

# OFFICIAL STATEMENT

NEW ISSUE

TAX ANTICIPATION NOTES

*In the opinion of Fulbright & Jaworski L.L.P., New York, New York, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants referred to herein, interest on the Notes (as defined herein) is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and will not be included in the computation of the federal alternative minimum taxable income of the owners thereof for federal income tax purposes. It is also the opinion of Bond Counsel that under existing law interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). See "TAX MATTERS" herein.*

## MOUNT SINAI UNION FREE SCHOOL DISTRICT SUFFOLK COUNTY, NEW YORK (the "District")

**\$12,800,000**

### TAX ANTICIPATION NOTES, 2010 [BOOK-ENTRY-ONLY NOTES]

Dated Date: July 1, 2010

Maturity Date: June 30, 2011

*Security and Sources of Payment:* The Notes will constitute general obligations of the District and will contain a pledge of its faith and credit for the punctual payment of the principal of and interest on the Notes, and all the taxable real property within the District will be subject to the levy of ad valorem taxes, without limitation as to rate or amount, for such purpose.

*Prior Redemption:* The Notes are not subject to redemption prior to their maturity.

*Form and Denomination:* The Notes will be issued as registered notes, and, when issued, will be registered in the name of Cede & Co. as partnership nominee of The Depository Trust Company, ("DTC") New York, New York, or such other name as may be requested by an authorized representative of DTC, which will act as the securities depository for the Notes. The District Clerk will be the fiscal and paying agent for the Notes while the Notes are in registered form. Individual purchases of the Notes may be made only in book-entry-only form in denominations of \$5,000 or integral multiples thereof. Noteholders will not receive certificates representing their ownership interest in the notes purchased. See "Book-Entry-Only System" under "The Notes," herein.

*Payment:* Payment of the principal of and interest on the Notes to the Beneficial Owner of the Notes will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name." Payment will be the responsibility of the DTC Participant or Indirect Participant and not of DTC or the District, subject to any statutory and regulatory requirements as may be in effect from time to time. See "Book-Entry-Only System" under "The Notes," herein.

*The Notes are offered when, as and if issued and received by the purchaser and subject to the receipt of an unqualified legal opinion as to the validity of the Notes of Fulbright & Jaworski L.L.P., Bond Counsel, New York, New York. It is anticipated that the Notes will be available for delivery in New York, New York on or about July 1, 2010.*

THE DISTRICT DEEMS THIS OFFICIAL STATEMENT TO BE FINAL FOR PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15C2-12 (THE "RULE"), EXCEPT FOR CERTAIN INFORMATION THAT HAS BEEN OMITTED HEREFROM IN ACCORDANCE WITH SAID RULE AND THAT WILL BE SUPPLIED WHEN THIS OFFICIAL STATEMENT IS UPDATED FOLLOWING THE SALE OF THE OBLIGATIONS HEREIN DESCRIBED. THIS OFFICIAL STATEMENT WILL BE SO UPDATED UPON REQUEST OF THE SUCCESSFUL BIDDER(S) AS MORE FULLY DESCRIBED IN THE NOTICE OF SALE WITH RESPECT TO THE OBLIGATIONS HEREIN DESCRIBED. IN ADDITION, THE DISTRICT WILL COVENANT IN AN UNDERTAKING TO PROVIDE NOTICE OF CERTAIN MATERIAL EVENTS AS DEFINED IN THE RULE.

Dated: June 15, 2010

**MOUNT SINAI UNION FREE SCHOOL DISTRICT  
SUFFOLK COUNTY, NEW YORK**

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# OFFICIAL STATEMENT

## Relating to

### MOUNT SINAI UNION FREE SCHOOL DISTRICT SUFFOLK COUNTY, NEW YORK

**\$12,800,000**

### TAX ANTICIPATION NOTES, 2010 [BOOK-ENTRY-ONLY NOTES]

#### THE NOTES

##### General

The \$12,800,000 Tax Anticipation Notes, 2010 (the "Notes") will be general obligations of the Mount Sinai Union Free School District, Suffolk County, New York (the "District"), and will contain a pledge of the District's faith and credit for the payment of the principal thereof and interest thereon as required by the Constitution and laws of the State of New York (State Constitution, Article VIII, Section 2; Local Finance Law, Section 100.00). The Notes will be dated July 1, 2010 and will mature, without the right of redemption prior to maturity on June 30, 2011 with interest payable at maturity.

The Notes will be issued as book-entry-only form and will be registered in the name of Cede & Co. as partnership nominee for DTC. See "Book-Entry-Only System". The District Clerk will be the fiscal and paying agent for the Notes while the Notes are in registered form. Principal and interest will be paid in lawful money of the United States of America (Federal Funds) by the District to Cede & Co., as nominee for DTC.

##### Book-entry-only System

DTC, New York, New York, will act as securities depository for the Notes. 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 maturity of the Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 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 note 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"). DTC has Standard & Poor's highest rating: AAA. 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of 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 Note ("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 interest in Securities, 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 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 Notes 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.

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 the 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 notes 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 nor its nominee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. 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, Note 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, Note 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, New York, New York.

### **Certificated Notes**

DTC may discontinue providing its services with respect to the Notes at any time by giving notice to the District and discharging its responsibilities with respect thereto under applicable law, or the District may terminate its participation in the system of book-entry-only system transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply:

The Notes will be issued in bearer form in denominations of \$5,000 or integral multiples thereof. Principal of and interest on the Notes when due will be payable at the office of the District Clerk, as fiscal and paying agent for the Notes, or, at the option of the District, at a bank or trust company designated by the District for this purpose. The Notes will remain not subject to redemption prior to their stated final maturity date.

## **Material Event Notices**

This Official Statement is in a form deemed final by the School District for the purposes of Securities and Exchange Commission Rule 15c2-12 (the "Rule").

In accordance with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, to provide or cause to be provided, to the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access system ("EMMA"), currently at <http://www.emma.msrb.org>, or any such other similar system established and operated by the MSRB, notice of the occurrence of any of the following events with respect to the Notes, if, in the judgment of the Issuer, such event is material:

- (a) principal and interest payment delinquencies
- (b) non-payment related defaults
- (c) unscheduled draws on debt service reserves reflecting financial difficulties
- (d) unscheduled draws on credit enhancements reflecting financial difficulties
- (e) substitution of credit or liquidity providers, or their failure to perform
- (f) adverse tax opinions or events affecting the tax-exempt status of the Notes
- (g) modifications to rights of Note holders
- (h) bond calls
- (I) defeasances
- (j) release, substitution, or sale of property securing repayment of the Notes
- (k) rating changes

The District may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if the District determines that any such other event is material with respect to the Notes; but the District does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The District reserves the right to terminate its obligation to provide the aforementioned notices of material events, as set forth above, if and when the District no longer remains an obligated person with respect to the Notes within the meaning of the Rule. The District acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Notes (including holders of beneficial interests in the Notes). The right of holders of the Notes to enforce the provisions of the undertaking will be limited to a right to obtain specific performance of the District's obligations under its material event notices undertaking and any failure by the District to comply with the provisions of the undertaking will neither be a default with respect to the Notes nor entitle any holder of the Notes to recover monetary damages.

A Material Event Notices Certificate to this effect shall be provided to the purchaser at closing.

## **Authorization and Purpose**

The \$12,800,000 Tax Anticipation Notes are being issued in anticipation of the collection of real property taxes receivable by the District during its 2010-2011 fiscal year, commencing on July 1, 2010, and pursuant to a tax anticipation note resolution adopted by the Board of Education on May 12, 2010. The Notes are being issued to provide monies to meet a cash flow deficit expected to occur during the period that the Notes are outstanding (see "Cash Flow"). Such cash flow deficit is the result of a delay in the receipt of real property taxes, as a result of the fact that the dates fixed by law for the collection of such taxes do not conform to the expected cash needs of the District's operating budget.

## **Security and Source of Payment**

The Notes are general obligations of the District and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Notes as required by the Constitution and laws of the State of New York (State Constitution, Art. VIII, Section 2; Local Finance Law, Section 100.00). All the taxable real property within the District is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, without limitation as to rate or amount.

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 2009-2010 real property taxes equals the amount of such real property taxes remaining uncollected, the District is required to set aside in a special bank account all of such uncollected taxes as thereafter received, 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.

For a description of prior issues of Tax Anticipation Notes and of projected issues of obligations for capital and operating purposes of the District, see "Details of Short-Term Indebtedness" and "Authorized But Unissued Items".

### **Remedies Upon Default**

In the event of a default in the payment of the principal of and/or interest on the Notes, the State Comptroller is required to withhold, under certain conditions prescribed by Section 99-b of the State Finance Law, State aid and assistance to the District and to apply the amount thereof so withheld to the payment of such defaulted principal and/or interest, which requirement constitutes a covenant by the State with the holders from time to time of the Notes.

Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the District upon any judgments or accrued claims against it shall not exceed nine per centum per annum. This provision might be construed to have application to the holders of the Notes in the event of a default in the payment of the principal of or interest on the Notes.

In accordance with the general rule with respect to municipalities, judgments against the District may not be enforced by levy and execution against property owned by the District.

The Federal Bankruptcy Code allows public bodies recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness. While these provisions do not apply to school districts there can be no assurance that they will not be made so applicable in the future.

At the Extraordinary Session of the State Legislature held in November, 1975, legislation was enacted which purported to suspend the right to commence or continue an action in any court to collect or enforce certain short-term obligations of the City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such City of its faith and credit for the payment of such obligations.

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 obligations of the municipality during the emergency period, is subject to doubt. These provisions do not apply to school districts, but there can be no assurance that they will not be made applicable in the future. In any event, no such emergency has been declared with respect to the District.

## THE DISTRICT

### Description

The District, with a currently estimated population of 10,695, is located on the north shore of Long Island adjacent to Port Jefferson, and is approximately 65 miles east of New York City. The District covers an area of approximately six square miles.

Largely suburban-rural in character, the District contains the Mount Sinai Harbor, affording facilities for boating and fishing. Several Brookhaven Township beaches are nearby, including Cedar Beach with extensive frontage of Long Island Sound.

Shopping and commercial activity is located mainly along Route 25A, with more extensive commercial activity in Port Jefferson and nearby shopping centers.

Farming remains as an important industry with the major crops of peaches and nursery stock.

Typical residential construction in the District is in the \$350,000-\$750,000 class. Zoning regulations are mostly one acre residential minimum.

The main highways serving the District are New York State Route 25A (east-west) and Patchogue-Mount Sinai Road (north-south). Rail transportation to western points is available through the Port Jefferson Branch of the Long Island Rail Road.

Police protection is provided by the County of Suffolk. Gas and electric are provided by the Long Island Lighting Company. Fire protection is provided by the Mount Sinai Fire District. Water service is provided by the Suffolk County Water Authority.

### District Organization

The Board of Education, which is the policy-making body of the District, consists of seven members with overlapping three-year terms so that as nearly as possible an equal number shall be elected to the Board each year. The President and the Vice President are selected by the Board Members.

The administrative officers of the District, whose duty it is to implement the policies of the Board of Education and who are appointed by the Board, include the Superintendent of Schools, the Business Administrator, the School District Clerk and the District Treasurer.

### Enrollment History

<u>School Year</u>	<u>School Enrollment</u>
2004-05 .....	2,437
2005-06 .....	2,501
2006-07 .....	2,594
2007-08 .....	2,619
2008-09 .....	2,640
2009-10 .....	2,651

#### Estimated Future Public School Enrollment

2010-11 .....	2,660
2011-12 .....	2,665

### District Facilities

<u>Name of School</u>	<u>Grades</u>	<u>Date of Construction</u>	<u>Capacity</u>
Mount Sinai Elementary School.....	K-4	1964	1,147
Mount Sinai Middle School .....	5-8	1979	1,000
Mount Sinai High School .....	9-12	1991	1,000

## Employees

Some employees are represented by organized labor as follows:

<u>Name of Union</u>	<u>Expiration Date of Contract</u>	<u>Approx. No. of Members</u>
Mount Sinai Teachers' Association .....	6/30/13	193
Civil Service Employees Association .....	6/30/13	117
Mount Sinai Administrators' Association .....	6/30/13	17

a. In negotiation.

## ECONOMIC AND DEMOGRAPHIC INFORMATION

### Population Trends

The following table sets forth population statistics for the District, the Town of Brookhaven and Suffolk County.

<u>Year</u>	<u>District</u>	<u>Town of Brookhaven</u>	<u>Suffolk County</u>
2004 .....	9,429	472,425	1,467,425
2005 .....	9,683	479,578	1,483,396
2006 .....	10,043	485,295	1,495,697
2007 .....	10,689	489,255	1,504,947
2008 .....	10,695	491,035	1,508,602

Source: Long Island Power Authority 2004-2008

### Income Data

	<u>Per Capita Money Income</u>		
	<u>1990</u>	<u>2000</u>	<u>2008*</u>
Town of Brookhaven	\$16,726	\$24,191	\$ 32,264
County of Suffolk	18,481	26,577	35,140
State of New York	16,501	23,389	30,804

  

	<u>Median Household Income</u>		
	<u>1990</u>	<u>2000</u>	<u>2008*</u>
Town of Brookhaven	\$47,074	\$62,475	\$ 82,166
County of Suffolk	49,128	65,288	84,767
State of New York	32,965	43,393	55,401

Source: United States Bureau of the Census

\*Note: Based on American Community Survey 3-Year Estimates (2006-2008)

## Unemployment Rate Statistics

Unemployment statistics are not available for the District as such. The smallest area for which such statistics are available (which includes the District) is the Town of Brookhaven. The information set forth below with respect to such Town, 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 and State or vice versa.

	<u>Town of Brookhaven</u>	<u>Suffolk County</u>	<u>New York State</u>
Annual Averages:			
2006 .....	4.0%	3.9%	4.5%
2007 .....	3.9	3.8	4.5
2008 .....	5.0	5.0	5.4
2009 .....	7.3	7.4	8.3
2010 (4 Months) .....	7.6	7.8	8.9

Source: New York State Department of Labor.

## INDEBTEDNESS OF THE DISTRICT

### Constitutional Requirements

The New York State Constitution and local finance law limits the power of the District (and other municipalities and certain school districts of the State) to issue obligations and to otherwise contract indebtedness. Such constitutional limitations include the following, in summary form, and are generally applicable to the District.

**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 or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose as determined by statute; no installment may be more than fifty per centum in excess of the smallest prior installment, unless the District authorizes the issuance of bonds with 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 or such required annual installments on its notes.

### Statutory Requirements and 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 District has the power to contract indebtedness for any school district purpose so long as the 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 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 which such assessed valuation bears to the full valuation as determined by the State Board of Real Property Services. The State Legislature is required to prescribe the manner by which such ratio shall be determined.

The District is generally required by such laws to submit propositions for the expenditure of money for capital purposes to the qualified electors of the District. Upon approval thereby, the Board of Education may adopt a bond resolution authorizing the issuance of bonds or notes in anticipation of the bonds.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

The Local Finance Law also provides that where a bond resolution is published with a statutory form of notice, the validity of the bonds authorized thereby, including bond anticipation notes issued in anticipation of the sale thereof, may be contested only if:

- 1) Such obligations are authorized for a purpose for which the District is not authorized to expend money, or
- 2) There has not been substantial compliance with the provisions of law which should have been complied with in the authorization of such obligations

and an action contesting such validity is commenced within twenty days after the date of such publication,

or

- 3) Such obligations are authorized in violation of the provisions of the Constitution.

Except on rare occasions the District complies with this estoppel procedure. It is a procedure that is recommended by Bond Counsel, but it is not an absolute legal requirement.

The Board of Education, as the finance board of the District, has the power to enact bond resolutions. In addition, such finance board has the power to authorize the sale and issuance of obligations. However, such finance board may delegate the power to sell the obligations to the President of the Board of Education, the chief fiscal officer of the District, pursuant to the Local Finance Law.

Statutory law in New York permits tax anticipation notes to be renewed. Tax anticipation notes must mature within one year of their date of issuance, and may be renewed from time to time. No renewal may mature more than five years after the date of original issue, nor more than five years (or, in some cases, four years) after the close of the fiscal year for which were levied the taxes or assessments in anticipation of the collection of which such notes were issued. (See "Payment and Maturity" under "Constitutional Requirements" herein, and "Details of Outstanding Indebtedness" herein).

In general, the Local Finance Law contains provisions providing the District with power to issue certain other short-term general obligation indebtedness including revenue and tax anticipation notes and budget notes (see "Details of Outstanding Indebtedness" herein).

**Computation of Debt Limit and Calculation of Total Net Indebtedness**  
(As of June 15, 2010)

	<u>Assessed Valuation</u>	<u>State Equalization Rate</u>	<u>Full Valuation</u>
2009-2010.....	\$ 16,076,319	.77%	\$2,087,833,636
Debt Limit - 10% of Full Valuation .....			\$208,783,363
Inclusions: <sup>1</sup>			
Outstanding Bonds .....			\$18,575,000
Bond Anticipation Notes .....			<u>0</u>
Total Indebtedness .....			\$18,575,000 <sup>2</sup>
Less: Estimated State Aid .....			<u>12,900,000</u> <sup>2</sup>
Net Indebtedness .....			<u>\$5,675,000</u> <sup>3</sup>
Net Debt Contracting Margin .....			<u>\$203,108,363</u>

1. The State Constitution does not provide for the inclusion of tax anticipation or revenue anticipation notes in the computation of the statutory debt limit of the District.
2. Represents estimate of moneys receivable by the District from the State as an apportionment for debt service for school building purposes, based on 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.
3. Represents 2.72% of the Debt Limit (\$208,783,363).

**Details of Short-Term Indebtedness Outstanding**

The District has \$12,500,000 Tax Anticipation Notes outstanding due June 30, 2010.

**Debt Service Requirements - Outstanding Bonds**

<u>Fiscal Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010 .....	1,525,000	978,095	2,503,095
2011 .....	1,580,000	937,397	2,517,397
2012 .....	1,590,000	855,649	2,445,649
2013 .....	1,590,000	770,556	2,360,556
2014 .....	1,605,000	684,184	2,289,184
2015 .....	1,635,000	597,321	2,232,321
2016 .....	1,645,000	509,478	2,154,478
2017 .....	1,655,000	421,284	2,076,284
2018 .....	1,660,000	332,909	1,992,909
2019 .....	1,670,000	244,554	1,914,554
2020 .....	705,000	156,019	861,019
2021 .....	750,000	128,194	878,194
2022 .....	775,000	98,756	873,756
2023 .....	620,000	68,225	688,225
2024 .....	<u>645,000</u>	<u>43,800</u>	<u>688,800</u>
Totals .....	<u>\$19,650,000</u>	<u>\$ 6,826,421</u>	<u>\$26,476,421</u>

**Trend of District Indebtedness**

	Fiscal Year Ending June 30:				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Debt Outstanding End of Year:					
Bonds .....	\$21,895,000	\$20,660,000	\$21,450,670	\$20,215,670	\$18,850,000
Bond Anticipation Notes .....	-	-	-	-	-
Other Notes .....	-	-	-	-	-
<b>Total Debt Outstanding .....</b>	<b><u>\$21,895,000</u></b>	<b><u>\$20,660,000</u></b>	<b><u>\$21,450,670</u></b>	<b><u>\$20,215,670</u></b>	<b><u>\$18,850,000</u></b>

**Authorized But Unissued Debt**

The District has no authorized but unissued but unissued debt.

**Calculation of Estimated Overlapping and Underlying Indebtedness**

<u>Overlapping Units</u>	<u>Date of Report</u>	<u>Percentage Applicable</u>	<u>Applicable Total Indebtedness</u>	<u>Applicable Net Indebtedness</u>
County of Suffolk .....	05-02-10	4.94%	\$83,338,218	\$55,149,278
Town of:				
Brookhaven .....	05-26-10	2.10	9,426,240	8,597,676
Fire District:				
Mount Sinai .....	12-31-09	99.00	-0-	-0-
<b>Totals .....</b>			<b><u>\$92,764,458</u></b>	<b><u>\$63,746,954</u></b>

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.

**FINANCES OF THE DISTRICT**

**Independent Audit Procedures**

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, 2009. A copy of such report is included herein as Appendix B.

**Investment Policy**

Pursuant to the statutes of the State of New York, the School District is permitted to invest only in the following investments: (1) special time deposits or certificates of deposits in a bank or trust company located and authorized to do business in the State of New York, (2) obligations of the United States of America, (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America, (4) obligations of the State of New York, (5) with the approval of the New York State Comptroller, tax anticipation notes and revenue anticipation notes issued by a New York municipality or district corporation, other than the School District pursuant to another provision of law, (7) certain certificates of participation issued on behalf of political subdivisions of the State of New York: and, (8) in the case of School District moneys held in certain reserve funds established pursuant to law, obligations issued by the School District. These statutes further require that all bank deposits, in excess of the amount insured under the Federal Deposit Insurance Act, be secured by either a pledge of eligible securities, an eligible surety bond or an eligible letter of credit as those terms are defined in the law.

Consistent with the above statutory limitations, it is the School District's current policy to invest in: (1) certificates of deposit or time deposit accounts that are fully secured as required by statute, (2) obligations of the United States of America or (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America.

## **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, school lunch fund, risk retention and debt service fund. In addition, a capital projects fund is used to record capital facilities 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.

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Source: Audited Financials of the District.

### **Budget Process**

Annually, pursuant to the Education Law, the District's Board of Education prepares or causes to be prepared a budget for the ensuing fiscal year. During November and December the tentative budget is developed and refined in consultation with school principals and department supervisors. At subsequent meetings of the Board of Education the proposed budget is discussed and further refined. The tentative budget is adopted by the Board and submitted to referendum at the Annual Meeting held on the third Tuesday of May. Prior to the Annual Meeting a public hearing is held with respect to the proposed budget.

Residents of the District who are qualified to vote may participate in the referendum. If, by majority vote, the budget is approved, the Board of Education, by resolution, adopts the budget for the ensuing fiscal year. If the budget is not so approved, the Board may make changes to the budget and re-submit it one time as revised to the voters for adoption. If such budget as re-submitted is again not approved by a majority vote of the residents, the District must then adopt a contingency budget. Such contingency budget must provide for a tax for teachers' salaries, ordinary contingent expenses, debt service and student transportation. Except for expenses for mandated expenses such as debt service, a contingency budget may not exceed the budget for the prior fiscal year of the District by the lesser of 1.2 times the percentage increase in the consumer price index or four percent (4.00%). Alternatively, the Board may choose not to re-submit the budget and, by resolution, adopt a contingency budget for the ensuing fiscal year in accordance with the parameters set forth above. Expenses beyond ordinary contingent expenses may later be added to the budget upon voter approval.

The 2010-2011 Budget was approved by the voters on May 18, 2010.

## **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*

In addition to the amount of State Aid budgeted by the District, since its current fiscal year the State has made STAR payments representing tax savings provided by school districts to their taxpayers under the STAR Program (see "STAR - School Tax Exemption").

The District is dependent in significant part on financial assistance from the State in the form of State Aid for both operating and capital purposes. Should the District in the current fiscal year or in future fiscal years 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 and not by a cut 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. (see "Recent Events Affecting State Aid to New York State School Districts")

The State is not constitutionally obligated to maintain or continue State aid to the School District. 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. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget and other circumstances. State aid appropriated and apportioned to the District can be paid only if the State has such monies available therefor. State budgetary restrictions, which eliminate or substantially reduce State aid could have a material adverse effect upon the School District requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures. (See also "BONDHOLDER RISKS AND MARKET FACTORS AFFECTING FINANCINGS OF THE STATE AND SCHOOL DISTRICTS OF THE STATE").

### **Recent Events Affecting State Aid to New York School Districts**

On November 12, 2008, in response to the ongoing and worsening national fiscal crisis and its affect on the State, Governor David Paterson unveiled a plan to cut approximately \$2 billion of expenses in the State Budget for the State fiscal year ending March 31, 2009. The proposed cuts would have included an \$836 million reduction in State aid to school districts in the State. Under the Governor's plan, a significant amount of State aid would have been cut from the District's anticipated State aid allotment during its 2008-2009 fiscal year.

Thereafter, on November 18, 2008, the New York State Legislature convened an emergency session to consider the Governor's plan, but concluded the session without taking any action on such plan. Subsequently, the Governor stated publicly that there would be no reductions in State aid that would occur during the 2008-2009 school fiscal year.

One month later, the Governor presented his 2009-2010 proposed budget, which included significant reductions in State aid to school districts. Nonetheless, on April 2, 2009, the State Legislature adopted the State's 2009-2010 budget, which maintained State aid funding to school districts at the 2008-2009 levels by appropriating monies allotted to the State in the American Reinvestment and Recovery Act of 2009 (the "Federal Stimulus Act").

On October 15, 2009, in response to updated budget projections, the Governor proposed reducing the current 2009-2010 State Budget by \$3.0 billion, including \$480 million in education spending. The State Legislature convened in Special Session to consider the Governor's deficit reduction plan and to develop other proposals to address the imbalance in the State's 2009-2010 Budget, which is estimated to be between \$3.2 billion and \$4.0 billion.

On December 2, 2009 after much discussion, the Legislature adopted a \$2.7 billion deficit reduction plan to partially reduce the State's budget deficit, without impacting any State aid funding to public school districts. The measures do not completely cover the full scope of the deficit and as a result the Governor has stated that he will reduce or delay aid payments to school districts and hospitals for the balance of the State's current fiscal year ending March 31, 2010. The District cannot predict at this time whether there will be any delays and reductions in State aid in the current year ending June 30, 2010.

On January 19, 2010, the Governor submitted his proposed Executive Budget for the State's fiscal year ending March 31, 2011. The Executive's Budget recommends a total reduction in State aid of approximately \$2.1 billion; however, the Governor's Executive Budget includes Federal Stimulus funding of approximately \$726,000 to offset some of the reductions in State aid. As a result, the net State aid reduction totals approximately \$1.4 billion. The Executive Budget is subject to review and modification by the New York State Legislature. The District cannot predict at this time whether the proposed reductions in State aid as put forth by the Governor will be included in the State's 2010-2011 budget, or whether the State aid reduction proposal will be modified, revised or eliminated by the New York State Legislature. The State Legislature has not adopted a budget for the State's 2010-2011 fiscal year and it is unclear when a budget will be adopted.

In addition, on March 30, 2010 the Governor announced that he would unilaterally delay the distribution of approximately \$2.1 billion in scheduled 2010-2011 State aid payments for school districts throughout the State.

On May 14, 2010, Governor Paterson proposed another delay in State aid, but also assured school districts that all outstanding aid payments will be made prior to June 30, 2010. Under the Governor's proposal, the outstanding aid payments which had been paid in prior years by March 31<sup>st</sup>, will be paid in two installments, with one payment being made before June 15<sup>th</sup> and the second being made after June 15<sup>th</sup>. The State typically receives income tax revenues on June 15<sup>th</sup> which are expected to enable the payment of the balance of aid due to school districts. As of the date hereof, it is unknown when such aid will ultimately be paid to school districts.

Although the District cannot predict at this time whether there will be any delays and/or reductions in State aid in the current year or in future fiscal years or whether there will be additional Federal Stimulus Act monies made available to pay State aid in future years, the District may be able to mitigate the impact of any delays or reductions by reducing expenditures, increasing revenues appropriating other available funds on hand, and/or by any combination of the foregoing. (See "BONDHOLDER RISKS AND MARKET FACTORS AFFECTING FINANCINGS OF THE STATE AND SCHOOL DISTRICTS OF THE STATE" herein).

### **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.

### **Employee Pension System**

Professional employees (teachers and administrators) are members of the New York State Teachers' Retirement System ("TRS"). Payments to the TRS are generally deducted from State aid payments. All non-professional employees of the District eligible for pension or retirement benefits are members of the New York State and Local Employees' Retirement System ("ERS"). Both the TRS and ERS are non-contributory with respect to the members hired prior to July 1, 1976. All members of the respective systems hired on or after July 1, 1976, contribute 3% of their gross annual salary toward the cost of retirement programs. Chapter 86 of the Laws of 2000 eliminated the 3% contribution for Tier 3 and Tier 4 members with 10 years of service credit. On December 10, 2009, Governor Paterson signed into law the creation of a new Tier 5, which is effective for new ERS and TRS employees hired after January 1, 2010. New ERS employees in Tier 5 will now contribute 3% of their salaries and new TRS employees in Tier 5 will contribute 3.5% of their salaries. There is no provision for these contributions to cease for Tier 5 employees after a certain period of service.

With regard to the ERS, a pension reform bill has been signed by the Governor into Law as Chapter 49 of the Laws of 2003. Chapter 49 changes the cycle of billing to match budget cycles of the District. Under the previous method, the District was unsure of how much it paid to the system until after its budget was implemented. Under the new system the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1 instead of the following April 1 so that the District will be able to more accurately include the cost of the contribution into its budget. Chapter 49 requires the District 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 contribution possible.

On July 20, 2004 the New York State Legislature passed a bill amending the General Municipal Law, Local Finance Law and the Retirement and Social Security Law. On July 30, 2004, the Governor signed the new retirement system legislation into Law as Chapter 260 of the Laws of 2004. The bill moved the annual payment date for contributions from December 15<sup>th</sup> to February 1<sup>st</sup>, effective December 15, 2004. It increased, from five

to ten years, the maximum amortization period of the portion of employer contributions that exceeds 7% of payroll for the 2004-2005 fiscal year of the Retirement System. It also allowed employers to bond for their 2005-2006 and 2006-2007 fiscal year contributions in excess of 9.5% and 10.5%, respectively. This amortization may be made with the Retirement System or the District could issue a maximum of 10 year general obligation bonds, the interest on which would be set at prevailing bond market rates on the date of sale and would be taxable for federal income tax purposes.

Due to significant capital market declines in the recent past, the State's Retirement System portfolio has experienced negative investment performance and severe downward trends in market earnings. As a result of the foregoing, New York State Comptroller Thomas DiNapoli has announced that the employer contribution rate for the State's Retirement System in 2011 and subsequent years will be higher than the minimum contribution rate established by Chapter 49. At this time the District is unable to predict the amount of any such increase. To mitigate the expected increases in the employer contribution rate legislation has been proposed that would permit local governments and schools districts to issue bonds to fund the required increased contribution. The District cannot predict such legislature will be enacted into law.

The following chart represents the TRS and ERS contributions.

<u>Fiscal Year Ending</u>	<u>TRS</u>	<u>ERS</u>	<u>Total</u>
2007	\$1,692,640	\$ 290,854	\$1,983,494
2008	1,812,235	252,443	2,064,678
2009	1,704,272	239,022	1,943,294

#### **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. GASB Statement No. 45 ("GASB 45") of the Governmental Accounting Standards Board ("GASB") requires governmental entities, such as the District, to account for the cost of certain non-pension post-employment benefits as it accounts for vested pension benefits.

GASB 45 and OPEB. OPEB refers to "other post-employment benefits," meaning benefits other than pension benefits. OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Before GASB45, OPEB costs were generally accounted for and managed as current expenses in the year paid and were not generally been administered reported as a liability on governmental financial statements.

GASB 45 requires municipalities and school districts to account for OPEB liabilities in the same manner as they already account for pension liabilities. It requires them to adopt the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB Statement No. 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") is determined for each municipality or school district. 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 or school district 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 liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and compliance in meeting its ARC. The District has retained an independent firm to conduct the actuarial valuation and as of June 30, 2009 the actuarial accrued liability for the District is \$68.2 million, the ARC is \$6.3 million.

Actuarial valuation will be required every two years for OPEB plans with more than two hundred members, every three years if there are less than two hundred members. Additional information about GASB 45 and other accounting rules applicable to municipalities and school districts may be obtained from GASB.

## 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 Suffolk County Tax Act and the Real Property Tax Law. Real property assessment rolls used by the District are prepared by the Town of Brookhaven. 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.

### Tax Collection Procedure

Property taxes for the District, together with Town and County taxes, are collected by the Town tax receivers. 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 District receives its full levy before the end of its fiscal year. Uncollected amounts are not segregated by the Town tax receiver, and any deficiency in tax collection is the County's liability.

### STAR - School Tax Exemption

The STAR (School Tax Relief) program provides State-funded exemptions from school property taxes to homeowners for their primary residences. School districts are reimbursed in full by the State for real property taxes exempted pursuant to the STAR Program on or about the first business day of January in each year.

### Valuations, Rates, Levies and Collections

Fiscal Year Ending <u>June 30</u>	Assessed <u>Valuation</u>	State Equal. <u>Rate</u>	Full <u>Valuation</u>	Tax Rate Per \$1,000 Assessed <u>Valuation</u>	<u>Tax Levy</u>	Amount <u>Uncollected</u>
2006	\$14,400,244	.84%	\$1,714,314,761	\$1,571.30	\$22,627,237	\$ -0-
2007	15,473,749	.76	2,036,019,605	1,619.97	25,067,160	-0-
2008	15,927,233	.70	2,275,319,000	1,792.90	27,546,568	-0-
2009	16,005,101	.73	2,192,467,123	2,055.02	28,760,672	-0-
2010	16,076,319	.77	2,087,833,636	2,118.06	34,050,730	-0-

### Selected Listing of Large Taxable Properties 2009-10 Assessment Roll

<u>Name</u>	<u>Type</u>	<u>Assessed Valuation</u>
Mount Sinai Shopping Center .....	Shopping Center	\$222,600
Long Island Power Authority .....	Utility	178,819
Crystal Brook Park Association .....	Private Community	156,833
North Shore Farmland Corporation .....	Commercial	128,175
Mount Sinai Associates LLC.....	Residential	80,650
PSAC Development Partners Dept-PT-NY-07106 .....	Commercial	58,675
Keyspan Gas East Corp.....	Utility	41,263
Dandey Real Estate Corp.....	Residential	32,300
Verizon New York Inc. ....	Utility	31,754
Chung Wo Properties Corp. ....	Commercial	26,600
		<u>\$957,669<sup>1</sup></u>

1. Represents 5.96% of the total taxable assessed valuation of the District.

## 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.

## MARKET AND RISK FACTORS AFFECTING FINANCINGS OF THE STATE AND MUNICIPALITIES OF THE STATE

The financial and economic condition of the District, as well as the market for the Notes, could be affected by a variety of factors, many of which are beyond the District's control. There can be no assurance that adverse events in the global economy, the State or elsewhere, including, for example, the seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Notes. If a significant default or other financial crisis should occur in the affairs of the State or another jurisdiction, or of any of their respective agencies or political subdivisions or elsewhere, thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the District to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the Notes, could be adversely affected. The market for and the market value of the Notes could be adversely affected if the District encountered real or perceived difficulty in marketing notes or bonds to pay principal on the Notes at maturity; the District, like other issuers, is dependent on the orderly functioning of the municipal debt markets to refinance existing debt coming due, and could be unable to pay the Notes at maturity if market access proved unavailable.

There are various other forms of risk associated with investing in the Notes. Although none of such risks currently exist with respect to the District or the Notes, there can be no assurance that one or more of such events will not occur in the future. One such risk is that the District will be unable to promptly pay interest and principal on the Notes as they become due (see "Remedies Upon Default", herein). If a Noteholder elects to sell his investment prior to its scheduled maturity date, market access or price risk may be incurred. The following is a discussion of certain events that could affect the risk of investing in the Notes. In addition, there may be other risk factors which a potential investor must consider. In order to make an informed investment decision, an investor should be thoroughly familiar with the entire Official Statement, including its appendices, as well as all areas of potential risk.

There are a number of factors which could have a detrimental effect on the ability of the District to continue to generate revenues, particularly its property taxes. For instance, the termination of a major commercial enterprise or an unexpected increase in certiorari proceedings could result in a large reduction in the assessed valuation of taxable real property in the District. Unforeseen developments could also result in substantial increases in District expenditures, thus placing considerable strain on the District's financial condition.

The District is dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes and revenues in order to pay State aid to municipalities and school districts in the State, including the District, in any year, the District may be affected by a delay, until sufficient taxes have been received by the State to make State aid payments to the District.

The State is currently under considerable financial stress. In the State's Supplement to the Third Quarterly Update to the Annual Information Statement, dated May 12, 2010 (the "Supplement"), the State Division of the Budget indicated that the Estimated General Fund Budget Gap Before Executive Recommendations, as of February 2010, would be \$1.4 billion and \$6.8 billion for the 2009-10 and 2010-11 fiscal years, respectively. The Supplement indicated that if the Executive Budget recommendations had been adopted in their entirety, these budget gaps would have been eliminated, but budget gaps in the range of \$6 billion in fiscal year 2011-12, \$11 billion in 2012-13 and \$13 billion in 2013-14 would have remained. The Supplement also indicates that delays in implementation of recommended budgetary adjustments would likely increase budget gaps. The Supplement and other information about the State's finances is provided by the State Division of the Budget on its website.

In several recent years, the District has received delayed payments of State aid which resulted from the State's delay in adopting its budget and appropriating State aid to municipalities and school districts, and consequent delay in State borrowing to finance such appropriations. (See also "State Aid").

A deterioration of District finances could cause the credit rating of the Notes to be lowered, suspended or withdrawn, if such action were to be deemed appropriate by Moody's Investors Service. Any of such actions on the part of Moody's Investors Service could have an adverse effect on the market price of the Notes or the availability of a secondary market for the Notes.

If and when a holder of any of the Notes should elect to sell a Note prior to its maturity, there can be no assurance that a market shall have been established, maintained and be in existence for the purchase and sale of any of the Notes. In addition, the price and principal value of the Notes is dependent on the prevailing level of interest rates; if interest rates rise, the price of a bond or note will decline, causing the bondholder or noteholder to incur a potential capital loss if such bond or note is sold prior to its maturity.

Amendments to U.S. Internal Revenue Code could reduce or eliminate the favorable tax treatment granted to municipal debt, including the Notes and other debt issued by the District. Any such future legislation would have an adverse effect on the market value of the Notes (See "Tax Exemption" herein).

## **TAX EXEMPTION**

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Notes for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Notes to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Notes. The District has covenanted to maintain the exclusion of the interest on the Notes from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the aforementioned covenant, interest on the Notes is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes and will not be included in the computation of the federal alternative minimum taxable income of the owners thereof for federal income tax purposes.

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivisions thereof (including the City of New York).

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Notes may affect the tax status of interest on the Notes or the tax consequences of the ownership of the Notes. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Notes from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Notes, or the interest thereon, if any action is taken with respect to the Notes or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Notes is commenced under current procedures the Service is likely to treat the District as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Notes, the District may have different or conflicting interest from the owners of the Notes. Further, the disclosure of the initiation of an audit may adversely affect the market price of the Notes, regardless of the final disposition of the audit.

The excess of the initial offering price to the public of the Notes over the stated redemption price at maturity of the Notes set forth on the inside cover of this Official Statement is "Note premium." In general, any Note premium with respect to a Note must be amortized under section 171 of the Code. The amount of premium so amortized will reduce the owner's basis in such Note for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. The rate of the amortization of the Note premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a Note owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original costs of the Note to the owner. Purchasers should consult their own tax advisors as to the computation and treatment of such amortizable Note premium, including, but not limited to, the calculation of gain or loss upon the sale maturity or other disposition of a Note.

The excess of the stated redemption price at maturity of the Notes over the initial offering price to the public of the Notes set forth on the inside cover of this Official Statement is "original issue discount." Such original issue discount accruing on a Note is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes. Original issue discount on any Note purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Note on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Note accruing during each period is added to the adjusted basis of such Note to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Note. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of the Notes who purchase the Notes other than at the initial offering price and pursuant to the initial offering. Any person considering purchasing a Note should consult his or her own tax advisors with respect to the tax consequences of ownership of Notes with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Notes under federal individual and corporate alternative minimum taxes.

Although Bond Counsel is of the opinion that interest on the Notes is exempt from state personal income tax and that interest on the Notes is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Notes. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Notes should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Notes, and the Code contains additional limits on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Notes), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Notes, (iii) interest on the Notes earned by certain foreign corporation doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Notes, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Notes and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Notes, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

## LEGAL MATTERS

The legality of the authorization and issuance of the Notes will be covered by the unqualified legal opinion of Fulbright & Jaworski L.L.P., Bond Counsel, New York, New York. Such legal opinion will state that in the opinion of Bond Counsel (I) the Notes have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the District, all the taxable real property within which is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, without limitation as to rate or amount, provided, however, that the enforceability (but not the validity) of the Notes: (a) may be limited by any applicable existing or future bankruptcy, insolvency or other law (State or Federal), affecting the enforcement of creditors' rights, and b) may be subject to the exercise of judicial discretion in appropriate cases, (ii) the District has the power to comply with its covenants included in its tax certificate with respect to the Notes relating to compliance with the Code as it relates to the Notes; provided, however, that the enforceability (but not the validity) of such covenants may be limited by any applicable existing or future bankruptcy, insolvency or other law (State or Federal) affecting the enforcement of creditors' rights; and (iii) assuming that the District complies with such covenants, interest on the Notes is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest on the Notes is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes imposed by the Code. Interest on the Notes may be subject to a tax at ordinary income rates when owned by "S Corporations" in certain cases. Interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof including The City of New York. Bond Counsel will express no opinion regarding other Federal income tax consequences arising with respect to the Notes.

Such legal opinion also will state that (I) in rendering the opinions expressed therein, Bond Counsel has assumed the accuracy and truthfulness of all public records, documents and proceedings examined by Bond Counsel which have been executed or certified by public officials acting within the scope of their official capacities, and has not verified the accuracy or truthfulness thereof, and Bond Counsel also has assumed the genuineness of the signatures appearing upon such public records, documents and proceedings, and such

certifications, (ii) the scope of Bond Counsel's engagement in relation to the issuance of the Notes has extended solely to the examination of the facts and law incident to rendering the opinions expressed therein; (iii) the opinions expressed therein are not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the District, together with other legally available sources of revenue, if any, will be sufficient to enable the District to pay the principal of and interest on the Notes as the same respectively become due and payable; (iv) reference should be made to the Official Statement for factual information which, in the judgment of the District, would materially affect the ability of the District to pay such principal and interest; and (v) while Bond Counsel has participated in the preparation of the Official Statement, Bond Counsel has not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, no opinion is expressed by Bond Counsel as to whether the District, in connection with the sale of the Notes, has made any untrue statement of a material fact, or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

### **FINANCIAL ADVISOR**

Munistat Services, Inc. has acted as the financial advisor to the District in connection with the sale of the Notes.

### **OTHER MATTERS**

The statutory authority for the District to borrow money in anticipation of the receipt of real property taxes and to issue tax anticipation notes is Section 24.00 of the Local Finance Law.

There is no bond or note principal or interest past due.

The fiscal year of the District is July 1 to June 30.

This Official Statement does not include the financial data of any political subdivision of the State of New York having power to levy taxes within the District, except as expressed in the "Calculation of Estimated Overlapping and Underlying Indebtedness."

### **ADDITIONAL INFORMATION**

Additional information may be obtained from the office of Linda Jensen, the Assistant Superintendent for Business of the Mount Sinai Union Free School District, P.O. Box 397, North Country Road, Mount Sinai, New York 11766, telephone number 631/870-2561, email: Ljensen@Mtsinai.k12.ny.us or from Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776, telephone number 631/331-8888.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing with regard to the Notes is to be construed as a contract with the holders of the Notes.

Except for its review of the descriptions of the terms of the Notes and its approving legal opinion to be rendered on the Notes as Bond Counsel to the District, Fulbright & Jaworski L.L.P. has not participated in the preparation of this Official Statement, nor verified the accuracy, completeness or fairness of the information contained herein, and accordingly, expresses no opinion with respect thereto.

The preparation and distribution of this Official Statement has been approved by the President of the Board of Education of the District pursuant to the power delegated to him by the authorizing Bond resolution to sell and deliver the Notes.

This Official Statement has been duly executed and delivered by the President of the Board of Education of the Mount Sinai Union Free School District.

**DR. JOHN WITTPENN**  
President of the Board of Education  
Mount Sinai Union Free School District  
Mount Sinai, New York

June 15, 2010

**APPENDIX A**

**FINANCIAL INFORMATION**

**Statement of Revenues, Expenditures and Fund Balances  
General Fund**

	Fiscal Year Ending June 30:				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Revenues:</b>					
Real Property Taxes	\$ 20,721,930	\$ 22,627,237	\$ 25,067,160	\$ 27,546,568	\$ 28,760,672
Other Tax Items	3,582,435	3,727,718	3,976,160	4,346,513	4,191,383
Charges for Services	145,588	287,924	277,824	270,761	199,287
Use of Money and Property	340,959	451,471	614,983	520,506	248,377
Forfeitures	0	0	1,100	0	0
Sale of Property & Compensation for Loss	1,452	2,783	2,098	2,237	2,441
Miscellaneous	119,238	216,019	1,024,388	509,794	410,585
State Sources	13,828,389	14,193,877	15,958,176	16,541,902	16,984,571
Federal Sources	21,850	0	0	0	0
Medicaid Reimbursement	0	85,758	41,088	24,717	36,094
<b>Total Revenues</b>	<u>38,761,841</u>	<u>41,592,787</u>	<u>46,962,977</u>	<u>49,762,998</u>	<u>50,833,410</u>
<b>Expenditures:</b>					
General Support	4,677,007	5,102,638	5,045,220	5,275,903	5,578,617
Instruction	22,125,308	24,221,396	26,793,475	27,510,500	29,383,401
Pupil Transportation	2,861,773	3,120,301	3,557,777	3,801,284	3,778,030
Community Services	8,717	10,784	7,334	5,007	4,940
Employee Benefits	5,309,575	6,858,224	7,330,204	7,651,576	7,238,768
Debt Service	2,174,668	2,681,929	2,711,572	2,764,624	2,624,294
<b>Total Expenditures</b>	<u>37,157,048</u>	<u>41,995,272</u>	<u>45,445,582</u>	<u>47,008,894</u>	<u>48,608,050</u>
<b>Other Financing Sources (Uses)</b>					
Interfund Transfers In	9,693	0	0	0	0
Interfund Transfers Out	(110,961)	(191,061)	(409,044)	(134,161)	(2,512,077)
<b>Total Other Financing Sources (Uses)</b>	<u>(101,268)</u>	<u>(191,061)</u>	<u>(409,044)</u>	<u>(134,161)</u>	<u>(2,512,077)</u>
<b>Net Change In Fund Balances</b>	1,503,525	(593,546)	1,108,351	2,619,943	(286,717)
<b>Other Changes In Fund Balances:</b>					
Decrease: Prior Period Adjustment	(739,490)	0	0	(295,682)	0
<b>Fund Balance Beg. of Fiscal Year</b>	<u>4,677,862</u>	<u>5,441,897</u>	<u>4,848,351</u>	<u>5,956,702</u>	<u>8,280,963</u>
<b>Fund Balance End of Fiscal Year</b>	<u>\$ 5,441,897</u>	<u>\$ 4,848,351</u>	<u>\$ 5,956,702</u>	<u>\$ 8,280,963</u>	<u>\$ 7,994,246</u>

Sources: Audited Annual Financial Reports of the District (2004-2008)

Note: This Schedule NOT audited.

**Balance Sheet - General Fund**  
Fiscal Year Ended June 30, 2009

<b>ASSETS:</b>	
Cash	\$ 10,503,281
Receivables	
Accounts Receivable	55,003
Due From Other Funds	845,075
Due Other Governments	<u>830,755</u>
 Total Assets	 \$ <u><u>12,234,114</u></u>
 <b>LIABILITIES:</b>	
Payables	
Accounts Payable	1,029,594
Accrued Liabilities	615,765
Due to Other Governments	1,033
Due to Teachers' Retirement System	1,954,238
Due to Employees' Retirement System	52,401
Compensated Absences Payable	<u>586,837</u>
 Total Liabilities	 <u>4,239,868</u>
 <b>FUND EQUITY:</b>	
Fund Balances - Reserved:	
Reserve for Encumbrances	\$ 85,240
Reserve for Capital	0
Reserve for Workers Compensation	584,845
Reserve for Employee Benefits Accrued Liability	500,000
Reserve for Capital	122,810
Unreserved:	
Designated for Subsequent Year's Expenditures	2,236,000
Undesignated	<u>4,465,351</u>
 Total Fund Equity	 <u>7,994,246</u>
 Total Liabilities and Fund Equity	 \$ <u><u>12,234,114</u></u>

Source: Audited Annual Financial Report of the District.

Note: This Schedule NOT audited.

## Budget Summaries

	<u>2009-10(a)</u>	<u>2010-11(b)</u>
Expenditures:		
General Support	\$ 31,455,880	\$ 31,865,115
Instruction	6,588,350	5,885,630
Pupil Transportation	4,380,020	3,672,390
Community Services	82,175	82,475
Interfund Transfers	155,000	335,000
Employee Benefits	8,089,980	9,377,315
Debt Service	<u>3,078,095</u>	<u>3,029,085</u>
Total	\$ <u>53,829,500</u>	\$ <u>54,247,010</u>
Revenues:		
Real Property Taxes	\$ 33,783,230	\$ 35,353,510
State Aid	17,106,270	15,525,000
Appropriation of Fund Balance from Prior Fiscal Year	2,236,000	1,968,500
Miscellaneous Items	<u>704,000</u>	<u>1,400,000</u>
Total	\$ <u>53,829,500</u>	\$ <u>54,247,010</u>

(a) Approved by the voters of the District on 5/19/09.

(b) Approved by the voters of the District on 5/18/10.

**APPENDIX B**

**CASH FLOW SUMMARY**

**CASH FLOW SUMMARY 2009-10 (Actual though April) (000)**

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Balance	9,866	20,082	18,685	16,495	13,915	9,866	6,637	17,034	19,924	18,778	17,404	19,671	9,866 a
Receipts:													
Property Taxes	0	0	0	0	0	0	10,895	6,548	1,198	362	1,700	10,869	31,572
STAR Payment	0	0	0	0	0	0	4,123	0	0	0	0	0	4,123
State Aid	0	275	1,615	230	239	1,508	541	84	1,385	1,963	3,520	3,275	14,635
Other	320	34	423	122	79	242	183	616	114	316	52	85	2,586
TAN Proceeds	12,500	0	0	0	0	0	0	0	0	0	0	0	12,500
Total Receipts	12,820	309	2,038	352	318	1,750	15,742	7,248	2,697	2,641	5,272	14,229	65,416
Disbursements													
Debt Service	130	323	37	0	0	0	454	1,398	162	0	0	0	2,504
TAN Repayment Provision	0	0	0	0	0	0	0	0	0	0	0	12,500	12,500
Expenditures	2,474	1,383	4,191	2,932	4,367	4,979	4,891	2,960	3,681	4,015	3,005	12,159	51,037
Total Disbursements	2,604	1,706	4,228	2,932	4,367	4,979	5,345	4,358	3,843	4,015	3,005	24,659	66,041
Balance	20,082	18,685	16,495	13,915	9,866	6,637	17,034	19,924	18,778	17,404	19,671	9,241	9,241

(a) Balance as of June 30, 2008.

**CASH FLOW SUMMARY 2010-11 (Projected) (000)**

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Balance	9,241	19,811	18,013	14,233	9,706	5,543	1,197	14,211	16,299	17,113	14,642	16,409	9,241 a
Receipts:													
Property Taxes	0	0	0	0	0	0	11,210	6,923	1,319	330	1,649	11,540	32,971
STAR Payments	0	0	0	0	0	0	4,123	0	0	0	0	0	4,123
State Aid	0	0	118	184	0	0	1,737	198	2,623	1,955	3,651	2,571	13,037
Other	66	30	90	107	80	117	120	17	700	72	60	341	1,800
TAN Proceeds	12,800	0	0	0	0	0	0	0	0	0	0	0	12,800
Total Receipts	12,866	30	208	291	80	117	17,190	7,138	4,642	2,357	5,360	14,452	64,731
Disbursements													
Debt Service	123	309	35	0	0	0	458	1,432	160	0	0	0	2,517
TAN Repayment Provision	0	0	0	0	0	0	0	0	0	0	0	12,800	12,800
Expenditures	2,173	1,519	3,953	4,818	4,243	4,463	3,718	3,618	3,668	4,828	3,593	11,914	52,508
Total Disbursements	2,296	1,828	3,988	4,818	4,243	4,463	4,176	5,050	3,828	4,828	3,593	24,714	67,825
Balance	19,811	18,013	14,233	9,706	5,543	1,197	14,211	16,299	17,113	14,642	16,409	6,147	6,147

(a) Balance as of June 30, 2010.