

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 11, 2017

NEW ISSUE

TAX ANTICIPATION NOTES

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed upon such corporations. In addition, in the opinion of Bond Counsel to the District, under existing statutes, interest on the Notes is exempt from personal income taxes of New York State and its political subdivisions, including The City of New York. See "Tax Matters" herein.

The District will designate the Notes as "qualified tax-exempt obligations" pursuant to the provisions of Section 265(b)(3) of the Code.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK**

**\$5,900,000* TAX ANTICIPATION NOTES FOR 2017 – 2018 TAXES
(the "Notes")**

Date of Issue: October 3, 2017

Maturity Date: June 27, 2018

The Notes are general obligations of the East Moriches Union Free School District, in Suffolk County, New York (the "District"), and will contain a pledge of the faith and credit of the District for the payment of the principal of and interest on the Notes and, unless paid from other sources, the Notes are payable from ad valorem taxes which may be levied upon all the taxable real property within the District, subject to certain statutory limitations. (See "*The Tax Levy Limit Law*" herein).

The Notes will not be subject to redemption prior to maturity.

At the option of the purchaser, the Notes will be issued in (i) registered form registered in the name of the successful bidder(s) or (ii) registered book-entry form registered to Cede & Co., as the partnership nominee for The Depository Trust Company, New York, New York ("DTC").

If the Notes are issued in registered form registered in the name of the successful bidder, a single note certificate will be issued for those Notes bearing the same rate of interest in the aggregate principal amount awarded to such purchaser at such interest rate. Principal of and interest on such Notes will be payable in Federal Funds by the District, at such bank or trust company located and authorized to do business in the State of New York as selected by the successful bidders.

If the Notes are issued in book-entry form, such notes will be delivered to DTC, which will act as securities depository for the Notes. Beneficial owners will not receive certificates representing their interest in the Notes. Individual purchases may be made in denominations of \$5,000 or integral multiples thereof. A single note certificate will be issued for those Notes bearing the same rate of interest and CUSIP number in the aggregate principal amount awarded to such purchaser(s) at such interest rate. Principal of and interest on said Notes will be paid in Federal Funds by the District to Cede & Co., as nominee for DTC, which will in turn remit such principal and interest to its participants for subsequent distribution to the beneficial owners of the Notes as described herein. Transfer of principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The District will not be responsible or liable for payments by DTC to its participants or by DTC participants to beneficial owners or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. (See "*Book-Entry-Only System*" herein).

Proposals for the Notes will be received at 11:30 A.M. (Prevailing Time) on September 20, 2017 at the offices of Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776.

The Notes are offered subject to the final approving opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel, and certain other conditions. Munistat Services, Inc. has served as Municipal Advisor to the District in connection with the issuance of the Notes. It is expected that delivery of the Notes will be made in New York, New York or as otherwise agreed on or about October 3, 2017.

THIS PRELIMINARY OFFICIAL STATEMENT IS IN A FORM "DEEMED FINAL" BY THE DISTRICT FOR THE PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"). FOR A DESCRIPTION OF THE DISTRICT'S AGREEMENT TO PROVIDE CONTINUING DISCLOSURE FOR THE NOTES, AS DESCRIBED IN THE RULE, SEE "DISCLOSURE UNDERTAKING" HEREIN.

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstance shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK**

9 Adelaide Avenue
East Moriches, New York 11940
Telephone: 631/878-0162
Fax: 631/909-1379

BOARD OF EDUCATION

Michael Griffin, President
JoAnn Lapinski, Vice President

Jennifer Burke
Lori Pagano
Lisa Pesce

Superintendent of Schools
Dr. Charles Russo

District Clerk
Jacqueline Franke

District Treasurer
Janet Miglino

* * *

BOND COUNSEL

Hawkins Delafield & Wood LLP
New York, New York

* * *

MUNICIPAL ADVISOR

MUNISTAT SERVICES, INC.
Municipal Finance Advisory Service

12 Roosevelt Avenue
Port Jefferson Station, N.Y. 11776
(631) 331-8888

E-mail: info@munistat.com
Website: <http://www.munistat.com>

No dealer, broker, salesman or other person has been authorized by the District to give any information or to make any representations, other than those contained in this Official Statement and if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor there any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained by the District from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

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OFFICIAL STATEMENT

**EAST MORICHES UNION FREE SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK**

Relating To

\$5,900,000* TAX ANTICIPATION NOTES FOR 2017 – 2018 TAXES

(the "Notes")

This Official Statement, including the cover page and appendix hereto, presents certain information relating to the East Moriches Union Free School District in the County of Suffolk, State of New York (the "District," "County" and "State," respectively) in connection with the sale of \$5,900,000* Tax Anticipation Notes for 2017-2018 Taxes (the "Notes").

All quotations from and summaries and explanations of provisions of the Constitution and laws of the State and acts and proceedings of the District contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all references to the Notes and the proceedings of the District relating thereto are qualified in their entirety by reference to the definitive form of the Notes and such proceedings.

THE NOTES

Description

The Notes will be dated and will mature, without option of prior redemption, as reflected on the cover page hereof.

The District will act as Paying Agent for any Notes. Paying agent fees, if any, will be paid by the purchaser(s). The District's contact information is as follows: Dr. Charles Russo, Superintendent of Schools, East Moriches Union Free School District, 9 Adelaide Avenue, East Moriches, NY 11940, Phone (631) 878-0162, Fax (631) 909-1379 and email: crusso@emoschools.org.

Optional Redemption

The Notes will not be subject to redemption prior to their maturity.

Book-entry-only System

In the event that the Notes are issued in registered book-entry form, DTC will act as securities depository for the Notes and the Notes will be issued as fully-registered Notes registered in the name of Cede & Co., (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered note certificate will be issued for each Note bearing the same rate of interest and CUSIP number and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's

*Preliminary, subject to change.

participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Source: The Depository Trust Company

Authorization for and Purpose of Notes

The Notes are issued pursuant to the Constitution and laws of the State, including Sections 24.00 and 39.00 of the Local Finance Law, constituting Chapter 33-a of the Consolidated Laws of New York, and a tax anticipation note resolution adopted by the Board of Education of the District to finance cash flow requirements in anticipation of the collection of 2017-2018 real property taxes levied for school purposes on all taxable real property in the District. The proceeds of the Notes may be used only for the purposes for which such taxes have been or are to be levied, as specified in the 2017-2018 annual budget of the District, unless all of said purposes have been paid and satisfied, in which case the proceeds of the notes may be used for any lawful school purpose. The proceeds of the Notes will not be used for the redemption or renewal of any outstanding tax anticipation or revenue anticipation notes.

Pursuant to Section 24.00(e) of the Local Finance Law, generally, whenever the amount of the Notes and any additional tax anticipation notes issued by the District in anticipation of the receipt of 2017-2018 real property taxes equals the amount of such taxes remaining uncollected, the District is required to set aside in a special bank account all of such uncollected taxes as thereafter collected, and to use the amounts so set aside only for the purpose of paying such Notes. Interest on the Notes will be provided from budget appropriations.

Security and Source of Payment

Each Note when duly issued and paid for will constitute a contract between the District and the holder thereof.

The Notes will be general obligations of the District and will contain a pledge of the faith and credit of the District for the payment of the principal thereof and the interest thereon. For the payment of such principal of and interest on the Notes, the District has the power and statutory authorization to levy ad valorem taxes on all taxable real property in the District, subject to certain statutory limitations imposed by the Chapter 97 of the New York Laws of 2011, as amended, ("The Tax Levy Limit Law"). (See "*Tax Levy Limit Law*" herein).

Under the Constitution of the State, the District is required to pledge its faith and credit for the payment of the principal of and interest on the Notes, and the State is specifically precluded from restricting the power of the District to levy taxes on real estate for the payment of interest on or principal of indebtedness therefore contracted. However, the Tax Levy Limit Law, imposes a limitation on the power of local governments and school districts, including the District, to increase their annual tax levy, with the amount of such year to year increase limited by the formulas set forth in the Tax Levy Limit Law. The Tax Levy Limit Law also provides the procedural method to overcome that limitation. In addition, the Tax Levy Limit Law expressly provides an exclusion from the annual tax levy limitation for any taxes levied to pay the local share of debt service on bonds or notes issued to finance voter approved capital expenditures, or the refinancing or refunding of such bonds or notes. The exclusion does NOT apply to taxes to pay debt service on tax anticipation notes, including the Notes, revenue anticipation notes, budget notes and deficiency notes; and any obligations issued to finance deficits and certain judgments, including tax certiorari refund payments. (See "*The Tax Levy Limit Law*" herein.)

REMEDIES UPON DEFAULT

Neither the Notes, nor the proceedings with respect thereto, specifically provide any remedies which would be available to owners of the Notes should the District default in the payment of principal of or interest on the Notes, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the owners of the Notes upon the occurrence of any such default. The Notes are general obligation contracts between the District and the owners for which the faith and credit of the District are pledged and while remedies for enforcement of payment are not expressly included in the District's contract with such owners, any permanent repeal by statute or constitutional amendment of a bondholder's and/or noteholder's remedial right to judicial enforcement of the contract should, in the opinion of Bond Counsel, be held unconstitutional.

Upon default in the payment of principal of or interest on the Notes at the suit of the owner, a Court has the power, in proper and appropriate proceedings, to render judgment against the District. The present statute limits interest on the amount adjudged due to contract creditors to nine per centum per annum from the date due to the date of payment. As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment. A Court also has the power, in proper and appropriate proceedings, to order payment of a judgment on such bonds or notes from funds lawfully available therefor or, in the absence thereof, to order the District to take all lawful action to obtain the same, including the raising of the required amount in the next annual tax levy. In exercising its discretion as to whether to issue such an order, the Court may take into account all relevant factors, including the current operating needs of the District and the availability and adequacy of other remedies. Upon any default in the payment of the principal of or interest on the Notes, the owner of such Notes could, among other remedies, seek to obtain a writ of mandamus from a Court ordering the governing body of the District to assess, levy and collect an ad valorem tax, upon all taxable property of the District subject to taxation by the District sufficient to pay the principal of and interest on the Notes as the same shall come due and payable (and interest from the due date to date of payment) and otherwise to observe the covenants contained in the Notes and the proceedings with respect thereto all of which are included in the contract with the owners of the Notes. The mandamus remedy, however, may be impracticable and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

In 1976, the New York Court of Appeals, the State's highest court, held in *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 40 N.Y.2d 731 (1976), that the New York State legislation purporting to postpone the payment of debt service on New York City obligations was an unconstitutional moratorium in violation of the New York State constitutional faith and credit mandate included in all municipal debt obligations. While that case can be viewed as a precedent for protecting the remedies of Noteholders, there can be no assurance as to what a Court may determine with respect to future events, including financial crises as they may occur in the State and in municipalities of the State, that require the exercise by the State of its emergency and police powers to assure the continuation of essential public services. (See also, *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 41 N.Y.2d 644 (1977), where the Court of Appeals described the pledge as a direct Constitutional mandate.)

As a result of the Court of Appeals decision, the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law enacted at the 1975 Extraordinary Session of the State legislature authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the District.

Pursuant to Article VIII, Section 2 of the State Constitution, the District is required to provide an annual appropriation of monies for the payment of due and payable principal of and interest on indebtedness. Specifically, this constitutional provision states: "If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any holder of obligations issued for any such indebtedness." This constitutes a specific non-exclusive constitutional remedy against a defaulting municipality or school district; however, it does not apply in a context in which monies have been appropriated for debt service but the appropriating authorities decline to use such monies to pay debt service. However, Article VIII, Section 2 of the Constitution of the State also provides that the fiscal officer of any county, city, town, village or school district may be required to set apart and apply such revenues at the suit of any holder of any obligations of indebtedness issued with the pledge of the faith of the credit of such political subdivision. In *Quirk v. Municipal Assistance Corp.*, 41 N.Y.2d 644 (1977), the Court of Appeals described this as a "first lien" on revenues, but one that does not give holders a right to any particular revenues. It should thus be noted that the pledge of the faith and credit of a political subdivision in the State is a pledge of an issuer of a general obligation bond or note to use its general revenue powers, including, but not limited to, its property tax levy, to pay debt service on such obligations, but that such pledge may or may not be interpreted by a court of competent jurisdiction to include a constitutional or statutory lien upon any particular revenues. The Constitutional provision providing for first revenue set asides does not apply to tax anticipation notes (including the Notes), revenue anticipation notes or bond anticipation notes.

While the courts in the State have historically been protective of the rights of holders of general obligation debt of political subdivisions, it is not possible to predict what a future court might hold.

In prior years, certain events and legislation affecting a holder's remedies upon default have resulted in litigation. While courts of final jurisdiction have generally upheld and sustained the rights of bondholders and/or noteholders, such courts might hold that future events, including a financial crisis as such may occur in the State or in political subdivisions of the State, may require the exercise by the State or its political subdivisions of emergency and police powers to assure the continuation of essential public services prior to the payment of debt service.

SECTION 99-B OF THE STATE FINANCE LAW APPLICABLE TO SCHOOL DISTRICTS

Section 99-b of the State Finance Law (the "SFL") provides for a covenant between the State and the purchasers and the holders and owners from time to time of the bonds and notes issued by school districts in the State for school purposes that it will not repeal, revoke or rescind the provisions of Section 99-b of the SFL, or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby.

Said section provides that in the event a holder or owner of any bond or note issued by a school district for school purposes shall file with the State Comptroller, a verified statement describing such bond or note and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and to serve a copy thereof by registered mail upon the chief fiscal officer of the school district which issued the bond or note. Such investigation by the State Comptroller shall set forth a description of all such bonds and notes of the school district found to be in default and the amount of principal and interest thereon past due.

Upon the filing of such a certificate in the office of the State Comptroller, he shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of such State aid or assistance due to such school district such amount thereof as may be required to pay (a) the school district's contribution to the State Teachers' Retirement System, and (b) the principal of and interest on such bonds and notes of such school district then in default. In the event such State aid or assistance initially so withheld shall be insufficient to pay said amounts in full, the State Comptroller shall similarly deduct and withhold from each succeeding allotment, apportionment or payment of such State aid or assistance due such school district such amount or amounts thereof as may be required to cure such default. Allotments, apportionments and payments of such State aid so deducted or withheld by the State Comptroller for the payment of principal and interest on the bonds and notes shall be forwarded promptly to the paying agent or agents for the bonds and notes in default of such school district for the sole purpose of the payment of defaulted principal of and interest on such bonds or notes. If any such successive allotments, apportionments or payment of such State aid so deducted or withheld shall be less than the amount of all principal and interest on the bonds and notes in default with respect to which the same was so deducted or withheld, then the State Comptroller shall promptly forward to each paying agent an amount in the proportion that the amount of such bonds and notes in default payable to such paying agent bears to the total amount of the principal and interest then in default on such bonds and notes of such school district. The State Comptroller shall promptly notify the chief fiscal officer of such school district of any payment or payments made to any paying agent or agents of defaulted bonds or notes pursuant to said section of the SFL.

NO PAST DUE DEBT

No principal or interest payment on District indebtedness is past due. The District has never defaulted in the payment of the principal of and/or interest on any indebtedness.

BANKRUPTCY

The Federal Bankruptcy Code (Chapter IX) allows public bodies, such as municipalities, recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Title 6-A of the Local Finance Law specifically authorizes any municipality in the State or its emergency control board to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness. While this Local Finance Law provision does not apply to school districts, there can be no assurance that it will not become applicable in the future. As such, the undertakings of the District should be considered with reference, specifically, to Chapter IX, and, in general, to other bankruptcy laws affecting creditors' rights and municipalities. Bankruptcy proceedings by the District if authorized by the State in the future could have adverse effects on bondholders and/or noteholders including (a) delay in the enforcement of their remedies, (b) subordination of their claims to those supplying goods and services to the District after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (c) imposition without their consent of a reorganization plan reducing or delaying payment of the Notes.

The above references to said Chapter IX are not to be construed as an indication that the State will consent in the future to the right of the District to file a petition with any United States district court or court of bankruptcy under any provision of the laws of the United States, now or hereafter in effect for the composition or adjustment of municipal indebtedness or that the District is currently considering or expects to resort to the provisions of Chapter IX if authorized to do so in the future.

THE DISTRICT

Description

The District is located in the eastern portion of the Town of Brookhaven (the “Town”), in the southeastern portion of Suffolk County (the “County”). The District population is approximately 5,700. The District services approximately 700 students from grades K through 8. Students continue their secondary education at the neighboring school districts of Center Moriches, Eastport/South Manor, or Westhampton Beach. A small number of resident students attend private schools (the “Receiving Districts”). The District pays nonresident tuition to the Receiving Districts for each of the students attending secondary school in the Receiving Districts. Nonresident tuition paid by the District, which is included in the District’s annual tax levy, is calculated in accordance with a formula approved by the State of New York.

The District is primarily residential in nature with single and two family residences and condominium complexes. District residents are afforded employment opportunities at business and governmental operations in New York City and, other parts of Long Island. Recreational facilities include Town parks as well as other municipal parks, golf courses and recreational facilities located throughout the County. The major employers within the district include the District, Independent Group Home Living, Kurt Weiss Wholesale Florist, Inc. and a number of nurseries.

The Suffolk County Water Authority and private wells supply water to District residents. Police protection is provided by the Suffolk County Police, while fire protection is provided by the local volunteer fire district. PSEG Long Island, furnishes electric power to residents.

District Organization

The District is an independent entity governed by an elected board of education comprised of seven members. District operations are subject to the provisions of the Education Law affecting school districts; other statutes applicable to the District include the General Municipal Law, the Local Finance Law and the Real Property Tax Law.

Members of the Board of Education are elected on a staggered term basis by qualified voters at the annual election of the District (held on the third Tuesday in May). The term of office for each board member is three (3) years and the number of terms that may be served is unrestricted. A president is selected by the board from its members and also serves as the chief fiscal officer of the District. The Board of Education is vested with various powers and duties as set forth in the Education Law. Among these are the adoption of annual budgets (subject to voter approval), the levy of real property taxes for the support of education, the appointment of such employees as may be necessary, and other such duties reasonably required to fulfill the responsibilities provided by law.

The Board of Education appoints the Superintendent of Schools who serves at the pleasure of the Board. Such Superintendent is the chief executive officer of the District and the education system. It is the responsibility of the Superintendent to enforce all provisions of law and all rules and regulations relating to the management of the schools and other educational, social and recreational activities under the direction of the Board of Education. Also, certain of the financial functions of the District are the responsibility of the Superintendent of Schools and the Assistant Superintendent for Business.

Enrollment History

The following table presents the past school enrollment for the District.

<u>School Year</u>	<u>School Enrollment</u>
2012-2013	1,083
2013-2014	1,078
2014-2015	1,060
2015-2016	1,059
2016-2017	1,070

Source: District Officials.

Projected Future Enrollment

The following table presents the projected future school enrollment for the District.

<u>School Year</u>	<u>School Enrollment</u>
2017-2018	1,052
2018-2019	1,022

Source: District Officials.

District Facilities

The District operates two schools and offices; statistics relating to each are shown below.

<u>Name of School</u>	<u>Grades</u>	<u>Date of Construction</u>	<u>Date of Last Addition</u>	<u>Capacity</u>
Main Building	K-8	1955	1969	650
New Building	K-8	2004	-	550

Employees

The collective bargaining agents, if any, which represent employees and the dates of expirations of the various collective bargaining agreements are as follows:

<u>Name of Union</u>	<u>Expiration Date of Contract</u>	<u>Approx. No. of Members</u>
East Moriches Teachers' Association (Teachers and Teaching Assistants)	06/30/2018	74
CSEA (Clerical and Custodial)	06/30/2020	18
UPSEU (Teacher Aides)	06/30/2020	11

Source: District officials

ECONOMIC AND DEMOGRAPHIC INFORMATION

Population Trends

The District estimates its population to be approximately 5,700. The following table represents population trends for the Town of Brookhaven and County of Suffolk, since 1990, as indicated below:

<u>Year</u>	<u>Town of Brookhaven</u>	<u>Suffolk County</u>
1990	397,014	1,321,864
2000	448,248	1,419,369
2010	486,040	1,493,350
2013	486,868	1,495,803
2015	488,930	1,501,587

Source: Long Island Power Authority and U.S. Bureau of the Census.

Income Data

	<u>Per Capita Money Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2015^a</u>
Town of Brookhaven	16,726	24,191	32,663	36,021
County of Suffolk	18,481	26,577	35,411	38,599
State of New York	16,501	23,389	30,791	34,297
	<u>Median Household Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2015^a</u>
Town of Brookhaven	47,074	62,475	81,654	87,009
County of Suffolk	49,128	65,288	84,235	88,340
State of New York	32,965	43,393	54,148	60,850

Source: United States Bureau of the Census

a. Note: Based on American Community Survey 5-Year Estimates (2011-2015)

Selected Listing of Larger Employers in the Town of Brookhaven^a

<u>Name</u>	<u>Type of Business</u>	<u>Estimated Number of Employees</u>
State University at Stony Brook	Education	13,000
Stony Brook University Medical Center	Medical Center	6,000
Brookhaven National Laboratory	Laboratory	3,000
John T. Mather Hospital	Hospital	1,967
Brookhaven Memorial Hospital	Hospital	1,750
Three Village Central School District	Education	1,650
William Floyd Central School District	Education	1,650
St. Charles Hospital	Hospital	1,600
Quality King Distributors	Commercial	862
Nursing Care at Medford	Nursing Home	580

Source: Division of Economic Development Town of Brookhaven.

a. None of the larger employers listed above are located within the District.

Unemployment Rate Statistics

Unemployment statistics are not available for the District as such. The smallest area for which such statistics are available (which includes the District) is the Town of Brookhaven. The information set forth below with respect to such Town and the County of Suffolk is included for information purposes only. It should not be implied from the inclusion of such data in this Official Statement that the District is necessarily representative of the Town or the County, or vice versa.

<u>Annual Averages:</u>	<u>Town of Brookhaven (%)</u>	<u>Suffolk County (%)</u>	<u>New York State (%)</u>
2012	7.7	7.8	8.6
2013	6.5	6.5	7.7
2014	5.3	5.3	6.4
2015	5.5	4.8	5.3
2016	4.4	4.3	4.9
2017 (6 Month Average)	4.3	4.4	4.6

Source: Department of Labor, State of New York

INDEBTEDNESS OF THE DISTRICT

Constitutional and Statutory Requirements

The New York State Constitution and Local Finance Law limit the power of the District (and other municipalities and school districts of the State) to issue obligations and to contract indebtedness. Such constitutional and statutory limitations include the following, in summary form, and are generally applicable to the District and the Notes:

Purpose and Pledge. The District shall not give or loan any money or property to or in aid of any individual, or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The District may contract indebtedness only for a District purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes (such as the Notes) or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the period of probable usefulness of the object or purpose determined by statute or, in the alternative, the weighted average period of probable usefulness of the several objects or purposes for which it has contracted for; no installment may be more than fifty per centum in excess of the smallest prior installment, unless the District has authorized the issuance of indebtedness having substantially level or declining annual debt service. The District is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds, bond anticipation notes and capital notes.

General. The District is further subject to constitutional limitation by the general constitutionally imposed duty on the State Legislature to restrict the power of taxation and contracting indebtedness to prevent abuses in the exercise of such power; however, the State Legislature is prohibited by a specific constitutional provision from restricting the power of the District to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. There is no constitutional limitation on the amount that may be raised by the District by tax on real estate in any fiscal year to pay principal of and interest on all indebtedness. However, the Tax Levy Limit Law imposes a statutory limitation on the power of the District to increase its annual tax levy. (See "*The Tax Levy Limit Law*" herein).

Statutory Procedure

In general, the State Legislature has, by the enactment of the Local Finance Law, authorized the powers and procedure for the District to borrow and incur indebtedness subject, of course, to the constitutional provisions set forth above. The power to spend money, however, generally derives from other law, including the Education Law.

The Board of Education, as the finance board of the District, has the power to enact tax anticipation note resolutions. Such resolutions may authorize the issuance of tax anticipation notes in an aggregate principle amount necessary to fund anticipated cash flow deficits but in no event exceeding the amount of real property taxes levied or to be levied by the District, less any tax anticipation notes previously issued and less the amount of such taxes previously received by the District.

The Board of Education, as the finance board of the District, also has the power to authorize the sale and issuance of bonds and notes, including the Notes. However, such finance board may delegate the power to sell the Notes to the President of the Board of Education, the chief fiscal officer of the District, pursuant to the Local Finance Law.

Debt Limit. Pursuant to the Local Finance Law, the District has the power to contract indebtedness for any school district purpose authorized by the Legislature of the State of New York provided the aggregate principal amount thereof shall not exceed ten per centum of the full valuation of the taxable real estate of the District and subject to certain enumerated deductions such as State aid for building purposes. The constitutional and statutory method for determining full valuation is by taking the assessed valuation of taxable real estate for the last completed assessment roll and applying thereto the ratio (equalization rate) which such assessed valuation bears to the full valuation; such ratio is determined by the State Board of Real Property Services. The Legislature also is required to prescribe the manner by which such ratio shall be determined by such authority.

The following table sets forth the computation of the debt limit of the District and its debt contracting margin:

Computation of Debt Limit and Debt Contracting Margin
(As of September 11, 2017)

<u>In Town of:</u>	<u>Assessed Valuation</u>	<u>State Equalization Rate</u>	<u>Full Valuation</u>
Brookhaven (2016-2017) ^a	\$7,516,280	0.95%	\$791,187,368
Debt Limit - 10% of Full Valuation			\$79,118,737
Inclusions: ^b			
Outstanding Bonds			\$15,825,000
Bond Anticipation Notes			<u>0</u>
Total Indebtedness			<u>\$15,825,000</u>
Exclusions (Estimated Building Aid) ^c			6,420,555
Total Net Indebtedness			<u>9,404,445</u>
Net Debt Contracting Margin			<u><u>\$69,714,292</u></u>
Per Cent of Debt Contracting Margin Exhausted			11.89%

- a. The latest completed assessment roll for which a State Equalization Rate has been established.
- b. Tax Anticipation Notes, Energy Performance Lease and Revenue Anticipation Notes are not included in computation of the debt contracting margin of the District.
- c. Represents estimate of moneys receivable by the District from the State as an apportionment for debt service for school building purposes, based on the most recent information received by the District from the State Department of Education. The amount shown is not necessarily the amount the District will ultimately receive. The District has not applied for a building aid exclusion certificate from the Commissioner of Education and therefore may not exclude such amount from its total indebtedness on the Debt Statement form required to be filed with the Office of the State Comptroller when bonds are to be issued.

Trend of Outstanding Indebtedness
As at June 30:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Bonds	\$ 20,030,000	\$ 19,145,000	\$ 18,235,000	\$ 17,825,000	\$ 17,575,000
BANs	-	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 20,030,000</u>	<u>\$ 19,145,000</u>	<u>\$ 18,235,000</u>	<u>\$ 17,825,000</u>	<u>\$ 17,575,000</u>

Debt Service Requirements - Outstanding Bonds^a

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 755,000	\$ 607,137	\$ 1,362,137
2019	780,000	584,125	1,364,125
2020	805,000	560,334	1,365,334
2021	830,000	535,787	1,365,787
2022	860,000	506,487	1,366,487
2023	905,000	467,668	1,372,668
2024	950,000	422,559	1,372,559
2025	1,000,000	374,981	1,374,981
2026	1,050,000	324,799	1,374,799
2027	1,105,000	280,906	1,385,906
2028	1,090,000	244,428	1,334,428
2029	1,135,000	198,075	1,333,075
2030	1,225,000	150,909	1,375,909
2031	1,265,000	112,003	1,377,003
2032	1,310,000	70,950	1,380,950
2033	1,175,000	30,569	1,205,569
2034	340,000	5,738	345,738
Totals	<u>\$16,580,000</u>	<u>\$5,477,453</u>	<u>\$22,057,453</u>

a. Does not reflect payments made during the fiscal year ending June 30, 2018.

Outstanding Long-Term Bond Indebtedness

The following table sets forth the total long-term bond indebtedness outstanding at the end of the last five completed fiscal years.

Outstanding Long-Term Bond Indebtedness
As at September 11:

<u>Year</u>	<u>Total Bonded Debt</u>
2013	\$20,030,000
2014	19,145,000
2015	18,235,000
2016	17,825,000
2017	17,575,000

Authorized but Unissued Indebtedness

As of the date of this Official Statement, the District has no authorized and unissued indebtedness and does not anticipate having to borrow for any capital needs in the foreseeable future.

Details of Short-Term Indebtedness Outstanding

As of the date of this Official Statement, the District has no outstanding short-term indebtedness.

Tax Anticipation Notes

The District has generally found it necessary to borrow from time to time in anticipation of taxes, which borrowing is necessitated by the schedule of real property tax payments.

The following is a history of such tax anticipation note borrowings for the five most recent fiscal years:

<u>FYE June 30:</u>	<u>Amount</u>	<u>Type</u>	<u>Issue</u>	<u>Maturity</u>
2012-13	\$6,000,000	TAN	6/26/2012	06/20/2013
2013-14	6,000,000	TAN	6/26/2013	06/19/2014
2014-15	6,000,000	TAN	6/26/2014	06/19/2015
2015-16	6,000,000	TAN	6/24/2015	06/17/2016
2016-17	7,000,000	TAN	6/23/2016	06/15/2017

Authorized and Unissued Debt

The District has no authorized and unissued debt outstanding.

Calculation of Estimated Overlapping and Underlying Indebtedness

<u>Overlapping Units</u>	<u>Date of Report</u>	<u>Percentage Applicable</u>	<u>Applicable Total Indebtedness</u>	<u>Applicable Net Indebtedness</u>
County of Suffolk	03/27/2017	2.34%	\$50,159,896	\$30,941,218
Town of Brookhaven	04/13/2017	0.24	1,690,408	1,427,596
East Moriches Fire District	12/31/2015	100	0	0
Totals			<u>\$51,850,304</u>	<u>\$32,368,814</u>

Sources: Annual Reports of the respective units for the most recently completed fiscal year on file with the Office of the State Comptroller or more recently published Official Statements.

Debt Ratios
(As of September 11, 2017)

	<u>Amount</u>	<u>Per Capita^a</u>	<u>Percentage Of Full Value^b</u>
Total Direct Debt	\$15,825,000	\$ 2,776	2.00
Net Direct Debt	9,404,445	1,650	1.19
Total Direct & Applicable Total Overlapping Debt	67,675,304	11,873	8.55
Net Direct & Applicable Net Overlapping Debt	41,773,259	7,329	5.28

a. The current population of the District is 5,700.

b. The full valuation of taxable property is \$791,187,368.

FINANCES OF THE DISTRICT

Independent Audit

The financial affairs of the District are subject to periodic compliance review by the Office of the State Comptroller to ascertain whether the District has complied with the requirements of various state and federal statutes. The financial statements of the District are audited each year by an independent public accountant. The last such audit covers the fiscal year ended June 30, 2016. A copy of such report is included herein as Appendix C.

Investment Policy

Pursuant to State law, including Sections 10 and 11 of the GML, the District is generally permitted to deposit moneys in banks or trust companies located and authorized to do business in the State. All such deposits, including special time deposit accounts and certificates of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, are required to be secured in accordance with the provisions of and subject to the limitations of Section 10 of the GML.

The District may also temporarily invest moneys in: (1) obligations of the United States of America; (2) obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America; (3) obligations of the State of New York; (4) with the approval of the New York State Comptroller, in tax anticipation notes or revenue anticipation notes issued by any municipality, school district, or district corporation, other than those notes issued by the District, itself; (5) certificates of participation issued in connection with installment purchase agreements entered into by political subdivisions of the State pursuant to Section 109-b(10) of the GML; (6) obligations of a New York public benefit corporation which are made lawful investments for municipalities pursuant to the enabling statute of such public benefit corporation; or (7) in the case of moneys held in certain reserve funds established by the District pursuant to law, in obligations of the District.

All of the foregoing investments are required to be payable or redeemable at the option of the owner within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. Unless registered or inscribed in the name of the District, such instruments and investments must be purchased through, delivered to and held in custody of a bank or trust company in the State pursuant to a written custodial agreement as provided by Section 10 of the GML.

The Board of Education of the District has adopted an investment policy and such policy conforms with applicable laws of the State governing the deposit and investment of public moneys. All deposits and investments of the District are made in accordance with such policy.

Fund Structure and Accounts

The General Fund is the general operating fund for the District and is used to account for substantially all revenues and expenditures of the District. The District also maintains a special aid fund and school lunch fund. In addition, a capital projects fund is used to record capital facility projects, while a trust and agency fund accounts for assets received by the District in a fiduciary capacity.

Basis of Accounting

The district-wide and fiduciary fund financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. 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 transaction, in which the District gives or receives value without directly receiving or giving equal value in exchange, include real property taxes, grants and donations. On an accrual basis, revenue from real 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 and the related expenditures are incurred.

The fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they 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.

Source: Audited Financials of the District.

Budget Process

The District’s fiscal year begins on July 1 and ends on June 30. Starting in the fall or winter of each year, the District’s financial plan and enrollment projection are reviewed and updated and the first draft of the next year’s proposed budget is developed by the central office staff. During the winter and early spring, the budget is developed and refined in conjunction with the school building principals and department supervisors. The District’s budget is subject to the provisions of the Tax Levy Limit Law, which imposes a limitation on the amount of real property taxes that a school district may levy, and by law is submitted to voter referendum on the third Tuesday of May each year. (See “*The Levy Limit Law*” herein). On May 16, 2017, a majority of the voters of the District approved the District’s budget for the 2017-2018 fiscal year. Summaries of the District’s Adopted Budgets for the fiscal years 2016-2017 and 2017-2018 may be found in Appendix A, herein.

Revenues

The District receives most of its revenue from a real property tax on all non-exempt real property situated within the District and State aid. A summary of such revenues for the five most recently completed fiscal years may be found in Appendix A.

Real Property Taxes

See “*Tax Information*” herein.

State Aid

The District receives appropriations from the State of State aid for operating, building and other purposes at various times throughout its fiscal year, pursuant to formulas and payment schedules set forth by statute. While the State has a constitutional duty to maintain and support a system of free common schools that provides a “sound basic education” to children of the State, there can be no assurance that the State appropriation for State aid to school districts will be continued in future years, either pursuant to existing formulas or in any form whatsoever. State aid appropriated and apportioned to the school districts can be paid only if the State has such monies available for such payment.

The following table sets forth the amounts of the District’s General Fund revenue comprised of State aid for each of the fiscal years 2012 through 2016, inclusive and the amounts budgeted for the 2017 and 2018 fiscal years.

Fiscal Year	General Fund	State Aid	State Aid To
Ending June 30:	Total Revenue	State Aid	Revenues (%)
2012	\$23,416,385	\$5,606,997	23.94
2013	24,182,434	5,965,120	24.67
2014	25,077,714	6,151,233	24.53
2015	25,455,301	6,292,364	24.72
2016	26,161,479	6,304,757	24.10
2017 (Budgeted) ^a	26,874,825	6,921,877	25.76
2018 (Budgeted) ^a	27,387,799	7,276,832	26.57

a. Budgeted revenues include the application of reserves and fund balance.

In addition to the amount of State Aid budgeted annually by the District, the State makes payments of STAR aid representing tax savings provided by school districts to their taxpayers under the STAR Program (See “*STAR – School Tax Exemption*” herein). The District is expected to receive STAR aid in January, 2018.

There can be no assurance that the State appropriation for State aid to school districts will be continued in future years, either pursuant to existing formulas or in any form whatsoever. State aid appropriated and apportioned to the District can be paid only if the State has such monies available therefore. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget or other circumstances including State fiscal stress. In any event, State aid appropriated and apportioned to the District can be paid only if the State has such monies available therefore.

Potential reductions in Federal aid received by the State. The State receives a substantial amount of Federal aid for education. Many of the policies that drive this Federal aid are subject to change under the current presidential administration and Congress. However, the State’s current financial projections concerning Federal aid, and the assumptions on which they are based, are subject to revision as more information becomes available about the proposals for Federal tax policy and legislation, health care, including amendments to the Affordable Care Act, infrastructure, taxation, the Budget Control Act of 2011 (as amended), Federal regulatory reform, and other issues that may arise.

Reductions in Federal funding levels could have a materially adverse impact on the State budget. In addition to the potential fiscal impact of policies that may be proposed and adopted by the new administration and Congress, the State budget may be adversely affected by other actions taken by the Federal government, including audits, disallowances, and changes to Federal participation rates or other medicaid rules.

There can be no assurance that the State’s financial position will not change materially and adversely from current projections. If this were to occur, the State would be required to take additional gap-closing actions. Such actions may include, but are not limited to: reductions in State agency operations; delays or reductions in payments to local governments or other recipients of State aid including school districts in the State. Reductions in the payment of State aid could adversely affect the financial condition of school districts in the State.

Should the District fail to receive State aid expected from the State in the amounts and at the times expected, occasioned by a delay in the payment of such monies or by a mid-year reduction in State aid, the District is authorized by the Local Finance Law to provide operating funds by borrowing in anticipation of the receipt of uncollected State aid.

Litigation regarding apportionment of State aid. In January 2001, the State Supreme Court issued a decision in *Campaign for Fiscal Equity (“CFE”) v. State of New York* mandating that the system of apportionment of State aid to school districts within the State be restructured by the Governor and the State Legislature. On June 25, 2002, the Appellate Division of the State Supreme Court reversed that decision. On June 26, 2003, the State Court of Appeals, the highest court in the State, reversed the Appellate Division, holding that the State must, by July 30, 2004, ascertain the actual cost of providing a sound basic education, enact reforms to the system of school funding and ensure a system of accountability for such reforms. The Court of Appeals further modified the decision of the Appellate Division by deciding against a Statewide remedy and instead limited its ruling solely to the New York City school system.

After further litigation in 2006, the Court of Appeals held that \$1.93 billion of additional funds for the New York City schools - as initially proposed by the Governor and presented to the State Legislature as an amount sufficient to provide a sound basic education - was reasonably determined. State legislative reforms enacted in the wake of the decision in *Campaign for Fiscal Equity (“CFE”) v. State of New York*, included increased accountability for expenditure of State funds and collapsing over 30 categories of school aid into one classroom operating formula referred to as foundation aid. Foundation aid prioritizes funding distribution based upon student need.

Litigation is continuing however as a statewide lawsuit entitled *NYSER v. State of New York* has been filed recently on behalf of the State’s public-school students. The lawsuit asserts that the State has failed to comply with the decision of the New York State Court of Appeals in *CFE v. State of New York*. The complaint asks the court for an order requiring the State to immediately discontinue the cap on State aid increases and the supermajority requirements regarding increases in local property tax levies. The complaint also asks the court to order the State to develop a new methodology for determining the actual costs of providing all students the opportunity for a sound basic education, revise the State funding formulas to ensure that all schools receive sufficient resources, and ensure a system of accountability that measures whether every school has sufficient resources and that all students are, in fact, receiving the opportunity to obtain a sound basic education. On June 27, 2017, the Court of Appeals ruled that NYSER’s claims that students in New York City and Syracuse are being denied the opportunity for a sound basic education could go to trial and that NYSER could rely upon the CFE decision in its arguments. It is not possible to predict the outcome of this litigation.

Recent Events Affecting State Aid to New York School Districts

Following a State budgetary crisis in 2009, State aid to school districts in the State decreased for a number of years with increases established in more recent years.

School district fiscal year (2012-2013): The State Legislature adopted the State budget on March 30, 2012. The budget included an increase of \$751 million in State aid for school districts.

School district fiscal year (2013-2014): The State Legislature adopted the State budget on March 29, 2013. The budget included an increase of \$936.6 million in State aid for school districts.

School district fiscal year (2014-2015): The State Legislature adopted the State budget on March 31, 2014. The Enacted 2014-2015 State Budget included a \$1.1 billion or 5.3% increase in State aid to school districts for the 2014-2015 school year. High-need school districts received 70% of the state aid increase. The Enacted 2014-2015 State Budget restored \$602 million of Gap Elimination Adjustment reductions that had been imposed on school districts from 2010-2011 to 2012-2013. The Enacted 2014-2015 State Budget invested \$1.5 billion over five years to support the phase-in of a Statewide universal full-day pre-kindergarten program.

School district fiscal year (2015-2016): The State Legislature adopted the State budget on March 31, 2015. Said budget included an increase of \$1.4 billion in State aid for school districts that was tied to changes in the teacher evaluation and tenure process.

School district fiscal year (2016-2017): The Enacted 2016-2017 State Budget included a school aid increase of \$991 million over 2015-2016, \$863 million of which consisted of traditional operating aid. In addition to full-funding of expense based aids (\$408 million), the Enacted 2016-2017 State Budget included a \$266 million increase in Foundation Aid and an \$189 million restoration to the Gap Elimination Adjustment (the "GEA"). The majority of the remaining increase (\$100 million) related to Community Schools Aid, a newly adopted aid category, to support school districts that wish to create community schools. Such funds may only be used for certain purposes such as providing health, mental health and nutritional services to students and their families.

School district fiscal year (2017-2018): The State's 2017-2018 Enacted Budget provides for school aid of approximately \$25.8 billion, an increase of \$1.1 billion in school aid spending from the 2016-2017 school year. The majority of the increases have been targeted to high need school districts. Expense-based aids to support school construction, pupil transportation, BOCES and special education were continued in full, as is the State's usual practice. Transportation aid increased by 5.5% and building aid increased by 4.8%. The State 2017-18 Enacted Budget continues to link school aid increases for 2017-18 and 2018-19 to teacher and principal evaluation plans approved by September 1 of the current year in compliance with Education Law Section 3012-d. In addition, the Enacted 2017-2018 State Budget allows the Governor to reduce aid to school districts mid-year if receipts from the Federal government are less than what was expected. If federal support is reduced by \$850 million or more, the New York State Director of the Budget will develop a plan to make uniform spending reductions by the State. Such plan would take effect automatically unless the State Legislature passes its own plan within 90 days.

The State provides annual State aid to school districts in the State, including the District, on the basis of various formulas. Due to the State's own budgetary crisis in 2009 and to assist the State in mitigating the impacts of its own revenue shortfall, the State reduced the allocation of State aid to school districts as part of a program known as the Gap Elimination Adjustment ("GEA"). The GEA was a negative number (funds that were deducted from the State aid originally due to the District under State aid formulas). The District's State aid was reduced as a result of the GEA program starting in 2009. Subsequent State budgets decreased the amount of the GEA deduction and the Adopted Budget for the State's 2016-2017 fiscal year eliminated the remaining balance of the GEA.

The Smart Schools Bond Act was passed as part of the Enacted 2014-2015 State Budget. The Smart Schools Bond Act authorizes the issuance of \$2 billion of general obligation bonds by the State to finance improved educational technology and infrastructure to enhance learning and opportunity for students throughout the State. The District's estimated allocation of funds is \$558,000.

The District cannot predict at this time whether there will be any reductions in and/or delays in the receipt of State aid during the remainder of the current fiscal year and during the District's 2017-2018 fiscal year. The District believes that it would mitigate the impact of any delays or the reduction in State aid by reducing expenditures, increasing revenues, appropriating other available funds on hand, and/or by any combination of the foregoing. (See also "*Market Factors Affecting Financings of the State and School Districts of the State*").

Expenditures

The major categories of expenditure for the District are General Support, Instruction, Employee Benefits, Pupil Transportation and Debt Service. A summary of the expenditures for the five most recently completed fiscal years may be found in Appendix A.

Financial Recovery Plan Following 2006 Deficit

For its fiscal year ended June 30, 2006, the District's Audited Financial Statement reflected a negative fund balance in the General Fund of (\$3,214,468) (see "*Appendix B – Financial Statement Summaries*" herein.) During its fiscal year ended June 30, 2007, the District issued deficit bonds in the principal amount of \$2,000,000 to fund a like amount of its cumulative General Fund deficit which matured on June 15, 2017. Also during its 2007 fiscal year, the District collected \$882,000 in real property taxes in excess of the amount budgeted for that period as a result of an increase in its assessed valuation of the District as reported by the Town of Brookhaven's Tax Assessor. The District's Audited Financial Statement for that same 2007 fiscal year reflected that the District realized increases above budgeted amounts of approximately \$220,000 in "Use of Money and Property", \$112,000 in "Other Tax Items" and \$183,000 in "State Sources", all of which allowed the District to end its 2007 fiscal year with a cumulative fund balance of \$82,711, as reflected in its Audited Financial Statement for that period.

The District has implemented strict controls over money management to insure that there will be no future deficits. Based on the District's audited financial results for the fiscal year ended June 30, 2010, the District ended the 2010 fiscal year with a fund balance of \$2,464,444, of which \$1,177,716 was undesignated. Based on the District's audited financial results for the fiscal year ended June 30, 2011, the District ended the 2011 fiscal year with a fund balance of \$2,556,264, of which \$1,277,278 was undesignated. Based on the District's audited financial results for the fiscal year ended June 30, 2012, the District ended the 2012 fiscal year with a fund balance of \$2,684,435, of which \$1,396,390 was undesignated. Based on the audited financial results for the fiscal year ended June 30, 2013, the District ended the 2013 fiscal year with a fund balance of \$1,890,226 of which \$749,046 was undesignated. Based on the audited financial results for the fiscal year ended June 30, 2014, the District ended 2014 fiscal year with a fund balance of \$2,390,783 of which \$1,035,059 was undesignated. Based on the District's audited financial results for the fiscal year ended June 30, 2015, the District ended the 2015 fiscal year with a fund balance of \$1,991,275, of which \$859,063 was undesignated. Based on the District's audited financial results for the fiscal year ended June 30, 2016, the District ended the 2016 fiscal year with a fund balance of \$2,206,303, of which \$1,614,343 was undesignated. The policies and procedures implemented by the District has resulted in a vastly improved financial position.

Pursuant to the deficit legislation, the District's annual budgets are carefully developed to insure that revenues are not overstated and expenditures are not under-budgeted. The 2016-17 and 2017-2018 budget was submitted to and reviewed by the State Comptroller's Office to insure accuracy of all budget and revenue codes. Such budget was approved by the State Comptroller's Office.

The State Comptroller's Fiscal Stress Monitoring System and OSC Compliance Reviews

The New York State Comptroller has reported that New York State's school districts and municipalities are facing significant fiscal challenges. As a result, the Office of the State Comptroller has developed a Fiscal Stress Monitoring System ("FSMS") to provide independent, objectively measured and quantifiable information to school districts and municipal officials, taxpayers and policy makers regarding the various levels of fiscal stress under which the State's school districts and municipalities are operating.

The fiscal stress scores are based on financial information submitted as part of each school ST-3 report filed with the State Education Department annually, and each municipality's annual report filed with the Office of the State Comptroller (OSC). Using financial indicators that include year-end fund balance, cash position and patterns of operating deficits, the system creates an overall fiscal stress score which classifies whether a school district or municipality is in "significant fiscal stress", in "moderate fiscal stress," as "susceptible to fiscal stress" or "no designation". Entities that do not accumulate the number of points that would place them in a stress category will receive a financial score but will be classified in a category of "no designation." This classification should not be interpreted to imply that the entity is completely free of fiscal stress conditions. Rather, the entity's financial information, when objectively scored according to the FSMS criteria, did not generate sufficient points to place them in one of the three established stress categories.

The most current applicable report of OSC designates the District as “No Designation” (Fiscal Score: 18.3%). More information on the FSMS may be obtained from the Office of the State Comptroller.

In addition, OSC helps local government officials manage government resources efficiently and effectively. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through its audits, which identify opportunities for improving operations and governance. The most recent audit performed was released April 5, 2017. The purpose of such audit was to provide an independent evaluation of the District’s proposed budget for the 2017-2018 fiscal year. The complete report, together with the District’s response, may be found on the OSC’s official website. Reference to this website implies no warranty of accuracy of information therein.

Employee Pension System

New York State Certified employees (teachers and administrators) are members of the New York State Teachers Retirement System (“TRS”). Employer pension payments to the TRS are generally deducted from State aid payments. All non-NYS certified/civil service employees of the District eligible for pension or retirement benefits under the Retirement and Social Security Law of the State of New York are members of the New York State and Local Employee’s Retirement System (“ERS”). Both the TRS and ERS are non-contributory with respect to members hired prior to July 1, 1976. Other than as discussed below, all members of the respective systems hired on or after July 1, 1976 with less than 10 year’s full-time service contribute 3% of their gross annual salary toward the cost of retirement programs.

On December 10, 2009, the Governor signed in to law a new Tier 5. The law is effective for new ERS and TRS employees hired after January 1, 2010 and before March 31, 2012. ERS employees contribute 3% of their salaries and TRS employees contribute 3.5% of their salaries. There is no provision for these employee contributions to cease after a certain period of service.

On March 16, 2012, Governor Cuomo signed into law Chapter 18 of the Laws of 2012, which legislation provides for a new Tier 6 for employees hired after April 1, 2012. This new pension tier has progressive employee contribution rates between 3% and 6% and such employee contributions continue so long as the employee continues to accumulate pension credits; it increases the retirement age for new employees from 62 to 63 and includes provisions allowing early retirement with penalties. Under Tier 6, the pension multiplier is 1.75% for the first 20 years of service and 2% thereafter; vesting will occur after 10 years; the time period for calculation of final average salary is increased from three years to five years; and the amount of overtime to be used to determine an employee’s pension is capped at \$15,000, indexed for inflation, for civilian and non-uniform employees and at 15% of base pay for uniformed employees outside of New York City. It also includes a voluntary, portable, defined contribution plan option for new non-union employees with salaries of \$75,000 or more.

Under current law, the employer pension payments for a given fiscal year are based on the value of the pension fund on the prior April 1 thus enabling the District to more accurately include the cost of the employer pension payment in its budget for the ensuing year. In addition, the District is required to make a minimum contribution of 4.5% of payroll every year, including years in which the investment performance of the fund would make a lower payment possible. The annual employer pension payment is due on February 1 of each year.

Due to poor performance of the investment portfolio of TRS and ERS during the recent financial crisis, the employer contribution rates for required pension payments to the TRS and ERS increased substantially. To help mitigate the impact of such increases, legislation was enacted that permitted school districts to amortize a portion of its annual employer pension payment to the ERS only. Under such legislation, school districts that choose to amortize were required to set aside and reserve funds with the ERS for certain future rate increases. The District has not amortized any of its employer pension payments pursuant to this legislation and expects to continue to pay all payments in full when due.

In addition, in Spring 2013, the State and TRS approved a Stable Contribution Option (“SCO”) that gives school districts the ability to better manage the spikes in Actuarially Required Contribution rates (“ARCs”). ERS followed suit and modified its existing ERS SCO. Each plan allows school districts to pay the SCO amount in lieu of the ARC amount, which is higher, and defer the difference in payment amounts.

The TRS SCO deferral plan is available to school districts for up to 7 years. Under the TRS SCO plan, payment of the deferred amount will commence in year six of the program (2018-19) and continue for five years. School districts can elect to no longer participate in the plan at any time, resume paying the ARC and begin repayment of deferred amounts over five years. Under the ERS SCO, payment of deferred amounts begins the year immediately following the deferral and the repayment period is 12 years. Once made, the election to participate in the ERS SCO is permanent. However, the school districts can choose not to defer payment in any

given year. In both plans, interest on the deferred amounts is based on the yield of 10-year U.S. Treasury securities plus 1%. The District has not amortized any of its employer pension payments as part of the SCO and expects to continue to pay all payments in full when due.

The primary benefit of participation in the SCO plans is the elimination of the uncertainty in the volatility of future pension contribution ARCs in the near term, thereby providing school districts with significant assistance in its ability to create a stable and reliable fiscal plan.

The following chart represents the TRS and ERS required contributions for each of the last five completed fiscal years and the budgeted amount for the 2017 fiscal year.

Fiscal Year <u>Ended June 30:</u>	<u>TRS</u>	<u>ERS</u>
2012	\$ 611,703	\$145,906
2013	686,858	179,362
2014	992,912	215,025
2015	1,091,915	180,150
2016	838,485	196,420
2017 (Budgeted)	663,000	180,150

Source: Audited Financial Statements.

Other Post-Employment Benefits

The District provides post-retirement healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. School districts and Boards of Cooperative Education Services, unlike other municipal units of government in the State, have been prohibited from reducing retiree health benefits or increasing health care contributions received or paid by retirees below the level of benefits or contributions afforded to or required from active employees. This protection from unilateral reduction of benefits had been extended annually by the New York State Legislature until recently when legislation was enacted to make permanent these health insurance benefit protections for retirees. Legislative attempts to provide similar protection to retirees of other local units of government in the State have not succeeded as of the date hereof. Nevertheless, many such retirees of all varieties of municipal units in the State do presently receive such benefits.

GASB Statement No. 45 (“GASB 45”) of the Governmental Accounting Standards Board (“GASB”), requires state and local governments to account for and report their costs associated with post-retirement healthcare benefits and other non-pension benefits (“OPEB”). GASB 45 generally requires that employers account for and report the annual cost of the OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Under previous rules, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on governmental financial statements. Only current payments to existing retirees were recorded as an expense.

GASB 45 requires that state and local governments adopt the actuarial methodologies to determine annual OPEB costs. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due.

Under GASB 45, based on actuarial valuation, an annual required contribution (“ARC”) will be determined for each state or local government. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liabilities actually be funded, only that the District account for its unfunded accrued liability and compliance in meeting its ARC. Actuarial valuation will be required every two years for the District.

The following table shows the components of the District’s annual OPEB cost for the year 2016, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation.

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>Fiscal Year Ended June 30, 2016:</u>
Annual required contribution (ARC)	\$1,261,072
Interest on net OPEB obligation	431,949
Less: Adjustments to ARC	<u>(346,293)</u>
Annual OPEB cost (expense)	1,346,728
Less: Contributions made	<u>(442,336)</u>
Increase in net OPEB obligation	904,392
Net OPEB obligation-beginning of year	<u>8,638,990</u>
Net OPEB obligation-end of year	<u><u>\$9,543,382</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016 and the two preceding years are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed (%)</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$2,322,255	24.0	\$7,702,565
June 30, 2015	1,375,103	31.9	8,638,990
June 30, 2016	1,346,728	32.8	9,543,382

The OSC has recently proposed legislation to provide the State and certain local governments with the authority to establish trusts in which to accumulate assets for OPEB and to establish an OPEB investment fund in the sole custody of the State Comptroller for the investment of OPEB assets of the State and participating eligible local governments. The District cannot predict at this time whether such proposed legislation will be enacted into law. At this time, New York State has not developed guidelines for the creation and use of irrevocable trusts for the funding of OPEB. As a result, the District has decided to continue funding the expenditure on a pay-as-you-go basis.

Should the District be required to fund its unfunded actuarial accrued OPEB liability, it could have a material adverse impact upon the District’s finances and could force the District to reduce services, raise taxes or both.

TAX INFORMATION

Real Property Taxes

The District derives its power to levy an ad valorem real property tax from the State Constitution; methods and procedures to levy, collect and enforce this tax are governed by the Real Property Tax Law. Real property assessment rolls used by the District are prepared by the Town of Babylon. Assessment valuations are determined by the Town assessor and the State Board of Real Property Services which is responsible for certain utility and railroad property. In addition, the State Board of Real Property Services annually establishes State Equalization Rates for all localities in the State, which are determined by statistical sampling of market sales/assessment studies. The equalization rates are used in the calculation and distribution of certain State aids and are used by many localities in the calculation or debt contracting and real property taxing limitations. The District is not subject to constitutional real property taxing limitations; however, see “*The Tax Levy Limit Law*” herein for a discussion of certain statutory limitation that have been imposed.

The following table sets forth the amount of the District’s General Fund revenue (excluding other financing sources) comprised of real property taxes for each of the fiscal years 2012 through 2016, inclusive and for the amounts budgeted for the 2017 and 2018 fiscal years.

<u>Fiscal Year</u> <u>Ended June 30:</u>	<u>Total Revenue</u>	<u>Real Property</u> <u>Taxes</u>	<u>Real Property</u> <u>Taxes to</u> <u>Revenues (%)</u>
2012	\$23,416,385	\$17,408,914	74.35
2013	24,182,434	17,804,416	73.63
2014	25,077,714	18,356,322	73.20
2015	25,455,301	18,630,820	73.19
2016	26,161,479	19,191,639	73.36
2017 (Budgeted) ^a	26,874,825	19,609,982	72.97
2018 (Budgeted) ^a	27,387,799	19,954,994	72.86

a. Budgeted estimates for real property taxes include STAR. Budgeted estimates for total revenues include appropriations of fund balance.

Tax Collection Procedure

Property taxes for the District, together with County, Town and Fire District taxes, are collected by the Town Tax Receiver. Such taxes are due and payable in equal installments on December 1 and May 10, but may be paid without penalty by January 10 and May 31, respectively. Penalties on unpaid taxes are 1% per month from the date such taxes are due and 10% after May 31.

The Town Tax Receiver distributes the collected tax money to the Town, fire and school districts prior to distributing the balance collected to the County. Uncollected amounts are not segregated by the Receiver and any deficiency in tax collection is the County’s liability. The District thereby is assured of full tax collection.

The Tax Levy Limit Law

Chapter 97 of the New York Laws of 2011, as amended, (herein referred to as the “Tax Levy Limit Law” or “Law”) modified previous law by imposing a limit on the amount of real property taxes that a school district may levy.

Prior to the enactment of the Law, there was no statutory limitation on the amount of real property taxes that a school district could levy if its budget had been approved by a simple majority of its voters. In the event the budget had been defeated by the voters, the school district was required to adopt a contingency budget. Under a contingency budget, school budget increases were limited to the lesser of four percent (4%) of the prior year’s budget or one hundred twenty percent (120%) of the consumer price index (“CPI”).

Under the Tax Levy Limit Law, there is now a limitation on the amount of tax levy growth from one fiscal year to the next. Such limitation is the lesser of (i) 2% or (ii) the annual percentage increase in the consumer price index, subject to certain exclusions as mentioned below and as described in the Law. A budget with a tax levy that does not exceed such limit will require approval by at least 50% of the voters. Approval by at least 60% of the voters will be required for a budget with a tax levy in excess of the limit. In the event the voters reject the budget, the tax levy for the school district’s budget for the ensuing fiscal year may not exceed the amount of the tax levy for the prior fiscal year. School districts will be permitted to carry forward a certain portion of their unused tax levy limitation from a prior year.

The Law permits certain significant exclusions to the tax levy limit for school districts. These include taxes to pay the local share of debt service on bonds or notes issued to finance voter approved capital expenditures and the refinancing or refunding of such bonds or notes, certain pension cost increases, and other items enumerated in the Law. However, such exclusion does NOT apply to taxes to pay debt service on tax anticipation notes (such as the Notes), revenue anticipation notes, budget notes and deficiency notes; and any obligations issued to finance deficits and certain judgments, including tax certiorari refund payments.

STAR - School Tax Exemption

The STAR (School Tax Relief) program provides State-funded exemptions from school property taxes to homeowners for their primary residences. Homeowners over 65 years of age with household adjusted gross incomes, less the taxable amount of total distributions from individual retirement accounts and individual retirement annuities (“STAR Adjusted Gross Income”) of \$86,000 or less, increased annually according to a cost of living adjustment, are eligible for a “full value” exemption of the first \$65,300 for the 2016-17 school year (adjusted annually). Other homeowners with household STAR Adjusted Gross income not in excess of \$500,000 are eligible for a \$30,000 “full value” exemption on their primary residence. School districts receive full reimbursement from the State for real property taxes exempted pursuant to the STAR program by the first business day in January of each year.

Part A of Chapter 60 of the Laws of 2016 of the State of New York (“Chapter 60”) gradually converts the STAR program from a real property tax exemption to a personal income tax credit. Chapter 60 prohibits new STAR exemptions from being granted unless at least one of the applicants held title to the property on the taxable status date of the assessment roll that was used to levy school district taxes for the 2015-2016 school year (generally, March 1, 2015), and the property was granted a STAR exemption on that assessment roll. However, a new homeowner may receive a new personal income tax credit in the form of a check. The dollar benefit to eligible taxpayers will not change. A taxpayer who is eligible for the new credit will receive a check from the State equal to the amount by which the STAR exemption would have reduced his or her school tax bill. A homeowner who owned his or her home on the taxable status date for the assessment roll used to levy taxes for the 2015-2016 school year, and who received a STAR exemption on that roll, may continue to receive a STAR exemption on that home as long as he or she still owns and primarily resides in it. No further action is required (unless the homeowner has been receiving Basic STAR and wants to apply for Enhanced STAR, which is permissible).

The State 2017-18 Enacted Budget includes changes to Chapter 60. STAR checks are now expected to be mailed out prior to the date that school taxes are payable. The amount of the check will be based on the previous year’s amount adjusted by the levy growth factor used for the property tax cap. Any changes that must be made based on the final STAR credit compared to the estimate used will be factored into the subsequent year’s STAR credit check or taxpayers also may account for those changes in their State income taxes.

Approximately 7% of the District’s 2016-2017 school tax levy was exempted by the STAR program and the District has received full reimbursement of such exempt taxes from the State. Approximately 7% of the District’s 2017-2018 school tax levy is expected to be exempted by the STAR program and the District expects to receive full reimbursement of such exempt taxes from the State in January 2018. (See “*State Aid*” herein).

Rebate Program

Chapter 59 of the Laws of 2014 (“Chapter 59”) included provisions which provided a refundable personal income tax credit to real property taxpayers in school districts in 2014 and 2015 and certain municipal units of government in 2015 and 2016. The eligibility of real property taxpayers for the tax credit in each year depended on such jurisdiction’s compliance with the provisions of the Tax Levy Limitation Law. For the second taxable year of the program, the refundable personal income tax credit for real property taxpayers was additionally contingent upon adoption by the school district or municipal unit of a State approved “government efficiency plan” which demonstrated three-year savings and efficiencies of at least one per cent per year from shared services, cooperation agreements and/or mergers or efficiencies.

Chapter 20 of the Laws of 2015 (“Chapter 20”) introduced a new real property tax rebate program that provides state-financed tax rebate checks and credits to taxpayers who are eligible for the STAR exemption in the years 2016-2019. For 2016, eligible taxpayers who resided outside New York City but within the Metropolitan Commuter Transportation District (“MCTD”) received \$130, and eligible taxpayers who resided outside the MCTD received \$185. Credits in 2017-2019 will vary based on a taxpayer’s personal income level and STAR tax savings. Similar to the Chapter 59 real property tax credit, under Chapter 20 the eligibility of real property taxpayers in each year depends on the school district’s compliance with the provisions of the Tax Levy Limitation Law. Unlike Chapter 59, however, for taxpayers other than those living in one of the “Big 4” cities only the compliance of the school district in which the taxpayer resides is relevant. Municipal compliance with the Tax Levy Limitation Law is only required in the case of the “Big 4” cities that have fiscally dependent school districts. In such cases, the joint school/city levy must remain in compliance with the Tax Levy Limitation Law. In either scenario, the relevant jurisdiction (independent school district or joint city/school district) must certify its compliance with the provisions of Chapter 97. While the provisions of Chapter 59 did not, and the provisions of Chapter 20 do not, directly further restrict the taxing power of the affected municipalities, school districts and special districts, Chapter 59 did, and Chapter 20 does, provide an incentive for such tax levies to remain within the tax cap limits established by the Tax Levy Limitation Law.

Valuations, Rates and Levies

<u>Fiscal Year Ending June 30:</u>	<u>Assessed Valuation</u>	<u>State Equal Rate (%)</u>	<u>Full Valuation</u>	<u>Tax Rate Per \$1,000 Assessed Valuation</u>
2013	\$7,469,158	0.91	\$820,786,593	\$238.20
2014	7,471,752	0.95	786,500,211	245.10
2015	7,479,937	0.95	787,361,789	248.40
2016	7,524,158	0.95	792,016,632	253.70
2017	7,516,280	0.95	791,187,368	260.64

Selected Listing of Large Taxable Properties 2016-2017 Assessment Roll

<u>Name</u>	<u>Type</u>	<u>Assessed Valuation</u>
Frowein Road LLC	Commercial	\$290,740
Long Island Power Authority	Utility	60,786
Moriches Industrial Park LLC	Commercial	54,700
KEG Realty Company LLC Scarda Enterprises LLC.	Real Estate	42,570
Keyspan	Utility	26,922
Verizon New York Inc.	Utility	22,955
MRT 81 Corp	Commercial	22,500
HJE Real Estate Inc.	Real Estate	22,100
Montanez Frank	Real Estate	21,000
Weiss Russell C	Residence	20,400
	Total ^a	\$584,673

a. Represents 7.78% of the total assessed valuation of the District for 2016-2017.
Source: Town Assessment Rolls.

Tax Certiorari Claims

In common with other school districts, there are a number of tax certiorari proceedings pending involving properties that are subject to the levy of District taxes. The plaintiffs in these matters have asserted that their properties are over-assessed and are seeking assessment reductions. A refund of excess taxes is also generally requested. Historically, certiorari claims have been settled through negotiations, resulting in amounts, at times, substantially less than originally claimed. Many settlements provide for future adjustments with no direct outlay of money. There are no significant claims filed by the larger taxpayers at this time. (See “*Tax Collection Procedure*” herein.)

LITIGATION

In common with other school districts, the District from time to time receives notices of claim and is party to litigation. In the opinion of the District, after consultation with its attorney, unless otherwise set forth herein and apart from matters provided for by applicable insurance coverage, there are no significant claims or actions pending in which the District has not asserted a substantial and adequate defense, nor which, if determined against the District, would have an adverse material effect on the financial condition of the District.

DISCLOSURE UNDERTAKING

In order to assist the purchasers in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), the District will execute a Certificate to Provide Notices of Events, the form of which is attached hereto as “Appendix E”.

Disclosure Compliance History

The following table sets forth the annual filings for each of the five preceding fiscal years.

<u>Fiscal Year Ending June 30:</u>	<u>Financial & Operating Information</u>	<u>Audited Financial Statements</u>
2012	12/21/2012	12/21/2012
2013	12/30/2013	12/30/2013
2014	12/23/2014	11/17/2014
2015	12/18/2015	11/17/2015
2016	12/27/2016	12/27/2016

The continuing disclosure agreement executed by the District with respect to the School District Serial Bonds – 2003, required the District to annually file with each Nationally Recognized Municipal Securities Information Depository (“NRMSIR”) or with EMMA, as the case may be, audited financial statements, along with certain annual financial information in the form generally consistent with the information contained in or cross-referenced in the official statement for such serial bonds issue. For the years 2003, 2004, 2005, such information was not filed until 2006. The District did not provide timely notice of the late filings and disclosure of such late filings was not made in subsequent offering documents of the District. A material event notice was filed on June 11, 2014.

MARKET MATTERS AFFECTING FINANCINGS OF THE MUNICIPALITIES AND SCHOOL DISTRICTS OF THE STATE

The District’s credit rating could be affected by circumstances beyond the District’s control. Economic conditions such as the rate of unemployment and inflation, termination of commercial operations by corporate taxpayers and employers, as well as natural catastrophes, could adversely affect the assessed valuation of District property and its ability to maintain fund balances and other statistical indices commensurate with its current credit rating. As a consequence, a decline in the District’s credit rating could adversely affect the market value of the Notes.

If and when an owner of any of the Notes should elect to sell all or a part of the Notes prior to maturity, there can be no assurance that a market will have been established, maintained and continue in existence for the purchase and sale of any of those Notes. The market value of the Notes is dependent upon the ability of holder to potentially incur a capital loss if such Notes are sold prior to its maturity.

There can be no assurance that adverse events including, for example, the seeking by another municipality in the State or elsewhere of remedies pursuant to the Federal Bankruptcy Act or otherwise, will not occur which might affect the market price of and the market for the Notes. In particular, if a significant default or other financial crisis should occur in the affairs of the State or any of its municipalities, public authorities or other political subdivisions thereby possibly further impairing the acceptability of obligations issued by those entities, both the ability of the District to arrange for additional borrowing(s) as well as the market for and market value of outstanding debt obligations, including the Notes, could be adversely affected.

The District is dependent in part upon financial assistance from the State in the form of State aid as well as grants and loans to be received ("State Aid"). The District's receipt of State aid may be delayed as a result of the State's failure to adopt its budget timely and/or to appropriate State Aid to municipalities and school districts. Should the District fail to receive all or a portion of the amounts of State Aid expected to be received from the State in the amounts and at the times anticipated, occasioned by a delay in the payment of such moneys or by a reduction in State Aid or its elimination, the District is authorized pursuant to the Local Finance Law ("LFL") to provide operating funds by borrowing in anticipation of the receipt of such uncollected State Aid, however, there can be no assurance that, in such event, the District will have market access for any such borrowing on a cost effective basis. The elimination of or any substantial reduction in State Aid would likely have a materially adverse effect upon the District requiring either a counterbalancing increase in revenues from other sources to the extent available or a curtailment of expenditures. (See also "*State Aid*" under "FINANCIAL INFORMATION" herein.)

Future amendments to applicable statutes whether enacted by the State or the United States of America affecting the treatment of interest paid on municipal obligations, including the Notes, for income taxation purposes could have an adverse effect on the market value of the Notes (see "*TAX MATTERS*" herein).

The enactment of the Tax Levy Limit Law, which imposes a tax levy limitation upon municipalities, school districts and fire districts in the State, including the District, without providing exclusion for debt service on obligations issued by municipalities and fire districts, may affect the market price and/or marketability for the Notes. (See "*The Tax Levy Limit Law*" under "TAX INFORMATION" herein.)

Federal or State legislation imposing new or increased mandatory expenditures by municipalities, school districts and fire districts in the State, including the District could impair the financial condition of such entities, including the Districts and the ability of such entities, including the District, to pay debt service on the Notes.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. The Tax Certificate of the District (the "Tax Certificate"), which will be delivered concurrently with the delivery of the Notes, will contain provisions and procedures relating to compliance with applicable requirements of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the District in connection with the Notes, and Bond Counsel has assumed compliance by the District with certain ongoing provisions and procedures set forth in the Tax Certificate relating to compliance with applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the District, under existing statutes, interest on the Notes is exempt from personal income taxes of New York State and its political subdivisions, including The City of New York.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Notes. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Notes, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Certifications

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Notes in order that interest on the Notes be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Notes, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Notes to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The District, in executing the Tax Certificate, will certify to the effect that the District will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Notes. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Note. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Notes.

Prospective owners of the Notes should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Notes may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Note (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Notes of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of the Notes is expected to be the initial public offering price set forth in this Official Statement. Bond Counsel further is of the opinion that, for any Notes having OID (a “Discount Note”), OID that has accrued and is properly allocable to the owners of the Discount Notes under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Notes.

In general, under Section 1288 of the Code, OID on a Discount Note accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Note. An owner’s adjusted basis in a Discount Note is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Note. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Note even though there will not be a corresponding cash payment.

Owners of Discount Notes should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Notes.

Note Premium

In general, if an owner acquires a Note for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Note after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “note premium” on that Note (a “tax-exempt Premium Note”). In general, under Section 171 of the Code, an owner of a tax-exempt Premium Note must amortize the note premium over the remaining term of the tax-exempt Premium Note, based on the owner’s yield over the remaining term of the tax-exempt Premium Note, determined based on constant yield principles (in certain cases involving a tax-exempt Premium Note callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such note).

An owner of a tax-exempt Premium Note must amortize the note premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the note premium allocable to that period. In the case of a tax-exempt Premium Note, if the note premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a tax-exempt Premium Note may realize a taxable gain upon disposition of the tax-exempt Premium Note even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any tax-exempt Premium Note should consult their own tax advisors regarding the treatment of note premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of note premium on, sale, exchange, or other disposition of tax-exempt Premium Notes.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Notes. In general, such requirements are satisfied if the interest recipient completes and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Note through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Notes from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Notes under Federal or state law or otherwise prevent beneficial owners of the Notes from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Notes.

Prospective purchasers of the Notes should consult their own tax advisors regarding the foregoing matters.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Notes will be subject to the final approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel, substantially in the form set forth in Appendix D hereto.

RATING

The Notes are not rated. Standard & Poor's Corporation has assigned a rating of "A+" to the outstanding bonds of the District. Such rating reflects only the view of such rating agency and an explanation of the significance of such rating should be obtained from the respective rating agency. There can be no assurance that such rating will not be revised or withdrawn, if in the judgement of agency circumstances so warrant. Any change or withdrawal of such rating may have an adverse effect on the market price and the availability of a secondary market for the outstanding bonds and notes of the District.

MUNICIPAL ADVISOR

Munistat Services, Inc. (the “Municipal Advisor”), is a Municipal Advisor, registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The Municipal Advisor serves as independent financial advisor to the District on matters relating to debt management. The Municipal Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading municipal securities or any other negotiated instruments. The municipal Advisor has provided advice as to the plan of financing and the structuring of the Notes and has reviewed and commented on certain legal documents, including this Official Statement. The advice on the plan of financing and the structuring of the Notes was based on materials provided by the District and other sources of information believed to be reliable. The Municipal Advisor has not audited, authenticated, or otherwise verified the information provided by the District or the information set forth in this Official Statement or any other information available to the District with respect to the appropriateness, accuracy, or completeness of disclosure of such information and no guarantee, warranty, or other representation is made by the Municipal Advisor respecting the accuracy and completeness of or any other matter related to such information and this Official Statement.

ADDITIONAL INFORMATION

Additional information may be obtained from the office of Dr. Charles Russo, Superintendent of Schools, East Moriches Union Free School District, 9 Adelaide Avenue, East Moriches, NY 11940, Phone (631) 878-0162, Fax (631) 909-1379 and email: crusso@emoschools.org or from Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776, telephone number 631/331-8888 and website: www.munistat.com.

Munistat Services, Inc. may place a copy of this Official Statement on its website at www.munistat.com. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Munistat Services, Inc. has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and neither the District nor Munistat Services, Inc. assumes any liability or responsibility for errors or omissions on such website. Further, Munistat Services, Inc. and the District disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Munistat Services, Inc. and the District also assume no liability or responsibility for any errors or omissions or unauthorized editing or for any updates to dated website information.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be, in fact, realized. This Official Statement is not to be construed as a contract or agreement between the District and the original purchasers or owners of any of the Notes.

By:

 s/s MICHAEL GRIFFIN
President of the Board of Education
East Moriches Union Free School District
East Moriches, New York

September , 2017

APPENDIX A

FINANCIAL INFORMATION

**Statement of Revenues, Expenditures and Changes in Fund Equity
General Fund**

	<u>2012</u>	<u>2013*</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
REVENUES					
Real Property Taxes	\$ 15,526,883	\$ 15,872,118	\$ 16,321,375	\$ 16,602,394	\$ 17,075,771
Other Tax Items	1,882,031	1,932,298	2,034,947	2,028,426	2,115,868
Charges for Services	96,779	188,049	250,061	245,670	345,269
Use of Money and Property	60,976	60,074	56,532	55,516	53,129
Sale of Prop & Comp for Loss		44,245	17,643	4,235	6,090
Miscellaneous	242,719	113,787	240,780	226,696	260,595
State Sources	5,606,997	5,965,120	6,151,233	6,292,364	6,304,757
Federal Sources		6,743	5,143	0	0
Total Revenues	<u>23,416,385</u>	<u>24,182,434</u>	<u>25,077,714</u>	<u>25,455,301</u>	<u>26,161,479</u>
EXPENDITURES					
General Support	1,747,171	1,650,342	1,871,747	1,797,599	1,655,640
Instruction	15,327,913	16,357,880	16,589,791	17,419,966	17,695,159
Pupil Transportation	1,282,827	1,220,783	1,085,851	1,145,719	1,267,692
Employee Benefits	2,702,035	2,873,672	3,267,045	3,424,810	3,635,390
Debt Service	1,761,447	1,709,179	1,700,200	1,725,008	1,700,147
Total Expenditures	<u>22,821,393</u>	<u>23,811,856</u>	<u>24,514,634</u>	<u>25,513,102</u>	<u>25,954,028</u>
Excess (Deficiency) of Revenues over Expenditures	<u>594,992</u>	<u>370,578</u>	<u>563,080</u>	<u>(57,801)</u>	<u>207,451</u>
Operating Transfers In	14,918				108,808
Operating Transfers (Out)	<u>(481,739)</u>	<u>(1,164,787)</u>	<u>(62,523)</u>	<u>(40,797)</u>	<u>(101,231)</u>
Total Other Sources (Uses)	<u>(466,821)</u>	<u>(1,164,787)</u>	<u>(62,523)</u>	<u>(40,797)</u>	<u>7,577</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	128,171	(794,209)	500,557	(98,598)	215,028
Fund Equity - Beginning of Year	2,556,264	2,684,435	1,890,226	2,390,783	1,991,275
Other Changes in Fund Equity				(300,910)	
Fund Equity - End of Year	<u>\$ 2,684,435</u>	<u>\$ 1,890,226</u>	<u>\$ 2,390,783</u>	<u>\$ 1,991,275</u>	<u>\$ 2,206,303</u>

*For the fiscal year ending June 30, 2013, as part of the District's capital plan, the District utilized fund balance to complete certain District-wide improvements.

** Write-off of prior years' due from state and federal receivables

Source: Audited Annual Financial Reports of the School District., 2012-2016

NOTE: This schedule NOT audited

Balance Sheet - General Fund
As of June 30:

	<u>2015</u>	<u>2016</u>
ASSETS:		
Cash	8,778,152	11,303,782
Receivables:		
Accounts Receivable	4,675	4,653
State and Federal Aid	898,413	672,424
Due from Other Government	19,983	39,004
Due from Other Funds	<u>444,781</u>	<u>580,356</u>
 Total Assets	 \$ <u>10,146,004</u>	 \$ <u>12,600,219</u>
 LIABILITIES:		
Payables		
Accounts Payable	\$ 789,599	\$ 1,843,155
Due to Other Governments	19,770	90,114
Tax Anticipation Notes Payable	6,000,000	7,000,000
Due to Other Funds	0	158,837
Collections in Advance	51,540	
Due to Teachers' Retirement System	1,137,178	885,203
Due to Employees' Retirement System	55,281	47,133
Deferred Revenues	44,522	48,558
Compensated Absence	<u>56,839</u>	<u>320,916</u>
 Total Liabilities	 <u>8,154,729</u>	 <u>10,393,916</u>
 FUND BALANCES:		
Non-spendable		
Restricted	836,298	538,496
Assigned	295,914	53,464
Unassigned	<u>859,063</u>	<u>1,614,343</u>
 Total Fund Equity	 <u>1,991,275</u>	 <u>2,206,303</u>
 Total Liabilities and Fund Equity	 \$ <u>10,146,004</u>	 \$ <u>12,600,219</u>

Source: Audited Annual Financial Reports of the School District for FYE 2015 and 2016

NOTE: This schedule NOT audited

Budget Summary
General Fund

	Budget	Budget
	<u>2016-17 (2)</u>	<u>2017-18 (2)</u>
Revenues:		
Real Property Taxes	\$ 19,609,982	\$ 19,954,994
Miscellaneous	294,402	155,973
State Sources	6,921,877	7,276,832
Appropriated Fund Balance	<u>48,564</u>	<u> </u>
 Total Revenues	 <u>\$ 26,874,825</u>	 <u>\$ 27,387,799</u>
 Expenditures:		
General Support	\$ 2,006,292	\$ 2,057,283
Instruction	18,512,591	18,931,163
Pupil Transportation	1,208,230	1,284,230
Employee Benefits	3,396,863	3,593,381
Debt Service	1,705,849	1,476,742
Interfund Transfers	<u>45,000</u>	<u>45,000</u>
 Total Expenditures	 <u>\$ 26,874,825</u>	 <u>\$ 27,387,799</u>

(1) The 2016-17 Budget was approved by the voters of the District on May 17, 2016.

(2) The 2017-18 Budget was approved by the voters of the District on May 17, 2017.

APPENDIX B

CASH FLOW SUMMARIES

EAST MORICHES UNION FREE SCHOOL DISTRICT

CASH FLOW SUMMARY 2016-2017 (Actual through April)

(General Fund Only)

(000's Omitted)

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	TOTALS
Balance	10,383	8,598	8,179	7,436	5,245	3,531	1,542	9,340	10,990	12,657	10,986	9,728	10,383 (a)
Receipts													
Property Taxes						151	7,350	3,040	576	287	1,399	5,603	18,406 (b)
STAR Payment							2,033						2,033
State Aid	125	154	727	39	269	604	192	101	3,267		77	974	6,529
TAN Proceeds													0
Other Receipts	96	37	25	192	55	35	76	54	158	12	93	37	870
Total Receipts	221	191	752	231	324	790	9,651	3,195	4,001	299	1,569	6,614	27,838
Disbursements													
Payroll	383	124	657	604	616	957	358	595	892	604	603	1,816	8,209
Accounts Payable	568	486	838	1,818	1,422	1,507	1,495	950	1,442	1,366	2,224	1,774	15,890 (b)
Debt Service	1,055					315						266	1,636
TAN Principal												7,000	7,000
TAN Interest												62	62
Total Disbursements	2,006	610	1,495	2,422	2,038	2,779	1,853	1,545	2,334	1,970	2,827	10,918	32,797
Balance	8,598	8,179	7,436	5,245	3,531	1,542	9,340	10,990	12,657	10,986	9,728	5,424	5,424
Note Payment Account													
Opening Balance	0	0	0	0	0	0	0	0	0	0	0	1,397	0
Receipts	0	0	0	0	0	0	0	0	0	0	1,397	5,603	7,000
Disbursements	0	0	0	0	0	0	0	0	0	0	0	7,000	7,000
Closing Balance	0	0	0	0	0	0	0	0	0	0	1,397	0	0

(a) Balance as of June 30, 2016 includes certain restricted reserves and the tax anticipation note borrowing for 2016-17 that closed in June 23, 2016.

(b) Property Taxes and Accounts Payable include Library taxes.

EAST MORICHES UNION FREE SCHOOL DISTRICT

CASH FLOW SUMMARY 2017-18 (Projected)

(General Fund Only)

(000's Omitted)

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	TOTALS
Balance	5,424	3,345	1,977	1,128	4,429	2,489	269	7,973	9,493	11,027	9,146	6,778	5,424
Receipts													
Property Taxes						153	7,475	3,091	586	293	739	6,426	18,763
STAR Payment							2,030						2,030
State Aid	146	163	769	41	284	640	204	107	3,460		43	1,430	7,287
TAN Proceeds				5,900									5,900
Other Receipts	108	12	8	60	17	11	24	17	49	3	24	5	338
Total Receipts	254	175	777	6,001	301	804	9,733	3,215	4,095	296	806	7,861	34,318
Disbursements													
Payroll	133	124	656	594	594	971	297	594	891	594	594	1,670	7,712
Accounts Payable	1,136	1,419	970	2,106	1,647	1,756	1,732	1,101	1,670	1,583	2,580	2,795	20,495
Debt Service	1,064					297							1,361
TAN Principal												5,900	5,900
TAN Interest												105	105
Total Disbursements	2,333	1,543	1,626	2,700	2,241	3,024	2,029	1,695	2,561	2,177	3,174	10,470	35,573
Balance	3,345	1,977	1,128	4,429	2,489	269	7,973	9,493	11,027	9,146	6,778	4,169	4,169
Note Payment Account													
Opening Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Receipts	0	0	0	0	0	0	0	0	0	0	0	5,900	5,900
Disbursements	0	0	0	0	0	0	0	0	0	0	0	5,900	5,900
Closing Balance	0	0	0	0	0	0	0	0	0	0	0	0	0

(a) Opening balance as of June 30, 2017 includes certain restricted reserves and tax anticipation note borrowing for 2017-18 fiscal year.

(b) Property Taxes and Accounts Payable include Library taxes.

EAST MORICHES UNION FREE SCHOOL DISTRICT

APPENDIX C

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE: SUCH FINANCIAL REPORT AND OPINIONS WERE PREPARED AS OF THE DATE THEREOF AND HAVE NOT BEEN REVIEWED AND /OR UPDATED BY THE DISTRICT'S AUDITORS IN CONNECTION WITH THE PREPARATION AND DISSEMINATION OF THIS OFFICIAL STATEMENT. CONSENT OF THE AUDITORS FOR INCLUSION OF THE AUDITED FINANCIAL REPORT IN THIS OFFICIAL STATEMENT HAS NOT BEEN REQUESTED NOR OBTAINED.

EAST MORICHES UNION FREE SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
East Moriches Union Free School District
East Moriches, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the East Moriches Union Free School District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 funds of the East Moriches Union Free School District, as of June 30, 2016, and the respective changes in financial position 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 management's discussion and analysis, budgetary comparison information and the schedules of funding progress – other postemployment benefits, the District's proportionate share of the net pension asset/liability, and District contributions on pages 3 through 13 and 45 through 49, respectively, 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Moriches Union Free School District's basic financial statements. The other supplementary information on pages 50 through 52 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information requested 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 17, 2016 on our consideration of the East Moriches Union Free 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 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 East Moriches Union Free School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

October 17, 2016

**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The East Moriches Union Free School District's discussion and analysis of the financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016 in comparison with the year ended June 30, 2015, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

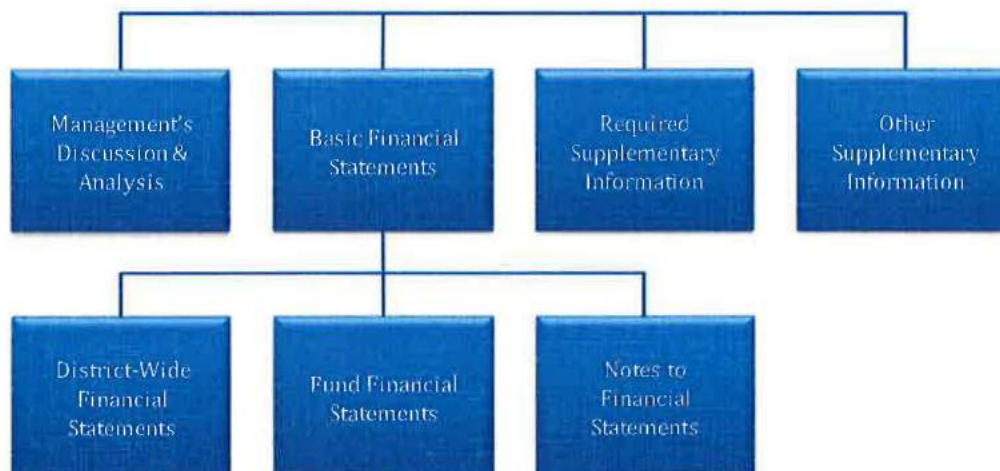
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2016 are as follows:

- The District's total net position, as reflected in the district-wide financial statements, increased by \$879,722. This was due to an excess of revenues over expenses based on the accrual basis of accounting.
- The District's expenses for the year, as reflected in the district-wide financial statements, totaled \$25,784,353. Of this amount, \$842,000 was offset by program charges for services and operating grants. General revenues of \$25,822,075 amount to 96.8% of total revenues, and were adequate to cover the balance of program expenses.
- The general fund's total fund balance, as reflected in the fund financial statements, increased by \$215,028. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting. The general fund's total fund balance, as reflected in the fund financial statements, is \$2,206,303.
- On August 5, 2015, the District issued \$5,770,000 in general obligation bonds with an average interest rate of 2.6% to advance refund \$5,490,000 of outstanding serial bonds, with an average interest rate of 4.3%, saving the District \$56,083 in interest expense in 2016 and \$694,588 over the next 18 years.
- The District's 2016 property tax levy of \$19,129,167 was a 2.9% increase over the 2015 tax levy and was within the maximum allowable tax levy limit.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (MD&A), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of district-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements follows:



EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

A. District-Wide Financial Statements

The district-wide financial statements present the governmental activities of the District and are organized to provide an understanding of the fiscal performance of the District as a whole in a manner similar to a private sector business. There are two district-wide financial statements - the Statement of Net Position and the Statement of Activities. These statements provide both an aggregate and long-term view of the District's finances.

These statements utilize the accrual basis of accounting. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Position

The Statement of Net Position presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities

The Statement of Activities presents information showing the change in net position during the fiscal year. All changes in net position are recorded at the time the underlying financial event occurs. Revenues are recognized in the period when they are earned and expenses are recognized in the period when the liability is incurred. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the District are reported in the governmental funds and the fiduciary funds.

Governmental Funds

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period in which the District incurs the liability, except for certain expenditures such as debt service on general long-term indebtedness, compensated absences, pension costs and other postemployment benefits, which are recognized as expenditures to the extent the related liabilities mature each period.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides.

EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Because the focus of governmental funds is narrower than that of district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, you may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains five individual governmental funds: general fund, special aid fund, school lunch fund, debt service fund and capital projects fund, each of which is considered to be a major fund and is presented separately in the fund financial statements.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District in its capacity as agent or trustee and utilize the accrual basis of accounting. All of the District's fiduciary activities are reported in separate statements. The fiduciary activities have been excluded from the District's district-wide financial statements because the District cannot use these assets to finance its operations.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position increased by \$879,722 between fiscal year 2016 and 2015. The increase is due to revenues in excess of expenses based on the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	2016	2015	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 12,531,865	\$ 10,294,731	\$ 2,237,134	21.73 %
Capital Assets, Net	21,710,768	22,413,226	(702,458)	(3.13)%
Net Pension Asset - Proportionate Share	4,307,050	4,542,254	(235,204)	(5.18)%
Total Assets	38,549,683	37,250,211	1,299,472	3.49 %
Deferred Outflows of Resources	1,531,507	1,176,447	355,060	30.18 %
Current and Other Liabilities	10,542,263	8,500,942	2,041,321	24.01 %
Long-Term Liabilities	18,270,438	19,499,173	(1,228,735)	(6.30)%
Net Other Postemployment Benefits Obligation	9,543,382	8,638,990	904,392	10.47 %
Net Pension Liability - Proportionate Share	732,200	142,206	589,994	414.89 %
Total Liabilities	39,088,283	36,781,311	2,306,972	6.27 %
Deferred Inflows of Resources	1,605,788	3,137,950	(1,532,162)	(48.83)%
Net Investment in Capital Assets	4,135,768	4,176,787	(41,019)	(0.98)%
Restricted	538,496	836,298	(297,802)	(35.61)%
Unrestricted (Deficit)	(5,287,145)	(6,505,688)	1,218,543	18.73 %
Total Net Position (Deficit)	\$ (612,881)	\$ (1,492,603)	\$ 879,722	58.94 %

EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Current and other assets increased by \$2,237,134, as compared to the prior year. The increase is primarily related to an increase in cash of \$2,537,460, offset by a decrease in amounts due from state and federal of \$322,046.

Capital assets, net decreased by \$702,458, as compared to the prior year. This decrease is due to depreciation expense in excess of capital asset additions. The accompanying Notes to Financial Statements, Note 9 "Capital Assets" provides additional information.

Net pension asset – proportionate share decreased by \$235,204, as compared to the prior year. This asset represents the District's share of the New York State Teachers' Retirement System's collective net pension asset at the measurement date of the respective year.

Deferred outflows of resources represents contributions to the retirement plans subsequent to the measurement dates and actuarial adjustments at the plan level that will be amortized in future years.

Current and other liabilities increased by \$2,041,321, as compared to the prior year. This increase is primarily due to increases in accounts payable of \$1,055,684 and tax anticipation notes payable of \$1,000,000.

Long-term liabilities decreased by \$1,228,735, as compared to the prior year. This decrease is primarily the result of the repayment of bond principal in the amount of \$940,000.

Net other postemployment benefits (OPEB) obligation increased by \$904,392, as compared to the prior year. This increase is the result of the current year OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying Notes to Financial Statements, Note 14 "Postemployment Healthcare Benefits", provides additional information.

Net pension liability – proportionate share increased by \$589,994 in the current year. This liability represents the District's share of the New York State and Local Employees' Retirement System's collective net pension liability at the measurement date of the respective year.

Deferred inflows of resources represents actuarial adjustments at the pension plan level that will be amortized in future years.

The net investment in capital assets is the investment in capital assets at cost such as – land, construction in progress, buildings and improvements, and, furniture, equipment and vehicles, net of depreciation and related outstanding debt, which decreased \$41,019 as compared to the prior year.

The restricted amount of \$538,496 relates to the District's legally established reserves. This number decreased from the prior year by \$297,802. This is primarily due to the use of restricted amounts to pay sick days to retirees upon termination of \$197,416 and the District's contribution to the employees' retirement system of \$204,567, net of board of education approved additions and interest earnings of \$104,181.

The unrestricted (deficit) amount of \$(5,287,145) relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation. This deficit decreased from the prior year by \$1,218,543.

EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Program Revenues				
Charges for Services	\$ 446,842	\$ 352,340	\$ 94,502	26.82 %
Operating Grants	395,158	464,195	(69,037)	(14.87)%
General Revenues				
Property Taxes and STAR	19,129,485	18,586,902	542,583	2.92 %
State Sources	6,323,523	6,257,604	65,919	1.05 %
Other	369,067	330,365	38,702	11.71 %
Total Revenues	<u>26,664,075</u>	<u>25,991,406</u>	<u>672,669</u>	2.59 %
Expenses				
General Support	2,279,745	2,159,482	120,263	5.57 %
Instruction	21,653,720	21,082,276	571,444	2.71 %
Pupil Transportation	1,278,642	1,177,123	101,519	8.62 %
Debt Service - Interest	376,714	765,243	(388,529)	(50.77)%
Food Service Program	195,532	216,610	(21,078)	(9.73)%
Total Expenses	<u>25,784,353</u>	<u>25,400,734</u>	<u>383,619</u>	1.51 %
Increase in Net Position	<u>\$ 879,722</u>	<u>\$ 590,672</u>	<u>\$ 289,050</u>	48.94 %

The District's net position increased by \$879,722 and \$590,672 for the years ended June 30, 2016 and 2015, respectively.

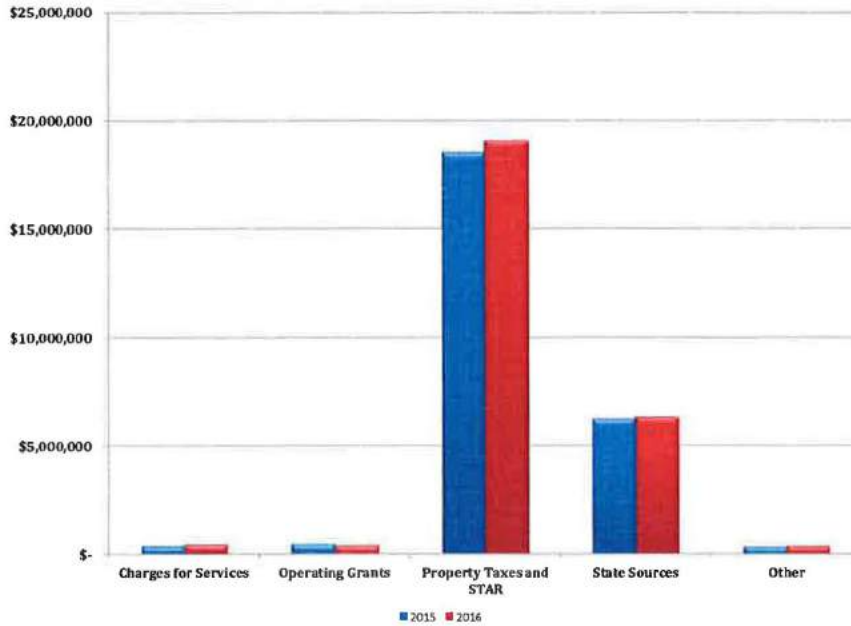
The District's revenues increased by \$672,669 or 2.59%. The major factors that contributed to the increase were increases in property taxes and STAR revenue, charges for services and state sources.

The District's expenses increased \$383,619 or 1.51%. The increase in general support, instruction and transportation expenses totaling \$793,226 was offset by a decrease in debt service interest of \$388,529.

As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 71.7% and 71.5% of the total for the years 2016 and 2015, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 83.9% and 83.0% of the total for the years 2016 and 2015, respectively).

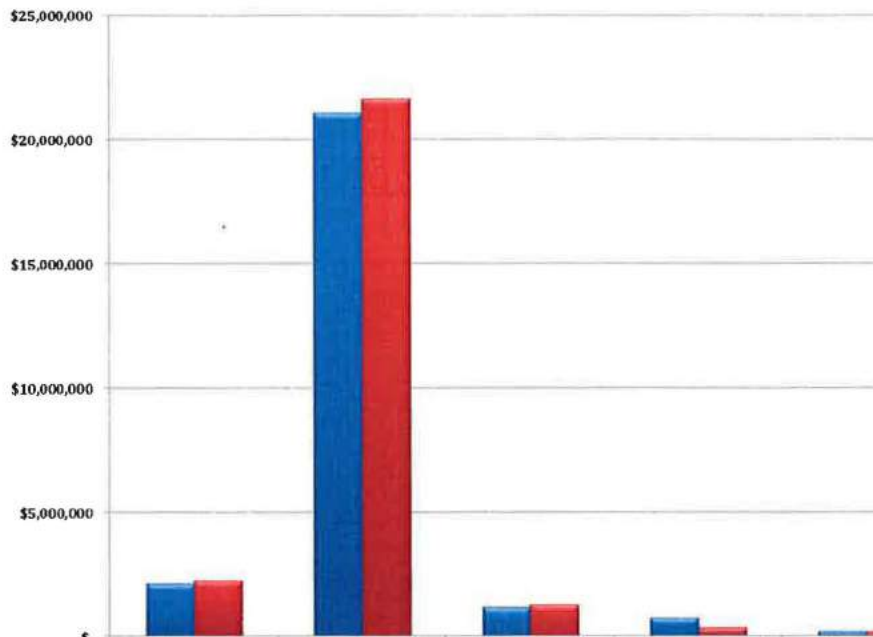
**EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

A graphic display of the distribution of revenues for the two years follows:



	Charges for Services	Operating Grants	Property Taxes and STAR	State Sources	Other
2015	1.4%	1.8%	71.5%	24.1%	1.2%
2016	1.7%	1.5%	71.7%	23.7%	1.4%

A graphic display of the distribution of expenses for the two years follows:



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
2015	8.5%	83.0%	4.6%	3.0%	0.9%
2016	8.8%	83.9%	5.0%	1.5%	0.8%

EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At June 30, 2016, the District's governmental funds reported a combined fund balance of \$2,261,291, which is an increase of \$154,641 over the prior year. This increase is due to an excess of revenues over expenditures based upon the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	2016	2015	Increase (Decrease)
General Fund			
Restricted			
Workers' compensation	\$ 87,402	\$ 86,967	\$ 435
Unemployment insurance	77,943	77,555	388
Retirement contribution	128,691	232,098	(103,407)
Employee benefit accrued liability	244,460	439,678	(195,218)
Assigned:			
Appropriated fund balance	48,564	275,000	(226,436)
Unappropriated fund balance	4,900	20,914	(16,014)
Unassigned: Fund balance	1,614,343	859,063	755,280
	<u>2,206,303</u>	<u>1,991,275</u>	<u>215,028</u>
School Lunch Fund			
Nonspendable: Inventory	4,369	3,204	1,165
Assigned: Unappropriated fund balance	590		590
Unassigned: Fund balance (deficit)		(44,837)	44,837
	<u>4,959</u>	<u>(41,633)</u>	<u>46,592</u>
Capital Projects Fund			
Assigned: Unappropriated fund balance	50,029	157,008	(106,979)
Total Fund Balance	<u>\$ 2,261,291</u>	<u>\$ 2,106,650</u>	<u>\$ 154,641</u>

A. General Fund

The net change in the general fund – fund balance is an increase of \$215,028, as compared to a decrease of \$98,598 in the prior year.

Revenues and other financing sources increased by \$814,986, mainly as a result of an increase in property taxes and STAR revenue of \$542,583, and a transfer from the capital projects fund of unexpended funds and interest earnings totaling \$108,808. Expenditures and other financing uses increased by \$501,360. Instruction expenditures increased \$275,193 (1.58%) and employee benefits increased by \$210,580 (6.15%). The increase in employee benefits results from increases in sick day payouts and retirement incentives to retirees of \$322,869 and health insurance premiums of \$123,030 which were offset by a reduction in the required contribution to the Teachers' Retirement System of \$244,715 due to a 24% reduction in the employer contribution rate.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is an increase of \$46,592, which was primarily the result of a transfer of \$70,000 from the general fund to cover the prior year's deficit of \$41,633 and current year's operating loss of \$23,408.

EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of \$106,979. The District transferred \$108,808 to the general fund, which represented the balance of unspent fund on completed projects and interest earnings.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2015-16 Budget

The District's general fund adopted budget for the year ended June 30, 2016 was \$26,626,268. This amount was increased by encumbrances carried forward from the prior year in the amount of \$20,915 and budget revisions in the amount of \$437,602 for a total final budget of \$27,084,785.

The budget was funded through a combination of estimated revenues and appropriated fund balance. The majority of this funding source was \$19,129,167 in estimated property taxes and STAR.

B. Change in General Fund's Unassigned Fund Balance (Budget to Actual)

The general fund's unassigned fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves, appropriations to fund the subsequent year's budget and encumbrances. The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening, Unassigned Fund Balance	\$ 859,063
Revenues Under Budget	(66,600)
Expenditures and Encumbrances Under Budget	1,024,626
Unused Appropriated Reserves	(50,000)
Allocation to Reserves	(104,182)
Appropriated for the 2016-17 Budget	<u>(48,564)</u>
Closing, Unassigned Fund Balance	<u>\$ 1,614,343</u>

Opening, Unassigned Fund Balance

The \$859,063 shown in the table is the portion of the District's June 30, 2015 fund balance that was retained as unassigned. This was 3.23% of the District's 2015-16 approved operating budget of \$26,626,268.

Revenues Under Budget

The 2015-16 final budget for revenues was \$26,636,887. Actual revenues and other sources received for the year were \$26,270,287, \$66,600 less than estimated. The shortfall in state aid of \$487,785 was offset by \$95,269 of charges for service revenue, \$231,095 of miscellaneous revenue, and \$108,808 of operating transfers in, in excess of the amount estimated. This change contributes directly to the change to the general fund unassigned fund balance from June 30, 2015 to June 30, 2016.

EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Expenditures and Encumbrances Under Budget

The 2015-16 final budget for expenditures and other uses was \$27,084,785. Actual expenditures as of June 30, 2016 were \$26,055,259 and outstanding encumbrances were \$4,900. The final budget was under expended by \$1,024,626. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2015 to June 30, 2016.

Unused Appropriated Reserves

In the 2015-16 original budget, \$251,381 of reserves was appropriated to reduce the tax levy. Due to lower than anticipated expenditures, \$50,000 of this funding was not needed and, therefore, it was returned to the reserves and is available for future use.

Allocation to Reserves

Monies transferred into authorized reserves do not affect the total fund balance unless, and until these monies are actually expended. The transfers do, however, reduce the District's discretion regarding the use of these transferred monies, and thus, reduce the unassigned fund balance by the amount of the transfers.

The \$(104,182) shown in the above table consists of a \$100,000 transfer to the retirement contribution reserve. Additionally, interest earnings of \$4,182 were allocated to the reserves.

Appropriated Fund Balance

The District has chosen to use \$48,564 of the available June 30, 2016 unassigned fund balance to partially fund the 2016-17 approved operating budget. As such, the June 30, 2016 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the unassigned fund balance at June 30, 2016 was \$1,614,343. This amount equals 6.01% of the 2016-17 budget and exceeds the 4% statutory limitation established by New York State Real Property Tax Law §1318.

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2016, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to depreciation of \$726,380 in excess of capital additions of \$23,922 recorded for the year ended June 30, 2016. A summary of the District's capital assets, net of depreciation at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>	Increase (Decrease)
Land	\$ 265,000	\$ 265,000	\$ -
Buildings and improvements	21,214,799	21,882,389	(667,590)
Furniture and equipment	32,289	37,073	(4,784)
Vehicles	<u>198,680</u>	<u>228,764</u>	<u>(30,084)</u>
Capital assets, net	<u>\$ 21,710,768</u>	<u>\$ 22,413,226</u>	<u>\$ (702,458)</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

B. Debt Administration

At June 30, 2016, the District had total bonds payable of \$17,575,000. The bonds were issued for school building improvements and the refunding of bonds originally issued for school building improvements. The decrease in outstanding debt represents principal payments. A summary of the outstanding debt at June 30, 2016 and 2015 is as follows:

Issue Date	Interest Rate	2016	2015	Increase (Decrease)
2003	4.0-5.0%	\$	\$ 5,490,000	\$ (5,490,000)
2007	3.75-4.375%	260,000	510,000	(250,000)
2011	4.0-4.75%	405,000	435,000	(30,000)
2012	2.0-5.0%	11,140,000	11,800,000	(660,000)
2015	2.0-3.375%	5,770,000	5,770,000	5,770,000
		<u>\$ 17,575,000</u>	<u>\$ 18,235,000</u>	<u>\$ (660,000)</u>

In 2015, the District issued \$5,770,000 in general obligation bonds to advance refund \$5,490,000 of outstanding serial bonds. The interest on the new bonds is less than the interest on the refunded bonds. The District expects a present value savings of \$533,456 in debt service costs over the life of the new bonds.

The District's outstanding serial bonds at June 30, 2016 are approximately 13.0% of the District's debt limit.

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

A. Subsequent Year's Budget

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on May 17, 2016, for the year ending June 30, 2017, is \$26,874,825. This is an increase of \$248,557 or 0.9% over the previous year's budget. The increase is principally in the instructional program (\$38,299), general support (\$131,688) and employee benefit (\$30,660) areas of the budget.

The District budgeted revenues other than property taxes and STAR at a \$245,559 increase over the prior year's estimate, which is principally due to an estimated increase in state aid. The District does not expect to appropriate any reserves towards the next year's budget, which is a decrease of \$251,381 from the previous year. The assigned, appropriated fund balance applied to the budget in the amount of \$48,564 is a \$226,436 decrease from the previous year. A property tax increase of \$480,815 (2.51%), levy to levy, was needed to meet the funding shortfall and cover the increase in projected expenditures.

B. Future Budgets

Significant increases in costs of health insurance, the property tax cap, and uncertainty in state aid and federal funds will greatly impact the District's future budgets.

EAST MORICHES UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

C. Tax Cap

New York State law limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation to June 15, 2020. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. Based on the law, the District's 2016-17 property tax increase of 2.51% was equal to the tax cap and did not require an override vote.

D. Property Tax Freeze Credit and Property Tax Relief Credit

New York State law provides a "Property Tax Freeze Credit" that effectively "freezes" property taxes for two years on the primary residences of homeowners with annual incomes at or below \$500,000 in school districts and local governments that stay within the tax cap. Qualifying homeowners receive a credit, which is distributed in the form of a check from New York State, up to the calculated amount of the tax cap. The program also requires the school districts and local governments, in the second year, to develop or participate in the development of a state approved government efficiency plan that will achieve savings for taxpayers. The program ends for school districts with the 2015-16 school year.

New York State enacted a new law that provides a "Property Tax Relief Credit" to eligible taxpayers for the 2016-17 through 2019-20 school years. To be eligible, a taxpayer, based on income tax return filings for the taxable two years prior, must be a New York State resident, owned and primarily resided in real property receiving the STAR exemption, and had adjusted gross income no greater than \$275,000. A taxpayer is ineligible for the tax credit if the real property is located in a school district that adopted a budget in excess of the tax levy limit. Eligible District taxpayers will receive a tax credit in the form of a check in the amount of \$130 in the first year. In subsequent years, the amount of the credit is a function of the basic STAR savings and the taxpayer's income.

These property tax credit programs provide an incentive for the District to be tax cap compliant.

8. CONTACTING THE DISTRICT

This financial report is designed to provide the reader with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Requests for additional information can be directed to:

Dr. Charles Russo
Superintendent of Schools
East Moriches Union Free School District
9 Adelaide Avenue
East Moriches, NY 11940

EAST MORICHES UNION FREE SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

ASSETS

Cash	
Unrestricted	\$ 10,789,999
Restricted	538,496
Receivables	
Accounts receivable	4,653
Due from fiduciary funds	59,143
Due from state and federal	1,096,201
Due from other governments	39,004
Inventory	4,369
Capital assets:	
Not being depreciated	265,000
Being depreciated, net of accumulated depreciation	21,445,768
Net pension asset - proportionate share	<u>4,307,050</u>
 Total Assets	 <u>38,549,683</u>

DEFERRED OUTFLOWS OF RESOURCES

Pensions	<u>1,531,507</u>
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LIABILITIES

Payables	
Accounts payable	1,878,578
Accrued liabilities	320,247
Due to other governments	90,186
Due to teachers' retirement system	885,203
Due to employees' retirement system	47,133
Compensated absences payable	320,916
Notes payable	
Tax anticipation	7,000,000
Long-term liabilities	
Due and payable within one year	
Bonds payable	995,000
Due and payable after one year	
Bonds payable	16,580,000
Compensated absences payable	695,438
Net other postemployment benefits obligation	9,543,382
Net pension liability - proportionate share	<u>732,200</u>
 Total Liabilities	 <u>39,088,283</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	<u>1,605,788</u>
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NET POSITION (DEFICIT)

Net investment in capital assets	<u>4,135,768</u>
Restricted:	
Workers' compensation	87,402
Unemployment insurance	77,943
Retirement contribution	128,691
Employee benefit accrued liability	<u>244,460</u>
	538,496
Unrestricted (deficit)	<u>(5,287,145)</u>
 Total Net Position (Deficit)	 <u>\$ (612,881)</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
Statement of Activities
For The Year Ended June 30, 2016

		Program Revenues		
	Expenses	Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS				
General support	\$ 2,279,745	\$	\$	\$ (2,279,745)
Instruction	21,653,720	345,269	334,836	(20,973,615)
Pupil transportation	1,278,642			(1,278,642)
Debt service - interest	376,714			(376,714)
Food service program	195,532	101,573	60,322	(33,637)
	\$ 25,784,353	\$ 446,842	\$ 395,158	(24,942,353)
 GENERAL REVENUES				
Real property taxes				17,075,771
Other tax items				2,115,868
Use of money and property				53,129
Sale of property and compensation for loss				6,090
Miscellaneous				247,694
State sources				6,323,523
Total General Revenues				25,822,075
Change in Net Position				879,722
Total Net Position (Deficit) - Beginning of Year				(1,492,603)
Total Net Position (Deficit) - End of Year				\$ (612,881)

EAST MORICHES UNION FREE SCHOOL DISTRICT

Balance Sheet - Governmental Funds

June 30, 2016

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash						
Unrestricted	\$ 10,765,286	\$ 4,614	\$ 20,099	\$	\$	\$ 10,789,999
Restricted	538,496					538,496
Receivables						
Accounts receivable	4,653					4,653
Due from other funds	580,356				158,837	739,193
Due from state and federal	672,424	408,995	14,782			1,096,201
Due from other governments	39,004					39,004
Inventory			4,369			4,369
Total Assets	<u>\$ 12,600,219</u>	<u>\$ 413,609</u>	<u>\$ 39,250</u>	<u>\$ -</u>	<u>\$ 158,837</u>	<u>\$ 13,211,915</u>
LIABILITIES						
Payables						
Accounts payable	\$ 1,843,155	\$ 24,652	\$ 10,771	\$	\$	\$ 1,878,578
Due to other funds	158,837	388,957	23,448		108,808	680,050
Due to other governments	90,114		72			90,186
Due to teachers' retirement system	885,203					885,203
Due to employees' retirement system	47,133					47,133
Compensated absences payable	320,916					320,916
Notes payable						
Tax anticipation	7,000,000					7,000,000
Total Liabilities	<u>10,345,358</u>	<u>413,609</u>	<u>34,291</u>	<u>-</u>	<u>108,808</u>	<u>10,902,066</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	48,558					48,558
FUND BALANCES						
Nonspendable: Inventory			4,369			4,369
Restricted:						
Workers' compensation	87,402					87,402
Unemployment insurance	77,943					77,943
Retirement contribution	128,691					128,691
Employee benefit accrued liability	244,460					244,460
Assigned:						
Appropriated fund balance	48,564					48,564
Unappropriated fund balance	4,900		590		50,029	55,519
Unassigned: Fund balance	1,614,343					1,614,343
Total Fund Balances	<u>2,206,303</u>	<u>-</u>	<u>4,959</u>	<u>-</u>	<u>50,029</u>	<u>2,261,291</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 12,600,219</u>	<u>\$ 413,609</u>	<u>\$ 39,250</u>	<u>\$ -</u>	<u>\$ 158,837</u>	<u>\$ 13,211,915</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016

Total Governmental Fund Balances \$ 2,261,291

Amounts reported for governmental activities in the Statement of Net Position are different because:

The cost of building and acquiring capital assets (land, buildings, equipment) financed from the 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 over their useful lives.

Original cost of capital assets	\$ 30,033,562	
Accumulated depreciation	<u>(8,322,794)</u>	21,710,768

Proportionate share of long-term asset and liability, and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.

Net pension asset - teachers' retirement system	4,307,050	
Deferred outflows of resources	1,531,507	
Net pension liability - employees' retirement system	(732,200)	
Deferred inflows of resources	<u>(1,605,788)</u>	3,500,569

Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds, but are not deferred on the Statement of Net Position.

New York State - state aid		48,558
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Accrued interest on bonds payable	(320,247)	
Bonds payable	(17,575,000)	
Compensated absences payable	(695,438)	
Net other postemployment benefits obligation	<u>(9,543,382)</u>	<u>(28,134,067)</u>

Total Net Position (Deficit)		<u>\$ (612,881)</u>
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EAST MORICHES UNION FREE SCHOOL DISTRICT
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For The Year Ended June 30, 2016

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$ 17,075,771	\$	\$	\$	\$	\$ 17,075,771
Other tax items	2,115,868					2,115,868
Charges for services	345,269					345,269
Use of money and property	53,129					53,129
Sale of property and compensation for loss	6,090					6,090
Miscellaneous	260,595				1,829	262,424
State sources	6,304,757	118,486	2,501			6,425,744
Federal sources		216,350	45,233			261,583
Surplus food			12,588			12,588
Sales - school lunch			101,573			101,573
Total Revenues	26,161,479	334,836	161,895	-	1,829	26,660,039
EXPENDITURES						
General support	1,655,640			114,858		1,770,498
Instruction	17,695,159	355,117				18,050,276
Pupil transportation	1,267,692	10,950				1,278,642
Employee benefits	3,635,390					3,635,390
Debt service						
Principal	940,000					940,000
Interest	760,147			106,792		866,939
Cost of sales			185,303			185,303
Total Expenditures	25,954,028	366,067	185,303	221,650	-	26,727,048
Excess (Deficiency) of Revenues Over Expenditures	207,451	(31,231)	(23,408)	(221,650)	1,829	(67,009)
OTHER FINANCING SOURCES AND (USES)						
Proceeds of obligation				5,770,000		5,770,000
Payment to escrow agent				(5,548,350)		(5,548,350)
Operating transfers in	108,808	31,231	70,000			210,039
Operating transfers (out)	(101,231)				(108,808)	(210,039)
Total Other Financing Sources and (Uses)	7,577	31,231	70,000	221,650	(108,808)	221,650
Net Change in Fund Balances	215,028	-	46,592	-	(106,979)	154,641
Fund Balances (Deficit) - Beginning of Year	1,991,275		(41,633)		157,008	2,106,650
End of Year	\$ 2,206,303	\$ -	\$ 4,959	\$ -	\$ 50,029	\$ 2,261,291

EAST MORICHES UNION FREE SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2016

Net Change in Fund Balances		\$ 154,641
Amounts reported for governmental activities in the Statement of Activities are different because:		
<u>Long-Term Revenue and Expense Differences</u>		
In the Statement of Activities, certain operating revenues are measured by the amounts earned during the year. In the governmental funds, however, revenue for these items are measured by the amount of financial resources provided (essentially, the amounts actually received).	\$ 4,036	
Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in a reduction of the long-term liability and an increase in the net position.		
Decrease in compensated absences payable	57,296	
Certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, but are expensed in the Statement of Activities.		
Increase in net other postemployment benefits obligation	<u>(904,392)</u>	(843,060)
<u>Capital Related Differences</u>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expenses in the Statement of This is the amount by which, depreciation exceeded capital outlays in the period.		
Capital outlays	23,922	
Depreciation expense	<u>(726,380)</u>	(702,458)
<u>Long-Term Debt Transactions Differences</u>		
Proceeds from the issuance of bonds are other funding sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position and do not affect the Statement of Activities.	(5,770,000)	
Payment to escrow agent, net of deferred charge on the refunding, is an expenditure in the governmental funds, but it decreases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	5,490,000	
The amortization of the deferred premium, decreases interest expense in the Statement of Activities.	511,439	
Repayment of long-term debt 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.		
Repayment of bond principal	940,000	
Interest on long-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. This is the amount by which accrued interest decreased from June 30, 2015 to June 30, 2016.	<u>37,136</u>	1,208,575
<u>Pension Differences</u>		
The decrease in the proportionate share of the collective pension expense of the state retirement plans reported in the Statement of Activities did not affect current financial resources and, therefore, is not reported in the governmental funds.		
Teachers' retirement system	1,126,807	
Employees' retirement system	<u>(64,783)</u>	1,062,024
Change in Net Position of Governmental Activities		<u>\$ 879,722</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
Statement of Fiduciary Net Position -
Fiduciary Funds
June 30, 2016

	Agency	Private Purpose Trust
ASSETS		
Cash		
Unrestricted	\$ 127,712	\$
Restricted		1,228
Total Assets	\$ 127,712	1,228
 LIABILITIES		
Due to governmental funds	\$ 59,143	
Other liabilities	68,569	
Total Liabilities	\$ 127,712	-
 NET POSITION		
Restricted for scholarships		\$ 1,228

EAST MORICHES UNION FREE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position -
Fiduciary Funds
For The Year Ended June 30, 2016

	Private Purpose Trust
ADDITIONS	\$ -
DEDUCTIONS	
Scholarships and awards	50
Change in Net Position	(50)
Net Position - Beginning of Year	1,278
Net Position - End of Year	\$ 1,228

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the East Moriches Union Free School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the District are as follows:

A. Reporting Entity

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

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no other entities that would be included in the District's reporting entity.

B. Joint Venture

The District is a component district in the Board of Cooperative Educational Services of Eastern Suffolk (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. 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. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section §119-n(a) of the General Municipal Law. A BOCES budget is comprised of separate budgets for administrative, program, and capital costs. Each component 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). There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Basis of Presentation

District-Wide Financial Statements

The Statement of Net Position and the Statement of Activities present information about the overall governmental financial activities of the District, except for fiduciary activities. Eliminations have been made to minimize the double counting of interfund 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 capital grants reflect capital-specific grants, if applicable.

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. Employee benefits are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including real property taxes and state aid, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund type, governmental and fiduciary, are presented. The District's financial statements present the following fund types:

Governmental Funds - are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The emphasis of governmental fund financial statements is on major funds as defined by GASB, each displayed in a separate column. The following are the District's major governmental funds:

General Fund - is the general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund.

Special Aid Fund - is used to account for the proceeds of specific revenue sources such as federal and state grants that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed by either governments that provide the funds or outside parties.

School Lunch Fund - is used to account for the activities of the food service program.

Debt Service Fund - is used to account for the advance refunding of a portion of the District's outstanding serial bonds.

Capital Projects Fund - is used to account for the financial resources used for acquisition, construction, renovation or major repair of capital facilities and other capital assets, such as equipment.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fiduciary Funds – are used to account for activities 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. The following are the District’s fiduciary funds:

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.

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.

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 real property taxes, state aid, grants and donations. On an accrual basis, revenue from real property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from state aid is recognized in the fiscal year it is apportioned by the state. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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, except for real property taxes, which are considered to be available if they 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, compensated absences, pension costs and other postemployment benefits, 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 are reported as other financing sources.

E. Real Property Taxes

Calendar

Real property taxes are levied annually by the Board no later than November 1st and become a lien on December 1st. Taxes are collected by the town of Brookhaven and remitted to the District from December to June.

Enforcement

Uncollected real property taxes are subsequently enforced by Suffolk County in June.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net resources 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 to Financial Statements.

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 transfers to provide financing or other services. This includes the transfer of unrestricted general fund revenues to finance various programs that the District must account for in other funds in accordance with budgetary authorizations.

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 are 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.

A detailed disclosure by individual fund for interfund receivables, payables, transfers in and transfers out activity is provided subsequently in these Notes to Financial Statements.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including compensated absences, other postemployment benefits, workers' compensation liabilities, potential contingent liabilities and useful lives of long-lived assets.

I. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and investments with a maturity date of three months or less from date of acquisition.

Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves.

J. Receivables

Receivables are shown net of an allowance for uncollectibles, if any. However, no allowance for uncollectibles has been provided since it is believed that such allowance would not be material.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

K. Inventory

Inventory of food in the school lunch fund is recorded at cost on a first-in, first-out basis or in the case of surplus food donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market. Inventory is accounted for on the consumption method. Under the consumption method, a current asset for the inventory is recorded at the time of receipt and/or purchase and an expense/expenditure is reported in the year the goods are consumed.

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

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

L. Capital Assets

Capital assets are reflected in the district-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at estimated fair market value at the date of donation.

All capital assets, except land and construction in progress, are depreciated on a straight line basis over their estimated useful lives. Capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts, and estimated useful lives of capital assets as reported in the district-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 15,000	30-50 years
Furniture and equipment	500	5-20 years
Vehicles	500	5-20 years

M. 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) until that time. The District has two items that qualify for reporting in this category. The first item is related to pensions and 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 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.

N. Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. First is unavailable revenues reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. This includes receivables of certain state aid allocations. In subsequent periods, when the

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

availability criterion is met, unavailable revenues are reclassified as revenues. In the District-wide financial statements, unavailable revenues are treated as revenues. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension liability 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.

O. Employee Benefits – Compensated Absences

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave. Certain collectively bargained agreements require these termination payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within varying time periods. Employees are compensated for unused accumulated vacation leave through paid time off or cash payment upon retirement, termination or death.

The liability for compensated absences has been calculated using the vesting 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 financial statements, a liability is reported only for payments due for unused compensated absences for those employees that have obligated themselves to separate from service with the District by June 30th.

P. 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.

The District provides health insurance coverage for active employees pursuant to collective bargaining agreements and individual employment contracts.

In addition to providing these benefits, the District provides postemployment health insurance coverage and survivor benefits for most retired employees and their survivors. Collective bargaining agreements and individual employment contracts determine if District employees are 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 in the governmental funds as the liabilities for premiums mature (come due for payment). In the district-wide statements, the cost of postemployment health insurance coverage is recognized on the accrual basis of accounting in accordance with GASB Statement No. 45.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Q. Short-Term Debt

The District may issue revenue anticipation notes (RAN) and tax anticipation notes (TAN), 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 bond anticipation notes (BAN), 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.

R. Equity Classifications

District-Wide Statements

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

Net investment in capital assets – Consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisitions, construction and improvements of those assets.

Restricted – 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.

Unrestricted – Reports the balance of net position that does not meet the definition of the above two classifications.

Fund Statements

The fund statements report fund balance classifications according to the relative strength of spending constraints placed on the purpose for which resources can be used, as follows:

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of inventory.

Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. The District has established the following restricted fund balances:

Workers' Compensation Reserve

Workers' Compensation Reserve (GML §6-j) is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this 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. The reserve is accounted for in the general fund.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Unemployment Insurance Reserve

Unemployment Insurance Reserve (GML §6-m) 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. 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. The reserve is accounted for in the general fund.

Retirement Contribution Reserve

Retirement Contribution Reserve (GML §6-r) is used for the purpose of financing retirement contributions payable to the New York State and Local Employees' Retirement System. The Board, by resolution, may establish the reserve and authorize expenditures from the reserve. The reserve is funded by budgetary appropriations or taxes raised for the reserve, revenues that are not required by law to be paid into any other fund or account, transfers from reserves and other funds that may legally be appropriated. The reserve is accounted for in the general fund.

Employee Benefit Accrued Liability Reserve

Employee Benefit Accrued Liability Reserve (GML §6-p) is used to reserve funds for the payment of accrued employee benefit primarily based on unused and unpaid sick leave, personal leave, holiday leave or vacation time 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.

Restricted for Scholarships

Amounts restricted for scholarships are used to account for monies donated for scholarship purposes, including earnings and net of awards. These restricted funds are accounted for in the private purpose trust fund.

Assigned – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the District's Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance 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.

Unassigned – Represents the residual classification for the District's general fund 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. NYS Real Property Tax Law §1318, restricts the unassigned fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Balance Classification

Any portion of fund balance may be applied or transferred for a specific purpose by law, voter approval if required by law or by formal action of the Board of Education if voter approval is not required. Amendments or modification to the applied or transferred fund balance must also be approved by formal action of the Board of Education.

The Board of Education shall delegate the authority to assign fund balance, for encumbrance purposes, to the person(s) to whom it has delegated the authority to sign purchase orders.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned) the Board will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classification will be charged.

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE DISTRICT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic resource measurement focus of the District-wide statements, compared with the current financial resource measurement 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 differ 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 current financial resources focus of the governmental fund Balance Sheet, as applied to the reporting of capital assets and long-term assets and liabilities, including pensions.

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

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities fall into any of four broad categories.

Long-Term Revenue and Expense 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, thereby affecting expenses such as compensated absences and other postemployment benefits.

Capital Related Differences

Capital related differences include the difference between proceeds from 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.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because the issuance of long-term debt provides current financial resources to governmental funds, but is recorded as a liability in the Statement of Net Position. In addition, both interest and principal are recorded as expenditures in the fund statements when due and payable, whereas interest expense is recorded in the Statement of Activities as it accrues, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

Pension Differences

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The District administration prepares a proposed budget for approval by the Board of Education for the general fund, the only fund with a legally adopted budget.

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 authorized for the year are increased by the amount of encumbrances carried forward from the prior year. 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 can be funded by the planned use of specific reserves, and can be increased by 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) and appropriation of fund balances. 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:

Sick day payout to retirees upon termination-funded	
by the employee benefit accrued liability reserve	\$ 197,416
Appropriation from the retirement contribution reserve	
for additional ERS contribution	3,186
BOCES tuition funded by additional state aid	<u>237,000</u>
	<u>\$ 437,602</u>

Budgets are adopted annually on a basis consistent with GAAP.

Budgets are established and used for individual capital projects based on authorized funding. The maximum project amount authorized is based upon the estimated cost of the project. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. 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 part of assigned fund balance, unless classified as restricted, 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.

C. Unassigned Fund Balance

The District's general fund unassigned fund balance was in excess of the New York State Real Property Tax Law §1318 limit, which restricts it to an amount not greater than 4% of the District's budget for the upcoming school year. The District is in the process of formulating a plan to reduce the unassigned fund balance to be within the permissible limit.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The District's investment policies are governed by state statutes and District policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. 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 FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its Agencies and obligations of New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the District may be unable to recover deposits or collateral securities that are in possession of an outside agency. 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.

The District's aggregate bank balances were covered by FDIC insurance or fully collateralized by securities pledged on the District's behalf at year end.

5. PARTICIPATION IN BOCES

During the year ended June 30, 2016, the District was billed \$1,816,138 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$241,581. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. DUE FROM STATE AND FEDERAL

Due from state and federal at June 30, 2016 consisted of:

General Fund	
New York State - tuition chapter 47	\$ 248,212
New York State - excess cost aid	148,006
New York State - homeless aid	29,792
BOCES aid	<u>246,414</u>
	672,424
Special Aid Fund	
Federal and state grants	408,995
School Lunch Fund	
Federal and state food service program reimbursements	<u>14,782</u>
	<u>\$ 1,096,201</u>

7. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2016 consisted of:

General Fund	
Other districts - tuition	<u>\$ 39,004</u>

8. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2016, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 580,356	\$ 158,837	\$ 108,808	\$ 101,231
Special Aid Fund		388,957	31,231	
School Lunch Fund		23,448	70,000	
Debt Service Fund				
Capital Projects Fund	<u>158,837</u>	<u>108,808</u>		<u>108,808</u>
Total Governmental Funds	<u>739,193</u>	<u>680,050</u>	<u>210,039</u>	<u>210,039</u>
Fiduciary Funds		<u>59,143</u>		
Total	<u>\$ 739,193</u>	<u>\$ 739,193</u>	<u>\$ 210,039</u>	<u>\$ 210,039</u>

The District typically transfers from the general fund to the special aid fund for the District's share of the costs for the summer program for students with disabilities.

The transfer to the school lunch fund was to provide support for the food service program. The transfer from the capital projects fund to the general fund was for unspent funds on completed capital projects.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

9. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Governmental activities				
Capital assets not being depreciated				
Land	\$ 265,000	\$	\$	\$ 265,000
Total capital assets not being depreciated	265,000	-	-	265,000
Capital assets being depreciated				
Buildings and improvements	28,857,387			28,857,387
Furniture and equipment	38,269			38,269
Vehicles	848,984	23,922		872,906
Total capital assets being depreciated	29,744,640	23,922	-	29,768,562
Less accumulated depreciation for:				
Buildings and improvements	6,974,998	667,590		7,642,588
Furniture and equipment	1,196	4,784		5,980
Vehicles	620,220	54,006		674,226
Total accumulated depreciation	7,596,414	726,380	-	8,322,794
Total capital assets, being depreciated, net	22,148,226	(702,458)	-	21,445,768
Capital assets, net	\$ 22,413,226	\$ (702,458)	\$ -	\$ 21,710,768

Depreciation expense was charged to governmental functions as follows:

General support	\$ 8,075
Instruction	708,076
Food service program	10,229
Total depreciation expense	\$ 726,380

10. SHORT-TERM DEBT

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

	Maturity	Stated Interest Rate	Balance June 30, 2015	Issued	Redeemed	Balance June 30, 2016
TAN	6/17/2016	1.50%	\$ 6,000,000	\$	\$ (6,000,000)	\$
TAN	6/15/2017	0.90%		7,000,000		7,000,000
			\$ 6,000,000	\$ 7,000,000	\$ (6,000,000)	\$ 7,000,000

Interest on short-term debt for the year was \$88,250. The District received a premium of \$51,540 with the \$6,000,000 TAN, which is included in miscellaneous revenue in the general fund in the current year. The District did not receive a premium with the \$7,000,000 TAN.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

11. LONG-TERM LIABILITIES

A. Changes

Long-term liability balances and activity, excluding pension and other postemployment benefits obligations, for the year are summarized below:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Long-term debt:					
Bonds payable	\$ 18,235,000	\$ 5,770,000	\$ (6,430,000)	\$ 17,575,000	\$ 995,000
Add: Premium on advance refunding	511,439		(511,439)		
	<u>18,746,439</u>	<u>5,770,000</u>	<u>(6,941,439)</u>	<u>17,575,000</u>	<u>995,000</u>
Other long-term liabilities					
Compensated absences	752,734	140,130	(197,426)	695,438	
	<u>\$ 19,499,173</u>	<u>\$ 5,910,130</u>	<u>\$ (7,138,865)</u>	<u>\$ 18,270,438</u>	<u>\$ 995,000</u>

The general fund has typically been used to liquidate other long-term liabilities.

B. Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2016
Serial bonds - deficit	6/15/2007	6/15/2017	3.75-4.375%	\$ 260,000
Serial bonds - EXCEL	7/1/2011	7/1/2026	4.0-4.75%	405,000
Advance refunding bond	1/10/2012	7/1/2028	2.0-5.0%	11,140,000
Advance refunding bond	8/5/2015	7/1/2033	2.0-3.375%	5,770,000
				<u>\$ 17,575,000</u>

The following is a summary of debt service requirements for bonds payable:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 995,000	\$ 640,850	\$ 1,635,850
2018	755,000	607,138	1,362,138
2019	780,000	584,125	1,364,125
2020	805,000	560,334	1,365,334
2021	830,000	535,788	1,365,788
2022 - 2026	4,765,000	2,096,497	6,861,497
2027 - 2030	5,820,000	986,322	6,806,322
2031 - 2034	2,825,000	107,256	2,932,256
Total	<u>\$ 17,575,000</u>	<u>\$ 6,118,310</u>	<u>\$ 23,693,310</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Advance Refunding

On August 5, 2015, the District issued \$5,770,000 in general obligation bonds with an average interest rate of 2.6% to advance refund \$5,490,000 of outstanding serial bonds with an average interest rate of 4.3%. The net proceeds of \$5,548,350 (after deducting the net original issue discount of \$106,792, and after payment of \$114,858 in underwriting fees, insurance and other issuance costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is \$533,456. The defeased bonds were called on September 29, 2015 and there are no outstanding amounts as of June 30, 2016.

D. Interest Expense

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

Interest paid	\$ 778,689
Less interest accrued in the prior year	(357,383)
Plus interest accrued in the current year	320,247
Less premium on prior year's bond refunding	(511,439)
Plus deferred charge on refunded bond	58,350
 Total interest expense on long-term debt	 \$ 288,464

12. PENSION PLANS – NEW YORK STATE

A. General Information

The District participates in the New York State Teachers' Retirement System (TRS) and the New York State and Local Employees' Retirement System (ERS). These are cost-sharing multiple employer, public employee retirement systems. The systems provide retirement, disability, withdrawal and death benefits to plan members and beneficiaries related to years of service and final average salary.

B. Provisions and Administration

Teachers' Retirement System

The TRS is administered by the New York State Teachers' Retirement Board. The TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). 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 the TRS. Once a public employer elects to participate in the TRS, 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 TRS may be found on the TRS website at www.nystrs.org or obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Employees' Retirement System

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The net position of the ERS 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 ERS. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as the trustee of the Fund and is the administrative head of the ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of its funds. Once a public employer elects to participate in the ERS, 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 ERS 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 on the NYS Comptroller's website at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

C. Funding Policies

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to ERS or 3.5% of their salary to TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the TRS' fiscal year ended June 30th, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31st, and employer contributions are either paid by the prior December 15th less a 1% discount or by the prior February 1st. The District paid 100% of the required contributions as billed by the TRS and the ERS for the current year and each of the two preceding years.

The District's share of the required contributions, based on covered payroll paid for the District's year ended June 30th, for the current year and two preceding years was:

Contributions	TRS	ERS
2016	\$ 838,485	\$ 196,420
2015	1,091,915	180,150
2014	992,912	215,025

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Assets/Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, 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 June 30, 2015, for TRS and March 31, 2016 for ERS. 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 TRS and ERS Systems in reports provided to the District.

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2015	March 31, 2016
District's proportionate share of the net pension asset/(liability)	\$ 4,307,050	\$ (732,200)
District's portion of the Plan's total net pension asset/(liability)	0.0414670%	0.0045619%
Change in proportion since the prior measurement date	0.0006900	0.0003524

For the year ended June 30, 2016, the District recognized pension expense (credit) of \$(288,287) for TRS and \$261,202 for ERS. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>
Differences between expected and actual experience	\$	\$ 3,700	\$ 119,367	\$ 86,790
Changes of assumptions		195,256		
Net difference between projected and actual earnings on pension plan investments		434,381	1,361,481	
Changes in proportion and differences between the District's contributions and proportionate share of contributions		12,552	27,615	10,535
District's contributions subsequent to the measurement date	<u>838,485</u>	<u>47,133</u>		
Total	<u>\$ 838,485</u>	<u>\$ 693,022</u>	<u>\$ 1,508,463</u>	<u>\$ 97,325</u>

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending 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:

Year Ended	TRS	ERS
2017	\$ (552,582)	\$ 138,244
2018	(552,582)	138,244
2019	(552,582)	138,244
2020	222,977	133,832
2021	(18,322)	
Thereafter	(55,372)	
	<u>\$ (1,508,463)</u>	<u>\$ 548,564</u>

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:

	TRS	ERS
Measurement date	June 30, 2015	March 31, 2016
Actuarial valuation date	June 30, 2014	April 1, 2015
Interest rate	8.0%	7.0%
Salary scale	4.01-10.91%	3.8%
Decrement tables	July 1, 2005 - June 30, 2010 System's Experience	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	3.0%	2.5%

For TRS, annuitant mortality rates are based on July 1, 2005 – June 30, 2010 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale AA. For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

For TRS, the actuarial assumptions used in the June 30, 2014 valuation are based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010. For ERS, the actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized below:

	TRS		ERS	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Measurement date		June 30, 2015		March 31, 2016
Asset type				
Domestic equity	37.0%	6.50%	38.0%	7.30%
International equity	18.0%	7.70%	13.0%	8.55%
Real estate	10.0%	4.60%	8.0%	8.25%
Alternative investments	7.0%	9.90%	19.0%	6.75-11.00%
Domestic fixed income securities	17.0%	2.10%		
Global fixed income securities	2.0%	1.90%		
Bonds and mortgages	8.0%	3.40%	18.0%	4.00%
Short-term	1.0%	1.20%		
Cash			2.0%	2.25%
Inflation indexed bonds			2.0%	4.00%
	100.0%		100.0%	

Discount Rate

The discount rate used to calculate the total pension liability was 8.0% for TRS and 7.0% for ERS (the discount rate used by the ERS at the prior year's measurement date of March 31, 2015, was 7.5%). The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Asset/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 8.0% for TRS and 7.0% for ERS, 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 (7.0% for TRS and 6.0% for ERS) or 1 percentage point higher (9.0% for TRS and 8.0% for ERS) than the current rate:

TRS	1% Decrease (7.00)%	Current Assumption (8.00)%	1% Increase (9.00)%
District's proportionate share of the net pension asset (liability)	\$ (293,796)	\$ 4,307,050	\$ 8,230,606
		Current Assumption (7.00)%	1% Increase (8.00)%
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	\$ (1,651,057)	\$ (732,200)	\$ 44,196

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Pension Plan Fiduciary Net Position

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

	TRS	ERS
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2015	March 31, 2016
Employers' total pension liability	\$ (99,332,104)	\$ (172,303,544)
Plan fiduciary net position	109,718,917	156,253,265
Employers' net pension asset/(liability)	\$ 10,386,813	\$ (16,050,279)
Ratio of plan fiduciary net position to the employers' total pension liability	110.46%	90.68%

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2016, are paid to the System in September, October and November 2016 through a state aid intercept. Accrued retirement contributions as of June 30, 2016, represent employer and employee contributions for the fiscal year ended June 30, 2016, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2016 amounted to \$838,485 of employer contributions and \$46,718 of employee contributions.

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, 2016, represent the projected employer contribution for the period of April 1, 2016 through June 30, 2016 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2016 amounted to \$47,133 of employer contributions. Employee contributions are remitted monthly.

13. PENSION PLANS - OTHER

A. Tax Sheltered Annuities

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain termination payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2016, totaled \$320,916 and \$417,524, respectively.

B. Deferred Compensation Plan

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2016 totaled \$45,395.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

14. POSTEMPLOYMENT HEALTHCARE BENEFITS

A. Plan Description

The District provides medical coverage (the healthcare plan) to retired employees in accordance with employment contracts. The plan is a single-employer defined benefit healthcare plan primarily administered through the New York State Health Insurance Program – Empire Plan. The plan does not issue a stand-alone financial report.

B. Funding Policy

The District assumes a portion of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as the liabilities for premiums mature (come due for payment). For the year ended June 30, 2016, the District recognized a general fund expenditure of \$442,336 for insurance premiums for 49 currently enrolled retirees. Currently, there is no provision in the law to permit the District to fund other postemployment benefits by any means other than the “pay as you go” method.

C. 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 parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities 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 (ARC)	\$ 1,261,072
Interest on net OPEB obligation	431,949
Adjustment to ARC	<u>(346,293)</u>
Annual OPEB cost (expense)	1,346,728
Contributions made	<u>(442,336)</u>
Increase in net OPEB obligation	904,392
Net OPEB obligation - beginning of year	<u>8,638,990</u>
Net OPEB obligation - end of year	<u>\$ 9,543,382</u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016 and the two preceding years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	\$ 1,346,728	32.8%	\$ 9,543,382
June 30, 2015	1,375,103	31.9%	8,638,990
June 30, 2014	2,322,255	24.0%	8,638,990

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date (which is an updated valuation), the plan was 0% funded. The actuarial accrued liability for benefits was \$15,901,954 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,901,954. The covered payroll (annual payroll of active employees covered by the plan) was \$7,876,932, and the ratio of the UAAL to the covered payroll was 201.9%.

Actuarial valuations of an ongoing plan involved 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 required schedule of funding progress following 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 liability for benefits.

E. Actuarial Methods and Assumptions

The valuation of July 1, 2015, is an update derived from estimates from the previous valuation dated July 1, 2014, based on the fact that there were no material changes to any of the benefit packages, the cost sharing structures or the census.

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, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.0% discount rate and an annual healthcare cost trend rate of 4.70% initially, reduced by decrements to an ultimate rate of 3.84%. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

15. RISK MANAGEMENT

General Information

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by a combination of self-insurance reserves and commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded available reserves and commercial insurance coverage for the past three years.

16. ASSIGNED: APPROPRIATED FUND BALANCE

The amount of \$48,564 has been appropriated to reduce taxes for the year ending June 30, 2017.

EAST MORICHES UNION FREE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

17. COMMITMENTS AND CONTINGENCIES

A. Encumbrances

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2016, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance:	
General Fund	
General Support	\$ 435
Instruction	<u>4,465</u>
	<u>\$ 4,900</u>

B. Grants

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 audits, the District's administration believes disallowances, if any, would be immaterial.

C. Litigation

The District is involved in lawsuits arising from the normal conduct of its affairs. Management believes that the outcome of any matters will not have a material effect on these financial statements.

D. Operating Leases

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$58,884. The minimum remaining operating lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 82,684
2018	82,684
2019	79,193
2020	40,800
2021	<u>23,800</u>
	<u>\$ 309,161</u>

18. SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 17, 2016, which is the date the financial statements were available to be issued. No significant events were identified that would require adjustment of or disclosure in the financial statements.

EAST MORICHES UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For The Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
REVENUES				
Local Sources				
Real property taxes	\$ 17,144,660	\$ 17,075,771	\$ 17,075,771	\$ -
Other tax items	2,045,185	2,114,074	2,115,868	1,794
Charges for services	250,000	250,000	345,269	95,269
Use of money and property	75,000	75,000	53,129	(21,871)
Sale of property and compensation for loss			6,090	6,090
Miscellaneous	29,500	29,500	260,595	231,095
Total Local Sources	19,544,345	19,544,345	19,856,722	312,377
State Sources	6,555,542	6,792,542	6,304,757	(487,785)
Total Revenues	26,099,887	26,336,887	26,161,479	(175,408)
OTHER SOURCES				
Operating transfers in			108,808	108,808
Total Revenues and Other Sources	26,099,887	26,336,887	26,270,287	\$ (66,600)
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	275,000	275,000		
Prior Year's Encumbrances	20,915	20,915		
Appropriated Reserves	251,381	451,983		
Total Appropriated Fund Balance	547,296	747,898		
Total Revenues, Other Sources and Appropriated Fund Balance	\$ 26,647,183	\$ 27,084,785		

Note to Required Supplementary Information

Budget Basis of Accounting

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

EAST MORICHES UNION FREE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund (Continued)
For The Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
EXPENDITURES					
General Support					
Board of education	\$ 21,103	\$ 21,103	\$ 13,679	\$ 396	\$ 7,028
Central administration	293,375	292,125	285,797	39	6,289
Finance	231,442	242,674	227,322		15,352
Staff	40,000	40,000	22,634		17,366
Central services	1,087,274	1,106,016	892,227		213,789
Special items	211,582	223,445	213,981		9,464
Total General Support	1,884,776	1,925,363	1,655,640	435	269,288
Instruction					
Administration & improvement	267,571	270,117	260,589		9,528
Teaching - regular school	11,904,017	11,438,888	11,284,588	2,145	152,155
Programs for students with disabilities	5,185,133	5,254,091	5,088,530		165,561
Occupational education	156,000	275,697	275,428		269
Instructional media	380,304	394,960	374,485	2,320	18,155
Pupil services	431,994	460,288	411,539		48,749
Total Instruction	18,325,019	18,094,041	17,695,159	4,465	394,417
Pupil Transportation	1,173,168	1,312,509	1,267,692		44,817
Employee Benefits	3,526,219	3,946,600	3,635,390		311,210
Debt Service					
Principal	940,000	940,000	940,000		-
Interest	753,001	765,041	760,147		4,894
Total Debt Service	1,693,001	1,705,041	1,700,147	-	4,894
Total Expenditures	26,602,183	26,983,554	25,954,028	4,900	1,024,626
OTHER USES					
Operating transfers out	45,000	101,231	101,231		-
Total Expenditures and Other Uses	\$ 26,647,183	\$ 27,084,785	26,055,259	\$ 4,900	\$ 1,024,626
Net Change in Fund Balance			215,028		
Fund Balance - Beginning of Year			1,991,275		
Fund Balance - End of Year			\$ 2,206,303		

Note to Required Supplementary Information

Budget Basis of Accounting

Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

EAST MORICHES UNION FREE SCHOOL DISTRICT
Schedule of Funding Progress - Other Postemployment Benefits
 June 30, 2016

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2014	\$ -	\$ 14,971,787	\$ 14,971,787	0%	\$ 7,706,134	194.3%
July 1, 2013	-	21,336,215	21,336,215	0%	6,804,616	313.6%
July 1, 2012	-	21,084,560	21,084,560	0%	6,480,586	325.3%

EAST MORICHES UNION FREE SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Asset/Liability
June 30, 2016

Teachers' Retirement System

	2016	2015
District's proportion of the net pension asset	0.0414670%	0.0407770%
District's proportionate share of the net pension asset	\$ 4,307,050	\$ 4,542,254
District's covered payroll	\$ 6,420,967	\$ 6,186,562
District's proportionate share of the net pension asset as a percentage of its covered payroll	67.08 %	73.42 %
Plan fiduciary net position as a percentage of the total pension liability	110.46%	111.48%

Employees' Retirement System

	2016	2015
District's proportion of the net pension liability	0.0045619%	0.0042095%
District's proportionate share of the net pension liability	\$ 732,200	\$ 142,206
District's covered payroll	\$ 1,024,918	\$ 1,269,653
District's proportionate share of the net pension liability as a percentage of its covered payroll	71.44 %	11.20 %
Plan fiduciary net position as a percentage of the total pension liability	90.68%	97.95%

EAST MORICHES UNION FREE SCHOOL DISTRICT
Schedule of District Contributions
June 30, 2016

Teachers' Retirement System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 838,485	\$ 1,091,915	\$ 992,912	\$ 686,858	\$ 611,703	\$ 483,416	\$ 383,590	\$ 408,234	\$ 467,639	\$ 390,664
Contributions in relation to the contractually required contribution	838,485	1,091,915	992,912	686,858	611,703	483,416	383,590	408,234	467,639	390,664
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 6,378,545	\$ 6,420,967	\$ 6,186,562	\$ 6,071,192	\$ 567,883	\$ 5,808,995	\$ 6,274,793	\$ 5,678,253	\$ 5,147,094	\$ 4,703,435
Contributions as a percentage of covered payroll	13%	17%	16%	11%	108%	8%	6%	7%	9%	8%

Employees' Retirement System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 196,420	\$ 180,150	\$ 215,025	\$ 179,362	\$ 145,906	\$ 120,342	\$ 84,511	\$ 64,520	\$ 81,585	\$ 103,876
Contributions in relation to the contractually required contribution	196,420	180,150	215,025	179,362	145,906	120,342	84,511	64,520	81,585	103,876
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 1,167,216	\$ 1,259,880	\$ 1,179,093	\$ 1,146,969	\$ 1,173,445	\$ 1,072,096	\$ 1,039,711	\$ 1,054,945	\$ 997,572	\$ 1,011,320
Contributions as a percentage of covered payroll	17%	14%	18%	16%	12%	11%	8%	6%	8%	10%

EAST MORICHES UNION FREE SCHOOL DISTRICT
Schedules of Change from Adopted Budget to Final Budget
and the Real Property Tax Limit - General Fund
For The Year Ended June 30, 2016

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 26,626,268
Additions:		
Prior year's encumbrances		20,915
Original Budget		26,647,183
Budget revisions		437,602
Final Budget		\$ 27,084,785

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2016-17 voter-approved expenditure budget		\$ 26,874,825
Maximum allowed (4% of 2016-17 budget)		\$ 1,074,993
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 53,464	
Unassigned fund balance	1,614,343	
		\$ 1,667,807
Less:		
Appropriated fund balance	48,564	
Encumbrances	4,900	
Total adjustments		53,464
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		\$ 1,614,343
Actual Percentage		6.01%

EAST MORICHES UNION FREE SCHOOL DISTRICT
Schedule of Project Expenditures -
Capital Projects Fund
For The Year Ended June 30, 2016

PROJECT TITLE	Budget	Budget	Expenditures			Unexpended Balance	Methods of Financing				Fund Balance June 30, 2016
	June 30, 2015	June 30, 2016	Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total	
Middle school renovation	\$ 977,040	\$ 977,040	\$ 927,011	\$ -	\$ 927,011	\$ 50,029	\$ -	\$ -	\$ 977,040	\$ 977,040	\$ 50,029

EAST MORICHES UNION FREE SCHOOL DISTRICT
Net Investment in Capital Assets
June 30, 2016

Capital assets, net	<u>\$ 21,710,768</u>
Deduct:	
Short-term portion of bonds payable	995,000
Long-term portion of bonds payable	<u>16,580,000</u>
	<u>17,575,000</u>
Net Investment in Capital Assets	<u>\$ 4,135,768</u>

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

To the Board of Education
East Moriches Union Free School District
East Moriches, 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 fiduciary funds of the East Moriches Union Free School District (District), as of and for the year ended June 30, 2016, 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 17, 2016.

Internal Control Over Financial Reporting

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

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the East Moriches Union Free School District in a separate letter dated October 17, 2016.

Purpose of this Report

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

Cullen & Danowski, LLP

October 17, 2016

APPENDIX D

FORM OF APPROVING LEGAL OPINION OF BOND COUNSEL

FORM OF BOND COUNCEL OPINION FOR THE TAN

October 3, 2017

The Board of Education of the
East Moriches Union Free School District, in the
County of Suffolk, New York

Ladies and Gentlemen:

We have acted as Bond Counsel to the East Moriches Union Free School District (the "School District"), in the County of Suffolk, a school district of the State of New York in connection with the authorization, sale and issuance of the \$5,900,000 Tax Anticipation Note for 2017-2018 Taxes (the "Note"), dated and delivered on the date hereof.

We have examined a record of proceedings relating to the Note for purposes of this opinion. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Note is a valid and legally binding general obligation of the School District for which the School District has validly pledged its faith and credit and, unless paid from other sources, all the taxable real property within the School District is subject to the levy of ad valorem real estate taxes to pay the Note and interest thereon subject to certain statutory limitations imposed under Chapter 97 of the New York Laws of 2011, as amended. The enforceability of rights or remedies with respect to such Note may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

2. Under existing statutes and court decisions and assuming continuing compliance with certain tax representations described herein, (i) interest on the Note is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Note is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

The Code establishes certain requirements that must be met subsequent to the issuance of the Note in order that the interest on the Note be and remain excludable from gross income for federal income tax purposes under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the Note, restrictions on the investment of proceeds of the Note prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause the interest on the Note to become subject to federal income taxation retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of issuance of the Note, the School District will execute a Tax Certificate relating to the Note containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the School District represents that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that the interest on the Note will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in this paragraph 2, we have relied upon and assumed (i) the material accuracy of the School District's representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of the interest on the Note, and (ii) compliance by the School District with the procedures and representations set forth in the Tax Certificate as to such tax matters.

3. Under existing statutes, interest on the Note is exempt from personal income taxes of New York State and its political subdivisions, including The City of New York.

Except as stated in paragraphs 2 and 3 above, we express no opinion as to any other federal, state or local tax consequences with respect to the Note or the ownership or disposition thereof. Further, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of the interest on the Note, or under state and local tax law.

We render our opinion under existing statutes and court decisions as of the date of issuance of the Note, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason.

We give no assurances as to the accuracy, sufficiency or completeness of the Preliminary and/or Final Official Statement relating to the Note or any proceedings, reports, correspondence, financial statements or other documents, containing financial or other information relative to the District which have been or may hereafter be furnished or disclosed to purchasers of said Note.

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

UNDERTAKING TO PROVIDE NOTICES OF EVENTS

Section 1. Definitions

“EMMA” shall mean Electronic Municipal Market Access System implemented by the MSRB.

“GAAP” shall mean generally accepted accounting principles as in effect from time to time in the United States.

“Holder” shall mean any registered owner of the Securities and any beneficial owner of Securities within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934.

“Issuer” shall mean the East Moriches Union Free School District, in the County of Suffolk, a school district of the State of New York.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Purchaser” shall mean the financial institution(s) referred to in the Certificate of Determination, executed by the President of the Board of Education as of the date of issuance of the Notes.

“Rule 15c2-12” shall mean Rule 15c2-12 under the Securities Exchange Act of 1934, as amended through the date of this Undertaking, including any official interpretations thereof.

“Securities” shall mean the Issuer’s \$5,900,000 Tax Anticipation Notes for 2017-2018 Taxes dated October 3, 2017, maturing June 27, 2018, and delivered on the date hereof.

Section 2. Obligation to Provide Notices of Events. (a) The Issuer hereby undertakes, for the benefit of Holders of the Securities, to provide or cause to be provided either directly or through Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York, 11776 to the Electronic Municipal Market Access (“EMMA”) System implemented by the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of such Board contemplated by the Undertaking, in a timely manner, not in excess of ten (10) business days after the occurrence of any such event, notice of any of the following events with respect to the Securities:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;

- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Securities, or other material events affecting the tax status of the Securities;
- (7) modifications to rights of Securities holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Securities, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Issuer;

Note to clause (12): For the purposes of the event identified in clause (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer;

- (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Nothing herein shall be deemed to prevent the Issuer from disseminating any other information in addition to that required hereby in the manner set forth herein or in any other manner. If the Issuer disseminates any such additional information, the Issuer shall have no obligation to update such information or include it in any future materials disseminated hereunder.

(c) Nothing herein shall be deemed to prevent the Issuer from providing notice of the occurrence of certain other events, in addition to those listed above, if the Issuer determines that any such other event is material with respect to the Securities; but the Issuer does not undertake to commit to provide any such notice of the occurrence of any event except those events listed above.

Section 3. Remedies. If the Issuer shall fail to comply with any provision of this Undertaking, then any Holder of Securities may enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding at law or in equity, this Undertaking against the Issuer and any of the officers, agents and employees of the Issuer, and may compel the Issuer or any such officers, agents or employees to perform and carry out their duties under this Undertaking; provided that the sole and exclusive remedy for breach of this Undertaking shall be an action to compel specific performance of the obligations of the Issuer hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances. Failure to comply with any provision of this Undertaking shall not constitute an event of default on the Securities.

Section 4. Parties in Interest. This Undertaking is executed to assist the Purchaser to comply with (b)(5) of the Rule and is delivered for the benefit of the Holders. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 5. Amendments. Without the consent of any holders of Securities, the Issuer at any time and from time to time may enter into any amendments or changes to this Undertaking for any of the following purposes:

- (a) to comply with or conform to any changes in Rule 15c2-12 (whether required or optional);
- (b) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the Issuer and the assumption of any such successor of the duties of the Issuer hereunder;
- (d) to add to the duties of the Issuer for the benefit of the Holders, or to surrender any right or power herein conferred upon the Issuer;
- (e) to cure any ambiguity, to correct or supplement any provision hereof which may be inconsistent with any other provision hereof, or to make any other provisions with respect to matters or questions arising under this Undertaking which, in each case, comply with Rule 15c2-12 or Rule 15c2-12 as in effect at the time of such amendment or change;

provided that no such action pursuant to this Section 5 shall adversely affect the interests of the Holders in any material respect. In making such determination, the Issuer shall rely upon an opinion of nationally recognized bond counsel.

Section 6. Termination. This Undertaking shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Securities shall have been paid in full or the Securities shall have otherwise been paid or legally defeased in accordance with their terms. Upon any such legal defeasance, the Issuer shall provide notice of such defeasance to the EMMA System. Such notice shall state whether the Securities have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 7. Undertaking to Constitute Written Agreement or Contract. This Undertaking shall constitute the written agreement or contract for the benefit of Holders of Securities, as contemplated under Rule 15c2-12.

Section 8. Governing Law. This Undertaking shall be governed by the laws of the State of New York determined without regard to principles of conflict of law.

IN WITNESS WHEREOF, the undersigned has duly authorized, executed and delivered this Undertaking as of October 3, 2017.

By _____
President of the Board of Education and
Chief Fiscal Officer