

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 21, 2018

NEW ISSUE/ RENEWALS

TAX ANTICIPATION NOTES AND BOND 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 statutes, interest on the Notes is exempt from personal income taxes of New York State and its political subdivisions, including The City of New York. See "Tax Matters" herein.

The District will NOT designate the Notes as "qualified tax-exempt obligations" pursuant to the provisions of Section 265(b)(3) of the Code.

RIVERHEAD CENTRAL SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK

\$27,000,000* TAX ANTICIPATION NOTES 2018 – 2019 TAXES
(the "TANs")

Date of Issue: September 13, 2018

Maturity Date: June 27, 2019

AND

\$3,128,000 BOND ANTICIPATION NOTES - 2018
(the "BANs")

Date of Issue: September 13, 2018

Maturity Date: September 13, 2019

[The TANs and the BANs are collectively referred to herein as the "Notes"]

The TANs are general obligations of the Riverhead 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 TANs and, unless paid from other sources, the TANs 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 BANs are general obligations of 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 BANs and, unless paid from other sources, the BANs are payable from ad valorem taxes which may be levied upon all the taxable real property within the District without limitation as to rate or amount.

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 to Cede & Co., as the partnership nominee for The Depository Trust Company, New York, New York ("DTC"), as book-entry notes.

If the Notes are registered in the name of the successful bidder, a single note certificate will be issued for those Notes of an issue 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 of an issue bearing the same rate of interest and CUSIP number in the aggregate principal amount awarded to such purchaser(s) at such interest rate. Principal of and interest on said Notes will be paid in Federal Funds by the District to Cede & Co., as nominee for DTC, which will in turn remit such principal and interest to its participants for subsequent distribution to the beneficial owners of the Notes as described herein. Transfer of principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The District will not be responsible or liable for payments by DTC to its participants or by DTC participants to beneficial owners or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. (See "Book-Entry-Only System" herein).

Proposals for the Notes will be received at 11:00 A.M. (Prevailing Time) on August 30, 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 September 13, 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 CONTINUING DISCLOSURE FOR THE NOTES, AS DESCRIBED IN THE RULE, SEE "DISCLOSURE UNDERTAKING" HEREIN.

*Preliminary, subject to change.

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



**RIVERHEAD CENTRAL SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK**

700 Osborn Ave.
Riverhead, NY 11901
Telephone: 631/369-6708
Fax: 631/369-0014

BOARD OF EDUCATION

Susan Koukounas, President
Christopher Dorr, Vice President

Laurie Downs
Gregory M. Meyer
Elizabeth C. Silva
Theresa Zahoski

Dr. Aurelia Henriquez, Superintendent of Schools
Sam M. Schneider, Deputy Superintendent
Barbara J. O'Kula, District Clerk
Nancy Raynor, District Treasurer

* * *

BOND COUNSEL

Hawkins Delafield & Wood LLP
New York, New York

* * *

MUNICIPAL ADVISOR



Municipal Finance Advisory Service

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

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

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

TABLE OF CONTENTS

	Page
THE NOTES	1
DESCRIPTION	1
OPTIONAL REDEMPTION	1
DESCRIPTION OF BOOK-ENTRY SYSTEM	1
AUTHORIZATION FOR AND PURPOSE OF NOTES	3
SECURITY AND SOURCE OF PAYMENT	3
REMEDIES UPON DEFAULT	4
SECTION 99-B OF THE STATE FINANCE LAW APPLICABLE TO SCHOOL DISTRICTS.....	5
NO PAST DUE DEBT.....	6
BANKRUPTCY.....	6
THE DISTRICT	6
DESCRIPTION.....	6
DISTRICT ORGANIZATION.....	6
ENROLLMENT HISTORY	7
PROJECTED FUTURE ENROLLMENT.....	7
DISTRICT FACILITIES	7
EMPLOYEES	8
ECONOMIC AND DEMOGRAPHIC INFORMATION.....	8
POPULATION TRENDS	8
INCOME DATA	8
MAJOR EMPLOYERS IN THE DISTRICT	9
UNEMPLOYMENT RATE STATISTICS	9
INDEBTEDNESS OF THE DISTRICT	9
CONSTITUTIONAL AND STATUTORY REQUIREMENTS.....	9
STATUTORY PROCEDURE.....	10
COMPUTATION OF DEBT LIMIT AND DEBT CONTRACTING MARGIN	11
DETAILS OF SHORT-TERM INDEBTEDNESS OUTSTANDING.....	12
TREND OF OUTSTANDING INDEBTEDNESS	12
DEBT SERVICE REQUIREMENTS - OUTSTANDING BONDS.....	12
DEBT SERVICE REQUIREMENTS – 2015 ENERGY PERFORMANCE CONTRACT	12
REVENUE AND TAX ANTICIPATION NOTES	13
AUTHORIZED BUT UNISSUED DEBT	13
CALCULATION OF ESTIMATED OVERLAPPING AND UNDERLYING INDEBTEDNESS	14
DEBT RATIOS	14
FINANCES OF THE DISTRICT	14
INDEPENDENT AUDIT.....	14
INVESTMENT POLICY	14
FUND STRUCTURE AND ACCOUNTS	15

TABLE OF CONTENTS - CONTINUED

	Page
BASIS OF ACCOUNTING	15
BUDGET PROCESS.....	15
REVENUES	16
<i>Real Property Taxes</i>	16
<i>State Aid</i>	16
RECENT EVENTS AFFECTING STATE AID TO NEW YORK SCHOOL DISTRICTS.....	18
EXPENDITURES	19
THE STATE COMPTROLLER’S FISCAL STRESS MONITORING SYSTEM AND OSC COMPLIANCE REVIEWS	19
EMPLOYEE PENSION SYSTEM	19
OTHER POST-EMPLOYMENT BENEFITS	21
TAX INFORMATION.....	22
REAL PROPERTY TAXES	22
TAX COLLECTION PROCEDURE.....	22
THE TAX LEVY LIMIT LAW	23
STAR - SCHOOL TAX EXEMPTION	23
VALUATIONS, RATES, LEVIES AND COLLECTIONS	24
SELECTED LISTING OF LARGE TAXABLE PROPERTIES.....	24
TAX CERTIORARI CLAIMS	25
LITIGATION	25
DISCLOSURE UNDERTAKING.....	25
DISCLOSURE COMPLIANCE HISTORY	25
MARKET MATTERS AFFECTING FINANCINGS OF THE MUNICIPALITIES AND SCHOOL DISTRICTS OF THE STATE.....	25
CYBERSECURITY	26
TAX MATTERS.....	26
OPINION OF BOND COUNSEL	26
CERTAIN ONGOING FEDERAL TAX REQUIREMENTS AND CERTIFICATIONS	27
CERTAIN COLLATERAL FEDERAL TAX CONSEQUENCES	27
ORIGINAL ISSUE DISCOUNT	27
NOTE PREMIUM	28
INFORMATION REPORTING AND BACKUP WITHHOLDING	28
MISCELLANEOUS	28
LEGAL MATTERS	29
RATING	29
MUNICIPAL ADVISOR	29
ADDITIONAL INFORMATION	29
APPENDIX A: FINANCIAL INFORMATION	
APPENDIX B: CASH FLOW SUMMARIES	
APPENDIX C: AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017	
APPENDIX D: FORM OF APPROVING LEGAL OPINION OF BOND COUNSEL	
APPENDIX E: FORM OF EVENTS NOTICE UNDERTAKING	

OFFICIAL STATEMENT

**RIVERHEAD CENTRAL SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK**

Relating To

\$27,000,000* TAX ANTICIPATION NOTES FOR 2018 – 2019 TAXES

AND

\$3,128,000 BOND ANTICIPATION NOTES – 2018

This Official Statement, including the cover page and appendices hereto, presents certain information relating to the Riverhead Central School District in the County of Suffolk, State of New York (the "District," "County" and "State," respectively) in connection with the sale of \$27,000,000* Tax Anticipation Notes for 2018-2019 Taxes (the "TANs") and \$3,128,000 Bond Anticipation Notes – 2018 (the "BANs") (the TANs and BANs are collectively referred to hereafter as 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: Sam Schneider, Deputy Superintendent for Riverhead Central School District, 700 Osborn Avenue, Riverhead, New York, 11901 telephone number (631) 369-6711 and email: sam.schneider@riverhead.net.

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 such 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 of an issue bearing the same rate of interest and CUSIP number and will be deposited with DTC.

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

*Preliminary, subject to change.

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

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

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

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

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

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

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

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

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

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

Source: The Depository Trust Company

Authorization for and Purpose of Notes

The TANs

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 BANs

The BANs are being issued in accordance with the Constitution and statutes of the State of New York, including the Education Law and the Local Finance Law and pursuant to various bond resolutions duly adopted by the Board of Education of the District on their respective dates for the purpose of acquiring school buses for use by the District and the construction of a turf field.

<u>Bond Resolution Date</u>	<u>Purpose</u>	<u>Amount Outstanding</u>	<u>Amount to be Paid</u>	<u>Additional Amount to be Issued</u>	<u>Amount to be Issued</u>
09/23/08	Acquisition of Buses	\$ 150,000	\$ 150,000	\$ 0	\$ 0
05/27/14	Acquisition of Buses	2,280,000	645,000	773,000	2,408,000
06/09/15	Installation of Turf Field	<u>960,000</u>	<u>240,000</u>	<u>0</u>	<u>720,000</u>
		<u>\$ 3,390,000</u>	<u>\$ 1,035,000</u>	<u>\$773,000</u>	<u>\$3,128,000</u>

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 TANs 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 TANs, 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, (see “*Tax Levy Limitation Law*” herein).

The BANs 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 BANs, the District has the power and statutory authorization to levy ad valorem taxes on all taxable real property in the District without limitation as to rate or amount.

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, including the BANs, 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 TANs, 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, revenue anticipation notes or bond anticipation notes.

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

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

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

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

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

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

NO PAST DUE DEBT

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

BANKRUPTCY

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

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

THE DISTRICT

Description

The District is located in Suffolk County approximately 70 miles east of New York City on the eastern end of Long Island where the island branches to form the North and South Forks. The District's boundaries include most of the Town of Riverhead and areas within the Towns of Southampton and Brookhaven, covering 100 square miles.

The District is residential and agricultural in nature, with some commercial land and minor industrial development. The County Center provides government services to the area.

Local bus transportation is available as well as direct bus service to New York City provided by area-owned companies. Rail passenger service provided by the Long Island Railroad is available from the easternmost tips of Long Island to New York City with a station located in the District. Private air carriers are available at nearby Gabreski Airport, with access to major airline service at Long Island MacArthur Airport. Limousine service is readily available to all points east and west. The Long Island Expressway (I-495) terminates at Riverhead where well maintained county/town roads then provide easy access to and from as well as within the District.

The Tanger Outlet Center, a significant shopping outlet complex located within the District, has more than doubled its size in recent years which makes it one of the largest outlet malls in the United States.

Commercial banking facilities are provided by banks with multiple branches located within the District.

Electricity is provided throughout the District by PSEG Long Island. Natural Gas is provided by National Grid. The District's water supply and distribution system is administered by the Riverhead Water District and the Suffolk County Water Authority. Fire protection is furnished by local volunteer fire districts and police protection is provided by the State, Suffolk County and Riverhead and Southampton Town Police Departments.

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, Deputy Superintendent, Assistant Superintendent for Curriculum & Instruction, District Clerk, and the District Treasurer.

Enrollment History

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

<u>School Year</u>	<u>School Enrollment</u>
2013-2014	5,169
2014-2015	5,286
2015-2016	5,434
2016-2017	5,472
2017-2018	5,560

Source: District Officials.

Projected Future Enrollment

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

<u>School Year</u>	<u>School Enrollment</u>
2018-2019	5,585
2019-2020	5,610
2020-2021	5,620

Source: District Officials.

District Facilities

<u>Name of School</u>	<u>Grades</u>	<u>Date of Construction</u>	<u>Capacity</u>
Phillips Avenue School	K-4	1959	450
Roanoke Avenue School	K-4	1922	350
Riley Avenue School	K-4	1965	450
Aquebogue School	K-4	1929	320
Pulaski Street School	5-6	1937	700
Middle School	7-8	1961	850
High School	9-12	1972	1,250

Employees

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

<u>Name of Union</u>	<u>Expiration Date of Contract</u>	<u>Approx. No. of Members</u>
Riverhead Administrators Association	06/30/2019	24
Riverhead Central Faculty Association (incl. 11 nurses)	06/30/2020	436
Riverhead School Aides of Suffolk Educational Local 870, CSEA	06/30/2021	56
Riverhead School Teaching Assistants Association	06/30/2021	41
Riverhead Central School District Unit of Suffolk County Educational Local 870 of the CSEA, Inc. (Comprised of Clerical, bus drivers and custodial)	06/30/2019	319

ECONOMIC AND DEMOGRAPHIC INFORMATION

Population Trends

The following table sets forth population statistics.

<u>Year</u>	<u>Town of Riverhead</u>	<u>Suffolk County</u>
2004	30,909	1,467,425
2006	33,098	1,495,697
2008	33,864	1,508,602
2010	34,185	1,492,450
2016	33,716	1,498,130

Source: U.S. Bureau of the Census.

Income Data

	<u>Per Capita Money Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2016^a</u>
Town of Riverhead	\$15,643	\$24,647	\$33,089	\$36,552
County of Suffolk	18,481	26,577	35,755	38,779
State of New York	16,501	23,389	30,948	34,212
	<u>Median Household Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2016^a</u>
Town of Riverhead	\$32,655	\$46,195	\$66,000	\$67,513
County of Suffolk	49,128	65,288	84,235	90,128
State of New York	32,965	43,393	54,148	60,741

Source: United States Bureau of the Census

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

Major Employers in the District

<u>Name</u>	<u>Type</u>	<u>Estimated Number of Employees</u>
Tanger Factory Outlet ^a	Retail	1,600
Peconic Bay Medical Center	Hospital	1,200
Splish Splash Water Park ^a	Amusement Park	1,000
Riverhead Central School District ^a	Public Schools	950
Town of Riverhead	Government	304
East Wind Caters & Inn	Catering, Restaurant	225
Atlantis Marine World	Aquarium	250
Home Depot	Retail	215
Suffolk County National Bank	Bank	180
Island International	Manufacturing	145
Riverhead Building Supply	Manufacturing	140

a. Includes seasonal employees.

Source: Town of Riverhead Community Development Department.

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 Riverhead. The information set forth below with respect to such Town and the County of Suffolk is included for information purposes only. It should not be implied from the inclusion of such data in this Statement that the District is necessarily representative of the Town or the County, or vice versa.

<u>Annual Averages:</u>	<u>Town of Riverhead (%)</u>	<u>Suffolk County (%)</u>	<u>New York State (%)</u>
2013	6.8	6.5	7.7
2014	5.7	5.3	6.4
2015	5.3	4.8	5.3
2016	4.7	4.3	4.9
2017	4.8	4.4	4.6
2018 (6 Month Average)	5.6	4.5	4.6

Source: Department of Labor, State of New York

INDEBTEDNESS OF THE DISTRICT

Constitutional and Statutory Requirements

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

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

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

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes (such as the TANs) 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 purpose 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 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 and notes in anticipation of the bonds. With respect to certain school building construction projects, the District is not permitted to spend in excess of \$100,000 until the plans and specifications for such project have been approved by the Commissioner of Education of the State.

The Local Finance Law also provides a twenty-day statute of limitations after publication of a bond resolution, together with a statutory form of notices which, in effect, stops legal challenges to the validity of obligations authorized by such bond resolution except for alleged constitutional violations. The District has complied with such procedure with respect to the BANs.

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 August 21, 2018)

<u>In Town of: (2017-2018)</u>	<u>Assessed Valuation</u>	<u>State Equalization Rate</u>	<u>Full Valuation</u>
Southampton	\$930,746,079	100.00%	\$930,746,079
Riverhead	756,363,615	13.87	5,453,234,427
Brookhaven	946,152	0.9	105,128,000
	<u>\$1,688,055,846</u>		<u>6,489,108,506</u>
Debt Limit - 10% of Average Full Valuation			\$648,910,851
Inclusions: ^a			
Outstanding Bonds			\$70,205,000
Bond Anticipation Notes			<u>3,390,000</u>
Total Indebtedness			<u>73,595,000</u>
Exclusions (Estimated Building Aid) ^b			22,078,500
Total Net Indebtedness Before Issuing the BANs			<u>51,516,500</u>
The BANs			3,128,000
Less: Bond Anticipation Notes to be Redeemed by the BANs			<u>2,355,000</u>
Net Effect of Issuing the BANs			<u>773,000</u>
Total Net Indebtedness After Issuing the BANs			52,289,500
Net Debt Contracting Margin			<u>\$596,621,350</u>
Per Cent of Debt Contracting Margin Exhausted			8.06%

- a. The latest completed assessment roll for which a State Equalization Rate has been established.
- b. Tax 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 therefor 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 Statement, the District has bond anticipation notes outstanding in the amount of \$3,390,000 that mature on September 14, 2018. A portion of the proceeds of the BANs in the amount of \$2,355,000 will redeem a portion of the outstanding bond anticipation notes along with available District funds in the amount of \$1,035,000.

Trend of Outstanding Indebtedness
As at June 30:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Bonds	\$51,062,000	\$49,367,000	\$78,587,427	\$75,452,247	\$70,205,000
BANs	1,995,000	2,140,000	2,280,000	3,561,000	3,390,000
Other	6,764,984	6,330,347	5,885,964	5,431,615	4,967,078
Total	\$59,821,984	\$57,837,347	\$86,753,391	\$84,444,862	\$78,562,078

Debt Service Requirements - Outstanding Bonds ^a

<u>Fiscal Year</u> <u>Ending</u> <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$4,020,000	\$1,929,041	\$5,949,041
2020	4,115,000	1,832,635	5,947,635
2021	4,210,000	1,733,198	5,943,198
2022	4,315,000	1,630,448	5,945,448
2023	4,420,000	1,525,160	5,945,160
2024	4,530,000	1,417,248	5,947,248
2025	4,645,000	1,306,330	5,951,330
2026	4,765,000	1,187,794	5,952,794
2027	4,895,000	1,061,644	5,956,644
2028	5,035,000	928,775	5,963,775
2029	5,185,000	782,613	5,967,613
2030	5,360,000	620,725	5,980,725
2031	5,530,000	451,019	5,981,019
2032	2,950,000	316,834	3,266,834
2033	3,060,000	213,631	3,273,631
2034	3,170,000	106,019	3,276,019
Totals^a	\$70,205,000	\$17,043,112	\$87,248,112

a. Does not reflect payments made to date during the current fiscal year.

Debt Service Requirements – 2015 Energy Performance Contract

Fiscal Year Ending <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$474,953	\$108,133	\$583,086
2020	485,604	97,482	583,086
2021	496,493	86,593	583,086
2022	507,627	75,459	583,086
2023	519,010	64,076	583,086
2024	530,648	52,438	583,086
2025	542,548	40,538	583,086
2026	554,714	28,372	583,086
2027	567,153	15,933	583,086
2028	288,328	3,215	291,543
Totals	<u>\$4,967,078</u>	<u>\$572,239</u>	<u>\$5,539,317</u>

a. Does not reflect payments made to date during the current fiscal year.

Revenue and Tax Anticipation Notes

The District has generally found it necessary to borrow from time to time in anticipation of taxes and revenues, which borrowing is necessitated by the schedule of real property tax and State aid revenue payments. The following is a history of such tax and revenue anticipation note borrowings for the five most recent fiscal years:

<u>FYE June 30:</u>	<u>Amount</u>	<u>Type</u>	<u>Issue</u>	<u>Maturity</u>
2014	\$20,000,000	TAN	09/19/2013	06/26/2014
2015	20,000,000	TAN	09/18/2014	06/25/2015
2016	21,000,000	TAN	09/17/2015	06/27/2016
2017	20,500,000	TAN	09/15/2016	06/27/2017
2018	24,000,000	TAN	09/14/2017	06/27/2018

Authorized but Unissued Debt

As of the date of this Statement, the District has authorized but unissued debt in the amount of \$773,000. Such amount will be financed by the issuance of the BAN.

Calculation of Estimated Overlapping and Underlying Indebtedness

<u>Overlapping Units</u>	<u>Date of Report</u>	<u>Percentage Applicable (%)</u>	<u>Applicable Total Indebtedness</u>	<u>Applicable Net Indebtedness</u>
County of Suffolk	03/21/2018	2.34	\$56,417,957	\$29,717,403
Town of Riverhead	12/31/2017	90.72	77,804,519	56,601,111
Town of Southampton	06/20/2018	3.12	3,652,028	3,297,212
Town of Brookhaven	06/20/2018	0.24	1,371,773	1,293,449
Flanders Fire District	12/31/2016	100.00	179,400	179,400
Hampton Bays Fire District	12/31/2016	10.00	0	0
Jamesport Fire District	12/31/2016	97.00	229,855	229,855
Manorville Fire District	12/31/2016	40.00	137,970	137,970
Riverhead Fire District	05/15/2018	97.00	7,827,900	7,061,600
Wading River Fire District	12/31/2016	30.00	0	0
Westhampton Fire District	05/15/2018	10.00	1,394,500	1,394,500
Totals			\$149,015,902	\$99,912,500

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 August 21, 2018)

	<u>Amount</u>	<u>Per Capita^a</u>	<u>Percentage of Full Value (%)^b</u>
Total Direct Debt	\$ 73,595,000	\$1,840	1.134
Net Direct Debt	51,516,500	1,288	0.794
Total Direct & Applicable Total Overlapping Debt	222,610,902	5,565	3.431
Net Direct & Applicable Net Overlapping Debt	151,429,000	3,786	2.334

a. The current estimated population of the District is 40,000.

b. The 2017-2018 full valuation of taxable property of the District is \$6,489,108,506.

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.

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>General Fund</u> <u>Total Revenue</u>	<u>State Aid</u>	<u>State Aid to</u> <u>Revenues (%)</u>
2013	\$109,881,382	\$17,546,522	15.97
2014	114,273,768	19,493,232	17.06
2015	118,888,431	22,326,625	18.78
2016	125,074,337	24,109,507	19.28
2017	128,947,911	27,269,343	21.15
2018 (Budgeted) ^a	136,388,547	29,434,568	21.58
2019 (Budgeted) ^a	140,380,950	31,260,835	22.27

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 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 \$2.1 million.

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 "No Designation" (Fiscal Score: 6.7%). 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 September 22, 2017. The purpose of the audit was to examine the vendor master file for the period July 1, 2015 through March 31, 2017. The complete report may be found on the State Comptroller's official website. Reference to this website implies no warranty of accuracy of information therein.

Employee Pension System

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

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

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

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

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

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

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%.

The District has not amortized any of its employer pension payments as part of the SCO and expects to continue to pay all payments in full when due.

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 Ended	<u>ERS</u>	<u>TRS</u>
<u>June 30:</u>		
2014	\$2,572,796	\$7,354,711
2015	2,505,769	7,628,879
2016	2,519,295	6,625,943
2017	2,075,963	5,512,640
2018	2,103,452	4,855,889
2019 (Budgeted)	2,655,729	5,455,487

Source: Audited Financial Statements.

Other Post-Employment Benefits

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

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

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

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

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

The following table shows the components of the District’s annual OPEB cost for the year 2017, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation.

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>Fiscal Year Ended June 30, 2017:</u>
Annual required contribution (ARC)	\$4,918,036
Interest on net OPEB obligation	1,252,493
Less: Adjustments to ARC	(938,232)
Annual OPEB cost (expense)	<u>5,232,297</u>
Less: Contributions made	<u>(2,082,138)</u>
Increase in net OPEB obligation	3,150,159
Net OPEB obligation-beginning of year	<u>25,049,858</u>
Net OPEB obligation-end of year	<u><u>\$28,200,017</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 and the two preceding years are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost Contributed (%)</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$4,413,583	40	\$22,316,160
June 30, 2016	4,367,066	44	25,049,858
June 30, 2017	5,232,297	40	28,200,017

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 Town of Riverhead. Assessment valuations are determined by the Town assessors 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 the amounts budgeted for the 2018 and 2019 fiscal years.

Fiscal Year <u>Ended June 30:</u>	<u>Total Revenue</u>	Real Property <u>Taxes</u>	Real Property Taxes to <u>Revenues (%)</u>
2013	\$109,881,382	\$79,834,797	72.66
2014	114,273,768	83,006,031	72.64
2015	118,888,431	85,008,404	71.50
2016	125,074,337	88,573,672	70.82
2017	128,947,911	89,283,589	69.24
2018 (Budgeted) ^a	136,388,547	93,204,241	68.34
2019 (Budgeted) ^a	140,380,950	102,280,638	72.86

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

Tax Collection Procedure

Property taxes for the District, together with County, Town and Fire District 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 Town Tax Receivers distribute the collected tax money to the Towns, 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. In some recent years, the District has experienced delays in its receipt of uncollected school district taxes from the County.

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 (such as the BANs), 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 TANs), 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 8% 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 8% 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 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 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, Levies and Collections

A summary of Valuations, Rates and Levies is contained in Appendix A.

Selected Listing of Large Taxable Properties 2017-2018 Assessment Roll

<u>Name</u>	<u>Type</u>	<u>Full Valuation</u>
Tanger Properties	Retail Outlet	\$130,094,680
Long Island Lighting Company	Utility	123,691,614
Howard T. Hogan Jr.	Shopping Center	91,825,146
Riverhead Centre LLC	Shopping Center	77,330,929
TOSCO Corp.	Oil Distribution	49,371,506
Long Island Power Authority	Utility	40,946,005
Traditional Link LLC	Golf Course	37,817,854
Verizon New York Inc.	Utility	36,696,763
Keyspan Energy Corp	Utility	35,294,725
Douglas J. Stark	Mobile Home Park	34,463,481
East End Commons Associates	Shopping Center	33,955,816
Riverhead PGC LLC	Shopping Center	31,042,020
Serota Wading River LLC	Commercial	30,422,904
Realty Income Corp	Recreational	29,231,740
	Total ^a	<u>\$782,185,183</u>

a. Represents 12.05% of the total full valuation of the District for 2017-2018.
Source: Town Assessment Rolls

Tax Certiorari Claims

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

LITIGATION

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

DISCLOSURE UNDERTAKING

In order to assist the purchasers 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 <u>June 30:</u>	Financial & Operating <u>Information</u>	Audited Financial <u>Statements</u>
2013	12/18/2013	12/18/2013
2014	12/15/2014	11/10/2014
2015	12/24/2015	10/21/2015
2016	12/14/2016	10/24/2016
2017	12/27/2017	12/02/2017

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, like many other public and private entities, relies on a large and complex technology environment to conduct its operations. As such, it may face multiple cybersecurity threats including but not limited to, hacking, viruses, malware and other attacks on computer or other sensitive digital systems and networks. To mitigate the risks of impact on the District operations and/or damage from cyber incidents or cyber-attacks, the District has invested in cybersecurity and other operational controls. While the District continues to review its policies and practices in this regard, there can be no assurances that such security and operational control measures will be completely successful to guard against and prevent cyber threats and attacks. The result of any such attacks could impact business operations and/or digital networks and systems and the costs of remedying any such damage could be significant.

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. Moody's Investors Service Inc. has assigned a rating of "Aa2" 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 said rating agency. There can be no assurance that such rating will not be revised or withdrawn, if in the judgement of agency circumstances so warrant. Any change or withdrawal of such rating may have an adverse effect on the market price and the availability of a secondary market for the outstanding bonds and notes of the District.

MUNICIPAL ADVISOR

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

ADDITIONAL INFORMATION

Additional information may be obtained from the office of the Deputy Superintendent, Riverhead Central School District, 700 Osborn Avenue, Riverhead, New York 11901, telephone number 631/369-6708, Fax: (631) 369-0014 and email: sam.schneider@riverhead.net or from Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776, telephone number 631/331-88888 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 SUSAN KOUKOUNAS
President of the Board of Education
Riverhead Central School District
Riverhead, New York

August , 2018

APPENDIX A

FINANCIAL INFORMATION

Statement of Revenues, Expenditures and Changes in Fund Equity

General Fund

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Real Property Taxes	\$ 79,834,797	\$ 83,006,031	\$ 85,008,404	\$ 88,573,672	\$ 89,283,589
Other Real Property Tax Items	9,420,887	9,539,249	9,157,741	9,389,157	9,364,847
Charges for Services	1,077,218	1,173,701	1,200,468	1,384,081	1,307,768
Use of Money and Property	163,884	117,058	107,056	77,113	75,389
Sale of Property & Comp. for Loss	367,778	115,744	93,118	209,193	177,625
Miscellaneous	1,283,939	706,705	834,099	1,204,721	1,251,403
Interfund Revenues	2,253				3,355
State Sources	17,546,522	19,493,232	22,326,625	24,109,507	27,269,343
Federal Sources	184,104	122,048	160,920	126,893	214,592
Total Revenues	<u>109,881,382</u>	<u>114,273,768</u>	<u>118,888,431</u>	<u>125,074,337</u>	<u>128,947,911</u>
Expenditures:					
General Support	10,237,861	11,501,815	12,944,430	14,696,141	13,984,608
Instruction	63,692,000	63,960,858	69,054,509	75,849,041	75,465,747
Pupil Transportation	5,568,828	5,458,349	5,524,226	5,846,994	5,869,243
Community Service				7,158	
Employee Benefits	23,850,455	25,710,581	26,370,375	25,987,778	27,067,700
Debt Service	2,257,488	3,438,662	4,608,556	6,174,823	7,218,191
Total Expenditures	<u>105,606,632</u>	<u>110,070,265</u>	<u>118,502,096</u>	<u>128,561,935</u>	<u>129,605,489</u>
Excess (Deficiency) Revenues Over Expenditures	4,274,750	4,203,503	386,335	-3,487,598	-657,578
Other Financing Sources (Uses)					
Interfund Transfers In		63,033			340,262
Interfund Transfers (Out)	(136,345)	(186,379)	(9,722,651)	(169,940)	(320,970)
Proceeds from Sale of Development Rights		1,233,527	651,000		
Total Other Financing Sources	<u>(136,345)</u>	<u>1,110,181</u>	<u>(9,071,651)</u>	<u>(169,940)</u>	<u>19,292</u>
Net Change in Fund Equity	4,138,405	5,313,684	(8,685,316)	(3,657,538)	(638,286)
Other Changes in Fund Balance					
Fund Balance Beginning of Year	<u>23,180,543</u>	<u>27,318,948</u>	<u>32,632,632</u>	<u>23,947,316</u>	<u>20,289,778</u>
Fund Balance End of Year	<u>\$ 27,318,948</u>	<u>\$ 32,632,632</u>	<u>\$ 23,947,316</u>	<u>\$ 20,289,778</u>	<u>\$ 19,651,492</u>

Note: This schedule itself is not audited.

Source: Audited Annual Financial Reports of the School District.

Balance Sheet - General Fund

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
ASSETS:			
Cash	\$ 38,361,101	\$ 29,196,180	\$ 28,759,108
Accounts Receivable	148,995	498,235	563,845
Due from Other Funds	3,863,766	960,149	1,526,753
State and Federal Aid	1,022,166	1,305,736	1,303,137
Taxes Receivable	2,593,546	3,016,015	1,089,505
Due from Other Governments	1,238,689	882,204	1,465,743
Prepaid Expenditures	<u>1,044,349</u>	<u>1,062,505</u>	<u>1,275,294</u>
 Total Assets	 <u>\$ 48,272,612</u>	 <u>\$ 36,921,024</u>	 <u>\$ 35,983,385</u>
 LIABILITIES:			
Accounts Payable	\$ 2,513,195	\$ 1,317,723	\$ 2,172,329
Accrued Liabilities	5,627,123	6,611,604	6,290,518
Due to Other Funds	6,162,220	150,737	81,520
Deferred Revenues	126,093	469,517	517,508
Collections in Advance	242,013	169,062	90,422
Due to Teachers Retirement System	8,873,679	7,155,225	6,524,208
Due to Employees Retirement Systems	<u>780,973</u>	<u>757,378</u>	<u>655,388</u>
 Total Liabilities	 <u>24,325,296</u>	 <u>16,631,246</u>	 <u>16,331,893</u>
 FUND BALANCES:			
Nonspendable	1,044,349	1,062,505	1,275,294
Restricted	14,085,865	10,683,450	10,141,611
Assigned	3,780,715	3,317,052	2,779,047
Unassigned	<u>5,036,387</u>	<u>5,226,771</u>	<u>5,455,540</u>
 Total Fund Equity	 <u>23,947,316</u>	 <u>20,289,778</u>	 <u>19,651,492</u>
 Total Liabilities and Fund Equity	 <u>\$ 48,272,612</u>	 <u>\$ 36,921,024</u>	 <u>\$ 35,983,385</u>

NOTE: This schedule itself is NOT audited.

Source: Audited Annual Financial Reports of the School District.

Budget Summaries

General Fund

	Fiscal Year Ending June 30:	
	Budget <u>2018</u>	Budget <u>2019</u>
Revenues:		
Real Property Taxes with STAR Payments	\$ 101,357,047	\$ 102,280,638
PILOT Payments	939,732	1,189,255
Charges for Services	1,138,000	1,175,000
Use of Money and Property	115,000	175,000
Miscellaneous	595,000	420,000
Other Reserves	377,200	325,000
State Sources	29,434,568	31,260,835
Federal Sources	82,000	90,000
Appropriated Fund Balance	<u>2,350,000</u>	<u>3,465,222</u>
Total Revenues	<u><u>136,388,547</u></u>	<u><u>140,380,950</u></u>
Expenditures:		
General Support	13,297,121	13,586,723
Instruction	77,247,958	79,516,572
Pupil Transportation	6,388,234	6,907,834
Community Services	12,000	11,000
Employee Benefits	29,831,147	31,840,418
Debt Service	9,362,087	8,268,403
Inter Fund Transfers	<u>250,000</u>	<u>250,000</u>
Total Expenditures	<u><u>\$ 136,388,547</u></u>	<u><u>\$ 140,380,950</u></u>

Note: Budgets were approved by the voters of the District on May 16, 2017 and May 15, 2018, respectively.

Source: Adopted Budgets of the School District

**Financial Information
Assessed and Full Valuations**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Assessed Valuation:					
Town of:					
Brookhaven	\$ 954,890	\$ 954,441	\$ 953,383	\$ 945,123	\$ 946,152
Riverhead	735,890,345	748,623,330	750,439,517	753,948,599	756,363,615
Southampton	893,595,354	883,508,830	907,136,466	909,230,429	930,746,079
Total Assessed Valuation	\$ <u>1,630,440,589</u>	\$ <u>1,633,086,601</u>	\$ <u>1,658,529,366</u>	\$ <u>1,664,124,151</u>	\$ <u>1,688,055,846</u>

Equalization Rates:					
Town of:					
Brookhaven	0.95%	0.95%	0.95%	0.91%	0.90%
Riverhead	15.98%	15.40%	14.58%	14.66%	13.87%
Southampton	100.00%	100.00%	100.00%	100.00%	100.00%

Full Valuation:					
Town of:					
Brookhaven	\$ 100,514,737	\$ 100,467,474	\$ 100,356,105	\$ 103,859,670	\$ 105,128,000
Riverhead	4,605,070,995	4,861,190,455	5,147,047,442	5,142,896,310	5,453,234,427
Southampton	893,595,354	883,508,830	907,136,466	909,230,429	930,746,079
Total Full Valuation	\$ <u>5,599,181,086</u>	\$ <u>5,845,166,759</u>	\$ <u>6,154,540,013</u>	\$ <u>6,155,986,409</u>	\$ <u>6,489,108,506</u>

Real Property Taxes

Total Tax Levy	\$ 91,668,001	\$ 90,104,086	\$ 93,648,255	\$ 94,212,413	\$ 97,982,843
----------------	---------------	---------------	---------------	---------------	---------------

Tax Rate per \$1,000 of Assessed Valuation

Town of:					
Brookhaven	\$ 1,693.17	\$ 1,658.68	\$ 1,638.62	\$ 1,719.76	\$ 1,714.42
Riverhead	100.59	102.24	106.56	106.61	111.02
Southampton	14.13	13.80	13.59	13.66	13.52

APPENDIX B

CASH FLOW SUMMARIES

CASH FLOW SUMMARY 2017-18 (Actual) (000)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Balance	27,259	20,741	13,573	29,624	19,527	9,895	2,150	45,502	42,757	42,883	35,391	38,246	27,259
Receipts													
Tax Levy						764	49,967	3,238	617	1,354	23,993	15,104	95,037
STAR & Pilot	10						8,153						8,163
Interest	11	7	5	7	11	7	9	32	27	22	20	16	174
State & Federal Aid		678	5,134	3,171	2,729	2,275	157	1,052	11,591			4,390	31,177
TAN Proceeds			24,000										24,000
BAN Proceeds			3,390										3,390
Premiums on Debt			233										233
Other	219	158	523	335	472	404	414	1,138	429	669	583	1,061	6,405
Other Funds	132	1,020	337	209	1,005	519	1,051	1,325	1,181	77	935		7,791
Total Receipts	372	1,863	33,622	3,722	4,217	3,969	59,751	6,785	13,845	2,122	25,531	20,571	176,370
Disbursements													
Payroll & Payroll Taxes	3,355	5,730	5,662	5,709	5,841	5,901	9,017	5,943	5,734	5,845	5,979	8,874	73,590
Claims	3,535	3,221	3,414	3,263	4,214	2,658	6,327	3,243	5,116	2,974	6,628	7,118	51,711
Debt Service			5,463	2,672	726				1,844	645	160		11,510
TAN Repayment											8,896	15,104	24,000
TAN Interest												377	377
State Retirement			2,014	2,014	2,014	2,262							8,304
Library			893			893	12				893		2,691
Other		80	125	161	1,054		1,043	344	1,025	150	120	1,040	5,142
Total Disbursements	6,890	9,031	17,571	13,819	13,849	11,714	16,399	9,530	13,719	9,614	22,676	32,513	177,325
Balance	20,741	13,573	29,624	19,527	9,895	2,150	45,502	42,757	42,883	35,391	38,246	26,304	26,304
Note Payment Account													
Opening Balance	0	0	0	0	0	0	0	0	0	0	0	8,896	0
Receipts	0	0	0	0	0	0	0	0	0	0	8,896	15,104	24,000
Disbursements	0	0	0	0	0	0	0	0	0	0	0	24,000	24,000
Closing Balance	0	0	0	0	0	0	0	0	0	0	8,896	0	0

Note: Opening Balance includes certain restricted reserves.

a. Debt Service includes BAN payments.

CASH FLOW SUMMARY 2018-19 (Estimated) (000)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan 1-15	Jan 16-31	Feb	Mar	Apr	May	Jun	Total
Balance	26,304	19,617	12,217	34,541	22,572	12,573	4,402	867	47,716	44,407	43,492	35,783	36,352	26,304
Receipts														
Tax Levy						770		50,416	3,266	622	1,367	24,209	15,949	96,599
STAR & Pilot	10							8,100						8,110
Interest	11	7	5	7	1	7		10	32	25	20	18	15	158
State & Federal Aid		701	5,304	3,093	2,820	2,350		162	1,087	11,976			4,389	31,882
TAN Proceeds			27,000											27,000
BAN Proceeds			3,128											3,128
Other	209	157	715	332	469	399	18	392	1,075	421	660	575	995	6,417
Other Funds	125	1,000	330	197	995	515		995	1,000	985	72	927		7,141
Total Receipts	355	1,865	36,482	3,629	4,285	4,041	18	60,075	6,460	14,029	2,119	25,729	21,348	180,435
Disbursements														
Payroll & Payroll Taxes	3,472	5,931	5,861	5,909	6,045	6,108	3,478	5,856	6,151	5,935	6,049	6,189	9,184	76,168
Claims	3,570	3,254	3,449	3,296	4,256	2,685	75	6,316	3,275	5,167	3,004	6,694	7,189	52,230
Debt Service ^a			1,575	4,037	735					1,864	625	153		8,989
TAN Repayment												11,051	15,949	27,000
TAN Interest													625	625
State Retirement			2,195	2,195	2,195	2,466								9,051
Library			953			953		12		953		953		3,824
Other		80	125	161	1,053			1,042	343	1,025	150	120	1,041	5,140
Total Disbursements	7,042	9,265	14,158	15,598	14,284	12,212	3,553	13,226	9,769	14,944	9,828	25,160	33,988	183,027
Balance	19,617	12,217	34,541	22,572	12,573	4,402	867	47,716	44,407	43,492	35,783	36,352	23,712	23,712
Note Payment Account														
Opening Balance	0	0	0	0	0	0		0	0	0	0	0	11,051	0
Receipts	0	0	0	0	0	0		0	0	0	0	11,051	15,949	27,000
Disbursements	0	0	0	0	0	0		0	0	0	0	0	27,000	27,000
Closing Balance	0	0	0	0	0	0		0	0	0	0	11,051	0	0

Note: Opening Balance includes certain restricted reserves.

a. Debt Service includes BAN payments.

RIVERHEAD 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.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
TABLE OF CONTENTS**

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis (MD&A)	3
Financial Statements:	
Statement of Net Position	20
Statement of Activities	21
Balance Sheet – Governmental Funds	22
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	23
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	24
Reconciliation of Governmental Funds Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	25
Statement of Fiduciary Net Position – Fiduciary Funds	26
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	27
Notes to Financial Statements	28
Required Supplementary Information other than MD&A:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	64
Schedule of Funding Progress for Other Post-employment Benefits (OPEB)	66
Schedule of the District's Proportionate Share of the Net Pension Asset (Liability)	67
Schedule of District's Contributions	68
Other Supplementary Information:	
Schedules of Change from Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund	69
Schedule of Project Expenditures – Capital Projects Fund	70
Net Investment in Capital Assets	71
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 <i>Government Auditing Standards</i>	72

VINCENT D. CULLEN, CPA
(1950 - 2013)

JAMES E. DANOWSKI, CPA
PETER F. RODRIGUEZ, CPA
JILL S. SANDERS, CPA
DONALD J. HOFFMANN, CPA
CHRISTOPHER V. REINO, CPA
ALAN YU, CPA

CULLEN & DANOWSKI, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Riverhead Central School District
Riverhead, New York

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 Riverhead Central School District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information and the schedules of funding progress - other postemployment benefits, the District's proportionate share of the net pension asset/liability, and District's contributions on pages 3 through 19 and 64 through 68, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Riverhead Central School District's basic financial statements. The other supplementary information on pages 69 through 71 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information requested by the New York State Education Department. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2017 on our consideration of the Riverhead 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 Riverhead Central School District's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

September 22, 2017

**RIVERHEAD 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 Riverhead 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 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

- On the District-Wide financial statements total revenues increased 2.92% mainly as a result of an increase in state sources.
- On the District-Wide financial statements, expenses increased by 8.81%, as a result of an increase in instruction and debt service – interest.
- The District's total net position, as reflected in the District-Wide financial statements decreased by \$2,990,633.
- On the balance sheet, the general fund's unassigned fund balance at year end was \$5,455,540. This represents an increase of \$228,769 over the prior year. The unassigned fund balance at year end was at the statutory limit authorized by state law, which is 4.00% of the ensuing year's budget.
- On May 19, 2015, the voters approved spending of \$9,500,000 from the capital reserve to purchase land, renovate an existing bus garage on the purchased land and tear down the existing bus garage and create athletic fields in its place. The land and the existing bus garage cost \$2,917,761 and \$578,740, respectively. The District has spent a cumulative \$6,065,042 towards this project and spent \$2,384,395 in current year.
- On May 20, 2014, the voters approved a bond referendum of \$3,988,000 to purchase various school buses. Twenty-six buses have been purchased to date, at a cost of \$2,370,905.
- On May 16, 2017, the proposed 2017-2018 budget in the amount of \$136,388,547 was authorized by the District's residents.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 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 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.

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 and other 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.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

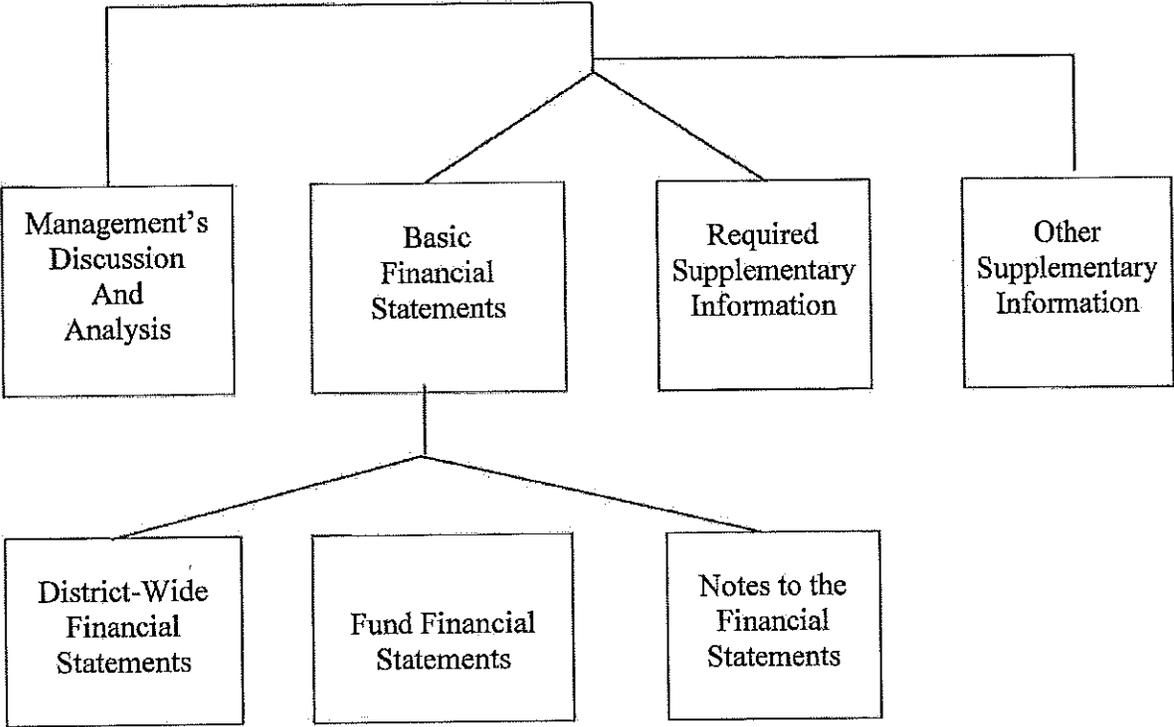


Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and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

**RIVERHEAD 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 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	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • 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	Current 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 financial assets, deferred outflows of resource, liabilities, and deferred inflows of resources both short-term and long-term
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

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

- 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.

Government-wide 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) or approved by law through constitutional provisions or enabling legislation.
 - *Unrestricted net position* is net position that does not meet any of the above restrictions.

**RIVERHEAD 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 statements, additional information on the reconciliation pages explain 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 revenue funds, and capital projects fund. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- *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.

**RIVERHEAD 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 total net position decreased by \$2,990,633 in the fiscal year ended June 30, 2017 as detailed in Table A-3.

Table A-3 – Condensed Statement of Net Position

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Total % Change
Current and other assets	\$41,378,229	\$48,665,717	(\$7,287,488)	-14.97%
Capital assets, net	116,958,682	112,569,695	4,388,987	3.90%
Net pension asset - proportionate share		31,744,732	(31,744,732)	-100.00%
Total Assets	158,336,911	192,980,144	(2,898,501)	-1.50%
Deferred outflows of resources				
Deferred outflow pensions	36,164,834	14,552,696	21,612,138	148.51%
Total Assets and Deferred Outflows of Resources	\$ 194,501,745	\$ 207,532,840	\$ 18,713,637	9.02%
Current liabilities	\$20,768,554	\$20,816,513	(\$47,959)	-0.23%
Long-term liabilities	129,572,129	129,802,264	(230,135)	-0.18%
Total Liabilities	150,340,683	150,618,777	(278,094)	-0.18%
Deferred inflows of resources				
Deferred gain on obligations	251,735	307,616	(55,881)	-18.17%
Deferred inflow pensions	2,465,409	12,171,896	(9,706,487)	-79.75%
Total Deferred Inflows of Resources	2,717,144	12,479,512	(9,762,368)	-78.23%
Net Position				
Net investment in capital assets	32,262,085	28,870,795	3,391,290	11.75%
Restricted	13,925,746	17,167,974	(3,242,228)	-18.89%
Unrestricted (Deficit)	(4,743,913)	(1,604,218)	(3,139,695)	195.71%
Total Net Position	41,443,918	44,434,551	(2,990,633)	-6.73%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$194,501,745	\$207,532,840	(\$13,031,095)	-6.28%

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Current and other assets decreased \$7,287,488 from 2016 to 2017 primarily due to an decrease in cash and taxes receivable offset by an increase in accounts receivable, state and federal aid receivable and due from other governments. Capital assets (net of depreciation) increased by \$4,388,987. This was primarily attributable to capital additions in excess of depreciation expense. The net pension asset – proportionate share decreased by \$31,744,732 as a result of the actuarial valuation provided by the Teachers Retirement System and is currently a net pension liability of \$3,344,175. The change in deferred outflows of resources represents amortization of the pension related items and the change in the District's contributions subsequent to the measurement date, as discussed in Note 14.

Current liabilities decreased by \$47,959. This was attributable to a decrease in pension liabilities and accrued liabilities offset by an increase in bond anticipation notes payable. Long-term liabilities decreased by \$229,135 primarily due to a decrease in bonds payable, energy performance debt payable and workers' compensation payable offset by an increase in compensated absences and net other post-employment benefits obligation. The changes in deferred inflows represent amortization of pension related items as discussed in Note 14, as well as amortization of the gain on defeasance as discussed in Note 11.

The net investment in capital assets, relates to the investment in capital assets at cost such as land, construction in progress, buildings & improvements, and vehicles, furniture & equipment, net of depreciation and related debt. This number increased over the prior year by \$3,391,290 primarily due to the decrease in bonds payable and current year additions.

Net position overall decreased by \$2,990,633.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 is as follows:

Table A-4: Change in Net Position

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Total Percentage Change
Revenues				
Program Revenues				
Charges for services	\$1,734,914	\$1,771,319	(\$36,405)	-2.06%
Operating grants	7,814,273	7,539,351	274,922	3.65%
General Revenues				
Real property and other tax items	98,648,436	97,962,829	685,607	0.70%
Use of money & property	93,243	97,269	(4,026)	-4.14%
State sources	27,269,343	24,109,507	3,159,836	13.11%
Federal Sources	214,592	126,893	87,699	69.11%
Other	1,486,974	1,757,338	(270,364)	-15.38%
Total Revenues	<u>137,261,775</u>	<u>133,364,506</u>	<u>3,897,269</u>	2.92%
Expenses				
General support	\$17,560,591	\$17,791,248	(\$230,657)	-1.30%
Instruction	109,635,182	98,765,443	10,869,739	11.01%
Pupil transportation	8,518,328	8,285,491	232,837	2.81%
Community service		7,158	(7,158)	-100.00%
Debt service - interest	2,705,345	2,234,798	470,547	21.06%
Food service program	1,832,962	1,815,929	17,033	0.94%
Total Expenses	<u>140,252,408</u>	<u>128,900,067</u>	<u>11,352,341</u>	8.81%
Increase in Net Position	<u>(\$2,990,633)</u>	<u>\$4,464,439</u>	<u>(\$7,455,072)</u>	-167%

The District's fiscal year 2017 revenues totaled \$137,261,775. (See Table A-4). Property taxes and other tax items and state sources accounted for most of the District's revenue by contributing 71.87% and 19.87% of the total revenues, respectively. (See Table A-5). The remainder came from federal sources, charges for services, operating grants, use of money & property and other miscellaneous sources.

The cost of all programs and services totaled \$140,252,408 for fiscal year 2017. These expenses are predominantly related to general instruction, caring for (pupil services and food service) and transporting students, which account for 85.55% of District expenses. (See Table A-6). The District's general support and debt service activities accounted for 14.45% of total costs.

**RIVERHEAD 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)

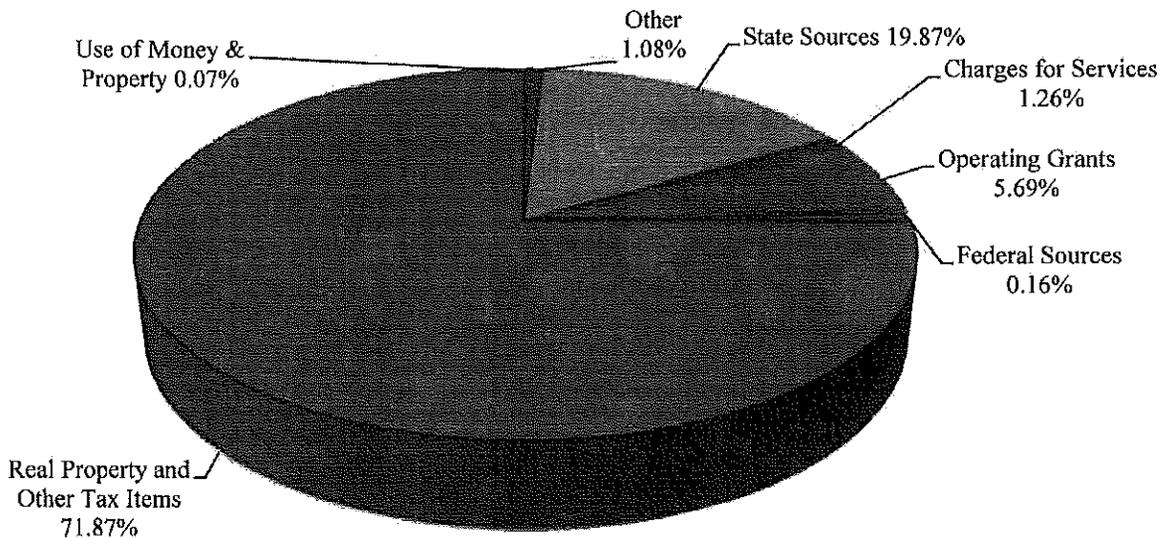
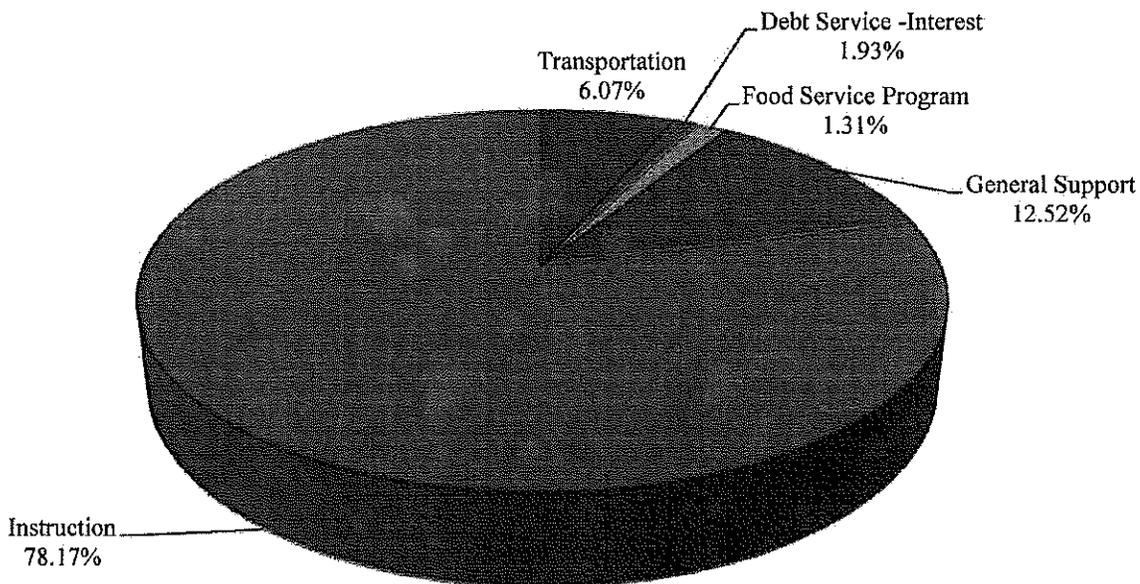


Table A-6: Expenses for Fiscal Year 2017 (See Table A-4 and A-7)



**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

C. Governmental Activities

The continuation of the overall financial condition will be positive and is due to the following:

- Continued leadership of the District's Board and Administration;
- Continued state and federal aid;
- Improved curriculum and community support.

Table A-7 presents the cost of major District activities: instruction, general support, pupil transportation, census, debt service interest 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

Category	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2016
General support	\$17,560,591	\$17,791,248	\$17,560,591	\$17,791,248
Instruction	109,635,182	98,765,443	102,417,335	91,679,361
Pupil transportation	8,518,328	8,285,491	8,340,227	8,066,050
Community service		7,158		7,158
Debt service - interest	2,705,345	2,234,798	2,705,345	2,234,798
Food service program	1,832,962	1,815,929	(320,277)	(189,218)
Total	\$140,252,408	\$128,900,067	\$130,703,221	\$119,589,397

- The cost of all governmental activities this year was \$140,252,408. (Statement of Activities, Expenses column)
- The users of the District's programs financed \$1,734,914 of the cost. (Statement of Activities, Charges For Services column)
- The federal and state governments subsidized certain programs with grants of \$7,814,273. (Statement of Activities, Operating Grants column)
- Most of the District's net costs \$130,703,221 were financed by District taxpayers and state aid. (Statements of Activities, Net (Expense) Revenue and Changes in Net Position column)

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 \$20,610,829, which is a decrease of \$7,426,480 from the prior year.

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

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Total Percentage Change
General fund				
Nonspendable-prepaid insurance	\$1,275,294	\$1,062,505	\$212,789	20.03%
Restricted for repairs	2,275,870	2,126,286	149,584	7.03%
Restricted for retirement contributions	558,543	858,543	(300,000)	-34.94%
Restricted for employee benefit accrued liability	5,068,248	4,957,514	110,734	2.23%
Restricted for unemployment	1,085,471	1,092,628	(7,157)	-0.66%
Restricted for workers' compensation	1,153,479	1,648,479	(495,000)	-30.03%
Assigned-appropriated for subsequent year's expenditures	1,750,000	2,000,000	(250,000)	-12.50%
Assigned-general support	839,723	1,246,135	(406,412)	-32.61%
Assigned-instruction	137,205	1,872	135,333	7229.33%
Assigned-transportation	52,119	69,045	(16,926)	-24.51%
Unassigned	5,455,540	5,226,771	228,769	4.38%
Total Fund Balance - General Fund	<u>19,651,492</u>	<u>20,289,778</u>	<u>(638,286)</u>	<u>-3.15%</u>
School Food Service Fund				
Nonspendable-inventory	30,701	30,043	658	2.19%
Assigned	705,304	390,355	314,949	80.68%
Total Fund Balance - School Food Service Fund	<u>736,005</u>	<u>420,398</u>	<u>315,607</u>	<u>75.07%</u>
Debt Service Fund				
Restricted for Debt Service	349,177	665,171	(315,994)	-47.51%
Total Fund Balance - Debt Service Fund	<u>349,177</u>	<u>665,171</u>	<u>(315,994)</u>	<u>-47.51%</u>
Capital Projects Fund				
Restricted for unspent debt		3,361,927	(3,361,927)	-100.00%
Restricted-capital reserve projects	3,434,958	5,819,353	(2,384,395)	-40.97%
Unassigned (deficit)	(3,560,803)	(2,519,318)	(1,041,485)	41.34%
Total Fund Balance - Capital Projects Fund	<u>(125,845)</u>	<u>6,661,962</u>	<u>(6,787,807)</u>	<u>-101.89%</u>
Total Fund Balance - all funds	<u>\$20,610,829</u>	<u>\$28,037,309</u>	<u>(\$7,426,480)</u>	<u>-26.49%</u>

The District can attribute changes to fund balances and reserves primarily to operating results and Board approved transfers.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

General Fund

The repair reserve was funded by board resolution in the amount of \$2,275,870, \$1,936,073 from current year surplus and \$339,797 of unexpended amounts from prior year repair reserves. Additionally, \$1,786,489 was appropriated by the Board for repair work during the year.

The employee benefit accrued liability reserve was increased by board resolution by \$837,000 from current year's surplus. \$726,266 of the reserve was used during the year to pay benefits due to retiring employees.

The reserve for unemployment was increased by \$192,843 from unused appropriations. The original appropriation had been \$200,000.

The reserve for workers' compensation was funded by board resolution in the amount of \$375,000. \$870,000 of the reserve was appropriated to pay claims during the year.

Nonspendable fund balance increased by \$212,789 due to the recognition of additional prepaid insurance.

School Food Service Fund

Fund balance increased by \$315,607 as compared to the prior year due to an operating surplus in the current year.

Debt Service Fund

Fund balance decreased by \$315,994 as compared to the prior year due to a transfer to general fund of \$340,262, offset by premium on obligations of \$6,600 and interest earned of \$17,668.

Capital Projects Fund

Fund balance decreased by \$6,787,807 as a result of capital outlay of \$7,522,807 offset by a bond anticipation note redeemed from appropriations of \$735,000.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2016-2017 Budget

The District's general fund adopted budget for the year ended June 30, 2017 was \$130,669,295. This amount was increased by encumbrances carried forward from the prior year in the amount of \$1,317,052 and budget revisions totaling \$3,008,553 consisting of \$75,798 for donations and \$2,932,755 from appropriated reserves, which resulted in a final budget of \$134,994,900. The majority of the funding was real property taxes, and other tax items revenue of \$98,381,871.

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

The general fund's unassigned fund balance is a component of 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".

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget are as follows:

Opening, Unassigned fund balance	\$5,226,771
Revenues over budget	1,493,080
Expenditures and encumbrances under budget	4,039,394
Change in non spendable	(212,789)
Unused appropriations	(192,843)
Funding of reserves	(3,148,073)
Assigned, appropriated for June 30, 2017 budget	(1,750,000)
Closing, Unassigned fund balance	<u>\$5,455,540</u>

The unassigned fund balance represents the fund balance retained by the District that is not restricted or assigned for subsequent year's taxes. This amount is limited to 4% of the 2017-2018 budget.

The revenues over budget in the amount of \$1,493,080, was primarily due to other real property tax items, charges for services, miscellaneous revenues, and other state aid.

The expenditures and encumbrances under budget of \$4,039,394 were primarily in central services of \$512,269, teaching – regular school of \$857,061, pupil transportation of \$544,530 and employee benefits of \$1,151,286.

The changes in reserves and fund balance are discussed further in Management's Discussion and Analysis Section 4, Financial Analysis of the District's Funds.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 are as follows:

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

Category	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)	Percentage Change
Land	\$3,917,401	\$3,917,401	\$0	0.00%
Construction in progress	2,568,543	29,363,748	(26,795,205)	-91.25%
Buildings & building improvements	151,592,782	119,301,279	32,291,503	27.07%
Site improvements	4,281,114	3,070,527	1,210,587	39.43%
Vehicles, furniture and equipment	14,013,669	13,317,439	696,230	5.23%
Subtotal	<u>176,373,509</u>	<u>168,970,394</u>	<u>7,403,115</u>	4.38%
Less: Accumulated depreciation	<u>59,414,827</u>	<u>56,400,699</u>	<u>3,014,128</u>	5.34%
Total Net Capital Assets	<u><u>\$116,958,682</u></u>	<u><u>\$112,569,695</u></u>	<u><u>\$4,388,987</u></u>	3.90%

The District spent \$7,522,807 in the capital projects fund and \$214,534 in the general fund on machinery and equipment purchases during the year and retired \$334,226 of vehicles/equipment and building and improvements of which \$295,573 were fully depreciated. The District had a loss on disposal of \$38,653. Depreciation expense was \$3,309,701.

B. Long-Term Debt

At June 30, 2017, the District had serial bonds outstanding of \$75,452,247 and energy performance debt outstanding of \$5,431,615 for District-Wide projects. The change in outstanding debt represents the payments of principal. A summary of outstanding debt at June 30, 2017 and 2016 is as follows:

	2017	2016	Increase (Decrease)
Serial bonds	\$75,452,247	\$78,587,247	(\$3,135,000)
Energy performance	5,431,615	5,885,964	(454,349)
Total	<u><u>\$80,883,862</u></u>	<u><u>\$84,473,211</u></u>	<u><u>(\$3,589,349)</u></u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

The general fund budget for the 2017-2018 school year was approved by the voters in the amount of \$136,388,547. This is an increase of \$5,719,252 or 4.38% over the previous year's budget. The increase was primarily due to increases in personnel costs.

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:

Riverhead Central School District
Dr. Aurelia L. Henriquez
Superintendent of Schools
700 Osborne Avenue
Riverhead, New York 11901
(631) 369-6700

RIVERHEAD CENTRAL SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS	
Cash	
Unrestricted	\$20,203,440
Restricted	13,925,746
Receivables	
Accounts receivable	626,165
Taxes receivable	1,089,505
State and federal aid receivable	2,761,635
Due from other governments	1,465,743
Prepaid expenditures	1,275,294
Inventories	30,701
Capital assets,	
Not being depreciated	6,485,944
Being depreciated, net of accumulated depreciation	<u>110,472,738</u>
TOTAL ASSETS	<u>158,336,911</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow pensions	<u>36,164,834</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>36,164,834</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$194,501,745</u>
LIABILITIES	
Payables	
Accounts payable	\$2,784,359
Accrued liabilities	6,551,586
Accrued interest payable	580,982
Due to other governments	417
Due to teachers' retirement system	6,524,208
Due to employees' retirement system	655,388
Notes Payable	
Bond anticipation note	3,561,000
Unearned Credits	
Collections in advance	110,614
Long-term liabilities	
Due and payable within one year	
Bonds payable	5,247,247
Energy performance debt payable	464,537
Compensated absences payable	250,000
Due and payable after one year	
Bonds payable	70,205,000
Energy performance debt payable	4,967,078
Net pension liability - proportionate share	8,036,377
Compensated absences payable	9,852,798
Net OPEB obligation payable	28,200,017
Workers' compensation payable	<u>2,349,075</u>
TOTAL LIABILITIES	<u>150,340,683</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on obligations	251,735
Deferred inflow pensions	<u>2,465,409</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,717,144</u>
NET POSITION	
Net investment in capital assets	<u>32,262,085</u>
Restricted	
Repair reserve	2,275,870
Employee benefit accrued liability	5,068,248
Capital	3,434,958
Retirement contributions	558,543
Unemployment insurance	1,085,471
Workers' compensation	1,153,479
Debt service	349,177
	<u>13,925,746</u>
Unrestricted (deficit)	<u>(4,743,913)</u>
TOTAL NET POSITION	<u>41,443,918</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$194,501,745</u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS / PROGRAMS				
General support	(\$17,560,591)			(\$17,560,591)
Instruction	(109,635,182)	\$1,307,768	\$5,910,079	(102,417,335)
Pupil transportation	(8,518,328)		178,101	(8,340,227)
Debt service - interest	(2,705,345)			(2,705,345)
Food service program	(1,832,962)	427,146	1,726,093	320,277
TOTAL FUNCTIONS AND PROGRAMS	<u>(\$140,252,408)</u>	<u>\$1,734,914</u>	<u>\$7,814,273</u>	<u>(130,703,221)</u>
GENERAL REVENUES				
Real property taxes				89,283,589
Other tax items				9,364,847
Use of money & property				93,243
Sale of property & compensation for loss				177,625
Miscellaneous				1,309,349
State sources				27,269,343
Federal Sources				214,592
TOTAL GENERAL REVENUES				<u>127,712,588</u>
TOTAL CHANGE IN NET POSITION				(2,990,633)
TOTAL NET POSITION - BEGINNING OF YEAR				<u>44,434,551</u>
TOTAL NET POSITION - END OF YEAR				<u>\$41,443,918</u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<u>General</u>	<u>Special Aid</u>	<u>School Food Service</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash						
Unrestricted	\$18,614,854	\$143,832	\$902,213		\$542,541	\$20,203,440
Restricted	10,144,254			\$346,534	3,434,958	13,925,746
Receivables						
Accounts receivable	563,845		62,320			626,165
Taxes receivable	1,089,505					1,089,505
State and federal aid	1,303,137	1,338,911	119,587			2,761,635
Due from other governments	1,465,743					1,465,743
Due from other funds	1,526,753	78,876		2,643		1,608,272
Prepaid expenditures	1,275,294					1,275,294
Inventories			30,701			30,701
TOTAL ASSETS	<u>\$35,983,385</u>	<u>\$1,561,619</u>	<u>\$1,114,821</u>	<u>\$349,177</u>	<u>\$3,977,499</u>	<u>\$42,986,501</u>
LIABILITIES						
Payables						
Accounts payable	\$2,172,329	\$65,621	\$4,065		\$542,344	\$2,784,359
Accrued liabilities	6,290,518	218,664	42,404			6,551,586
Due to other funds	81,520	1,277,334	249,418			1,608,272
Due to other governments			417			417
Due to teachers' retirement system	6,524,208					6,524,208
Due to employees' retirement system	655,388					655,388
Notes payable						
Bond anticipation note					3,561,000	3,561,000
Unearned credits						
Collections in advance	90,422		20,192			110,614
TOTAL LIABILITIES	<u>15,814,385</u>	<u>1,561,619</u>	<u>316,496</u>	<u>-</u>	<u>4,103,344</u>	<u>21,795,844</u>
DEFERRED INFLOWS OF RESOURCES						
Split dollar life insurance premium	517,508					517,508
School lunch balances			62,320			62,320
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>517,508</u>	<u>-</u>	<u>62,320</u>	<u>-</u>	<u>*</u>	<u>579,828</u>
FUND BALANCE						
Nonspendable:						
Prepaid Insurance	1,275,294					1,275,294
Inventory			30,701			30,701
Restricted:						
Repair	2,275,870					2,275,870
Employee benefit accrued liability	5,068,248					5,068,248
Capital					3,434,958	3,434,958
Retirement Contributions	558,543					558,543
Unemployment Insurance	1,085,471					1,085,471
Workers' Compensation	1,153,479					1,153,479
Debt Service				\$349,177		349,177
Assigned						
Appropriated fund balance	1,750,000					1,750,000
Unappropriated fund balance	1,029,047		705,304			1,734,351
Unassigned (deficit)	5,455,540				(3,560,803)	1,894,737
TOTAL FUND BALANCE (DEFICIT)	<u>19,651,492</u>	<u>-</u>	<u>736,005</u>	<u>349,177</u>	<u>(125,845)</u>	<u>20,610,829</u>
TOTAL LIABILITIES/DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$35,983,385</u>	<u>\$1,561,619</u>	<u>\$1,114,821</u>	<u>\$349,177</u>	<u>\$3,977,499</u>	<u>\$42,986,501</u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Governmental Fund Balances \$20,610,829

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

Some of the revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds. 579,828

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	\$176,373,509	
Accumulated depreciation	<u>(59,414,827)</u>	116,958,682

Deferred gain on obligations. The Statement of Net Position will amortize the premium received over the life of the bond. Governmental funds recorded the entire premium as revenue in the year of the transaction. (251,735)

Governmental funds recognize revenue and expenditures incurred under the modified accrual method. The Statement of Net Position recognizes revenues received and expenditures incurred under the full accrual method. Deferred inflows and outflows related to pensions that will be recognized in future periods amounted to:

Deferred outflows of resources pensions	\$36,164,834	
Deferred inflows of resources pensions	<u>(2,465,409)</u>	33,699,425

Long-term liabilities, including bonds payable, 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 consist of:

Bonds payable	(\$75,452,247)	
Energy performance debt payable	(5,431,615)	
Accrued interest payable	(580,982)	
Net pension liability - proportionate share	(8,036,377)	
Compensated absences payable	(10,102,798)	
Net OPEB obligation payable	(28,200,017)	
Workers' compensation payable	<u>(2,349,075)</u>	
		<u>(130,153,111)</u>

Total Net Position \$41,443,918

RIVERHEAD CENTRAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
REVENUES						
Real property taxes	\$89,283,589					\$89,283,589
Other tax items	9,364,847					9,364,847
Charges for services	1,307,768					1,307,768
Use of money and property	75,389		\$186	\$17,668		93,243
Sale of property and compensation for loss	177,625					177,625
Miscellaneous	1,251,403	\$18,651				1,270,054
Interfund revenues	3,355					3,355
State sources	27,269,343	2,986,085	44,111			30,299,539
Federal sources	214,592	3,083,444	1,540,358			4,838,394
Surplus food			141,624			141,624
Sales			420,802			420,802
TOTAL REVENUES	<u>128,947,911</u>	<u>6,088,180</u>	<u>2,147,081</u>	<u>17,668</u>	<u>-</u>	<u>137,200,840</u>
EXPENDITURES						
General support	13,984,608					13,984,608
Instruction	75,465,747	6,231,049				81,696,796
Pupil transportation	5,869,243	178,101				6,047,344
Employee benefits	27,067,700		305,005			27,372,705
Debt service - principal	4,324,349					4,324,349
Debt service - interest	2,893,842					2,893,842
Food service program			1,526,469			1,526,469
Capital outlay					\$7,522,807	7,522,807
TOTAL EXPENDITURES	<u>129,605,489</u>	<u>6,409,150</u>	<u>1,831,474</u>	<u>-</u>	<u>7,522,807</u>	<u>145,368,920</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(657,578)</u>	<u>(320,970)</u>	<u>315,607</u>	<u>17,668</u>	<u>(7,522,807)</u>	<u>(8,168,080)</u>
OTHER SOURCES AND USES						
Premium on obligations				6,600		6,600
BANS redeemed from appropriations					735,000	735,000
Operating transfers in	340,262	320,970				661,232
Operating transfers (out)	(320,970)			(340,262)		(661,232)
TOTAL OTHER SOURCES (USES)	<u>19,292</u>	<u>320,970</u>	<u>-</u>	<u>(333,662)</u>	<u>735,000</u>	<u>741,600</u>
NET CHANGE IN FUND BALANCE	<u>(638,286)</u>	<u>-</u>	<u>315,607</u>	<u>(315,994)</u>	<u>(6,787,807)</u>	<u>(7,426,480)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>20,289,778</u>	<u>-</u>	<u>420,398</u>	<u>665,171</u>	<u>6,661,962</u>	<u>28,037,309</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$19,651,492</u>	<u>\$0</u>	<u>\$736,005</u>	<u>\$349,177</u>	<u>(\$125,845)</u>	<u>\$20,610,829</u>

RIVERHEAD CENTRAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net Change in Fund Balance		(\$7,426,480)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Long-Term Revenue and Expense Differences		
In the Statement of Activities, certain operating expenses are measured by 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.		
Increase in compensated absence payable	(\$357,117)	
Increase in net OPEB obligation payable	(3,150,159)	
Decrease in workers' compensation payable	90,767	(3,416,509)
Deferred Inflows of Resources - The Statement of Net Position recognizes revenues received under the full accrual method. Governmental funds recognize revenue under the modified accrual method.		
		54,335
Capital Related Items		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Net Position those costs are capitalized and allocated over their useful lives as annual depreciation expense in the Statement of Activities.		
Capital outlays	\$7,737,341	
Loss on disposition	(38,653)	
Depreciation expense	(3,309,701)	4,388,987
Long-Term Debt Transactions		
BANS redeemed from appropriations is an other financing source in the governmental funds, but it does not affect the Statement of Activities.		
		(735,000)
Repayment of debt service 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.		
		4,324,349
Governmental funds may report the premiums, discounts, and similar items on the refunded bonds. These amounts are deferred and amortized in the Statement of Activities. The amount of amortization is		
		55,881
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 expenditure in the funds when it is due, and this requires the use of current financial resources. In the Statements of Activities, however, interest expense is recognized as the interest accrues regardless of when it is due. Accrued interest payable from June 30, 2016 to June 30, 2017 changed by:		
		132,616
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:		
Teachers' retirement system	\$400,259	
Employees' retirement system	(769,071)	(368,812)
Change in Net Position		(\$2,990,633)

**RIVERHEAD CENTRAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017**

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
ASSETS		
Cash - Restricted	<u>\$243,809</u>	<u>\$17,118</u>
TOTAL ASSETS	<u><u>\$243,809</u></u>	<u><u>\$17,118</u></u>
LIABILITIES		
Extraclassroom activity balance	\$87,461	
Other liabilities	<u>156,348</u>	
TOTAL LIABILITIES	<u><u>\$243,809</u></u>	
NET POSITION		
Restricted for scholarships		<u>\$17,118</u>
TOTAL NET POSITION		<u><u>\$17,118</u></u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	\$6,800
Interest and earnings	<u>10</u>
TOTAL ADDITIONS	<u>6,810</u>
 DEDUCTIONS	
Scholarships and awards	<u>8,000</u>
TOTAL DEDUCTIONS	<u>8,000</u>
 CHANGE IN NET POSITION	 (1,190)
 NET POSITION - BEGINNING OF YEAR	 <u>18,308</u>
 NET POSITION - END OF YEAR	 <u><u>\$17,118</u></u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Riverhead 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 seven members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, and as amended by GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement 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 included 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 Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District’s business office. The District accounts for assets held as an agent for various student organizations in the Statement of Fiduciary Net Position-Fiduciary Funds.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 Financial 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 grants column reflects capital-specific grants.

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.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

ii) Fund Financial Statements:

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

The District reports the following major governmental funds:

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

Special 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 Food Service Fund: This fund is used to account for the activities of the District's food service program.

Debt Service Fund: This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general obligation debt of governmental activities.

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

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 to finance District operations. 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 extracurricular activity funds and for payroll or employee withholding.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

D) Measurement focus and basis of accounting:

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

The Fund 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, net OPEB obligation payable, compensated absences and pension costs which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

E) 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 during the period December to June.

ii) Enforcement:

Uncollected real property taxes are subsequently enforced by 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 1st.

F) Restricted resources:

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

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 expenditure 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, liabilities, deferred inflow of resources, and disclosure of contingencies 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, potential contingent liabilities, net pension asset and liability 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) Accounts receivables:

Accounts receivables are shown net of allowance for uncollectible accounts. 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 food service fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food donated by the U.S. Department of Agriculture, at the Government's state value, which approximates market. Purchases of inventoriable

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

Non-spendable fund balance for these non-liquid assets (inventories) and prepaids has been recognized in the school food service fund and general fund 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.

L) Capital assets:

Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on appraisals conducted by independent third-party professionals are used. Donated assets are reported at acquisition 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 Financial Statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building & building improvements	\$15,000	Straight-line	25-50 years
Furniture & equipment	\$5,000	Straight-line	5-20 years
Site improvements	\$15,000	Straight-line	20 years
Vehicles	\$5,000	Straight-line	8 years

M) Collections in Advance:

Collections in advance arise when the District receives resources before it has legal claims to them. 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.

In the fund level statements, collections in advance consists of amounts received in advance for summer programs in the general fund and for amount received in advance for meals that have not yet been purchased in the school food service fund.

N) Deferred Outflows of Resources / Deferred Inflows of Resources:

A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. The District reported \$36,164,834 related to pensions in the District-Wide Statement of Net Position. This represents the difference

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

between expected and actual experience (ERS), changes of assumptions (TRS and ERS systems), the net difference between projected and actual investment earnings on pension plan investments (TRS and ERS systems), the changes in proportion and differences between employer contributions and proportionate share of contributions (TRS and ERS systems) and the District's contributions to the pension systems (TRS and ERS systems) subsequent to the measurement date.

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 \$251,735 of deferred inflows of resources at June 30, 2017, representing the financial effect of a deferred revenue on the advance refunding of general obligation serial bonds and premiums received. A deferred revenue inflow of resources (deferred revenue) 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.

The District reported \$2,465,409 of deferred inflows for pensions. This represents the difference between expected and actual experience (TRS and ERS), and the changes in proportion and differences between District contributions and proportionate share of contributions (TRS and ERS).

A deferred inflow of resources (deferred revenue) in the Fund Financial Statements results when potential revenues do not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both recognition criteria are met, the deferred inflow of resources is removed and revenues are recorded. There are deferred revenues recorded in governmental funds that are not recorded in the District-Wide Financial Statements.

O) Vested employee benefits:

Compensated absences:

Compensated absences consist of unpaid accumulated annual sick leave and vacation 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 termination payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

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

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

In the Fund Financial Statements, 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 and Local Employees' Retirement System and the New York State Teachers' Retirement System. District employees may choose to participate in the District's elective deferred compensation plan established under Internal Revenue Code Section 403(b).

In addition to providing pension benefits, the District provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

Q) Short-term debt:

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

The District may issue Bond Anticipation Notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue 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, and compensated absences that will be paid from governmental funds are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

S) Equity Classifications:

i) 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 assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of those assets net of any unexpended proceeds and including any unamortized items (discounts, premiums, loss and gain on refunding).

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

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

ii) Fund Financial Statements:

There are five classifications of fund balance as detailed below; however, in the Fund Financial Statements, there are four classifications 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 food service fund of \$30,701 and prepaid expenditures in the general fund of \$1,275,294 for prepaid health insurance.
- 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.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The District has established the following as restricted:

Repair Reserve

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

Employee Benefit Accrued Liability Reserve

According to General Municipal Law (GML §6-p), must be used for the payment of accrued employee benefits 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. This reserve is accounted for in the general fund, under restricted fund balance.

Capital Reserve

According to Education Law §3651, must be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the capital projects fund, under restricted fund balance.

Retirement Contributions Reserve

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

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Unemployment Insurance Reserve

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

Workers' Compensation Reserve

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

Debt Service

Unexpended balances of proceeds from borrowings for capital projects; interest and earnings from investing proceeds of obligations, and premium and accrued interest are recorded as amounts restricted for debt service and held until appropriated for debt payments. The restricted funds are accounted for in the debt service 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 for 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 constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

This intent can be expressed by the Board or through the Board delegating this responsibility to the District management through Board policies.

The District has established a Fund Balance policy that allows the Board of Education or its designated official to set forth the fund balance that is assigned.

This classification also includes the remaining positive fund balance for all governmental funds except for the general fund.

The District has classified the following as assigned:

	Fund		Total
	General	School Food Service	
<u>Assigned for:</u>			
Appropriated for Subsequent Year's Expenditures	\$ 1,750,000		\$ 1,750,000
School Food Service		\$705,304	705,304
<u>Encumbered:</u>			
General support	839,723		839,723
Instruction	137,205		137,205
Transportation	52,119		52,119
Total	<u>\$ 2,779,047</u>	<u>\$ 705,304</u>	<u>\$ 3,484,351</u>

Appropriated for Subsequent Year's Expenditures

The amount of \$1,750,000 has been appropriated to reduce taxes for the year ending June 30, 2018.

Appropriated Reserves

The District expects to appropriate the following amounts from reserves, which are reported in the June 30, 2017 restricted fund balance, to fund the budget for the year ending June 30, 2018:

Unemployment	\$ 50,000
Retirement Contributions	100,000
Workers' Compensation	109,738
Debt Service	340,262
Total	<u>\$ 600,000</u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Encumbrances

Encumbrances have been assigned based upon the District's intent to be used for a specific purpose such as general support, instruction and capital projects. See Note 3 for further detail regarding accountability.

- 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.

Deficit Fund Balance

The capital projects fund had a deficit fund balance of \$3,560,803. This will be eliminated when the District receives permanent financing.

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. 77, *Tax Abatement Disclosures*, which requires increased disclosures surrounding tax abatements, and 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.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 FUND FINANCIAL STATEMENTS AND DISTRICT-WIDE FINANCIAL STATEMENTS:

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

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

Total fund balances of the District's governmental funds 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 as applied to the reporting of capital assets and long term assets and liabilities, including pensions.

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

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

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 accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities thereby affecting expenses such

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

as compensated absences, workers' compensation, pension costs and other postemployment benefits.

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

iv) Pension differences:

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

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 established by the adoption of the budget are recorded at the program line item level and 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

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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:

Compensated absences expenditures funded by the employee benefit accrued liability reserve	\$726,266
Workers' compensation expenditures funded by the workers' compensation reserve	420,000
Repairs funded by the repair reserve	1,786,489
Program costs funded by donations	<u>75,798</u>
	<u><u>\$3,008,553</u></u>

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.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 40, *Deposit and Investment 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; or
- C) Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year end.

The District did not have any investments at year-end or during the year. Consequently, the District was not exposed to any material interest rate risk or foreign currency risk.

B) 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 at June 30, 2017 included \$13,925,746 within the governmental funds for debt service, capital and general reserve purposes and \$260,927 within the fiduciary funds.

NOTE 5 – PARTICIPATION IN BOCES:

During the year ended June 30, 2017, the District was billed \$16,241,557 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,917,987 and BOCES receivable amounted to \$999,588. Financial statements for the BOCES are available from the BOCES administrative office located at 201 Sunrise Highway, Patchogue, NY 11772.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 6 – STATE AND FEDERAL AID RECEIVABLE:

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

General fund	
Excess cost aid	\$1,297,137
Other grants	6,000
Total	<u>\$1,303,137</u>
Special aid fund	
Federal aid	\$960,866
State aid	378,045
Total	<u>\$1,338,911</u>
School Food Service	
Breakfast - federal aid	\$32,773
Lunch - federal aid	83,315
Snack - federal aid	157
Breakfast - state aid	1,630
Lunch - state aid	1,818
Total	<u>\$119,693</u>
Total State and federal aid receivable	<u><u>\$2,761,741</u></u>

District management has deemed the amounts to be fully collectible.

NOTE 7 – DUE FROM OTHER GOVERNMENTS:

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

General Fund	
BOCES	\$999,588
Other districts - charges for services	466,155
Total Due from other governments	<u><u>\$1,465,743</u></u>

District management has deemed these amounts to be fully collectible.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 8 - CAPITAL ASSETS:

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

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$3,917,401			\$3,917,401
Construction in progress	29,363,748	\$2,384,397	(\$29,179,602)	2,568,543
Total capital assets not being depreciated	<u>33,281,149</u>	<u>2,384,397</u>	<u>(29,179,602)</u>	<u>6,485,944</u>
Capital assets that are depreciated:				
Building & improvements	119,301,279	3,111,901	29,179,602	151,592,782
Site improvements	3,070,527	1,210,587		4,281,114
Vehicles, furniture and equipment	13,317,439	1,030,456	(\$334,226)	14,013,669
Total capital assets being depreciated	<u>135,689,245</u>	<u>5,352,944</u>	<u>28,845,376</u>	<u>\$169,887,565</u>
Less accumulated depreciation for:				
Building & improvements	46,347,507	2,345,018		48,692,525
Site improvements	2,652,417	110,511		2,762,928
Vehicles, furniture and equipment	7,400,775	854,172	(295,573)	7,959,374
Total accumulated depreciation	<u>56,400,699</u>	<u>3,309,701</u>	<u>(295,573)</u>	<u>59,414,827</u>
Total depreciable capital assets, net	<u>79,288,546</u>	<u>2,043,243</u>	<u>29,140,949</u>	<u>110,472,738</u>
Total historical cost, net	<u>\$112,569,695</u>	<u>\$4,427,640</u>	<u>(\$38,653)</u>	<u>\$116,958,682</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$50,612
Instruction	2,893,088
Pupil transportation	364,513
Food service program	1,488
Total depreciation expense	<u>\$3,309,701</u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 9 – INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS:

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenues</u>	<u>Expenditures</u>
General Fund	\$1,526,753	\$81,520	\$340,262	\$320,970
Special Aid Fund	78,876	1,277,334	320,970	
School Food Service Fund		249,418		
Debt Service Fund	2,643			340,262
Totals	<u>\$1,608,272</u>	<u>\$1,608,272</u>	<u>\$661,232</u>	<u>\$661,232</u>

The District typically transfers from the general fund to the special aid fund to fund the District's share of summer school for students with disabilities and the State supported section 4201 schools expenses as required by State Law. The District transferred \$340,262 from the debt service fund to the general fund to offset debt payments.

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 – COLLECTIONS IN ADVANCE:

Unearned credits on the governmental funds balance sheet at June 30, 2017 consisted of:

General fund	
Drivers education fees collected	\$74,317
Other unearned revenue	16,105
Total	<u>\$90,422</u>
School food service fund	
Prepaid meals	\$20,192
Total	<u>\$20,192</u>
Total Collections in advance	<u>\$110,614</u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 – DEFERRED INFLOWS OF RESOURCES:

General fund			
Split dollar life insurance premium	*		\$517,508
School Food Service fund			
School Food Service balances	**		<u>62,214</u>
Total Governmental funds			<u><u>\$579,722</u></u>
District-Wide			
Defeasance gain and premium on borrowing			\$251,735
Deferred Inflows-pensions			<u>2,465,409</u>
Total Districtwide			<u><u>\$2,717,144</u></u>

* The corresponding asset for split dollar life insurance premium is included in accounts receivable.

** The corresponding asset for school food service balances is included in accounts receivable.

NOTE 12 - SHORT-TERM DEBT:

The District issued tax anticipation notes (TANS) for interim financing of general fund operations and bond anticipation notes (BANS) for temporary financing of capital projects until permanent financing is received.

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

		Net Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	06/27/17	0.98%	\$ -	\$20,500,000	\$20,500,000	\$ -
BAN	09/16/16	0.3875%	2,280,000		2,280,000	-
BAN	09/15/17	0.8349%		3,561,000		3,561,000
Total			<u>\$ 2,280,000</u>	<u>\$ 24,061,000</u>	<u>\$ 22,780,000</u>	<u>\$ 3,561,000</u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

	Total
Interest paid	\$286,348
Less interest accrued in the prior year	(36,000)
Plus interest accrued in the current year	56,383
Total expense	\$306,731

NOTE 13 – LONG-TERM LIABILITIES:

Long-term liability balances and activity for the year ended June 30, 2017 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term debt:					
Bonds	\$78,587,247		\$3,135,000	\$75,452,247	\$5,247,247
Energy performance debt	5,885,964		454,349	5,431,615	464,537
Other long-term liabilities:					
Compensated absences	9,745,681	357,117		10,102,798	250,000
Net OPEB obligation	25,049,858	5,232,297	2,082,138	28,200,017	
Workers' compensation claims	2,439,842	699,214	789,981	2,349,075	
Net pension liability - proportionate share	8,093,672	7,554,966	7,612,261	8,036,377	
Total long-term liabilities	\$129,802,264	\$13,843,594	\$14,073,729	\$129,572,129	\$5,961,784

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

The maturity of compensated absences payable is based upon the termination of an employee's service. The amount due within one year is an estimate and is based on different factors such as past practice. The maturity of workers' compensation claims payable, net OPEB obligation payable and net pension liability are dependent on many factors and is not readily determinable.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Bonds payable are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Serial Bond	2015	10/2031	2%	\$32,262,247
Serial Bond	2014	3/2034	3-4%	29,965,000
Serial Bond	2012	11/2034	2.25-3.25%	11,905,000
Serial Bond - Refunded	2010	10/2018	2-4%	1,320,000
				<u>\$75,452,247</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 5,247,247	\$ 2,049,532	\$ 7,296,779
2019	4,020,000	1,929,041	5,949,041
2020	4,115,000	1,832,635	5,947,635
2021	4,210,000	1,733,198	5,943,198
2022	4,315,000	1,630,448	5,945,448
2023-2027	23,255,000	6,498,175	29,753,175
2028-2032	24,060,000	3,099,966	27,159,966
2033-2034	6,230,000	319,650	6,549,650
	<u>\$ 75,452,247</u>	<u>\$ 19,092,645</u>	<u>\$ 94,544,892</u>

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Energy Performance Debt	7/25/12	6/28/28	2.23%	<u>\$5,431,615</u>

The following is a summary of debt service requirements for energy performance debt, which bears interest at 2.23%:

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Fiscal Year Ended June 30,	Principal	Interest	Total
2018	\$ 464,537	\$ 118,549	\$ 583,086
2019	474,953	108,133	583,086
2020	485,604	97,482	583,086
2021	496,493	86,593	583,086
2022	507,627	75,459	583,086
2023-2027	2,714,073	201,357	2,915,430
2028	288,328	3,215	291,543
	\$ 5,431,615	\$ 690,788	\$ 6,122,403

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

Interest paid	Total \$2,607,494
Less interest accrued in the prior year	(677,598)
Plus interest accrued in the current year	524,599
Less amortized premium on obligations	(55,881)
Total expense on long-term debt	\$2,398,614

The gain on defeasance on the advanced refunding is being amortized on the District-Wide Financial Statements using the straight-line method over 8 years, the time to maturity of the refunded bonds, at the point of refunding.

Unissued Debt:

On May 20, 2014, the voters approved a bond referendum of \$3,988,000 to purchase various school buses. As of June 30, 2017, the District has issued \$2,371,000 in bond anticipation notes and has authorized unissued debt of \$1,617,000. The balance outstanding at June 30, 2017 is \$1,911,000. With regard to the 2008 bus purchase plan the District was authorized to issue bonds for the purchase of buses in the amount of \$3,620,407. The full amount has been issued in bond anticipation notes and \$450,000 of these notes are outstanding as of June 30, 2017. The District anticipates repaying these notes out of general fund appropriations.

On May 19, 2015, the voters authorized the construction of a turf field at a cost of \$1,200,000 with approval to issue bonds in that amount. A BAN for this full amount was issued during the year ended June 30, 2017.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 14 – 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 TRS Comprehensive Annual Financial report which can be found on the System's website at www.nysitrs.org.

ii) Employees' Retirement System

The District participates in the New York State and Local Employees' Retirement System (ERS) (the 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. That report, including information with regard to benefits provided, may be found on the NYS Comptroller's website at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany NY 12244.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 and 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 and 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 NYSTRS.

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

Year	NYSERS	NYSTRS
2016 - 2017	\$2,173,104	\$5,765,082
2015 - 2016	2,519,295	6,315,761
2014 - 2015	2,193,211	8,047,860

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Net pension (liability)	\$ (4,692,202)	\$ (3,344,175)
District's portion of the Plan's total net pension (liability)	0.0499371%	0.312236%
Change in proportion since the prior measurement date	0.0004899	0.006611

For the year ended June 30, 2017, the District recognized pension expense of \$2,840,187 for ERS and \$5,439,157 for TRS.

At June 30, 2017 the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>		<u>Deferred Inflow of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expected and actual experience	\$ 117,582		\$ 712,537	\$ 1,086,376
Changes of assumptions	1,603,028	\$ 19,050,550		
Net difference between projected and actual earnings on pension plan investments	937,223	7,519,464		
Changes in proportion and differences between the District's contributions and proportionate share of contributions	478,426	\$ 38,091	15,949	650,547
District's contributions subsequent to the measurement date	655,388	5,765,082		
	<u>\$ 3,791,647</u>	<u>\$ 32,373,187</u>	<u>\$ 728,486</u>	<u>\$ 1,736,923</u>

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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:

	<u>ERS</u>	<u>TRS</u>
Plan Year ended:		
2017		\$ 2,233,518
2018	\$ 1,040,525	2,233,518
2019	1,040,525	8,073,342
2020	920,589	6,256,402
2021	(593,866)	2,819,329
Thereafter	-	3,255,073
	<u>\$ 2,407,773</u>	<u>\$ 24,871,182</u>

Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.0%	7.5%
Salary scale	3.80%	1.90% - 4.72%
Cost of living adjustments	1.3% annually	1.5% annually
Decrement tables	April 1, 2010 - March 31, 2015	July 1, 2009 - June 30, 2014
	System's Experience	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 on plan member experience with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2014, applied on a generational basis.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 date are summarized below:

<u>Valuation Date</u>	<u>ERS</u>		<u>TRS</u>	
	<u>April 1, 2016</u>		<u>June 30, 2015</u>	
<u>Asset type</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
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 7.50% for TRS (the discount rate used by the TRS at the prior year's measurement date of June 30, 2015, was 8%). 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

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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:

	1% Decrease <u>(6.0%)</u>	Current Assumption <u>(7.0%)</u>	1% Increase <u>(8.0%)</u>
<u>ERS</u>			
Employer's proportionate share Of the net pension asset (liability)	<u>(\$14,985,963)</u>	<u>(\$4,692,202)</u>	<u>\$4,011,154</u>
	1% Decrease <u>(6.5%)</u>	Current Assumption <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
<u>TRS</u>			
Employer's proportionate share Of the net pension asset (liability)	<u>(\$43,632,365)</u>	<u>(\$3,344,175)</u>	<u>\$30,447,447</u>

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

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 \$655,388.

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, and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2017 amounted to \$6,524,208.

NOTE 15 – OTHER RETIREMENT PLAN:

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 \$1,223,230 and \$2,200,009 respectively.

NOTE 16 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS:

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the Fund Financial Statements as payments are made. Currently, there is no provision in the law to permit the District to fund other post-employment benefits by any means other than the "pay as you go" method.

The District has obtained an actuarial valuation report as of July 1, 2016, which indicates that the total liability for other post-employment benefits is \$65,394,700. The net OPEB obligation at June 30, 2017 is \$28,200,017, which is reflected in the Statement of Net Position.

A) Plan Description:

The District provides primarily post-employment health insurance coverage (the Healthcare Plan) to retired employees and their spouses in accordance with the provisions of various employment contracts. The Healthcare Plan is a single-employer defined benefit healthcare plan. Benefits are provided through the New York State Health Insurance Program Empire Plan. Article 37 of the Statutes of the state assigns the authority to establish and amend benefit provisions to the school district. 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.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 \$2,082,138 to the plan. Plan members (retirees and their dependents or spouses) receiving benefits contributed 15% - 65% 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 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 OPEB Cost and Net OPEB Obligation	
Annual required contribution	\$4,918,036
Interest on net OPEB obligation	1,252,493
Adjustment to Annual Required Contribution	<u>(938,232)</u>
Annual OPEB cost (expense)	5,232,297
Contributions made	<u>(2,082,138)</u>
Increase in net OPEB obligation	3,150,159
Net OPEB obligation-beginning of year	<u>25,049,858</u>
Net OPEB obligation-end of year	<u><u>\$28,200,017</u></u>

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

Fiscal Year Ending	Annual OPEB Cost	OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/15	\$ 4,413,583	\$ 1,743,595	40%	\$ 22,316,160
6/30/16	\$ 4,367,066	\$ 1,913,333	44%	\$ 25,049,858
6/30/17	\$ 5,232,297	\$ 2,082,138	40%	\$ 28,200,017

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 \$65,394,700, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$65,394,700. The covered payroll (annual payroll of active employees covered by the plan) was \$54,997,740 and the ratio of the UAAL to the covered payroll was 119%.

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.

There was a valuation performed as of July 1, 2016 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%. The UAAL is being amortized using the level percent amortization method over a period of 30 years.

NOTE 17 – 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 has chosen to be self-funded for workers' compensation claims. The benefit programs administrator is responsible for the approval, processing and payment of claims, after which they bill the District for reimbursement. The District is also responsible for a

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

monthly administrative fee. The program is accounted for in the General Fund of the district.

The District maintains an insurance policy to protect the District in the event of large dollar claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported claims which were incurred on or before year-end but not paid and an amount for claims that have been incurred but not reported (IBNR). As of June 30, 2017, the District has potential workers' compensation claims using a 2% discount rate of \$2,349,075 and has a workers' compensation reserve balance of \$1,153,479. The valuation is based on an independent actuary.

Claims activity is summarized below:

	2017	2016
Unpaid claims at beginning of year	\$2,439,842	\$3,044,809
Incurred claims and claim adjustment expenses	699,214	(30,474)
Claims payments	(789,981)	(574,493)
Unpaid claims at year end	\$2,349,075	\$2,439,842

C) Public Entity Risk Pool:

The District participates in New York Schools Insurance Reciprocal (NYSIR), a non-risk retained public entity pool for its 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 in excess of certain defined limits, and the District has essentially transferred all related risk to the pool.

NOTE 18 – TAX ABATEMENTS

The Town of Riverhead Industrial Development Agency enters various property tax abatement programs for the purpose of economic development. The District's property tax revenue was reduced \$1,919,759. The District received payment in lieu of tax (PILOT) payments totaling \$749,645 related to these properties. The District also received \$184,390 in PILOT payments related to agreements entered into by the Town of Riverhead for which information on the full tax abatement is not available at this time.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 19 – 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) Operating Leases:

The District leases various storage units under non-cancelable operating leases. Rental expense for the fiscal year was approximately \$4,887. The following is a summary of obligations of government activities under operating lease payments:

Fiscal Year Ended June 30,	Total
2017	\$4,887
Total Lease Payments	\$4,887

C) Litigation:

The District is involved in lawsuits arising from the normal conduct of its affairs. Some of these lawsuits seek damages which may be in excess of the District's insurance coverage. However, it is not possible to determine the District's potential exposure, if any, at this time.

D) Encumbrances:

Significant encumbrances included in governmental fund balances have been classified in assigned fund balance and are as follows:

General Fund - Total encumbrances of the general fund at June 30, 2017 were \$1,029,047. Significant encumbrances of \$776,633 were for central services.

E) Commitments

Capital Projects Fund - Total encumbrances of the capital projects fund at June 30, 2017 were \$1,202,341. Encumbrances were for the 2015 capital reserve project for construction, construction manager fees and architect fees.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 20 – SUBSEQUENT EVENTS:

The District has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued. No significant events were identified that would require adjustment of or disclosure in the financial statements, except for the following:

- A) The District borrowed \$3,390,000 in bond anticipation notes on September 14, 2017 which will mature on September 14, 2018. The interest rate on this note is 2.25%, but the effective interest rate is 1.085% due to a premium in the amount of \$39,495. Bond anticipation notes outstanding at June 30, 2017 in the amount of \$2,280,000 were retired with these proceeds.

- B) The District borrowed \$24,000,000 in tax anticipation notes on September 14, 2017 which will mature on June 27, 2018. The interest rate on this note is 2%, but the effective interest rates are .9734% due to a premium in the amount of \$193,680.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL- GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Final Budget Variance with Budgetary Actual</u>
REVENUES				
Local Sources				
Real property taxes	\$97,672,426	\$89,282,081	\$89,283,589	\$1,508
Other real property tax items	709,445	9,099,790	9,364,847	265,057
Charges for services	1,138,000	1,138,000	1,307,768	169,768
Use of money & property	90,000	90,000	75,389	(14,611)
Sale of property & compensation for loss	150,000	150,000	177,625	27,625
Miscellaneous	827,200	902,998	1,251,403	348,405
Interfund revenues			3,355	3,355
State Sources				
Basic formula	26,689,962	21,398,677	21,012,514	(386,163)
Lottery aid		2,861,363	2,946,264	84,901
BOCES aid		1,908,413	1,917,987	9,574
Tuition for Students w. Disabilities			112,598	112,598
Textbook aid		347,520	347,520	-
Computer software aid		133,914	133,914	-
Library A/V loan program aid		40,075	40,075	-
Other state aid			758,471	758,471
Federal Sources				
Other federal sources	102,000	102,000	214,592	112,592
TOTAL REVENUES	<u>127,379,033</u>	<u>127,454,831</u>	<u>128,947,911</u>	<u>1,493,080</u>
OTHER SOURCES				
Transfers from other funds	340,262	340,262	340,262	-
TOTAL REVENUES AND OTHER SOURCES	<u>127,719,295</u>	<u>127,795,093</u>	<u>\$129,288,173</u>	<u>\$1,493,080</u>
Appropriated fund balance	2,000,000	2,000,000		
Appropriated reserves	950,000	3,882,755		
Prior year's encumbrances	1,317,052	1,317,052		
TOTAL REVENUES AND APPROPRIATED FUND BALANCE	<u>\$131,986,347</u>	<u>\$134,994,900</u>		

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

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

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance with Budgetary Actual and Encumbrances
EXPENDITURES					
General Support					
Board of education	\$126,645	\$87,838	\$70,861		\$16,977
Central administration	348,593	359,864	356,860		3,004
Finance	1,138,090	1,241,579	1,089,219	\$63,090	89,270
Staff	961,461	974,828	854,339		120,489
Central services	10,427,602	11,647,889	10,358,987	776,633	512,269
Special items	1,261,989	1,262,427	1,254,342		8,085
Instructional					
Instruction, adm. & imp.	4,842,792	4,998,831	4,880,504		118,327
Teaching - regular school	42,882,134	42,908,869	42,011,401	40,407	857,061
Programs for students with disabilities	15,417,880	16,882,848	16,592,781	51,912	238,155
Occupational education	1,374,479	1,741,910	1,741,890		20
Teaching special schools	458,798	522,969	506,441		16,528
Instructional media	3,584,500	3,575,160	3,374,835	42,339	157,986
Pupil services	6,504,125	6,561,347	6,357,895	2,547	200,905
Pupil transportation	6,377,801	6,465,892	5,869,243	52,119	544,530
Community service	2,000	2,000	-		2,000
Census	10,000	2,500	-		2,500
Employee benefits	28,640,140	28,218,986	27,067,700		1,151,286
Debt service					
Debt service principal	4,324,349	4,324,349	4,324,349		-
Debt service interest	3,052,969	2,893,844	2,893,842		2
TOTAL EXPENDITURES	<u>131,736,347</u>	<u>134,673,930</u>	<u>129,605,489</u>	<u>1,029,047</u>	<u>4,039,394</u>
OTHER USES					
Transfers to other funds	<u>250,000</u>	<u>320,970</u>	<u>320,970</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$131,986,347</u>	<u>\$134,994,900</u>	<u>129,926,459</u>	<u>\$1,029,047</u>	<u>\$4,039,394</u>
Net change in fund balance			(638,286)		
Fund balance - beginning of year			<u>20,289,778</u>		
Fund balance - end of year			<u>\$19,651,492</u>		

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

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

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
July 1, 2016	\$0	\$ 65,394,700	\$ 65,394,700	\$0	\$ 54,997,740	119%
July 1, 2015	\$0	\$ 58,159,054	\$ 58,159,054	\$0	\$ 55,857,888	96%
July 1, 2014	\$0	\$ 54,981,544	\$ 54,981,544	\$0	\$ 56,608,387	97%

**RIVERHEAD CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY)
Last Four Fiscal Years**

NYSERS Pension Plan				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension asset (liability)	0.0499371%	0.0504270%	0.0469909%	0.0469909%
District's proportionate share of the net pension asset (liability)	(4,692,202)	(\$8,093,672)	(\$1,587,468)	(\$2,123,454)
District's covered payroll	15,757,891	\$14,518,171	\$14,319,357	\$13,533,691
District's proportionate share of the net pension asset (liability) as a percentage of its covered -employee payroll	29.78%	55.75%	11.09%	-15.69%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.68%	97.95%	97.20%
NYSTRS Pension Plan				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension asset (liability)	0.312236%	0.305625%	0.296082%	0.304499%
District's proportionate share of the net pension asset (liability)	(\$3,344,175)	\$31,744,732	\$32,981,699	\$2,004,376
District's covered payroll	\$48,148,683	\$45,917,857	\$43,976,194	\$44,608,553
District's proportionate share of the net pension asset (liability) as a percentage of its covered -employee payroll	(6.95%)	(69.13%)	(75.00%)	(4.49%)
Plan fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%	100.70%

Note to Required Supplementary InformationTeachers' Retirement System

The discount rate decreased from 8.0% to 7.5% as reflected in 2016 and 2017 above.

Employees' Retirement System

The discount rate decreased from 7.5% to 7.0% as reflected in 2015 and 2016 above.

RIVERHEAD CENTRAL SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS
 LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NYSERS Pension Plan										
Contractually required contribution	\$ 2,173,104	\$ 2,519,295	\$ 2,193,211	\$ 2,572,797	\$ 2,417,250	\$ 2,225,771	\$ 1,717,315	\$ 1,132,302	\$ 1,017,257	\$ 1,091,582
Contributions in relation to the contractually required contribution	2,173,104	2,519,295	2,193,211	2,572,797	2,417,250	2,225,771	1,717,315	1,132,302	1,017,257	1,091,582
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$15,412,094	\$15,069,261	\$14,242,109	\$13,666,225	\$13,574,270	\$13,834,744	\$14,653,275	\$13,430,175	\$13,486,996	\$12,528,988
Contributions as a percentage of covered employee payroll	14.10%	16.72%	15.40%	18.83%	17.81%	16.09%	11.72%	8.43%	7.54%	8.71%

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NYSERS Pension Plan										
Contractually required contribution	\$ 5,765,082	\$ 6,315,761	\$ 8,047,860	\$ 5,565,086	\$ 5,280,938	\$ 4,931,627	\$ 3,788,497	\$ 2,738,297	\$ 3,333,249	\$ 3,375,364
Contributions in relation to the contractually required contribution	5,765,082	6,315,761	8,047,860	5,565,086	5,280,938	4,931,627	3,788,497	2,738,297	3,333,249	3,375,364
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$49,209,165	\$48,148,683	\$45,917,857	\$43,976,194	\$44,608,553	\$44,375,538	\$44,095,737	\$44,288,440	\$43,795,593	\$38,727,650
Contributions as a percentage of covered employee payroll	11.72%	13.12%	17.53%	12.65%	11.84%	11.11%	8.59%	6.18%	7.61%	8.72%

**RIVERHEAD CENTRAL SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
SCHEDULES OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
AND THE REAL PROPERTY TAX LIMIT - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$130,669,295
Add: Prior year's encumbrances		<u>1,317,052</u>
Original Budget		131,986,347
Budget Revisions - Contingent Expenditures Funded by:		
Donations	\$75,798	
Workers' compensation reserve	420,000	
Repair reserve	1,786,489	
Employee benefit accrued liability reserve	<u>726,266</u>	<u>3,008,553</u>
Final Budget		<u><u>\$134,994,900</u></u>

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2017-18 voter approved expenditure budget		<u>\$136,388,547</u>
Maximum allowed (4% of 2017-2018 budget)		<u><u>\$5,455,542</u></u>
General Fund fund balance subject to Section 1318 of Real Property Tax Law		
Unrestricted fund balance:		
Assigned fund balance	\$2,779,047	
Unassigned fund balance	<u>5,455,540</u>	\$8,234,587
Less:		
Appropriated fund balance	1,750,000	
Encumbrances	<u>1,029,047</u>	\$2,779,047
Total adjustments		<u><u>\$2,779,047</u></u>
General Fund fund balance subject to Section 1318 of Real Property Tax Law		<u><u>\$5,455,540</u></u>
Actual percentage		4.00%

RIVERHEAD CENTRAL SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
 JUNE 30, 2017

Project Title	Original Appropriation	Revised Appropriation	Expenditures to Date		Unexpended Balance	Proceeds of Obligations	Methods of Financing		Total	Fund Balance (Deficit) June 30, 2017
			Prior Year's Current Year	Total			Extel	Local Sources		
2011/2014 Bond	\$78,334,247	\$78,334,247	\$74,972,320	\$3,361,927	\$ -	\$78,334,247			\$78,334,247	\$ -
Bus Purchase(2008)	3,620,407	3,620,407	3,620,305		102		\$3,170,407		3,170,407	(449,898) *
Capital Reserve (2015)	9,500,000	9,500,000	3,680,647	2,384,395	3,434,958		9,500,000		9,500,000	3,434,958
Bus Purchase Plan (2014)	3,988,000	3,988,000	1,554,981	815,924	1,617,095		460,000		460,000	(1,910,905) *
TurfField	1,200,000	1,200,000	239,439	960,561	-					(1,200,000) *
TOTAL	\$96,642,654	\$96,642,654	\$84,067,692	\$7,522,807	\$5,052,155	\$78,334,247	\$13,130,407	\$ -	\$91,464,654	(\$125,845)

* The negative fund balance is temporary due to unissued permanent financing.

**RIVERHEAD CENTRAL SCHOOL DISTRICT
SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2017**

Capital assets, net		\$116,958,682
Deduct:		
Bond anticipation notes payable		(3,561,000)
Unamortized premium on bonds payable	\$251,735	
Short-term portion of bonds payable	5,247,247	
Long-term portion of bonds payable	<u>70,205,000</u>	(75,703,982)
Short-term portion of energy performance debt	464,537	
Long-term portion of energy performance debt	<u>4,967,078</u>	<u>(5,431,615)</u>
Net investment in capital assets		<u><u>\$32,262,085</u></u>

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

To the Board of Education
Riverhead Central School District
Riverhead, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the fiduciary funds of the Riverhead Central School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Riverhead 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 Riverhead Central School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Riverhead 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Riverhead 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*.

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Riverhead Central School District in a separate letter dated September 22, 2017.

Purpose of this Report

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

Cullen & Danowski, LLP

September 22, 2017

APPENDIX D

FORM OF APPROVING LEGAL OPINION OF BOND COUNSEL

FORM OF BOND COUNCEL OPINION FOR THE TAN

September 13, 2018

The Board of Education of
Riverhead Central School District,
in the County of Suffolk, New York

Ladies and Gentlemen:

We have acted as Bond Counsel to Riverhead 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 \$27,000,000 Tax Anticipation Notes for 2018-2019 Taxes (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,

FORM OF BOND COUNCEL OPINION FOR THE BAN

September 13, 2018

The Board of Education of
Riverhead Central School District,
in the County of Suffolk, New York

Ladies and Gentlemen:

We have acted as Bond Counsel to Riverhead 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 \$3,128,000 Bond Anticipation Notes - 2018 (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 Riverhead 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 September 13, 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 \$27,000,000 Tax Anticipation Notes 2018 - 2019 Taxes dated September 13 2018, maturing June 27, 2019 and \$3,128,000 Bond Anticipation Notes – 2018, dated September 13, 2018, maturing September 13, 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 **September 13, 2018**.

RIVERHEAD CENTRAL SCHOOL DISTRICT

By _____
President of the Board of Education