OCTOBER 11, 2018

SUPPLEMENT TO THE PRELIMINARY OFFICIAL STATEMENT AND NOTICE OF SALE DATED OCTOBER 2, 2018 RELATING TO:

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK
(the "District")

$11,500,000* TAX ANTICIPATION NOTES FOR 2018-2019 TAXES (SERIES II)
(the "Notes")

The Preliminary Official Statement for the Notes is dated October 2, 2018 (the "Preliminary Official Statement"). The Eastport-South Manor Central School District, in the County of Suffolk, New York (the "District") has prepared this Supplement, dated October 11, 2018, to the Preliminary Official Statement (the "Supplement") on account of the following:

The following changes have been made to the Preliminary Official Statement:

- **The front cover of the Preliminary Official Statement has been changed to reflect the new maturity date of February 6, 2019.**

- **Appendix B cash flows have been revised to reflect the new maturity date of February 6, 2019.**

In addition, the Notice of Sale for the Notes has been updated to reflect the new maturity date for the Notes of February 6, 2019.

The Undertaking to Provide Notices of Events has been changed to reflect the new maturity date of February 6, 2019.

Other than with respect to the information provided herein, this Supplement is not otherwise updating the Preliminary Official Statement, which speaks as of its date. Capitalized terms used herein and not otherwise defined have the meanings given to such terms in the Preliminary Official Statement.

*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.

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 2, 2018

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 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 for taxable years beginning prior to January 1, 2018. In addition, in the opinion of Bond Counsel to the District, under existing statues, 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 NOT designate the Notes as "qualified tax-exempt obligations" pursuant to the provisions of Section 265(b)(3) of the Code.

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK

$11,500,000* TAX ANTICIPATION NOTES FOR 2018 – 2019 TAXES (SERIES II)
(the "Notes")

Date of Issue: October 25, 2018 **Maturity Date: February 6, 2019**

The Notes are general obligations of the Eastport-South Manor Central 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.

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

If the Notes are 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 *"Description of Book-Entry System"* herein).

Proposals for the Notes will be received at 11:00 A.M. (Prevailing Time) on October 17, 2018 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 25, 2018.

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 CONTINING DISCLOSURE FOR THE NOTES, AS DESCRIBED IN THE RULE, SEE "DISCLOSURE UNDERTAKING" HEREIN.

*Preliminary, subject to change.

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK

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Sharon P. Murray

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* * *

BOND COUNSEL

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* * *

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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

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK

Relating To

$11,500,000* TAX ANTICIPATION NOTES FOR 2018 – 2019 TAXES (SERIES II)

(the "Notes")

This Official Statement, including the cover page and appendix hereto, presents certain information relating to the Eastport-South Manor Central School District in the County of Suffolk, State of New York (the "District," "County" and "State," respectively) in connection with the sale of $11,500,000* Tax Anticipation Notes for 2018 - 2019 Taxes (Series II) (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 issued in book-entry form and the purchaser(s) will serve as paying agent for the Notes registered in the name of the purchaser(s). Paying agent fees, if any, will be paid by the purchaser(s). The District's contact information is as follows: Timothy Laube, Assistant Superintendent for Business, Eastport-South Manor Central School District, 149 Dayton Avenue, Manorville, NY 11949, Phone (631) 801-3001, Fax (631) 874-6743 and email: laubet@esmonline.org.

Optional Redemption

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

Description of Book-entry System

In the event that the Notes are issued in 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 participants ("Direct Participants") deposit

*Preliminary, subject to change.

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 2018-2019 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 2018-2019 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 2018-2019 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.

The District issued additional tax anticipation notes in the amount of $10,300,000, which mature on June 25, 2019.

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 "*The 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 theretofore 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*, 40 N.Y.2d 1088 (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

On December 21, 1998, the voters of the Eastport Union Free School District and the South Manor Union Free School District approved the establishment of a Central High School District to provide secondary education to the students of both districts. The Eastport – South Manor Central High School District commenced operations on July 1, 1999. At that point, the Central High School District became responsible for secondary education and both Eastport Union Free School District and South Manor Union Free School District became elementary districts with an obligation to provide elementary education to their resident students.

On December 10, 2003 the residents of the Eastport Union Free School District and the South Manor Union Free School District voted to merge their respective districts with the Eastport – South Manor Central High School District. The merged Eastport – South Manor Central School District (the "District") commenced operations on July 1, 2004. Upon merger all assets, liabilities, fund balances and outstanding commitments of the three districts became those of the District. Unless otherwise noted, information in this Official Statement refers to the District.

The District provides public education in grades K-12 to resident students. The District is located on the south shore of Long Island, approximately 75 miles east of New York City. It encompasses an area of approximately 34 square miles and has an estimated population of 19,404. It is situated in the Towns of Brookhaven and Southampton, with an additional minor portion located in the Town of Riverhead. The District is primarily residential in character, with the majority of the residences consisting of single-family homes. The District also includes two golf courses, the Long Island Game Farm and some smaller commercial enterprises.

The southern border of the District is adjacent to Moriches Bay, which provides recreational activities including boating, swimming and fishing, as well as, ancillary commercial activity.

District Organization

Subject to the provisions of the State Constitution, the District operates pursuant to the Education Law, the Local Finance Law, other laws generally applicable to the District, and any special laws applicable to the District. Under such laws, there is no authority for the District to have a charter or adopt local laws.

The legislative power of the District is vested in the Board of Education. Under current law, an election is held within the District boundaries on the third Tuesday of May each year to elect members of the Board of Education. They are generally elected for staggered terms of three years.

In early July of each year, the Board of Education meets for the purpose of reorganization. At that time the Board elects a President and Vice President, and appoints a District Clerk and District Treasurer.

Economy

The District is primarily residential in nature. Commercial activity is located along the major thoroughfares, downtown retail centers, and along the waterfront. Employment opportunities are available to residents throughout Nassau and Suffolk Counties, with some commuting to New York City. There is a significant amount of developable vacant land within the District which has led to residential and commercial growth.

Transportation

The following transportation facilities are available to residents of the District:

The District is traversed by the Long Island Expressway (Interstate 495), New York State Routes 27 (Sunrise Highway) and 27A. Rail transportation is provided by the Long Island Railroad. Long Island MacArthur Airport is located approximately 25 miles west of the District.

Utilities and Services

Water, electric, gas, and fire and police protection are provided to residents of the District as follows: Water service is provided by the Suffolk County Water Authority; gas and electric by PSEG Long Island and National Grid. Police protection is furnished by the Suffolk County Police Department, while fire protection is available from local volunteer units.

Enrollment History

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

School Year	School Enrollment
2014-2015	3,612
2015-2016	3,511
2016-2017	3,525
2017-2018	3,350
2018-2019	3,200

Source: District Officials.

Projected Future Enrollment

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

School Year	School Enrollment
2019-2020	3,050
2020-2021	2,950

Source: District Officials.

District Facilities

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

Name of School	Grades	Date of Construction	Date of Most Recent Improvements	Capacity
Eastport-South Manor Jr./Sr. High School	7-12	2003	2015	2,200
Dayton Avenue Elementary	3-6	1978	2018	560
South Street Elementary	K-2	1929	2018	415
Eastport Elementary	K-6	1928	2018	775
Central Administration Office	N/A	1946	2018	N/A
Tuttle Avenue School	K-2	2014	-	475

Employees

The District provides services through approximately 622 employees who are represented by the following units of organized labor, plus non-union employees not represented.

Name of Union	Expiration Date of Contract[a]	Approx. No. of Members
Teachers Association	06/30/2018	258
Teaching Assistants	06/30/2018	73
Teacher Aides & Monitors	06/30/2018	94
Administrators Association	06/30/2019	16
Clerical	06/30/2019	44
Nurses	06/30/2020	6
Custodial, Maintenance & Grounds	06/30/2019	43

a. Any contracts expired as of the date of this Official Statement are in negotiation.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Population Trends

Population statistics are available for the District as such. The District is located within the Towns of Brookhaven (89.46%), Southampton (10.52%) and Riverhead (0.02%). The following table sets forth population statistics for the District, Town of Brookhaven and the County.

Year	District	Town of Brookhaven	Suffolk County
1990	N/A	397,014	1,321,864
2000	N/A	448,248	1,419,369
2010	17,519	486,040	1,493,350
2013	18,707	486,868	1,495,803
2016	19,903	488,123	1,498,130

Source: U.S. Bureau of the Census.

Income Data

Income data is available for the District as such. The District is located within the Towns of Brookhaven (89.46%), Southampton (10.52%) and Riverhead (0.02%). The information set forth below with respect to such Town of Brookhaven, County and State is included for information purposes only. It should not be inferred from the inclusion of such data in this Official Statement that the District is necessarily representative of the Town, County or State or vice versa.

	Per Capita Money Income			
	1990	2000	2010	2016[a]
District	N/A	N/A	$38,202	$37,735
Town of Brookhaven	16,726	24,191	32,663	36,011
County of Suffolk	18,481	26,577	35,411	38,779
State of New York	16,501	23,389	30,791	34,212

	Median Household Income			
	1990	2000	2010	2016[a]
District	N/A	N/A	$87,712	$101,071
Town of Brookhaven	47,074	62,475	81,654	89,268
County of Suffolk	49,128	65,288	84,235	92,933
State of New York	32,965	43,393	54,148	62,909

Source: United States Bureau of the Census

a. Note: Based on American Community Survey 5-Year Estimates (2012-2016)

Selected Listing of Larger Employers in the Town of Brookhaven
(As of 2017)

Largest employers are not available for the District as such. The District is located within the Towns of Brookhaven (89.46%), Southampton (10.52%) and Riverhead (0.02%).

Name	Type of Business	Estimated Number of Employees
State University at Stony Brook	Education	14,500
Stony Brook University Medical Center	Medical Center	6,500
Brookhaven National Laboratory	Laboratory	2,790
John T. Mather Hospital	Hospital	2,500
Sachem Central School District	Education	2,275
Brookhaven Memorial Hospital	Hospital	2,210
Three Village Central School District	Education	1,500
William Floyd Union Free School District	Education	1,285
St. Charles Hospital	Hospital	1,775
Quality King Distributors	Commercial	900
Nursing Care at Medford	Nursing Home	580

Source: Town Officials.

Unemployment Rate Statistics

Unemployment statistics are not available for the District as such. The District is located within the Towns of Brookhaven (89.46%), Southampton (10.52%) and Riverhead (0.02%). The information set forth below with respect to such Town, County and State is included for information purposes only. It should not be inferred from the inclusion of such data in this Official Statement that the District is necessarily representative of the Town, County or State or vice versa.

Annual Averages:	Town of Brookhaven (%)	Suffolk County (%)	New York State (%)
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	4.5	4.5	4.7
2018 (7 Month Average)	4.4	4.4	4.4

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 in one of the two fiscal years immediately succeeding the fiscal year in which such indebtedness was contracted, 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 purposes determined by statute or, in the alternative, the weighted average period of probable usefulness of the several objects or purpose for which such indebtedness is to be contracted; 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 October 2, 2018)

In Town of (2017-18)[a]:	Assessed Valuation	State Equalization Rate (%)	Full Valuation
Brookhaven	$17,647,156	0.90	$1,960,795,111
Southampton	230,491,740	100.00	230,491,740
Riverhead	63,100	13.87	454,939
	$248,201,996		$2,191,741,790
Debt Limit - 10% of Full Valuation			$219,174,179
Inclusions:[b]			
Outstanding Bonds			$108,400,000
Bond Anticipation Notes			0
Total Indebtedness			$108,400,000
Exclusions (Estimated Building Aid)[c]			84,010,000
Total Net Indebtedness			24,390,000
Net Debt Contracting Margin			$194,784,179
Per Cent of Debt Contracting Margin Exhausted			11.13%

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.

Details of Short-Term Indebtedness Outstanding

As of the date of this Official Statement, the District has tax anticipation notes outstanding in the amount of $10,300,000, which mature on June 25, 2019. Such amount is expected to be paid in full with the receipt of the District's tax levy.

Trend of Outstanding Indebtedness
As at June 30:

	2014	2015	2016	2017	2018
Bonds	$ 132,285,000	$ 140,160,000	$ 130,025,000	$ 121,955,000	$ 113,865,000
BANs	-	15,000,000	-	-	-
Other	-	-	-	-	-
Totals:	$ 132,285,000	$ 155,160,000	$ 130,025,000	$ 121,955,000	$ 113,865,000

Debt Service Requirements - Outstanding Bonds[a]

Fiscal Year Ending June 30:	Principal	Interest	Total
2019	$ 8,345,000	$ 4,138,150	$ 12,483,150
2020	8,670,000	3,834,653	12,504,653
2021	9,015,000	3,518,953	12,533,953
2022	9,380,000	3,190,591	12,570,591
2023	9,710,000	2,831,994	12,541,994
2024	9,655,000	2,466,531	12,121,531
2025	9,510,000	2,101,669	11,611,669
2026	8,825,000	1,751,550	10,576,550
2027	7,120,000	1,447,113	8,567,113
2028	5,845,000	1,207,963	7,052,963
2029	6,060,000	997,591	7,057,591
2030	6,270,000	783,066	7,053,066
2031	1,510,000	576,703	2,086,703
2032	1,155,000	529,225	1,684,225
2033	925,000	491,788	1,416,788
2034	960,000	458,106	1,418,106
2035	995,000	423,138	1,418,138
2036	1,025,000	386,194	1,411,194
2037	1,065,000	346,984	1,411,984
2038	1,110,000	305,650	1,415,650
2039	1,150,000	262,413	1,412,413
2040	1,190,000	216,713	1,406,713
2041	1,240,000	168,375	1,408,375
2042	1,285,000	118,013	1,403,013
2043	1,335,000	65,813	1,400,813
2044	515,000	11,588	526,588
Totals:	$113,865,000	$32,630,522	$146,495,522

a. Does not include payments made to date.

Energy Performance Contract Lease[a]

The following is a summary of debt service requirements for the energy performance contract entered into by the District on October 15, 2014.

Fiscal Year Ending June 30:	Principal	Interest	Total
2019	$ 453,332	$ 166,401	$ 619,733
2020	466,711	153,021	619,732
2021	480,486	139,246	619,732
2022	494,668	125,065	619,733
2023	509,268	110,465	619,733
2024	524,298	95,434	619,732
2025	539,773	79,959	619,732
2026	555,704	64,028	619,732
2027	572,105	47,627	619,732
2028	588,991	30,741	619,732
2029	606,375	13,357	619,732
Totals:	$5,791,711	$1,025,344	$6,817,055

a. Does not include payments made to date.

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:

Fiscal Year Ending June 30:	Amount	Issue	Maturity
2014	$15,500,000	09/10/2013	06/27/2014
2015	16,000,000	10/02/2014	06/26/2015
2016	18,000,000	10/06/2015	06/24/2016
2017	20,250,000	08/25/2016	06/23/2017
2018	21,800,000	07/29/2017	06/22/2018
2019 (Projected)[a]	21,800,000	07/26/2018	06/25/2019

a. $10,300,000 in tax anticipation notes have already been issued.

Authorized and Unissued Debt

The District has no authorized but unissued debt outstanding.

Calculation of Estimated Overlapping and Underlying Indebtedness

Overlapping Units	Date of Report	Percentage Applicable (%)	Applicable Total Indebtedness	Applicable Net Indebtedness
County of Suffolk	05/25/2018	0.87	$20,184,908	$10,964,628
Town of Brookhaven	06/20/2018	3.83	21,891,223	20,641,302
Town of Southampton	05/24/2018	0.50	559,675	475,674
Town of Riverhead	12/31/2016	0.01	9,557	8,279
Eastport Fire District	12/31/2016	100.00	160,000	160,000
Manorville Fire District	12/31/2016	95.00	327,680.65	327,680.65
Totals			$43,133,044	$32,577,565

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 October 2, 2018)

	Amount	Per Capita[a]	Percentage of Full Value (%)[b]
Total Direct Debt	$108,400,000	$5,446	4.95
Net Direct Debt	24,390,000	1,225	1.11
Total Direct & Applicable Total Overlapping Debt	151,533,044	7,614	6.91
Net Direct & Applicable Net Overlapping Debt	56,967,565	2,862	2.60

a. The current population of the District is 19,903.
b. The full valuation of taxable property is $2,191,741,790.

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, 2017. 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 15, 2018, a majority of the voters of the District approved the District's budget for the 2018-2019 fiscal year. Summaries of the District's Adopted Budgets for the fiscal years 2017-2018 and 2018-2019 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 2013 through 2017, inclusive and the amounts budgeted for the 2018 and 2019 fiscal years.

Fiscal Year Ending June 30:	General Fund Total Revenue	State Aid	State Aid to Revenues (%)
2013	$79,944,525	$29,320,938	36.68
2014	84,903,519	32,778,669	38.61
2015	86,841,142	34,370,517	39.58
2016	88,422,881	35,027,340	39.61
2017	88,822,512	35,075,504	39.49
2018 (Budgeted)[a]	92,922,780	36,346,533	39.11
2019 (Budgeted)[a]	93,502,384	37,281,766	39.87

Source: Audited Financial Statements of the District and Adopted Budgets of the District.
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 amount of State aid to school districts is dependent in part upon the financial condition of the State. During the 2012 to 2018 fiscal years of the State, State aid to school districts was paid in a timely manner; however, during the State's 2010 fiscal year, State budgetary restrictions resulted in delayed payments of State aid to school districts in the State. In addition, the availability of State aid and the timeliness of payment of State aid to school districts could be affected by a delay in the adoption of the State budget. Although the State's 2018-2019 Budget was adopted on March 30, 2018, in advance of the April 1 deadline, the State's 2017-2018 Budget was adopted on April 9, 2017, a delay of approximately 8 days. No assurance can be given that the State will not experience delays in the adoption of the budget in future fiscal years. Significant delays in the adoption of the State budget could result in delayed payment of State aid to school districts in the State which could adversely affect the financial condition of school districts in the State.

The State receives a substantial amount of federal aid for health care, education, transportation and other governmental purposes, as well as federal funding to respond to, and recover from, severe weather events and other disasters. Many of the policies that drive this federal aid may be subject to change under the federal administration and the current Congress. Current federal aid projections, and the assumptions on which they rely, are subject to revision in the future as a result of changes in federal policy.

The federal government may enact budgetary changes or take other actions that adversely affect State finances. State legislation adopted with the State's 2018-2019 Budget continues authorization for a process by which the State would manage significant reductions in federal aid during fiscal year 2018-2019 and fiscal year 2019-2020 should they arise. Specifically, the legislation allows the State Budget Director to prepare a plan for consideration by the State Legislature in the event that the federal government (i) reduces federal financial participation in Medicaid funding to the State or its subdivisions by $850 million or more; or (ii) reduces federal financial participation of other federal aid funding to the State that affects the State Operating Funds financial plan by $850 million or more, exclusive of any cuts to Medicaid. Each limit is triggered separately. The plan prepared by the State Budget Director must equally and proportionately reduce appropriations and cash disbursements in the State's General Fund and State Special Revenue Funds. Upon receipt of the plan, the State Legislature has 90 days to prepare its own corrective action plan, which may be adopted by concurrent resolution passed by both houses, or the plan submitted by the State Budget Director takes effect automatically.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act of 2017 (H.R. 1, P.L. 115-97), making major changes to the Federal Internal Revenue Code, most of which are effective in the 2018 tax year. The new federal tax law makes extensive changes to federal personal income taxes, corporate income taxes, and estate taxes, and the deductibility of various taxes and interest costs. The State's income tax system interacts with the federal system in numerous ways. The federal changes are expected to have significant flow-through effects on State tax burdens and revenues. The State's 2018-2019 Enacted Budget includes legislation decoupling certain linkages between federal and local income tax and corporate taxes, increasing the opportunities for charitable contributions, and providing an option to employers to shift to an employer compensation tax and reduce State personal income taxes. In addition, the State's 2018-2019 Enacted Budget includes legislation that grants localities the option to establish local charitable funds that would provide taxpayers with a credit against their property taxes. The District does not have plans to establish a charitable fund at this time.

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 federal 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 OPERATING RESULTS

2014-15 Results of Operations

For the fiscal year ended June 30, 2015, the audited financial statements show the total revenues in the General Fund were $86,841,142 and the total expenditures were $92,008,762, resulting in an operating deficit of $5,240,066 after transfers. The total overall fund balance in the General Fund decreased from $13,433,034 to $8,192,968.

2015-16 Results of Operations

For the fiscal year ended June 30, 2016, the audited financial statements show the total revenues in the General Fund were $88,422,881 and the total expenditures were $90,256,600, resulting in an operating deficit of $1,877,081 after transfers. The total overall fund balance in the General Fund decreased from $8,192,968 to $6,315,887.

2016-17 Results of Operations

For the fiscal year ended June 30, 2017, the audited financial statements show the total revenues in the General Fund were $88,822,512 and the total expenditures were $89,822,502, resulting in an operating deficit of $1,115,931 after transfers. The total overall fund balance in the General Fund decreased from $6,315,887 to $5,199,956.

2017-18 Results of Operations

Operating results for fiscal year ended June 30, 2018 are not yet available.

2017-18 Budget

The Adopted Budget for the fiscal year ended June 30, 2018 was approved by the voters on May 16, 2017 and included a 3.39% property tax increase and no appropriation of fund balance. A summary of the 2017-2018 Budget is attached in Appendix A.

2018-19 Budget

The Adopted Budget for the fiscal year ending June 30, 2019 was approved by the voters on May 15, 2018 and included a 2.13% property tax increase. In an effort to decrease expenditures, the District made significant cuts through the elimination of teaching and administrative staff, reduction to contractual obligations and equipment purchases, and elimination of certain athletic and music programs. A summary of the 2018-2019 Budget is attached in Appendix A.

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 increased established in more recent years.

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 State's 2014-2015 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 State's 2014-2015 Budget restored $602 million of Gap Elimination Adjustment reductions that had been imposed on school districts from 2010-2011 to 2012-2013. The State's 2014-2015 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 State's 2016-2017 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 State's 2016-2017 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 Budget provided 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 were 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's 2017-18 Budget continued to link school aid increases for 2017-18 and 2018-19 to teacher and principal evaluation plans.

School district fiscal year (2018-2019): The State's 2018-2019 Budget provides for school aid of approximately $26.7 billion, an increase of approximately $1.0 billion in school aid spending from the 2017-2018 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 5.2% and building aid increased by 4.7%. The State 2018-2019 Enacted Budget continues to link school aid increases for 2018-2019 and 2019-2020 to teacher and principal evaluation plans.

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 State's 2016-2017 Budget 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 $2,279,065.

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. 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.

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 "Moderate" (Fiscal Score: 46.7%). 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 was released on March 20, 2015. The purpose of the audit was to evaluate the District's controls over user access to the financial software for the period July 1, 2013 – August 31, 2014. The complete report may be found on the State Comptroller's official website.

References to websites and/or website addresses presented herein are for informational purposes only and implies no warranty of accuracy of information therein. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

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.

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 21 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%.

As of June 30, 2017, SCO is effectively terminated. Each employer who elected to participate in the plan has opted out. Employers who participated in the SCO will resume paying the Employer Contribution Rate ("ECR") as well as any outstanding deferred contributions plus interest.

The following chart represents the TRS and ERS required contributions for each of the last five completed fiscal years and budgeted for the 2019 fiscal year.

Fiscal Year Ending June 30:	TRS	ERS
2014	$6,306,467	$1,079,200
2015	6,820,635	969,002
2016	5,181,340	984,328
2017	4,494,842	862,879
2018 (Unaudited)	3,895,841	885,454
2019 (Budgeted)	3,863,350	878,948

Source: Audited Financial Statements and District Officials.

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 2017, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual OPEB Cost and Net OPEB Obligation	Fiscal Year Ending June 30, 2017:
Annual required contribution (ARC)	$5,076,455
Interest on net OPEB obligation	1,397,985
Less: Adjustments to ARC	(1,047,219)
Annual OPEB cost (expense)	5,427,221
Less: Contributions made	(1,246,987)
Increase in net OPEB obligation	4,180,234
Net OPEB obligation-beginning of year	27,959,705
Net OPEB obligation-end of year	$32,139,939

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, 2017 and the two preceding years are as follows:

Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed (%)	Net OPEB Obligation
June 30, 2017	$5,427,221	23.0	$32,139,939
June 30, 2016	4,627,499	27.0	27,959,705
June 30, 2015	4,362,021	25.6	24,580,048

In some recent years, OSC has 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 Towns of Brookhaven, Southampton and Riverhead. 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 2013 through 2017, inclusive and for the amounts budgeted for the 2018 and 2019 fiscal years.

Fiscal Year Ending June 30:	Total Revenue	Real Property Taxes	Real Property Taxes to Revenues (%)
2013	$79,944,525	$41,169,149	51.50
2014	84,903,519	42,337,475	49.87
2015	86,841,142	43,465,017	50.05
2016	88,422,881	44,471,701	50.29
2017	88,822,512	45,086,331	50.76
2018 (Budgeted)[a]	92,922,780	53,217,393	57.27
2019 (Budgeted)[a]	93,502,384	54,191,936	57.96

Source: Audited Financial Statements of the District and Adopted Budgets of the District.
a. Budgeted estimates for total revenues include appropriations of fund balance. Budgeted estimates for real property taxes include STAR.

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 included 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 13% of the District's 2017-2018 school tax levy was exempted by the STAR program and the District received full reimbursement of such exempt taxes from the State in January 2018. Approximately 13% of the District's 2018-2019 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 2019. (See *"State Aid"* herein).

Rebate Program

Chapter 59 of the New York 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 Limit 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 New York 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 Limit 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 Limit 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 Limit Law. In either scenario, the relevant jurisdiction (independent school district or joint city/school district) must certify its compliance with the provisions of the Tax Levy Limit Law. 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 Limit Law.

Valuations, Rates and Levies

The following table sets forth District's assessed and full valuations, tax rates and levies for each of the years 2014 through 2018.

Town:	Fiscal Year Ending June 30:	Assessed Valuation	State Equal. Rate (%)	Full Valuation	Tax Rate Per $1,000 Assessed Valuation	Tax Levy
Brookhaven	2014	$17,566,225	0.95	$1,849,076,316	$2,455.08	$37,008,122
	2015	17,550,717	0.95	1,847,443,895	2,499.90	38,066,735
	2016	17,556,825	0.95	1,848,086,842	2,593.12	38,953,989
	2017	17,647,156	0.91	1,939,247,912	2,667.02	39,707,564
	2018	17,647,156	0.90	1,960,795,111	2,664.35	41,320,698
Southampton	2014	$254,950,790	100.00	$254,950,790	$23.23	$5,208,100
	2015	250,426,221	100.00	250,426,221	23.75	5,254,344
	2016	251,509,197	100.00	251,509,197	23.60	5,372,582
	2017	255,840,297	100.00	255,840,297	24.00	5,241,587
	2018	230,491,740	100.00	230,491,740	23.56	5,432,680
Riverhead	2014	$63,100	15.98	$394,869	$145.36	$9,172
	2015	63,100	15.40	409,740	154.22	9,731
	2016	63,100	14.58	432,785	160.97	10,560
	2017	63,100	14.66	430,423	173.06	10,157
	2018	63,100	13.87	454,939	173.06	10,920
Totals:						
	2014	$272,580,115		$2,104,421,974	$2,623.67	$42,225,394
	2015	268,040,038		2,098,279,856	2,677.87	43,330,810
	2016	269,129,122		2,100,028,824	2,777.69	44,337,131
	2017	273,550,553		2,195,518,632	2,864.08	44,959,308
	2018	248,201,996		2,191,741,790	2,860.97	46,764,298

Source: Tax Rate Sheets for the Town of Brookhaven, Town of Southampton and Town of Riverhead.

Selected Listing of Large Taxable Properties in the Town of Brookhaven[a]
2017-2018 Assessment Roll

Name	Type	Assessed Valuation
Long Island Power Authority	Utility	$608,074
Villas at Pine Hills De LLC	Commercial	473,610
MHC Greenwood Village LLC	Commercial	150,463
Hariri Realty Associates	Real Estate	91,640
Pine Hills Golf Club LLC	Commercial	81,075
Rose Breslin Associates LLC	Commercial	71,725
LI Country Club	Commercial	61,800
Keyspan	Utility	54,019
Sons Eastport LLC	Commercial	51,000
Verizon	Utility	37,306
Moriches Associates	Commercial	35,985
Bauer Associates LLC	Commercial	29,005
Vito & Judith Giambanco	Residential	28,725
Casco I LLC	Commercial	22,670
Sparrow Mining of Suffolk LLC	Commercial	21,825
	Total [b]	$1,818,922

Source: Town Assessment Rolls.
a. Portions of the District are also in the Town of Southampton and Town of Riverhead.
b. Represents 0.73% of the total full valuation of the District for 2017-2018.

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 of the Notes 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 an Undertaking 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.

Fiscal Year Ending June 30:	Financial & Operating Information	Audited Financial Statements
2013	12/09/2013	12/09/2013
2014	12/09/2014	11/13/2014
2015	12/15/2016	12/15/2016
2016	12/23/2016	12/20/2016
2017	12/05/2017	12/05/2017

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

There are certain potential risks associated with an investment in the Notes, and investors should be thoroughly familiar with this Official Statement, including its appendices, in order to make an informed investment decision. Investors should consider, in particular, the following factors:

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 District and the ability of such entities, including the District to pay debt service on the Notes.

CYBERSECURITY

The District, like many other public and private entities, relies on technology to conduct its operations. As a recipient and provider of personal, private, or sensitive information, the District faces multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. To mitigate the risk of business operations impact and/or damage from cyber incidents or cyber-attacks, the District invests in various forms of cybersecurity and operational controls; however, no assurances can be given that such security and operational control measures will be completely successful to guard against cyber threats and attacks. To mitigate such risk the District has contracted with an outside technology firm to assist in the prevention detection and remediation of any such attacks. In addition, the District maintains an insurance policy covering cyber liability. The results of any such attack could impact business operations and/or damage District digital networks and systems and the costs of remedying any such damage could be substantial.

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 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 for taxable years beginning prior to January 1, 2018. 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 as to any federal, state or local tax consequences arising with respect to the Notes, or the ownership or disposition thereof, except as stated above. 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 this opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Notes.

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 (a note with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the Notes. 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, could 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) or 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 as set forth in Appendix D hereto.

RATING

The Notes are not rated. S&P Global Ratings ("S&P") 55 Water Street, New York, New York 10041, Telephone: (877) 299-2569 and Fax: (212) 438-5153, 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 S&P. 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 Timothy Laube, Assistant Superintendent for Business, Eastport-South Manor Central School District, 149 Dayton Avenue, Manorville, NY 11949, Phone (631) 801-3001, Fax (631) 874-6743 and email: laubet@esmonline.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 NICHOLAS VERO
President of the Board of Education
Eastport-South Manor Central School District
Manorville, New York

October , 2018

APPENDIX A

FINANCIAL INFORMATION

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Fund Balances
General Fund

	2013	2014	2015	2016	2017
Revenues:					
Real Property Taxes	$ 41,169,149	$ 42,337,475	$ 43,465,017	$ 44,471,701	$ 45,086,331
Other Real Property Tax Items	6,405,023	6,544,632	6,368,809	6,497,948	6,386,712
Payment in Lieu of Taxes	689,741	784,488	736,741	746,977	769,258
Charges for Services	1,426,101	1,623,116	1,726,398	1,517,203	1,302,673
Use of Money and Property	125,037	73,773	41,723	28,357	32,599
State Sources	29,320,938	32,778,669	34,370,517	35,027,340	35,075,504
Federal Sources	31,141	14,636	6,934	14,689	29,682
Miscellaneous	777,395	746,730	125,003	118,666	139,753
Total Revenues	79,944,525	84,903,519	86,841,142	88,422,881	88,822,512
Expenditures:					
General Support	8,547,262	8,104,269	8,099,513	8,174,344	8,263,632
Instruction	44,160,895	46,242,896	46,904,698	46,499,292	46,312,618
Pupil Transportation	3,662,549	3,682,267	3,804,292	3,685,991	3,784,693
Employee Benefits	16,703,955	19,222,068	20,176,598	18,310,614	18,309,151
Debt Service	11,422,855	11,781,697	13,023,661	13,586,359	13,152,408
Total Expenditures	84,497,516	89,033,197	92,008,762	90,256,600	89,822,502
Other Sources (Uses):					
Operating Transfers In	1,619,153		13,167	90,276	
Operating Transfers Out	(71,410)	(83,108)	(85,613)	(133,638)	(115,941)
Total Other Sources (Uses):	1,547,743	(83,108)	(72,446)	(43,362)	(115,941)
Excess (Deficit) Revenues & Other Sources Over Expenditures & Other Uses	(3,005,248)	(4,212,786)	(5,240,066)	(1,877,081)	(1,115,931)
Fund Balances Beg. of Fiscal Year	20,651,068	17,645,820	13,433,034	8,192,968	6,315,887
Prior Period Adjustments					
Fund Balances End of Fiscal Year	$ 17,645,820	$ 13,433,034	$ 8,192,968	$ 6,315,887	$ 5,199,956

Source: Audited Annual Financial Reports of the District (2013-2017)
NOTE: This table NOT audited

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT

Balance Sheet - General Fund

	2016	2017
ASSETS:		
Cash	$ 11,868,315	$ 10,650,909
Taxes	33,564	
State & Federal Aid Receivable	1,560,110	1,306,844
Due From Other Governments	124,980	156,517
Due From Other Funds	1,098,095	1,065,556
Other	3,178	8,356
Total Assets	$ 14,688,242	$ 13,188,182
LIABILITIES:		
Accounts Payable	$ 137,158	$ 167,750
Accrued Liabilities	1,737,956	1,715,594
Due To Other Governments		
Due to Other Funds	132,743	193,760
Due to Teachers Retirement System,	5,422,558	4,680,044
Due to Employees' Retirement System	238,898	254,428
Compensated Absences Payable	703,042	976,650
Total Liabilities & Deferred Revenue	8,372,355	7,988,226
FUND EQUITY:		
Fund Balances:		
Restricted	3,088,499	2,114,937
Assigned	53,789	1,005,181
Unassigned	3,173,599	2,079,838
Total Fund Equity and Other Credits	6,315,887	5,199,956
Total Liabilities and Fund Equity	$ 14,688,242	$ 13,188,182

Source: Audited Annual Financial Reports (2016-2017)
NOTE: This table NOT audited

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT

Budget Summaries

	2017-2018[a]	2018-2019[b]
Revenues:		
Real Property Taxes	$ 53,217,393	$ 54,191,936
State Aid	36,346,533	37,281,766
Other Sources	3,358,854	2,028,682
Appropriated Fund Balance		
Total	$ 92,922,780	$ 93,502,384
Expenditures:		
General Support	$ 8,828,502	$ 8,640,938
Instruction	49,342,578	47,079,738
Pupil Transportation	3,878,047	4,327,048
Employee Benefits	17,485,289	19,830,628
Debt Service	13,388,364	13,462,882
Interfund Transfers		161,150
Total	$ 92,922,780	$ 93,502,384

(1) The adopted budget for the 2017-18 fiscal year was approved by the voters on May 16, 2017.
(2) The adopted budget for the 2018-19 fiscal year was approved by the voters on May 15, 2018.

Sources: Adopted Budgets of the District.

APPENDIX B

CASH FLOW SUMMARIES

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT

CASH FLOW SUMMARY 2017-2018

(General Fund Only)

(000's Omitted)

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	TOTALS
Balance	8,536	27,094	19,100	18,836	14,090	6,801	2,668	26,540	19,979	25,297	20,525	19,633	8,536 (a)
Receipts													
Property Taxes						1,087	22,025	5,647	700	598	2,741	14,161	46,959
Library Taxes						60	1,226	315	39	33	151	790	2,614
STAR Payments							6,293						6,293
PILOT Payments			741										741
Tuition	12								103	932	47	59	1,153
State Aid		769	3,549	752	1,211	2,988	214		12,103		6,690	3,036	31,312
Interest Income	4	2	5	4	5	3	1	5	7	7	11	10	64
Other Receipts	40	48	76	163	175	174	132	452	129	149	165	712	2,415
TAN Proceeds	22,024												22,024
Total Receipts	22,080	819	4,371	919	1,391	4,312	29,891	6,419	13,081	1,719	9,805	18,768	113,575
Disbursements													
Salaries & Benefits	1,319	728	2,969	4,121	6,188	4,006	3,962	3,924	3,991	3,962	6,080	8,492	49,742
Operating Expenses	2,203	1,602	1,666	1,234	1,575	3,815	2,057	2,130	3,072	1,621	1,858	4,557	27,390
Library Payments								1,306				1,305	2,611
Debt Service		6,483		310	917	624		2,020		310	18	2,164	12,846
Trans TAN Pay Account								3,600	700	598	2,741	14,161	21,800
TAN Interest												441	441
Total Disbursements	3,522	8,813	4,635	5,665	8,680	8,445	6,019	12,980	7,763	6,491	10,697	31,120	114,830
Balance	27,094	19,100	18,836	14,090	6,801	2,668	26,540	19,979	25,297	20,525	19,633	7,281	7,281
Note Payment Account													
Opening Balance	0	0	0	0	0	0	0	0	3,600	4,300	4,898	7,639	0
Receipts	0	0	0	0	0	0	0	3,600	700	598	2,741	14,161	21,800
Disbursements	0	0	0	0	0	0	0	0	0	0	0	21,800	21,800
Closing Balance	0	0	0	0	0	0	0	3,600	4,300	4,898	7,639	0	0

(a) Balance as of June 30, 2017 includes only unrestricted reserves.

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT

CASH FLOW SUMMARY 2018-2019

(General Fund Only)

(000's Omitted)

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	TOTALS
Balance	7,281	13,525	6,775	4,663	11,611	4,728	202	18,669	10,200	16,943	12,684	15,430	7,281 (a)
Receipts													
Property Taxes						1,105	22,392	5,742	712	608	2,786	14,397	47,742
Library Taxes						60	1,226	315	39	33	151	789	2,613
STAR Payments							6,449						6,449
PILOT Payments			741										741
Tuition	11								98	889	44	56	1,098
State Aid		866	3,993	846	1,363	3,362	241		13,617		7,527	3,415	35,230
Interest Income	4	2	5	3	5	2	1	5	7	7	11	9	61
Other Receipts	25	30	47	102	108	108	82	281	80	93	102	442	1,500
TAN Proceeds	10,300			11,500									21,800
Total Receipts	10,340	898	4,786	12,451	1,476	4,637	30,391	6,343	14,553	1,630	10,621	19,108	117,234
Disbursements													
Salaries & Benefits	1,131	624	2,546	3,533	5,306	3,434	3,397	3,364	3,422	3,397	5,213	7,282	42,649
Operating Expenses	2,965	2,156	2,242	1,660	2,120	5,135	2,769	2,867	4,135	2,182	2,501	3,884	34,616
Library Payments								1,307				1,307	2,614
Trans to Federal Fund											161		161
Debt Service		4,868	2,110	310	933	594		1,532	253	310		2,194	13,104
TAN Principal							5,758	5,742				10,300	21,800
TAN Interest												360	360
Total Disbursements	4,096	7,648	6,898	5,503	8,359	9,163	11,924	14,812	7,810	5,889	7,875	25,327	115,304
Balance	13,525	6,775	4,663	11,611	4,728	202	18,669	10,200	16,943	12,684	15,430	9,211	9,211
Note Payment Account													
Opening Balance	0	0	0	0	0	0	0	5,758	0	0	0	0	0
Receipts	0	0	0	0	0	0	5,758	5,742	0	0	0	10,300	21,800
Disbursements	0	0	0	0	0	0	0	11,500	0	0	0	10,300	21,800
Closing Balance	0	0	0	0	0	0	5,758	0	0	0	0	0	0

(a) Balance as of June 30, 2018 includes only unrestricted reserves.

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT

APPENDIX C

AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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.

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2017

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT

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R.S. ABRAMS & CO., LLP
Accountants & Consultants for Over 75 years

Robert S. Abrams
(1926–2014)

Marianne E. Van Duyne, CPA
Alexandria M. Battaglia, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Eastport - South Manor Central School District

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the fiduciary funds of the Eastport - South Manor Central School District, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress, schedule of District's proportionate share of the net pension liability, and the schedule of District's contributions on pages 1 through 16 and 57 through 61, 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 Boards, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Eastport - South Manor Central School District's basic financial statements. The other supplementary financial information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017 on our consideration of the Eastport - South Manor Central School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Eastport - South Manor Central School District's internal control over financial reporting and compliance.

R.S. Abrams & Co., LLP
Islandia, NY
October 11, 2017

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

1. FINANCIAL HIGHLIGHTS

- The District's total net position, as reflected in the District-Wide Financial Statements is $17,847,872 which is an increase of $616,265 from the prior year. This was due primarily to a decrease in long-term bonds payable and deferred inflows of pensions.

- The District's operating revenues and expenses for the year, as reflected in the District-Wide Financial Statements, were $91,603,513 and $90,987,248 respectively.

- The District received $1,970,927 in operating grants, a decrease of $108,552 mostly due to a decrease in grants from state sources, specifically funding for 4201 state supported schools.

- District-wide, state sources increased by $48,164 or .14%, while instructional expenses increased by $6,532,100 or 10.05%.

- The general fund's total fund balance, as reflected in the financial statements, is $5,199,956. This is a $1,115,931 decrease from the previous year's fund balance.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-Wide Financial Statements.

    - The *Governmental Fund Statements* tell how basic services such as instruction and support functions were financed in the *short term* as well as what remains for future spending.

    - *Fiduciary Funds Financial Statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of District.

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Table A-1 shows how the various parts of this annual report are arranged and related to one another.

Table A-1: Organization of the District's Annual Financial Report

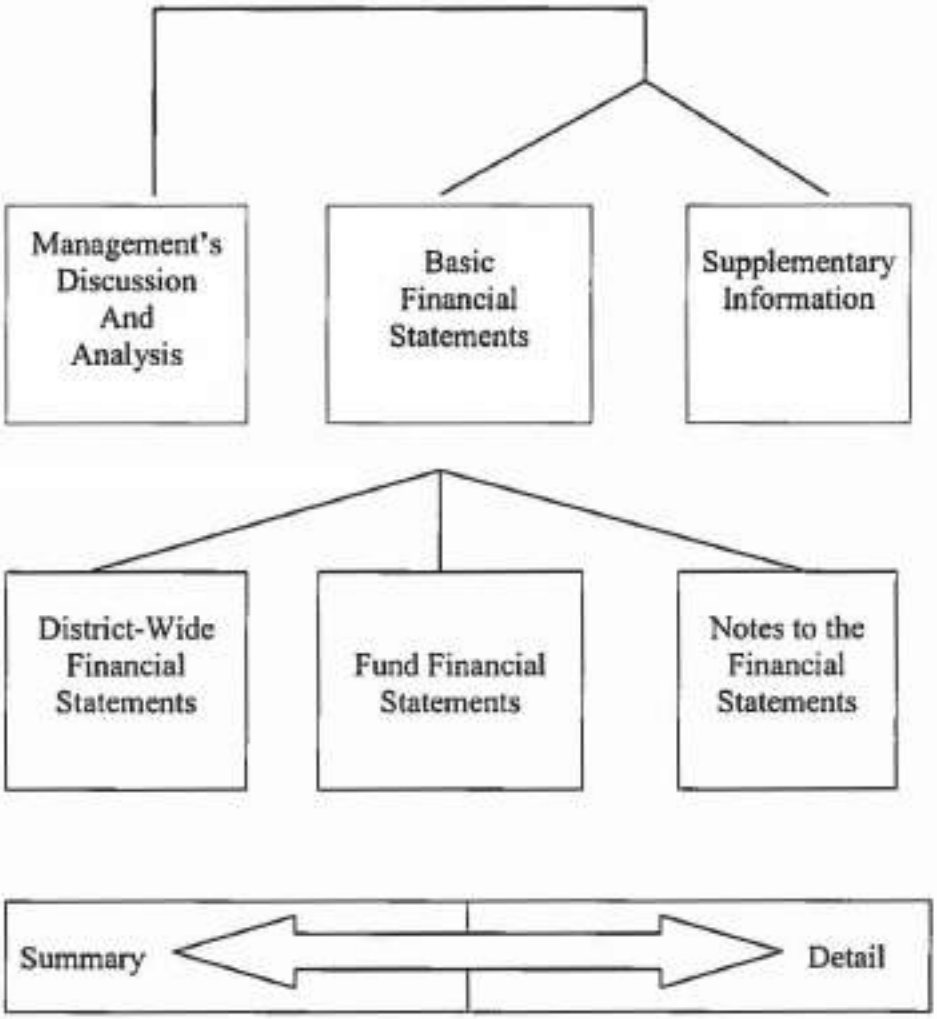


Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Table A-2: Major Features of the District-Wide and Fund Financial Statements

	District-Wide Financial Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/ liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

A. District-Wide Statements

The District-Wide Statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes

all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-Wide Financial Statements report the District's net position and how they have changed. Net position, the difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources - is one way to measure the District's financial health or *position.*

- Over time, increases and decreases in net position is an indicator of whether the financial position is improving or deteriorating, respectively.

- For assessment of the overall health of the District, additional non-financial factors such as changes in the District's property tax base and the condition of buildings and other facilities should be considered.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated if it does not provide or reduce current financial resources. Finally, capital assets and long-term debt are both accounted for in account groups and do not affect the fund balances.

District-Wide Financial Statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the Statement of Net Position:

- Capitalize current outlays for capital assets;
- Report long-term debt as a liability;
- Depreciate capital assets and allocate the depreciation to the proper program/activities;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting; and
- Allocate net position balances as follows:
  - *Net investment in capital assets*;
  - *Restricted net position* are those with constraints placed on the use by external sources (creditors, grantors, contributors or laws or regulations of governments) of approved by law through constitutional provisions or enabling legislation such as:
  - *Unrestricted net position* is net position that does not meet any of the above restrictions.

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

B. Fund Financial Statements

The Fund Financial Statements provide more detailed information about the District's funds. Funds are accounting devices that the District uses to keep track of specific revenue sources and spending on particular programs. The funds have been established by the laws of the State of New York.

The District has two kinds of funds:

- Governmental funds

  Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-Wide Financial Statements, additional information in separate reconciliation schedules explains the relationship (or differences) between them. In summary, the government fund statements focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general fund, special aid fund, school lunch fund, and capital project funds. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

- Fiduciary funds

  The District is the trustee or *fiduciary* for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position. This report should be used to support the District's own programs and is developed using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain post-employment healthcare plans.

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

- The District's net position increased $616,265 from $17,231,607 to $17,847,872 primarily due revenues in excess of expenses based on the accrual basis of accounting, as detailed in Table A-3.

Table A-3 – Condensed Statement of Net Position

	Fiscal Year 2017	Fiscal Year 2016	Increase/ (Decrease)	Total Percentage Change
Current assets and other assets	$14,770,026	$16,549,231	($1,779,205)	-10.75%
Capital assets, net	169,506,589	172,429,933	(2,923,344)	-1.70%
Net pension asset-proportionate share		26,903,951	(26,903,951)	-100.00%
Total Assets	184,276,615	215,883,115	(31,606,500)	-14.64%
Deferred outflows of resources	27,903,806	8,691,694	19,212,112	221.04%
Total Assets and Deferred outflows of resources	$212,180,421	$224,574,809	($12,394,388)	-5.52%
Other liabilities	$9,468,101	$9,636,404	($168,303)	-1.75%
Long-term liabilities	177,153,700	180,990,461	(3,836,761)	-2.12%
Total Liabilities	186,621,801	190,626,865	(4,005,064)	-2.10%
Deferred Inflows of Resources	7,710,748	16,716,337	(9,005,589)	-53.87%
Total Liablities and Deferred inflows of resources	194,332,549	207,343,202	(13,010,653)	-6.27%
Net position				
Net investment in capital assets	36,409,992	30,548,021	5,861,971	19.19%
Restricted	2,114,937	3,088,499	(973,562)	-31.52%
Unrestricted (deficit)	(20,677,057)	(16,404,913)	(4,272,144)	-26.04%
Total Net position	17,847,872	17,231,607	616,265	3.58%
Total Liabilities, Deferred inflows of resources, and Net position	$212,180,421	$224,574,809	($12,394,388)	-5.52%

Current assets and other assets decreased by $1,779,205 from 2016 to 2017 primarily due to a decrease in cash for operating activities as well as a decrease in state and federal aid receivables. Capital assets (net of depreciation) decreased by $2,923,344 due to depreciation exceeding capital outlays. Net pension asset-proportionate share decreased by $26,903,951, as compared to the prior year as a result of the effects of the change in the discount rate used and as a result the District's share of the pension plan shifted from an asset to liability. The accompanying Note to Financial Statements, Note 13 "Pension Plans", provides additional information.

Deferred outflows of resources increased by $19,212,112. This 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.

Other liabilities decreased by $168,303. This was attributable to a decrease in the amount due to the teachers' retirement system. Long-term liabilities decreased by $3,836,761 mostly due to the decrease in bonds payable, partially offset by the increase in the net other post employment benefits obligation payable and net pension liability – proportionate share. The net pension liability – proportionate share liability represents the District's share of the New York State Teacher's Retirement System and the New York State and Local Employees' Retirement System's collective net pension liabilities at the measurement date of the respective year. The increase is due to the shift of the net pension asset to a liability for the TRS and a decrease in the pension liability for the ERS.

Deferred inflows of resources decreased by $9,005,589 as a result of amortization of pension related items as discussed in Note 13, and amortization of the gain on defeasance.

The net investment in capital assets, relates to the investment in capital assets as cost such as land, buildings & improvements, and furniture & equipment, net of depreciation and related debt. This number increased from the prior year by $5,861,971 primarily due to the pay down of debt.

The restricted net position balance in the amount of $2,114,937 relates to the District's employee benefit accrued liability reserve. The restricted amount decreased by $973,562 as compared to the prior year. This decrease is due to a usage of the reserve for employee benefit accrued liability, offset by interest allocation to the reserve.

The unrestricted net position relates to the balance of the District's net position. The deficit amount increased by $4,272,144 from the prior year.

B. Changes in Net Position

The results of operations as a whole are reported in the Statement of Activities. A summary of this statement for the years ended June 30, 2017 and 2016 are as follows:

Table A-4: Change in Net Position from Operating Results

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for services	$2,112,507	$2,365,662	($253,155)	-10.70%
Operating grants	1,970,927	2,079,479	(108,552)	-5.22%
Capital grants		1,219,350	(1,219,350)	-100.00%
General Revenues				
Real property taxes and other tax items	52,242,301	51,716,626	525,675	1.02%
State sources	35,075,504	35,027,340	48,164	0.14%
Other	202,274	162,047	40,227	24.82%
Total Revenues	$91,603,513	$92,570,504	(966,991)	-1.04%
Expenses				
General support	$9,993,103	$9,646,021	$347,082	3.60%
Instruction	71,532,294	65,000,194	6,532,100	10.05%
Pupil transportation	3,856,582	3,742,463	114,119	3.05%
Debt service - interest	4,385,180	5,418,300	(1,033,120)	-19.07%
Food service program	1,220,089	1,242,606	(22,517)	-1.81%
Total Expenses	90,987,248	85,049,584	5,937,664	6.98%
Increase (Decrease) in Net Position	$616,265	$7,520,920	($6,904,655)	-91.81%

The District's total fiscal year 2017 revenues totaled $91,603,513, (See Table A-4). Real property taxes and other tax items and state sources accounted for most of the District's revenue by contributing 57.03% and 38.29%, respectively of total revenue (See Table A-5). Other miscellaneous sources included fees charged for services, operating grants and use of money and property.

The total cost of all programs and services totaled $90,987,248 for fiscal year 2017. These expenses are predominantly related to general instruction and transporting students, which account for 82.86% of district expenses (See Table A-6). The District's general support activities accounted for 10.98% of total costs.

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Table A-5: Revenues for Fiscal Year 2017 (See Table A-4)

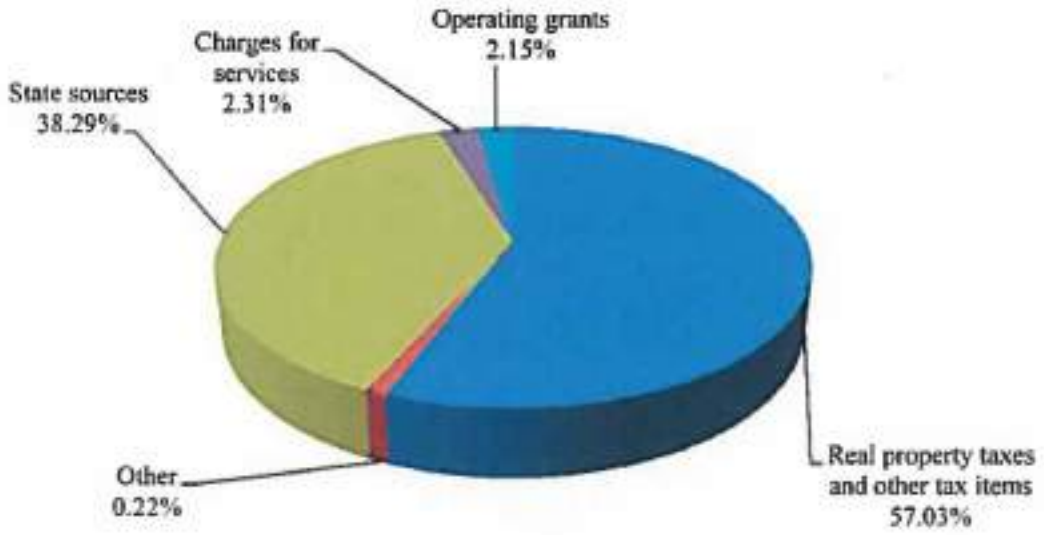
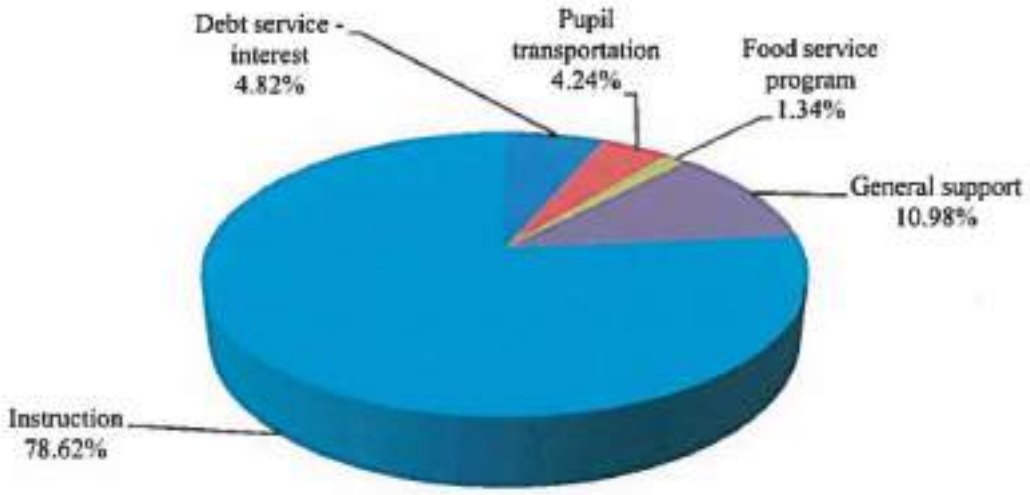


Table A-6: Expenses for Fiscal Year 2017 (See Tables A-4 and A-7)



C. Governmental Activities

Revenues for the District's governmental activities totaled $91,603,513 while total expenses equaled $90,987,248. The increase in net position for governmental activities was $616,265 and is attributable primarily to the increase to net investment in capital assets.

Table A-7 presents the cost of the major District activities: general support, instruction, pupil transportation, debt service and food service program. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Table A-7: Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
Category	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2016
General support	$9,993,103	$9,646,021	$9,993,103	$8,426,671
Instruction	71,532,294	65,000,194	68,704,556	61,814,580
Pupil transportation	3,856,582	3,742,463	3,797,886	3,695,542
Debt service- interest	4,385,180	5,418,300	4,385,180	5,418,300
Food service program	1,220,089	1,242,606	23,089	30,000
Total	$90,987,248	$85,049,584	$86,903,814	$79,385,093

- The cost of all governmental activities this year was $90,987,248. (Statement of Activities, Expenses column-see Exhibit 3).
- The users of the District's program financed $2,112,507 of the cost through charges for services. (Statement of Activities, Charges for Services column - see Exhibit 3).
- The federal and state governments subsidized certain programs with operating grants of $1,970,927. (Statement of Activities, Operating Grants column – see Exhibit 3).
- District taxpayers and state and federal aid financed most of the District's net costs of $86,903,814. (Statements of Activities, Net (Expense) Revenue and Changes in Net Position column-see Exhibit 3).

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Variances between years for the governmental fund financial statements are not the same as variances between years for the District-Wide Financial Statements. The District's governmental funds are presented on the **current financial resources measurement focus** and the **modified accrual basis of accounting**. Based on this presentation, governmental funds do not include long-term debt liabilities

for the funds' projects and capital assets purchased by the funds. Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt.

As of June 30, 2017, the District's combined governmental funds reported a total fund balance of $6,890,992 which is a decrease of $1,352,721 from the prior year. This decrease is related to the District's reduction in the fund balance and reserves in the general fund.

A summary of the change in fund balance all funds is as follows:

	Fiscal Year 2017	Fiscal Year 2016	Increase/ (Decrease)	Total Percentage Change
General Fund				
Restricted for employee benefit accrued liability	$2,114,937	$3,088,499	($973,562)	-31.52%
Assigned - appropriated fund balance	950,554		950,554	N/A
Assigned - general support	32,591	53,494	(20,903)	-39.08%
Assigned - instruction	22,036	295	21,741	7369.83%
Unassigned	2,079,838	3,173,599	(1,093,761)	-34.46%
Total Fund Balance - General Fund	$5,199,956	$6,315,887	($1,115,931)	-17.67%
School Lunch Fund				
Nonspendable - inventory	$13,596	$3,570	$10,026	280.84%
Assigned	200,750	207,472	(6,722)	-3.24%
Total Fund Balance - School Lunch Fund	$214,346	$211,042	$3,304	1.57%
Capital Projects Fund				
Restricted - unspent bond proceeds	$1,476,690	$1,716,784	($240,094)	-13.99%
Total Fund Balance - Capital Projects Fund	$1,476,690	$1,716,784	($240,094)	-13.99%
Total Fund Balance - All Funds	$6,890,992	$8,243,713	($1,352,721)	-16.41%

The District can attribute changes to fund balances and reserves primarily due to operating results, Board approved transfers and allocation of interest.

The District experienced a $1,115,931 reduction in its fund balance and reserves in the general fund. This can be attributed to increases in health insurance premiums, workers' compensation costs, TAN interest expense, retirement incentives and compensated absence payments.

A. General Fund

The net change in general fund – fund balance is a decrease of $1,115,931 as a result of expenditures and other financing uses of $89,938,443 exceeding revenues of $88,822,512 and state aid shortfalls. Revenues and other financing sources increased by $309,355 or .35%.

Expenditures and other uses decreased by $451,795 or .50% compared to the prior year. This was attributable to cost savings in teaching-regular school, teaching-special schools and instructional media.

B. School Lunch Fund

The net change in the school lunch fund – fund balance is a increase of $3,304. This increase is due to an excess of revenues over expenditures.

C. Capital Projects Fund

The net change in the capital projects fund – fund balance is a decrease of $240,094. This decrease was due to capital outlay in the capital fund.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2016-2017 Budget

The District's voter approved general fund budget for the year ended June 30, 2017 was $90,575,950. This amount was increased by encumbrances carried forward from the prior year in the amount of $53,789 and budget revisions of $619,656 which resulted in a final budget of $91,249,395. The majority of the District's funding is from residential property taxes and STAR revenue in the amount of $51,472,741.

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

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

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Opening, Unassigned Fund Balance	$	3,173,599
Revenues Under Budget		(1,773,094)
Expenditures and Encumbrances Under Budget		1,256,325
Use of reserves		976,651
Budget revisions		(600,000)
Allocation of interest to the reserve		(3,089)
Assigned for June 30, 2018 Budget		(950,554)
Closing, Unassigned fund balance	$	2,079,838

The revenues were under budget by $1,773,094 due primarily to a budget shortfall in state aid, charges for services, interest and other items. (See Supplemental Schedule #1, Page 57 detail).

The expenditures and encumbrances were under budget by $1,256,325 primarily due to cost savings in central services, teaching-regular school, program for children with handicapping conditions, teaching-special school and instructional media. (See Supplemental Schedule #1, Page 58 detail).

The use of reserves of $976,651 relates to the District utilizing the employee benefits accrued liability reserve for current year payouts for vacation and sick pay.

The District had budget revisions of $600,000 during the year. Transportation expenditures of $80,000 related to additional students moving to the District during the 2016-2017 school year, workers' compensation expense of $70,000 related to additional claims, and employee benefit expenses of $450,000 related to an unexpected increase in health insurance premiums.

The District allocated interest to the reserve in the amount of $3,089 to the employee benefit accrued liability reserve.

In an effort to balance the 2017/2018 budget, the District is planning to use $950,554 in assigned fund balance.

The closing unassigned fund balance represents the fund balance retained by the District that is not appropriated for subsequent years taxes. This amount is limited to 4% of the 2016-2017 budget. At June 30, 2017, the District's unassigned fund balance is 2.24% of the 2017-2018 budget.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

The District paid for equipment and various building additions and renovations during the fiscal year 2017. A summary of the District's capital assets net of depreciation is as follows:

Table A-8: Capital Assets (Net of Depreciation)

Category	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Percentage Change
Land	$1,395,205	$1,395,205	$ -	0.00%
Buildings & building improvements	153,161,106	109,294,309	43,866,797	40.14%
Construction in progress	50,522,536	94,149,239	(43,626,703)	-46.34%
Furniture & equipment	6,273,380	6,208,312	65,068	1.05%
Subtotal	211,352,227	211,047,065	305,162	0.14%
Less: Accumulated depreciation	41,845,638	38,617,132	3,228,506	8.36%
Total net capital assets	$169,506,589	$172,429,933	($2,923,344)	-1.70%

The District spent $240,094 in the capital projects fund on construction in progress during the year and has $1,476,690 available for future capital project expenditures.

B. Long-Term Debt

At June 30, 2017, the District had total bond payable of $121,955,000 and total energy performance contract of $6,232,047. The serial bonds were issued for district-wide projects. The decrease in outstanding serial bond debt represents principal payments.

More detailed information about the District's long-term debt is presented in Note 11. A summary of outstanding debt at June 30, 2017 and 2016 is as follows:

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Issue Date	Interest Rate	2017	2016	Increase (Decrease)
August 31, 2007	4.0%-5.0%	420,000	350,000	70,000
February 15, 2009	2.5%-4.0%		820,000	(820,000)
November 23, 2009	3.0%-4.0%	1,800,000	2,650,000	(850,000)
September 8, 2010	2.0%-3.0%	6,537,522	17,140,000	(10,602,478)
September 8, 2010	2.0%-3.5%	6,347,478	4,775,000	1,572,478
August 1, 2011	2.0%-4.0%	3,100,000	3,255,000	(155,000)
August 1, 2011	2.0%-3.75%	4,530,000	7,070,265	(2,540,265)
August 1, 2011	2.0%-3.75%	15,680,000	6,864,735	8,815,265
October 31, 2012	2.0%-5.0%	26,380,000	27,855,000	(1,475,000)
August 1, 2013	4.0%-4.50%	8,645,000	8,820,000	(175,000)
August 15, 2014	3.0%-3.75%	14,560,000	14,905,000	(345,000)
May 4, 2016	2.0%-4.00%	33,955,000	35,520,000	(1,565,000)
Total Serial Bonds		121,955,000	130,025,000	(8,070,000)
October 15, 2014	2.93%	6,232,047	6,659,757	(427,710)
Total Energy Performance Contract		6,232,047	6,659,757	(427,710)
Total Outstanding Debt		$ 128,187,047	$ 136,684,757	$ (8,497,710)

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

A. The District borrowed $21,800,000 in tax anticipation notes on July 28, 2017 which will mature on June 22, 2018. This is $1,550,000 more than the District had to borrow last year due to operating results and the delayed payment of state aid and taxes.

The effective net interest rate on the July 28, 2017 note is 1.1078%, whereas the effective net interest rate on the previous year's note was 0.7442%. This will result in a significant increase in interest to be paid by the District in 2017-2018.

B. The general fund budget for the 2017-2018 school year was approved by the voters in the amount of $92,922,780. This is an increase of $2,346,830 or 2.59% over the previous year's budget. The increase was primarily due an in in health insurance premiums, special education costs, transportation and TAN Interest.

C. The District used $600,000 in fund balance for unanticipated expenditures and $976,651 in the employee benefit accrued liability reserve to fund the 2016/2017 operations. This is the seventh consecutive year the District has used fund balance and reserves to support operations. The 2017/2018 budget was designed to use fund balance to support the budget. As indicated by the chart on page 11, the District's ability to sustain the use of fund balance and reserves is in jeopardy.

Looking beyond the 2017-2018 budget, additional revenues will have to be secured or additional budget cuts will be necessary.

8. CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the finances of the District and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, contact:

Eastport - South Manor Central School District
Dr. Patrick Brimstein
Superintendent of Schools
District Offices
149 Dayton Avenue
Manorville, New York 11949

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS	
Current assets	
Cash	
Unrestricted	59,160,108
Restricted	3,591,627
Receivables	
State and federal aid	1,774,093
Due from other governments	156,517
Due from fiduciary funds	59,694
Other	14,391
Inventories	13,596
Non-current assets	
Capital Assets	
Capital assets not being depreciated	51,917,741
Capital assets being depreciated, net of accumulated depreciation	117,588,848
TOTAL ASSETS	184,276,615
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	27,903,806
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$212,180,421
LIABILITIES	
Payables	
Accounts payable	$223,917
Accrued liabilities	1,715,594
Accrued interest payable	1,589,067
Due to teachers' retirement system	4,680,044
Due to employees' retirement system	254,428
Due to other governments	152
Compensated absences payable	976,650
Unearned credits	
Collections in advance	28,249
Long-term liabilities	
Due and payable within one year	
Bonds payable	8,090,000
Energy performance contract	440,335
Compensated absences payable	620,000
Due and payable after one year	
Bonds payable	113,865,000
Energy performance contract	5,791,712
Compensated absences payable	10,803,805
Net other post employment benefits obligation	32,139,939
Claims payable	718,214
Net pension liability - proportionate share	4,684,695
TOTAL LIABILITIES	186,621,801
DEFERRED INFLOWS OF RESOURCES	
Pensions	1,324,508
Gain on defeasance	6,386,240
TOTAL DEFERRED INFLOWS OF RESOURCES	7,710,748
NET POSITION	
Net investment in capital assets	36,409,992
Restricted:	
Employee benefit accrued liability	2,114,937
Unrestricted (deficit)	(20,677,057)
TOTAL NET POSITION	17,847,872
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$212,180,421

See Accompanying Notes to Financial Statements

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	
FUNCTIONS / PROGRAMS				
General support	($9,993,103)			($9,993,103)
Instruction	(71,532,294)	$1,309,041	$1,518,697	(68,704,556)
Pupil transportation	(3,856,582)		58,696	(3,797,886)
Debt service interest	(4,385,180)			(4,385,180)
Food service program	(1,220,089)	803,466	393,534	(23,089)
TOTAL FUNCTIONS AND PROGRAMS	($90,987,248)	$2,112,507	$1,970,927	(86,903,814)
GENERAL REVENUES				
Real property taxes				45,086,331
Other tax items - including STAR reimbursement				6,386,712
Payment in lieu of taxes				769,258
Use of money & property				32,839
Miscellaneous				139,753
State sources				35,075,504
Medicaid reimbursement				29,682
TOTAL GENERAL REVENUES				87,520,079
CHANGES IN NET POSITION				616,265
TOTAL NET POSITION - BEGINNING OF YEAR				17,231,607
TOTAL NET POSITION - END OF YEAR				$17,847,872

See Accompanying Notes to Financial Statements

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Special Aid	School Lunch	Capital Projects	Total Governmental Funds
ASSETS					
Cash					
Unrestricted	$8,535,972	$368,655	$251,441	$4,040	$9,160,108
Restricted	2,114,937			1,476,690	3,591,627
Receivables					
State and federal aid	1,306,844	449,963	17,286		1,774,093
Due from other governments	156,517				156,517
Due from other funds	1,065,556	186,190			1,251,746
Other	8,356		6,035		14,391
Inventories			13,596		13,596
TOTAL ASSETS	$13,188,182	$1,004,808	$288,358	$1,480,730	$15,962,078
LIABILITIES AND FUND BALANCES					
Payables					
Accounts payable	$167,750	$6,516	$45,611	$4,040	$223,917
Accrued liabilities	1,715,594				1,715,594
Due to other governments			152		152
Due to other funds	193,760	998,292			1,192,052
Due to teachers' retirement system	4,680,044				4,680,044
Due to employees' retirement system	254,428				254,428
Compensated absences	976,650				976,650
Unearned credits					
Collections in advance			28,249		28,249
TOTAL LIABILITIES	7,988,226	1,004,808	74,012	4,040	9,071,086
FUND BALANCES					
Nonspendable: Inventory			13,596		13,596
Restricted:					
Employee benefit accrued liability	2,114,937				2,114,937
Unspent bond proceeds				1,476,690	1,476,690
Assigned:					
Appropriated fund balance	950,554				950,554
Unappropriated fund balance	54,627		200,750		255,377
Unassigned	2,079,838				2,079,838
TOTAL FUND BALANCES	5,199,956	-	214,346	1,476,690	6,890,992
TOTAL LIABILITIES AND FUND BALANCES	$13,188,182	$1,004,808	$288,358	$1,480,730	$15,962,078

See Accompanying Notes to Financial Statements

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2017

Total Governmental Fund Balances		$6,890,992
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 include 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	$211,352,227	
Accumulated depreciation	(41,845,638)	169,506,589
Deferred inflows of resources - gain on defeasance. The Statement of Net Position will amortize the defeasance gain received over the life of the bond. Governmental funds record the gain on defeasance as revenue.		(6,386,240)
Deferred inflows of resources related to pensions will be recorded on the Statement of Net Position and amortized as a reduction of pension expense in future years.		(1,324,508)
Deferred outflows of resources - That Statement of Net Position recognizes expenditures incurred under the full accrual method. Governmental funds recognized expenditures under the modified accrual method Deferred outflows related to pensions that will be recognized as expenditures in future periods amounted to		27,903,806
Payables that are associated with long-term liabilities that are not payable in the current period are not reported as liabilities in the funds. Additional payables relating to long-term liabilities at year end consisted of:		
Accrued interest payable		(1,589,067)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consisted of:		
Bonds payable	($121,955,000)	
Energy performance contract	(6,232,047)	
Compensated absences payable	(11,423,805)	
Net other post employment benefits obligation	(32,139,939)	
Claims payable	(718,214)	
Net pension liability - proportionate share	(4,684,695)	(177,153,700)
Total Net Position		$17,847,872

See Accompanying Notes to Financial Statements

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General	Special Aid	School Lunch	Capital Projects	Totals Governmental Funds
REVENUES					
Real property taxes	$45,086,331				$45,086,331
Other tax items - including STAR reimbursement	6,386,712				6,386,712
Payment in lieu of taxes	769,258				769,258
Charges for services	1,302,673		$6,368		1,309,041
Use of money and property	32,599		240		32,839
Miscellaneous	139,753				139,753
State sources	35,075,504	$616,297	17,108		35,708,909
Federal sources	29,682	961,096	287,679		1,278,457
Surplus food			88,747		88,747
Sales			803,466		803,466
TOTAL REVENUES	88,822,512	1,577,393	1,203,608	-	91,603,513
EXPENDITURES					
General support	8,263,632				8,263,632
Instruction	46,312,618	1,634,638			47,947,256
Pupil transportation	3,784,693	58,696			3,843,389
Employee benefits	18,309,151				18,309,151
Debt service - Principal	8,497,711				8,497,711
Debt service - Interest	4,654,697				4,654,697
Cost of sales			1,200,304		1,200,304
Capital outlay				$240,094	240,094
TOTAL EXPENDITURES	89,822,502	1,693,334	1,200,304	240,094	92,956,234
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(999,990)	(115,941)	3,304	(240,094)	(1,352,721)
OTHER FINANCING SOURCES AND (USES)					
Transfers in		115,941			115,941
Transfers (out)	(115,941)				(115,941)
TOTAL OTHER FINANCING SOURCES AND (USES)	(115,941)	115,941	-	-	-
CHANGE IN FUND BALANCES	(1,115,931)	-	3,304	(240,094)	(1,352,721)
FUND BALANCES - BEGINNING OF THE YEAR	6,315,887	-	211,042	1,716,784	8,243,713
FUND BALANCES - END OF THE YEAR	$5,199,956	$ -	$214,346	$1,476,690	$6,890,992

See Accompanying Notes to Financial Statements

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances		($1,352,721)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Long-Term Revenue and Expenses Differences		
In the Statement of Activities, compensated absences are measured by the amounts earned or incurred during the year. In the governmental funds, however expenditures for these items are measured by the amount of financial resources used. Compensated absences payable for the year ended June 30, 2017 changed by		237,481
Claims payable in the Statement of Activities differs from the amounts reported in the governmental funds because the expense is recorded as an expenditure in the funds when it is due. In the Statement of Activities, the payable is recognized as it accrues regardless of when it is due. Claims payable from June 30, 2016 to June 30, 2017 changed by		367,753
Net other post-employment benefits obligation payable in the Statement of Activities are measured by the amounts earned or incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. Net other post-employment benefits obligation payable for the year ended June 30, 2017 changed by		(4,180,234)
Interest on long-term debt in the Statement of Activities differs from the amounts reported in the governmental funds because interest is recorded as an expenditures in the funds when it is due, and this requires the use of current financials resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest from June 30, 2016 to June 30, 2017 changed by		(258,181)
Capital Related Differences		
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 expense in the Statement of Activities.		
Capital outlays	$ 240,094	
Furniture and equipment additions	65,068	
Depreciation expense	(3,228,506)	(2,923,344)
Long-Term Debt Differences		
Repayment of bond principal 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.		8,070,000
Repayment of energy performance debt payable 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.		427,711
Governmental funds report the premiums, discounts and similar items on the refunded debt when the debt is first issued. These amounts are deferred and amortized in the Statement of Activities. Amortization for the fiscal year ended June 30, 2017 was		527,698
Pension Differences		
Increases / decreases in the proportionate share of net pension asset/liability and related deferred inflows and outflows reported in the Statement of Activities do not provide for or require use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.		
Teachers' retirement system	$ (49,928)	
Employees' retirement system	(249,970)	(299,898)
Change in Net Position		$616,265

See Accompanying Notes to Financial Statements

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash - Restricted	$15,045	$262,867
Due from governmental funds		7,570
TOTAL ASSETS	$15,045	$270,437
LIABILITIES		
Due to other funds		$67,264
Extraclassroom activity balance		168,130
Other liabilities		35,043
TOTAL LIABILITIES	-	$270,437
NET POSITION		
Reserved for scholarships	$15,045	
TOTAL NET POSITION	15,045	
TOTAL LIABILITIES AND NET POSITION	$15,045	

See Accompanying Notes to Financial Statements

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Private Purpose Trust Funds
ADDITIONS	
Gifts and contributions	$3,192
Interest and earnings	63
TOTAL ADDITIONS	3,255
DEDUCTIONS	
Scholarships and awards	500
TOTAL DEDUCTIONS	500
CHANGE IN NET POSITION	2,755
NET POSITION - BEGINNING OF YEAR	12,290
NET POSITION - END OF YEAR	$15,045

See Accompanying Notes to Financial Statements

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

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

Certain significant accounting principles and policies utilized by the District are described below:

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 7 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. The Board has authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The reporting entity of the District is based upon criteria set forth by GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No.14 and No.34*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extra classroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District's business office. The District reports these assets held as an agent for the Extra classroom organizations in the Statement of Fiduciary Net Position – Fiduciary Fund.

B) Joint venture:

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

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

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

C) Basis of presentation:

i) District-Wide Statements:

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

The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

ii) **Fund Financial Statements:**

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

The District reports the following major governmental funds:

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

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

School Lunch Fund: This fund is used to account for the activities of the District's food service operations. The school lunch operation is supported by federal and state grants and charges participants for its services.

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

The District reports the following fiduciary funds:

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

Private purpose trust 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.

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.

D) Measurement focus and basis of accounting:

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

The Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within six months 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, compensated absences, pension liabilities and other post-employment 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 and acquisitions under capital leases are reported as other financing sources, if applicable.

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.

E) Real property taxes:

i) Calendar:
Real property taxes are levied annually by the Board of Education no later than October 1, and become a lien on December 1. Taxes are collected by the Towns of Brookhaven, Riverhead and Southampton and remitted to the District from December to June.

ii) Enforcement:
Uncollected real property taxes are subsequently enforced by the county in which the District is located. Suffolk County (the "County") pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following July 1.

F) Restricted resources:

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

G) Interfund transactions:

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

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

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

Refer to Note 9 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

H) Estimates:

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

I) Cash and cash equivalents:

The District's cash and cash equivalents consist of cash on hand and demand deposits.

J) Receivables:

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

K) Inventories and prepaid items:

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market.

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

A reserve for these non-liquid assets (inventories) has been recognized in the school lunch fund as non-spendable under GASB Statement No. 54 to signify that a portion of fund balance is not available for other subsequent expenditures.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-Wide and Fund Financial Statements. These items are reported as assets on the Statement of Net Position or Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed. The District had no prepaid items at June 30, 2017.

L) Capital assets:

Capital assets are reported at actual cost for acquisitions subsequent to 20 years. For assets acquired prior to 20 years, estimated historical costs, based on appraisals conducted by independent third-party professionals are used. Donated assets are reported at estimated fair market value at the time received.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Building & building improvements	$1,500	Straight-line	50 years
Furniture & equipment	$1,500	Straight-line	5-10 years
Land improvements	$1,500	Straight-line	20 years

M) Collections in advance:

Collections in advance arise when the District receives resources before it has legal claim to them, as when grant monies are received prior to the incurring of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for collections in advance is removed and revenues are recorded. Collections in advance consist of amounts received in advance for meals that have not yet been purchased in the school lunch fund.

N) Deferred inflows and outflows of resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District has one item that qualifies for reporting in this category. This amount is related to pensions reported in the District-Wide Statement of Net Position. This represents the different between expected and actual experience (ERS), changes of assumptions (ERS and TRS), the net difference between projected and actual investment earnings on pension plan investments (ERS and TRS), changes in proportion and differences between employer contributions and proportionate share of contributions (ERS and TRS) and the District's contributions to the pension systems (ERS and TRS) subsequent to the measurement date.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. The District reported $6,386,240 of deferred inflows of resources at June 30, 2017, representing the financial effect on the advance refunding of general obligations serial bonds. A deferred inflow of resources results from the difference in the net carrying value of refunded debt over its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition, the District reported $1,324,508 of deferred inflows of resources relating to pensions reported in the District-Wide Statement of Net Position. This represents the difference between expected and actual experience (ERS and TRS), the changes in proportion and difference between the District's contributions and proportionate share of contributions (ERS and TRS).

O) Vested employee benefits:

Compensated absences

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

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

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

Consistent with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the District-Wide Financial Statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

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

P) Other benefits:

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

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

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements 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.

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

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 are converted to long-term financing within five years after the original issue dated.

R) Accrued liabilities and long-term obligations:

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

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

S) Equity classifications:

District-Wide Financial Statements:

In the District-Wide Financial Statements there are three classes of Net Position:

Net investment in capital assets - consists of net capital position (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets, net of any unexpended proceeds and including any unamortized items (discounts, premiums, gain on refunding).

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

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

Funds Financial Statements:

There are five classifications of fund balance as detailed below; however, in the Fund Financial Statements there are four classification of fund balance presented:

(1) **Non-spendable** fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the school lunch fund of $13,596.

(2) **Restricted** fund balance – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or

regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

The District has established the following reserves as restricted:

Employee Benefit Accrued Liability

Reserve for employee benefit accrued liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefit due to an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the general fund under restricted fund balance.

Unspent Bond Proceeds

Unspent long-term bond proceeds are recorded as restricted fund balance because they are subject to external constraints contained in the debt agreement. These restricted funds are accounted for in the capital projects fund.

Scholarships

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

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

(4) **Assigned** fund balance – Includes 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 includes an amount appropriated to partially fund the subsequent year's budget. Assigned fund balance also includes Board designations and encumbrances not classified as restricted or committed at the end of the fiscal year.

(5) **Unassigned** fund balance –Includes the residual fund balance for the general fund and includes residual fund balance deficits of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts. Assignments of fund balance cannot cause a negative unassigned fund balance.

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a District can retain to no more than 4% of the District's budget for the general fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the

general fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances included in assigned fund balance are also excluded from the 4% limitation.

Order of Use of Fund Balance

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or Board approved budget revision and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balances shall be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

T) New accounting standards:

The District has adopted and implemented the following current Statements of the Governmental Accounting Standards Board (GASB) that are applicable as of June 30, 2017: Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* This statement addresses issues in the previously issued pension statements regarding payroll related measures in the required supplementary information, the selection of assumptions and deviations from other guidance, and the treatment of employee (plan member) contributions made by employers.

U) Future changes in accounting standards:

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

These are the statements that the District feels may have an impact on these financial statements and are not an all inclusive list of GASB statements issued. The District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUNDS STATEMENTS AND DISTRICT-WIDE STATEMENTS:

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

(A) Total fund balances of governmental funds vs. net position of governmental activities:

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

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

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities fall into one of the four broad categories. The amounts shown below represent:

(i) 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 accruals basis, whereas the accrual basis of accounting is used on the Statement of Activities.

(ii) Capital related differences:

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

(iii) Long-term debt transaction differences:

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

(iv) Pension differences:

Pension differences occur as a result of changes in the District's proportion of the collective net pension asset/liability and differences between actual and expected experience, difference between projected and actual earnings on pension plan investments, the District's contributions and its proportionate share of the total contributions to the pension system and Districts contributions subsequent to the measurement date.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

A) Budgets:

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted. The voters of the District approved the proposed appropriation budget for the general fund. Appropriations are adopted at the program line item level.

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

Increases to budget funded by:	
Donations	$ 19,656
Transportation expenses	80,000
Workers' compensation expenses	70,000
Employee benefit expenses	450,000
	$ 619,656

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

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

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

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A) Cash:

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

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

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB Statement No. 40, *Deposit and Investment Credit Risk Disclosures*, 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 with securities held by the pledging financial institution in the District's name; or
C) Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

All of the District's aggregate bank balances were covered by depository insurance, or collateralized with securities held by the pledging financial institution in the District's name at year end.

Restricted cash:

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of June 30, 2017 included $3,591,627 within the governmental funds for capital projects and general reserve purposes and $277,912 in the fiduciary funds.

B) Investments:

The District does not typically purchase investments for long enough duration to cause it to believe that it is exposed to any material interest rate risk. The District also does not typically purchase investments denominated in a foreign currency, and is not exposed to foreign currency risk.

NOTE 5 – PARTICIPATION IN BOCES:

During the year ended June 30, 2017, the District was billed $3,008,261 for BOCES administrative and program costs. The District's share of BOCES aid amounted to $1,194,258. Financial statements for the BOCES are available from the BOCES administrative office at 201 Sunrise Highway, Patchogue, NY 11772.

NOTE 6 – STATE AND FEDERAL AID RECEIVABLES:

State and federal aid receivables at June 30, 2017 consisted of the following:

General Fund	
NYS excess cost aid	$769,290
BOCES	537,554
Total	1,306,844
Special Aid Fund	
Federal and state grants	449,963
School Lunch Fund	
Federal and state reimbursements	17,286
Total - All Funds	$1,774,093

District management has deemed these amounts to be fully collectible.

NOTE 7 – DUE FROM OTHER GOVERNMENTS:

Due from other governments at June 30, 2017 in the general fund consisted of the following:

Alternative High School billing	$3,494
Foster tuition	153,023
Total	$156,517

District management has deemed these amounts to be fully collectible.

NOTE 8 - CAPITAL ASSETS:

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

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$1,395,205			$1,395,205
Construction in progress	94,149,239	$240,094	$ (43,866,797)	50,522,536
Total capital assets not being depreciated	95,544,444	240,094	(43,866,797)	51,917,741
Capital assets being depreciated:				
Building and building improvements	109,294,309		43,866,797	153,161,106
Furniture and equipment	6,208,312	65,068		6,273,380
Total capital assets being depreciated	115,502,621	65,068	43,866,797	159,434,486
Less accumulated depreciation:				
Building & building improvements	33,154,685	3,091,209		36,245,894
Furniture and equipment	5,462,447	137,297		5,599,744
Total accumulated depreciation	38,617,132	3,228,506	-	41,845,638
Total capital assets being depreciated, net	76,885,489	(3,163,438)	43,866,797	117,588,848
Capital assets, net	$172,429,933	($2,923,344)	$ -	169,506,589

Depreciation expense was charged to governmental functions as follows:

General support	$ 15,436
Instruction	3,193,285
Food service program	19,785
Total depreciation expense	$3,228,506

NOTE 9 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	$1,065,556	$193,760		$115,941
Special Aid Fund	186,190	998,292	$115,941	
Total government activities	1,251,746	1,192,052	115,941	115,941
Fiduciary Agency Fund	7,570	67,264		
Totals	$1,259,316	$1,259,316	$115,941	$115,941

The District typically transfers from the general fund to the special aid fund to fund the District's share of summer school handicap expenses required by New York State Law and to fund the State Supported Section 4201 schools.

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

All interfund payables are expected to be repaid within one year.

NOTE 10 - SHORT-TERM DEBT:

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

	Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	6/23/17	1.50%	$ -	$10,250,000	$10,250,000	$ -
TAN	6/23/17	2.00%	$ -	$10,000,000	$10,000,000	$ -
Total			$ -	$20,250,000	$20,250,000	$ -

Interest on short-term debt for the year was $124,749. This debt was issued for interim financing of general fund operations.

NOTE 11 – LONG TERM LIABILITIES:

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Long-term debt					
Bonds payable:	$130,025,000		($8,070,000)	$121,955,000	$8,090,000
Energy performance contract	6,659,757		(427,710)	6,232,047	440,335
Other long-term liabilities:					
Compensated absences payable	11,661,286	$739,169	(976,650)	11,423,805	620,000
Net other post employment benefits obligation	27,959,705	5,427,221	(1,246,987)	32,139,939	
Claims payable	1,085,967		(367,753)	718,214	
Net pension liability - proportionate share	3,598,745	7,114,639	(6,028,689)	4,684,695	
Total long-term liabilities	$180,990,460	$13,281,029	($17,117,789)	$177,153,700	$9,150,335

The general fund has typically been used to liquidate long-term liabilities such as bonds payable, energy performance contract, compensated absences, net other post employment benefits obligation, claims payable and net pension liability.

A) Bonds Payable:

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
2009 Serial Bond	8/31/2007	8/1/2022	4.0% - 5.0%	$420,000
2009 Serial Bond	11/23/2009	11/15/2024	3.0% - 4.0%	1,800,000
2011 Serial Bond	9/8/2010	9/1/2025	2.0% - 3.0%	6,537,522
2010 Serial Bond	9/8/2010	9/1/2030	2.0% - 3.5%	6,347,478
2011 Serial Bond	8/1/2011	8/1/2031	2.0% - 4.0%	3,100,000
2010 Serial Bond	8/1/2011	8/1/2026	2.0% - 3.75%	4,530,000
2010 Serial Bond	8/1/2011	8/1/2026	2.0% - 3.75%	15,680,000
2013 Serial Bond - refunding	10/31/2012	6/30/2030	2.0% - 5.0%	26,380,000
2014 Serial Bond	8/1/2013	8/1/2043	4.0% - 4.5%	8,645,000
2015 Serial Bond	8/18/2014	2/15/2043	3.0% - 3.75%	14,560,000
2016 Serial Bond - refunding	5/4/2016	8/1/2029	2.0% - 4.0%	33,955,000
				$121,955,000

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2018	$ 8,090,000	$ 4,416,325	$ 12,506,325
2019	8,345,000	4,138,151	12,483,151
2020	8,670,000	3,834,653	12,504,653
2021	9,015,000	3,518,953	12,533,953
2022	9,380,000	3,190,592	12,570,592
2023-2027	44,820,000	10,598,857	55,418,857
2028-2032	20,840,000	4,094,547	24,934,547
2033-2037	4,970,000	2,106,209	7,076,209
2038-2042	5,975,000	1,071,163	7,046,163
2043-2045	1,850,000	77,401	1,927,401
	$121,955,000	$37,046,851	$159,001,851

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

B) Energy performance contract:

Energy performance contract is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Energy performance contract	10/15/2014	4/15/2029	2.93%	$6,232,047
				$6,232,047

The following is a summary of debt service requirements for the energy performance contract:

Fiscal Year Ended June 30,	Principal	Interest	Total
2018	$440,335	$179,397	$619,732
2019	453,332	166,400	619,732
2020	466,711	153,021	619,732
2021	480,486	139,246	619,732
2022	494,668	125,065	619,733
2023-2027	2,701,148	397,512	3,098,660
2028-2029	1,195,367	44,099	1,239,466
Total	$6,232,047	$1,204,740	$7,436,787

C) **Long-Term Interest:**

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

	Total
Interest paid	$4,529,948
Less interest accrued in the prior year	(1,330,886)
Plus interest accrued in the current year	1,589,067
Less amortization of gain on defeasance	(527,698)
Total expense	$4,260,431

NOTE 12 – DEFERRED INFLOWS OF RESOURCES – GAIN ON DEFEASANCE:

The gain on defeasance pertaining to the 2013 and 2016 bond refunding recorded in the District-Wide Financial Statements as deferred inflows of resources at June 30, 2017 consisted of the following:

2013	
Bond Premium	$3,975,093
Deferred amounts on refunding	(304,495)
Total gain on defeasance 2013, net of amortization	3,670,598
2016	
Bond Premium	3,985,332
Deferred amounts on refunding	(1,269,690)
Total gain on defeasance 2016, net of amortization	2,715,642
Total gain on defeasance, net of amortization	$6,386,240

The gain on defeasance on the advanced refunding is being amortized, as a reduction of interest expense on the District-Wide Financial Statements using the straight-line method over 17 years and 15 years for the 2013 and 2016 bond refunding, respectively, the remaining time to maturity of the refunded bonds at time of refunding.

NOTE 13 – PENSION PLANS:

A) Plan Description and Benefits Provided:

i) Teachers' Retirement System

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

ii) Employees' Retirement System

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

B) Funding Policies:

The Systems are noncontributory, except as follows:

1. New York State Teachers' Retirement System:
    a. Employees who joined the system after July 27, 1976
        i. Employees contribute 3% of their salary, except that employees in the system more than ten years are no longer required to contribute.
    b. Employees who joined the system on or after January 1, 2010 before April 1, 2012
        i. Employees contribute 3.5% of their salary throughout active membership.
    c. Employees who joined the system on or after April 1, 2012
        i. Employees contribute between 3% and 6% dependent upon their salary throughout active membership.

2. New York State Employees' Retirement System
    a. Employees who joined the system after July 27, 1976
        i. Employees contribute 3% of their salary, except that employees in the system more than ten years are no longer required to contribute.
    b. Employees who joined the system on or after January 1, 2010 before April 1, 2012
        i. Employees contribute 3% of their salary throughout active membership.
    c. Employees who joined the system on or after April 1, 2012

i. Employees contribute between 3% and 6% dependent upon their salary throughout active membership.

For ERS, the Comptroller annually certifies the rates expressed as proportions of members' payroll annually, which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for TRS.

The District contributions made to the Systems were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years based on covered payroll for the District's year end were:

	NYSTRS	NYSERS
2017	$ 4,494,842	$ 862,879
2016	$ 5,181,340	$ 984,328
2015	$ 6,820,635	$ 969,002

C) **Pension Assets, Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions:**

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

	ERS	TRS
Measurement date	March 31, 2017	June 30, 2016
Net pension liability	$ (1,972,564)	$ (2,712,131)
District's portion of the Plan's total net pension liability	0.0209932%	0.253224%
Change in proportionate share since prior measurement date	-0.0014285%	-0.0057960%

For the year ended June 30, 2017, the District recognized pension expense of $4,545,809 for TRS and $1,112,849 for ERS. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	ERS	TRS	ERS	TRS
Differences between expected and actual experience	$ 49,431		$ 299,545	$ 881,052
Changes of assumptions	673,900	$ 15,450,027		
Net difference between projected and actual earnings on pension plan investments	394,001	6,098,297		
Changes in proportion and differences between the District's contributions and proportionate share of contributions	46,654	442,226	85,439	58,472
District's contributions subsequent to the measurement date	254,428	4,494,842		
	$ 1,418,414	$ 26,485,392	$ 384,984	$ 939,524

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	ERS	TRS
Plan Year ended:		
2018	$ 356,286	$ 1,946,031
2019	356,286	6,682,137
2020	339,280	5,208,597
2021	(272,849)	2,421,125
Thereafter		2,847,105
	$ 779,003	$ 19,104,995

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:

	ERS	TRS
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.0%	7.5%
Salary scale	3.80%	4.72% - 1.91%
Cost of living adjustments	1.3% annually	1.5% annually
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience	July 1, 2009 - June 30, 2014 System's Experience
Inflation rate	2.50%	2.50%

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

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

The long term rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selections 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 investment expense and inflation) for each major asset class, as well as historical investment data and plan performance. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation as of the valuation data are summarized below:

	ERS		TRS	
Valuation Date	April 1, 2016		June 30, 2015	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Asset type				
Domestic equity	36%	4.55%	37%	6.1%
International equity	14%	6.35%	18%	7.3%
Private equity	10%	7.75%	7%	9.2%
Real estate	10%	5.80%	10%	5.4%
Absolute return strategies	2%	4.00%		
Opportunistic portfolio	3%	5.89%		
Real assets	3%	5.54%		
Bonds and mortgages	17%	1.31%		
Cash	1%	-0.25%		
Inflation-indexed bonds	4%	1.50%		
Domestic fixed income securities			17%	1.0%
Global fixed income securities			2%	0.8%
Mortgages			8%	3.1%
Short-term			1%	0.1%
	100%		100%	

Discount Rate

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

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

The following presents the District's proportionate share of the net pension asset/(liability) calculated using the discount rate of 7.0% for ERS and 7.5% for TRS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1-percentagepoint lower (6.0% for ERS and 6.5% for TRS) or 1-percentagepoint higher (8.0% for ERS and 8.5% for TRS) than the current rate:

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension asset (liability)	($6,299,979)	($1,972,564)	$1,686,257

TRS	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension asset (liability)	($35,385,917)	($2,712,131)	$24,692,928

Pension Plan Fiduciary Net Position

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

	(Dollars in Thousands) ERS	TRS
Valuation date	April 1, 2016	June 30, 2015
Employers' total pension liability	$ (177,400,586)	$ (108,577,184)
Plan fiduciary net position	168,004,363	107,506,142
Employers' net pension liability	$ (9,396,223)	$ (1,071,042)
Ratio of plan fiduciary net position to the employers' total pension liability	94.70%	99.01%

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to $254,428.

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

TRS System. Accrued retirement contributions as of June 30, 2017 amounted to $4,680,044.

NOTE 14 – OTHER RETIREMENT PLANS:

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, 2017, totaled $781,922 and $1,797,680 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, 2017 totaled $145,430.

NOTE 15– POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS:

A) Plan Description:

The District primarily provides post employment health insurance coverage to retired employees and their spouses in accordance with the provisions of various employment contracts. Benefits are provided through the New York State Health Insurance Program Empire Plan, (The "Plan") which is a single-employer defined benefit healthcare plan. The Plan does not issue a stand alone, publicly available report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

B) Funding Policy:

The contribution requirements of Plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2017, the District contributed $1,246,987 to the plan. Plan members receiving benefits contributed 0% - 60% of the health insurance premium.

C) Annual OPEB Cost and Net OPEB Obligation:

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the

District annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District net OPEB obligation to the Plan:

Annual required contribution	$5,076,455
Interest on net OPEB obligation	1,397,985
Adjustment to Annual Required Contribution	(1,047,219)
Annual OPEB cost (expense)	5,427,221
Contributions made	1,246,987
Increase in net OPEB obligation	4,180,234
Net OPEB obligation-beginning of year	27,959,705
Net OPEB obligation-end of year	$32,139,939

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

Fiscal Year Ending	Annual OPEB Cost	OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/17	$ 5,427,221	$ 1,246,987	23.0%	$ 32,139,939
6/30/16	$ 4,627,499	$ 1,247,842	27.0%	$ 27,959,705
6/30/15	$ 4,362,021	$ 1,116,445	25.6%	$ 24,580,048

D) Funded Status and Funding Progress:

As of July 1, 2016, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability for benefits was $62,376,176 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $62,376,176. The covered payroll (annual payroll of active employees covered by the plan) was $37,945,624 and the ratio of the UAAL to the covered payroll was 164.4%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows 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:

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

In the July 1, 2016 actuarial valuation prepared by an outside actuarial firm, the projected unit credit actuarial cost method was used to value the actuarial accrued liability and normal cost. The actuarial assumptions included a discount rate of 5% and an annual healthcare cost trend rate of 4.70% initially, reduced by decrements to an ultimate rate of 3.84% after 9 years. The UAAL is being amortized using the level dollar amortization method over a period of 30 years.

NOTE 16 – RISK MANAGEMENT:

A) General Information:

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

B) Risk Retention:

The District participates in the East End Workers' Compensation Consortium, a risk-retained pool, to insure workers' compensation claims. This is a public entity risk pool created under Article 5 of the workers' compensation law, to finance liability and risks related to workers' compensation claims. The District's share of the total undiscounted liability for incurred but unpaid claims and incurred but not reported claims is $718,214.

The following are the details of the amounts paid from this fund:

	2017	2016
Unpaid claims at beginning of year	$1,085,967	$865,975
Incurred claims and claim adjustment expenses		437,789
Claims payments	(367,753)	(217,797)
Unpaid claims at year end	$718,214	$1,085,967

C) Public Entity Risk Pool:

The District participates in New York Schools Insurance Reciprocal (NYSIR), a non-risk-retained public entity risk pool for its District property and liability insurance coverage. The pool is operated for the benefit of individual governmental units located within the pool's geographic area, and is considered a self-sustaining risk pool that will provide coverage for its members. The pool obtains independent coverage for insured events and the District has essentially transferred all related risk to the pool.

NOTE 17 – COMMITMENTS AND CONTINGENCIES:

A) 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, will be immaterial.

B) Litigation:

As of June 30, 2017, we are unaware of any pending or threatened litigation or unasserted claims or assessments against the District which require disclosure.

C) Encumbrances:

All encumbrances are classified as assigned or restricted fund balance. At June 30, 2017, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance	
General Fund	
General Support	$32,591
Instruction	22,036
	$54,627
Restricted:	
Capital Projects Fund	$88,721

D) Operating Leases:

The District is committed under various non-cancelable operating leases, primarily for office equipment. The following is a summary of obligations of government activities under operating lease payments:

Fiscal year ended June 30,	Total
2018	$214,142
2019	220,463
2020	220,462
2021	138,698
2022	138,697
2023	23,116
Total lease payments	$955,578

Lease expenditures were $283,320 for the year ended June 30, 2017.

NOTE 18 – SUBSEQUENT EVENTS:

The District borrowed $21,800,000 in tax anticipation notes on July 28, 2017 which will mature on June 22, 2018. The effective net interest rate is 1.1078%, whereas the effective net interest rate on the previous year's note was 0.7442%.

SUPPLEMENTARY INFORMATION

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Variance with Budgetary Actual
REVENUES				
Local Sources				
Real property taxes	$44,780,632	$44,780,632	$45,086,331	$305,699
Other real property tax items	6,692,109	6,692,109	6,386,712	(305,397)
Payments in lieu of taxes	720,000	720,000	769,258	49,258
Charges for services	1,525,000	1,525,000	1,302,673	(222,327)
Use of money & property	122,764	122,764	32,599	(90,165)
Miscellaneous	106,250	125,906	139,753	13,847
State Sources				
Basic formula	24,837,633	24,837,633	23,376,994	(1,460,639)
VLT lottery grant	4,752,647	4,752,647	4,952,287	199,640
Excess cost aid	5,388,299	5,388,299	5,218,715	(169,584)
BOCES aid	1,317,578	1,317,578	1,194,258	(123,320)
Textbook aid	205,392	205,392	208,128	2,736
Computer software aid	104,146	104,146	102,660	(1,486)
Library A/V loan program aid	23,500	23,500	22,112	(1,388)
Other state aid			350	350
Federal sources			29,682	29,682
TOTAL REVENUES AND OTHER SOURCES	$90,575,950	$90,595,606	$88,822,512	($1,773,094)
Appropriated fund balance	53,789	653,789		
TOTAL REVENUES & APPROPRIATED FUND BALANCE	$90,629,739	$91,249,395		

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.

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Variance with Budgetary Actual and Encumbrances
EXPENDITURES					
General Support					
Board of education	$32,634	$36,247	$33,715		$2,532
Central administration	350,881	341,992	337,992		4,000
Finance	866,463	907,556	839,027	$31,875	36,654
Staff	539,434	539,504	478,847		60,657
Central services	6,244,540	6,213,913	5,831,945	716	381,252
Special items	755,134	755,134	742,106		13,028
Instructional					
Instruction, adm. & imp.	3,313,446	3,375,543	3,322,021		53,522
Teaching - regular school	24,224,602	23,958,414	23,772,598		185,816
Programs for children with handicapping conditions	12,723,923	12,313,715	12,128,741	75	184,899
Occupational education	1,927,893	1,476,365	1,419,826		56,539
Teaching special schools	403,850	401,612	279,410		122,202
Instructional media	1,610,577	1,510,345	1,411,963	21,961	76,421
Pupil services	3,811,868	4,033,584	3,978,059		55,525
Pupil transportation	3,783,544	3,790,120	3,784,693		5,427
Employee benefits	16,848,347	18,326,750	18,309,151		17,599
Debt service					
Debt service - principal	8,362,711	8,497,711	8,497,711		-
Debt service - interest	4,714,949	4,654,949	4,654,697		252
TOTAL EXPENDITURES	90,514,796	91,133,454	89,822,502	54,627	1,256,325
Other Financing Uses					
Transfers to other funds	114,943	115,941	115,941		-
TOTAL EXPENDITURES AND OTHER USES	$90,629,739	$91,249,395	89,938,443	$54,627	$1,256,325
NET CHANGE IN FUND BALANCES			(1,115,931)		
Net change in fund balances			(1,115,931)		
FUND BALANCES - BEGINNING OF YEAR			6,315,887		
FUND BALANCES - END OF YEAR			$5,199,956		

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.

See Paragraph on Supplementary Schedules Included in Auditor's Report

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)
JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
July 1, 2016	$0	$62,376,176	$62,376,176	0.0%	$37,945,624	164.4%
July 1, 2014	$0	$48,799,727	$48,799,727	0.0%	$37,434,659	130.4%
July 1, 2012	$0	$44,850,360	$44,850,360	0.0%	$35,747,763	125.5%

See Paragraph on Supplementary Schedules Included in Auditor's Report

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY)
FOR THE FISCAL YEARS ENDED JUNE 30, *

NYSERS Pension Plan

	2017	2016	2015	2014
District's proportion of the net pension asset (liability)	0.0209932%	0.0224217%	0.0219618%	0.0219618%
District's proportionate share of the net pension asset (liability)	($1,972,564)	($3,598,745)	($741,922)	($992,421)
District's covered payroll	$6,050,307	$6,145,861	$5,993,029	$5,821,976
District's proportionate share of the net pension asset (liability) as a percentage of its covered -employee payroll	32.60%	58.56%	12.38%	-17.05%
Plan fiduciary net position as a percentage of the total pension asset (liability)	94.70%	90.68%	97.95%	97.20%

NYSTRS Pension Plan

	2017	2016	2015	2014
District's proportion of the net pension asset (liability)	0.253224%	0.259020%	0.262780%	0.249807%
District's proportionate share of the net pension asset (liability)	($2,712,131)	$26,903,951	$29,266,268	$1,644,366
District's covered payroll	$40,438,968	$40,139,543	$40,161,074	$37,902,373
District's proportionate share of the net pension asset (liability) as a percentage of its covered -employee payroll	-6.71%	-67.03%	72.87%	4.34%
Plan fiduciary net position as a percentage of the total pension asset (liability)	99.01%	110.46%	111.48%	100.70%

* The amounts presented for each fiscal year were determined as of the measurement dates of the plans.

EASTPORT SOUTH MANOR CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
FOR THE FISCAL YEARS ENDED JUNE 30,

NYSERS Pension Plan

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 862,879	$ 984,328	$ 969,002	$ 1,079,200	$ 1,077,669	$ 815,150	$ 614,599	$ 332,581	$ 309,345	$ 316,607
Contributions in relation to the contractually required contribution	862,879	984,328	969,002	1,079,200	1,077,669	815,150	614,599	332,581	309,345	316,607
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 6,159,409	$ 6,220,018	$ 6,080,371	$ 5,857,270	$ 5,682,252	$ 5,507,491	$ 5,119,797	$ 4,862,467	$ 7,278,712	$ 4,116,662
Contributions as a percentage of covered employee payroll	14.01%	15.83%	15.94%	18.42%	18.97%	14.80%	12.00%	6.84%	4.25%	7.69%

NYSTRS Pension Plan

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 4,494,842	$ 5,181,340	$ 6,820,635	$ 6,306,467	$ 4,332,417	$ 3,796,521	$ 2,885,279	$ 2,005,494	$ 2,343,482	$ 2,727,947
Contributions in relation to the contractually required contribution	4,494,842	5,181,340	6,820,635	6,306,467	4,332,417	3,796,521	2,885,279	2,005,494	2,343,482	2,727,947
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 38,584,315	$ 40,438,968	$ 40,139,543	$ 40,161,074	$ 37,902,373	$ 35,342,086	$ 34,716,028	$ 33,543,523	$ 31,643,969	$ 32,137,636
Contributions as a percentage of covered employee payroll	11.65%	12.81%	16.99%	15.70%	11.43%	10.74%	8.31%	5.98%	7.41%	8.49%

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET AND THE REAL PROPERTY TAX LIMIT
JUNE 30, 2017

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	$90,575,950
Add: Prior year's encumbrances	53,789
Original Budget	90,629,739
Budget revisions:	
Donations	19,656
Transportation expenses	80,000
Workers' compensation expenses	70,000
Employee benefit expenses	450,000
Final Budget	$91,249,395

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2017-2018 voter approved expenditure budget		$92,922,780
Maximum allowed (4% of the 2017-2018 budget)		$3,716,911
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	$1,005,181	
Unassigned fund balance	2,079,838	
Total unrestricted fund balance		3,085,019
Less:		
Appropriated fund balance	950,554	
Encumbrances included in assigned fund balance	54,627	
Total adjustments		1,005,181
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law		$2,079,838
Actual percentage		2.24%

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECT EXPENDITURES- CAPITAL PROJECTS FUND
JUNE 30, 2017

Project Title	Original Appropriation	Revised Appropriation	Expenditures to Date			Unexpended Balance	Methods of Financing		Fund Balance June 30, 2017
			Prior Year's	Current Year	Total		Proceeds of Obligations	Total	
ESM Phase 3	$60,835,000	$60,835,000	$59,118,216	$240,094	$59,358,310	$1,476,690	$60,835,000	$60,835,000	$1,476,690
Total	$60,835,000	$60,835,000	$59,118,216	$240,094	$59,358,310	$1,476,690	$60,835,000	$60,835,000	$1,476,690

See Paragraph on Required Supplementary Information Included in Auditor's Report

EASTPORT - SOUTH MANOR CENTRAL SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2017

Capital assets, net		$169,506,589
Deduct:		
Gain on defeasance		(6,386,240)
Short-term portion of bonds payable	$8,090,000	
Long-term portion of bonds payable	113,865,000	
Short-term portion of energy performance contract	440,335	
Long-term portion of energy performance contract	5,791,712	
Less: Unspent bond proceeds	(1,476,690)	(126,710,357)
Net investment in capital assets		$36,409,992

R.S. ABRAMS & CO., LLP
Accountants & Consultants for Over 75 years

Robert S. Abrams
(1926–2014)

Marianne E. Van Duyne, CPA
Alexandria M. Battaglia, CPA

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
Eastport - South Manor Central School District

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 Eastport - South Manor Central School District, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Eastport - South Manor Central School District's basic financial statements, and have issued our report thereon dated October 11, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

R S Abrams & Co, LLP

R.S. Abrams & Co., LLP
Islandia, NY
October 11, 2017

APPENDIX D

FORM OF APPROVING LEGAL OPINION OF BOND COUNSEL

October 25, 2018

The Board of Education of
Eastport-South Manor Central School District,
in the County of Suffolk, New York

Ladies and Gentlemen:

We have acted as Bond Counsel to Eastport-South Manor Central School District (the "School District"), in the County of Suffolk, a school district of the State of New York, and have examined a record of proceedings relating to the authorization, sale and issuance of the $11,500,000 Tax Anticipation Note for 2018-2019 Taxes (Series II) (the "Note"), dated and delivered the date hereof.

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 upon 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. 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 certifications 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 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 for taxable years beginning prior to January 1, 2018.

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.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Note, or the ownership or disposition thereof, except as stated in paragraphs 2 and 3 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Note.

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

Very truly yours,

APPENDIX E

FORM OF EVENTS NOTICE 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 Eastport-South Manor Central 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 referred to in the Certificate of Determination, executed by the President of the Board of Education as of October 25, 2018.

"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 $11,500,000 Tax Anticipation Note for 2018-2019 Taxes (Series II), dated October 25, 2018, maturing on February 6, 2019, 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 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 25, 2018.**

EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT

By_____
President of the Board of Education