturity (Continued)

b. The following is a summary of maturing principal debt service requirements:

	Year	Principal	Interest	Total
Serial Bonds:	2018	$ 390,000	$ 371,779	$ 761,779
	2019	570,000	277,475	847,475
	2020	590,000	256,925	846,925
	2020	610,000	242,200	852,200
	2021	625,000	225,100	850,100
	2022 and thereafter	5,180,000	1,139,450	6,319,450
	Total	$ 7,965,000	$ 2,512,929	$ 10,477,929

Prior-Year Defeasance of Debt

In prior years, certain general obligation bonds were defeased 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 liability for the defeased bonds and the trust account assets are not included in the financial statements.

VIII. Postemployment (Health Insurance) Benefits

The District provides postemployment (health insurance, life insurance, etc.) 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.

The District implemented GASB Statement #45, Accounting and Financial Reporting by employers for Postemployment Benefits Other than Pensions, in the school year ended June 30, 2009. This required the District to calculate and record a net other postemployment benefit obligation at year end. The net other postemployment 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 $365,310 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 postemployment benefits is $11,324,465, which is reflected in the Statement of Net Position.

The District currently pays for postemployment health care benefits on a pay-as-you-go basis. Once New York State Law allows for the establishment of a trust to fund and invest assets necessary to pay for the accumulated liability, the District will study the establishment of such a trust. These financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation

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

VIII. Postemployment (Health Insurance) Benefits (Continued)

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

Annual required contribution	$ 1,385,572
Interest on net OPEB obligation	315,283
Adjustment to annual required contribution	(520,527)
Annual OPEB cost (expense)	1,180,328
Contributions made	(365,310)
Increase in net OPEB obligation	815,018
Net OPEB obligation-beginning of year	10,509,447
Net OPEB obligation-end of year	$ 11,324,465

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	$1,197,902	30.6%	$ 9,696,587
6/30/2016	$1,208,992	33.0%	$10,509,447
6/30/2017	$1,180,328	31.0%	$11,324,465

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $16,347,438, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $16,347,438. The covered payroll (annual payroll of active employees covered by the plan) was $3,902,908 and the ratio of the UAAL to the covered payroll was 419%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

VIII. Postemployment (Health Insurance) Benefits (Continued)

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 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, decreased by increments to an ultimate rate of 4.5% in the final year. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period, at June 30, 2017, was 21 years.

IX. Commitments and Contingencies

A. Risk Financing and Related Insurance

1. General Information

The Hancock Central School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. 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.

2. Grants

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

IX. Commitments and Contingencies (Continued)

A. Risk Financing and Related Insurance (Continued)

3. Health Insurance

Hancock Central School District, participating with 12 other School Districts, incurs costs related to an employee health insurance plan (Plan) sponsored by Delaware-Chenango-Madison-Otsego School Health Insurance Consortium (DCMOSHC), of which the School District is a member. The Plan's objectives are to formulate, develop, and administer a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program. School districts joining the Plan must remain members for a minimum of 1 year; a member may withdraw from the Plan effective only once annually on the last day of the Plan year as may be established from time to time by the Board of Directors.

Plan members are subject to a supplemental assessment in the event of deficiencies. If the Plan's assets were to be exhausted, members would be responsible for the Plan's liabilities. The Plan uses a reinsurance agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the Plan as direct insurer of the risks reinsured. The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims' costs depend on complex factors, the process used in computing claims' liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) which have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims' liabilities are charged or credited to expense in the periods in which they are made.

The Consortium is a shared-risk public entity risk pool whereby each entity pays annual premiums based on the aggregate expected claims for all enrollees. During the year ended June 30, 2017 (last available audit), the School District paid health insurance premiums to the Consortium. Paid claims are also accounted for in the aggregate with individual entity activity not being tracked separately. Due to this arrangement, a possible contingent liability exists for Hancock Central School District as a result of the possibility that any participating entity may have actual claims less than its annual premiums and try to recover its portion due to it through the Consortium participants.

X. Other Disclosures

A. Summary of Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position

Total governmental fund balance	$	4,672,432
Capital assets (net)		15,994,757
Deferred outflows of resources		2,380,431
Bonds payable		(7,965,000)
Accrued interest payable		(5,375)
Net pension liability- proportionate share		(569,388)
Deferred inflows of resources		(170,647)
Compensated absences		(433,614)
OPEB obligations		(11,324,465)
Total net position	$	2,579,131

X. Other Disclosures (Continued)

B. Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

Net changes in fund balance – total governmental funds	$ 140,770
Capital outlays are expenditures in governmental funds, but are capitalized in the Statement of Net Position	5,084,907
Depreciation is not recorded as an expenditure in the governmental funds, but is recorded in the Statement of Activities	(838,994)
Repayments of Long-term Debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the Statement of Net Position	935,000
Interest is recognized as an expense in governmental funds when paid. For governmental activities, interest expense is recognized as it accrues. The increase in accrued interest during 2016/17 results in more expense.	(994)
Proceeds from debt are recognized as revenue in the Governmental Funds, but not in the Statement of Activities	(4,950,000)
(Increases) Decreases in proportionate share of net pension asset/liability reported in the Statement of Activities do not provide for or require the use of current financial resources and therefore, are not reported as revenues or expenditures in the governmental funds:	
Teachers' Retirement System	(44,458)
Employee's Retirement System	(23,079)
Certain expenses in the Statement of Activities do not require the expenditure of current resources and are, therefore, not reported as expenditures in the governmental funds:	
OPEB obligations	(815,018)
Compensated absences	143,820
Change in Net Position – Governmental Activities	($ 368,046)

XI. Stewardship, Compliance and Accountability

A. Budgetary Procedures and Budgetary Accounting

1. Budget Policies

The budget policies are as follows:

a. The School District's administration prepares a proposed budget for approval by the Board of Education for the General Fund.

b. The proposed appropriation budget for the General Fund is approved by the voters within the School District.

c. Appropriations are adopted at the program level.

d. Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

e. The General Fund budget was increased to reflect the prior year's encumbrance of $58,426 and voter-approved purchase of buses in the amount of $132,011.

2. 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.

XI. Stewardship, Compliance and Accountability (Continued)

A. **Budgetary Procedures and Budgetary Accounting (Continued)**

2. Budgets (Continued)

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. No supplemental appropriations occurred during the year.

Special Aid Fund and School Lunch Fund have not been included in the comparison because they do not have legally authorized budgets.

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. The budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

3. 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 reservations of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time as the liability is incurred or the commitment is paid.

XII. Subsequent Events

There were no significant subsequent events to report from the period of July 1, 2017 to October 18, 2017.

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

To the Board of Education of the
Hancock Central School District:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the Hancock 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 October 18, 2017.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Claverack, New York
October 18, 2017