



FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITOR'S REPORTS

June 30, 2019

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Eastport-South Manor Central School District  
Manorville, 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 Eastport-South Manor Central School District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the Eastport-South Manor Central School District, as of June 30, 2019, 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, schedule of revenues, expenditures and changes in fund balance – budget and actual – general fund, schedule of the District's proportionate share of the net pension asset/(liability), schedule of District pension contributions and schedule of changes in the District's total OPEB liability and related ratios on pages 3 through 14 and 51 through 55, 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 Eastport-South Manor Central School District's basic financial statements. The other supplementary information on pages 56 through 58 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 27, 2019 on our consideration of the Eastport-South Manor Central School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Eastport-South Manor Central School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Eastport-South Manor Central School District's internal control over financial reporting and compliance.

*Cullen & Danowski, LLP*

September 27, 2019

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

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The Eastport-South Manor Central School District’s discussion and analysis of the financial performance provides an overall review of the District’s financial activities for the fiscal year ended June 30, 2019 in comparison with the year ended June 30, 2018, with emphasis on the current year. This should be read in conjunction with the financial statements, which immediately follow this section.

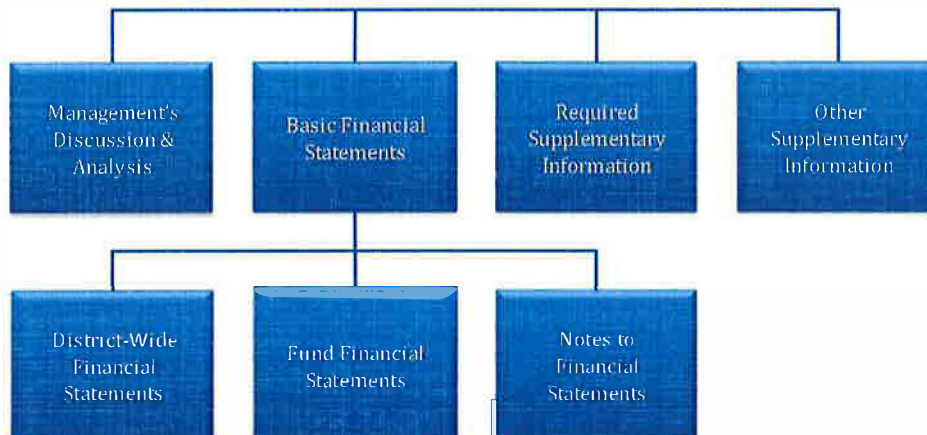
**1. FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2019 are as follows:

- The District’s total net position, as reflected in the district-wide financial statements, increased by \$8,673,282. This was due to an excess of revenues over expenses based on the economic resources measurement focus and the accrual basis of accounting.
- The District’s expenses for the year, as reflected in the district-wide financial statements, totaled \$88,153,653. Of this amount, \$4,226,061 was offset by program charges for services, operating grants, and capital grants. General revenues of \$92,560,874 amount to 95.6% of total revenues, and were adequate to cover the balance of program expenses.
- The general fund’s total fund balance, as reflected in the fund financial statements, increased by \$6,524,930. This was due to an excess of revenues over expenditures based on the current financial resources measurement focus and the modified accrual basis of accounting.
- The District’s 2019 property tax levy of \$54,191,936 was a 1.83% increase over the 2018 tax levy. The District’s property tax cap was 1.83%.
- The budget for the 2019-2020 school year in the amount of \$96,551,702 was approved by the voters on June 18, 2019.

**2. OVERVIEW OF THE FINANCIAL STATEMENTS**

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



**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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**A. District-Wide Financial Statements**

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

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

The Statement of Net Position

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

The Statement of Activities

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

**B. Fund Financial Statements**

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

Governmental Funds

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

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

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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

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

Fiduciary Funds

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

**3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**A. Net Position**

The District's total net position increased by \$8,673,282 between fiscal year 2018 and 2019. Certain amounts in the 2018 statement have been reclassified to conform to the 2019 presentation. The reclassifications had no effect on net position for 2018. The increase is due to revenues in excess of expenses based on the economic resources measurement focus and the accrual basis of accounting. A summary of the District's Statements of Net Position follows:

	2019	2018	Increase (Decrease)	Percentage Change
<b>Assets</b>				
Current and Other Assets	\$ 23,226,414	\$ 15,509,968	\$ 7,716,446	49.75 %
Capital Assets, Net	163,065,873	166,072,404	(3,006,531)	(1.81)%
Net Pension Asset - Proportionate Share	4,234,978	1,843,103	2,391,875	129.77 %
Total Assets	190,527,265	183,425,475	7,101,790	3.87 %
<b>Deferred Outflows of Resources</b>	48,374,547	26,996,659	21,377,888	79.19 %
<b>Liabilities</b>				
Current and Other Liabilities	8,297,558	7,569,314	728,244	9.62 %
Long-Term Liabilities	128,720,070	137,845,638	(9,125,568)	(6.62)%
Net Pension Liability - Proportionate Share	1,431,399	662,796	768,603	115.96 %
Total OPEB Obligation	130,069,047	100,753,396	29,315,651	29.10 %
Total Liabilities	268,518,074	246,831,145	21,686,930	8.79 %

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

	2019	2018	Increase (Decrease)	Percentage Change
<b>Deferred Inflows of Resources</b>	\$ 9,977,476	\$ 11,858,009	\$ (1,880,533)	(15.86)%
<b>Net Position (Deficit)</b>				
Net Investment in Capital Assets	53,645,643	42,020,299	11,625,344	27.67 %
Restricted	10,126,220	3,785,958	6,340,262	167.47 %
Unrestricted (Deficit)	<u>(103,365,601)</u>	<u>(94,073,277)</u>	<u>(9,292,324)</u>	(9.88)%
Total Net Position (Deficit)	<u>\$ (39,593,738)</u>	<u>\$ (48,267,020)</u>	<u>\$ 8,673,282</u>	17.97 %

Current and other assets increased by \$7,716,446, as compared to the prior year. The increase is primarily related to an increase in the District's cash position, as a result of current year operations.

Capital assets, net decreased by \$3,006,531, as compared to the prior year. This decrease is primarily due to depreciation expense in excess of capital asset additions. The accompanying Notes to Financial Statements, Note 8 "Capital Assets" provides additional information.

Net pension asset – proportionate share increased by \$2,391,875, in the current year. This asset represents the District's share of the New York State Teachers' Retirement System collective net pension asset, at the measurement date.

Deferred outflows of resources represents contributions to the pension plans subsequent to the measurement dates and actuarial adjustments of the pension and OPEB plans that will be amortized in future years.

Current and other liabilities increased by \$728,244, as compared to the prior year. This increase is primarily due to increases in the District's accounts payable of \$232,268 and accrued liabilities of \$330,756.

Long-term liabilities decreased by \$9,125,568, as compared to the prior year. This decrease is primarily the result of scheduled bond and energy performance contract indebtedness payments of \$9,286,544, including amortization of premiums from prior years' advanced refunding of debt.

Net pension liability – proportionate share increased by \$768,603 in the current year. This liability represents the District's share of the New York State and Local Employees' Retirement System's collective net pension liability, at the measurement date of the respective year.

Total other postemployment benefits (OPEB) obligation increased by \$29,315,651, as compared to the prior year. This increase is based on the actuarial valuation for the plan. The accompanying Notes to Financial Statements, Note 14 "Postemployment Healthcare Benefits", provides additional information.

Deferred inflows of resources represents actuarial adjustments of the pension and OPEB plans that will be amortized in future years.

The net investment in capital assets is the investment in capital assets at cost such as land; construction in progress; buildings & building improvements; and, furniture & equipment, net of depreciation and related outstanding debt. This number increased over the prior year by \$11,625,344.



**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

The restricted amount of \$10,126,220 relates to the District's reserves. This number increased over the prior year by \$6,340,262.

The unrestricted deficit amount of \$103,365,601 relates to the balance of the District's net position. This balance does not include the District's reserves, which are classified as restricted. Additionally, in accordance with state guidelines, the District is only permitted to fund OPEB on a "pay as you go" basis, and is not permitted to accumulate funds for the net OPEB obligation.

**B. Changes in Net Position**

The results of operations as a whole are reported in the Statement of Activities in a programmatic format. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 1,943,764	\$ 2,068,757	\$ (124,993)	(6.04)%
Operating Grants	2,173,312	2,114,932	58,380	2.76 %
Capital Grants	148,985		148,985	N/A
General Revenues				
Property Taxes and STAR	48,039,976	46,925,996	1,113,980	2.37 %
State Sources	37,021,612	36,454,252	567,360	1.56 %
Other	7,499,286	7,306,800	192,486	2.63 %
Total Revenues	<u>96,826,935</u>	<u>94,870,737</u>	<u>1,956,198</u>	2.06 %
<b>Expenses</b>				
General Support	10,275,418	10,372,578	(97,160)	(0.94)%
Instruction	68,695,463	73,021,168	(4,325,705)	(5.92)%
Pupil Transportation	4,180,262	4,173,433	6,829	0.16 %
Debt Service - Interest	3,743,443	3,994,502	(251,059)	(6.29)%
Food Service Program	1,259,067	1,332,599	(73,532)	(5.52)%
Total Expenses	<u>88,153,653</u>	<u>92,894,280</u>	<u>(4,740,627)</u>	(5.10)%
Change in Net Position	<u>\$ 8,673,282</u>	<u>\$ 1,976,457</u>	<u>\$ 6,696,825</u>	338.83 %

The District's net position increased by \$8,673,282 and \$1,976,457 for the years ended June 30, 2019 and 2018, respectively.

The District's revenues increased by \$1,956,198 or 2.06%. The major factors that contributed to the increase were:

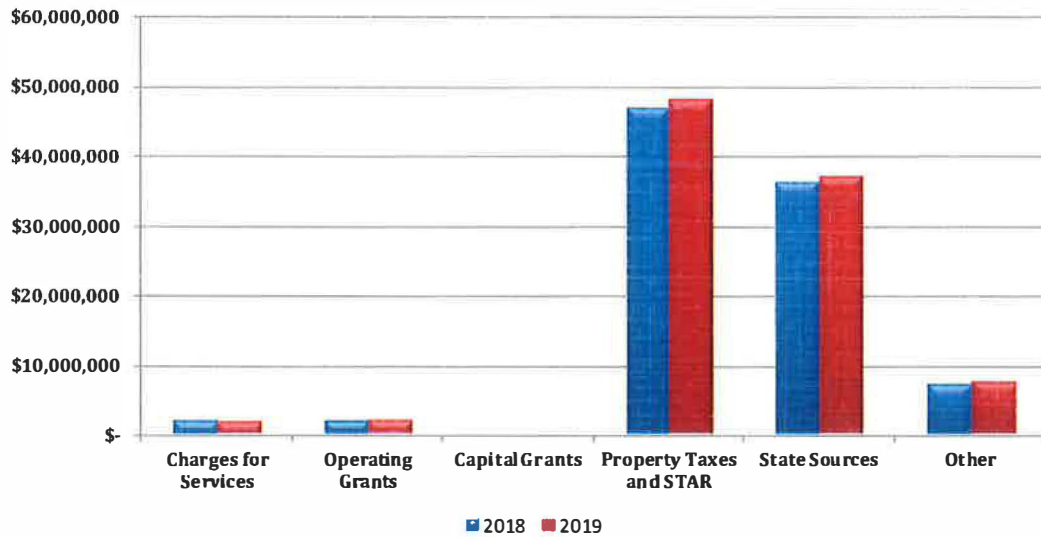
- Property taxes and STAR revenues increased by \$971,509.
- The District received \$567,360 more state aid in the current year than during the prior year.

The District's expenses decreased by \$4,740,627 or 5.10%. In an effort to reduce expenditures the school district budget was reflective of 73.3 less employees, (13.2%) of the total 2017-2018 staff.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

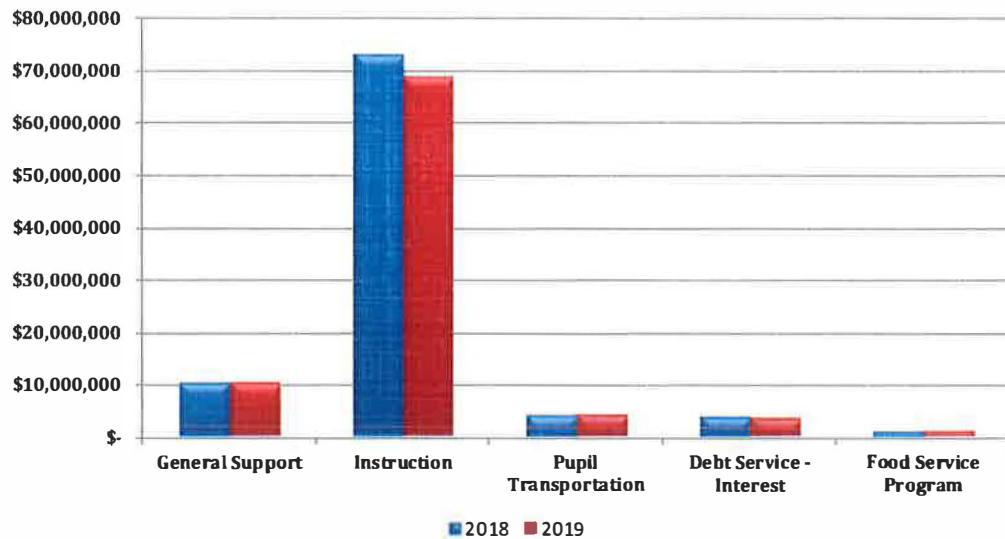
As indicated on the graphs that follow, real property taxes and STAR is the largest component of revenues recognized (i.e., 49.6% and 49.5% of the total for the years 2019 and 2018, respectively). Instruction expenses is the largest category of expenses incurred (i.e., 78.0% and 78.6% of the total for the years 2019 and 2018, respectively).

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



	Charges for Services	Operating Grants	Capital Grants	Property Taxes and STAR	State Sources	Other
<b>2018</b>	2.2%	2.2%	0.0%	49.5%	38.4%	7.7%
<b>2019</b>	2.0%	2.2%	0.2%	49.6%	38.2%	7.8%

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



	General Support	Instruction	Pupil Transportation	Debt Service - Interest	Food Service Program
<b>2018</b>	11.2%	78.6%	4.5%	4.3%	1.4%
<b>2019</b>	11.7%	78.0%	4.7%	4.2%	1.4%

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

At June 30, 2019, the District's governmental funds reported a combined fund balance of \$15,591,667, which is an increase of \$6,352,816 over the prior year. This increase is due to an excess of revenues over expenditures based upon the current financial resources measurement focus and the modified accrual basis of accounting. A summary of the change in fund balance by fund is as follows:

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
<b>General Fund</b>			
Restricted			
Workers' compensation	\$ 500,000	\$	\$ 500,000
Unemployment insurance	100,000		100,000
Retirement contribution			
Teachers' retirement system	716,520		716,520
Employees' retirement system	520,707		520,707
Employee benefit accrued liability	6,850,319	3,785,958	3,064,361
Assigned:			
Appropriated fund balance	1,308,431		1,308,431
Unappropriated fund balance	227,314	34,379	192,935
Unassigned: Fund balance	<u>3,862,071</u>	<u>3,740,095</u>	<u>121,976</u>
	<u>14,085,362</u>	<u>7,560,432</u>	<u>6,524,930</u>
<b>School Food Service Fund</b>			
Nonspendable: Inventory	3,586	3,156	430
Assigned: Unappropriated fund balance	<u>213,030</u>	<u>212,113</u>	<u>917</u>
	<u>216,616</u>	<u>215,269</u>	<u>1,347</u>
<b>Debt Service Fund</b>			
Restricted for debt service	<u>1,438,674</u>		<u>1,438,674</u>
<b>Capital Projects Fund</b>			
Restricted:			
Unspent bond proceeds		1,463,150	(1,463,150)
Unassigned: Fund balance (deficit)	<u>(148,985)</u>		<u>(148,985)</u>
	<u>(148,985)</u>	<u>1,463,150</u>	<u>(1,612,135)</u>
Total Fund Balance	<u>\$ 15,591,667</u>	<u>\$ 9,238,851</u>	<u>\$ 6,352,816</u>

**A. General Fund**

The net change in the general fund – fund balance is an increase of \$6,524,930. General fund revenues of \$93,745,919 exceeded expenditures and other uses of \$87,220,989.

Revenues increased \$1,798,885 or 1.96% compared to the prior year.

Expenditures and other uses decreased \$2,365,569 or 2.64%. The decrease was primarily the result of planned staffing reductions.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

At the end of the fiscal year, the District used the operating surplus to fund the subsequent year's budget by \$1,308,431 and to fund Board established reserves in the amount of \$4,837,227.

**B. School Food Service Fund**

The net change in the school food service fund – fund balance is an increase of \$1,347, which was the current year operating profit that includes a general fund budget transfer of \$17,276 for uncollectible receivables.

**C. Debt Service Fund**

The debt service fund – fund balance was created with \$1,438,674, a transfer from the capital projects fund of unused bond proceeds from completed projects in the amount of \$1,438,150 and interest earnings of \$524.

**D. Capital Projects Fund**

The net change in the capital projects fund – fund balance is a decrease of \$1,612,135. The decrease is a result of an expenditures from ongoing capital improvement projects of \$173,985 and an interfund transfer to the debt service fund of unused bond proceeds from completed capital improvement projects of \$1,438,150.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2018-2019 Budget**

The District's general fund adopted budget for the year ended June 30, 2019 was \$93,502,384. This amount was increased by encumbrances carried forward from the prior year in the amount of \$34,379 and a budget revision in the amount of \$46,039 for a total final budget of \$93,582,802.

The budget was funded by estimated revenues of which the largest funding source was \$54,191,936 in estimated property taxes and STAR.

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

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

Opening, Unassigned Fund Balance	\$ 3,740,095
Revenues Over Budget	197,496
Expenditures and Encumbrances Under Budget	6,134,499
Allocation to Reserves	(4,901,588)
Appropriated to Fund the June 30, 2020 Budget	<u>(1,308,431)</u>
Closing, Unassigned Fund Balance	<u>\$ 3,862,071</u>

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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Opening, Unassigned Fund Balance

The \$3,740,095 shown in the table is the portion of the District's June 30, 2018 fund balance that was retained as unassigned. This was 4% of the District's 2018-2019 approved operating budget of \$93,502,384. It is the maximum unassigned fund balance permitted by law.

Revenues Over Budget

The 2018-2019 final budget for revenues was \$93,548,423. Actual revenues received for the year were \$93,745,919. The excess of actual revenue over estimated or budgeted revenue was \$197,496, which contributes directly to the change to the general fund unassigned fund balance from June 30, 2018 to June 30, 2019.

Expenditures and Encumbrances Under Budget

The 2018-2019 final budget for expenditures was \$93,582,802. Actual expenditures as of June 30, 2019 were \$87,220,989 and outstanding encumbrances were \$227,314. Combined, the expenditures plus encumbrances for 2018-2019 were \$87,448,303. The final budget was under expended by \$6,134,499. This under expenditure contributes directly to the change to the general fund unassigned fund balance from June 30, 2018 to June 30, 2019.

Allocation to Reserves

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

The (\$4,901,588) shown in the above table is made up of transfers: \$500,000 to the workers' compensation reserve; \$100,000 to the unemployment insurance reserve; \$716,520 to the retirement contribution reserve - Teachers' Retirement System; \$520,707 to the retirement contribution reserve - Employees' Retirement System; \$3,000,000 to the employee benefit accrued liability reserve. Additionally, interest earnings of \$64,361 was allocated to the employee benefit accrued liability reserve.

Appropriated Fund Balance

The District has chosen to use \$1,308,431 of the available June 30, 2019 unassigned fund balance to partially fund the 2019-2020 approved operating budget. As such, the June 30, 2019 unassigned fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the previous table, the unassigned fund balance at June 30, 2019 was \$3,862,071. This amount equals 4% of the 2018-2019 budget and is equal to statutory limit.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

**6. CAPITAL ASSETS, DEBT ADMINISTRATION AND OTHER LONG-TERM LIABILITIES**

**A. Capital Assets**

At June 30, 2019, the District had invested in a broad range of capital assets, as indicated in the table below. The net decrease in capital assets is due to depreciation of \$3,185,511 in excess of capital additions of \$178,980 recorded for the year ended June 30, 2019. A summary of the District's capital assets, net of depreciation at June 30, 2019 and 2018 is as follows:

	2019	2018	Increase (Decrease)
Land	\$ 1,395,205	\$ 1,395,205	\$ -
Construction in progress	148,986	50,536,076	(50,387,090)
Buildings & building improvements	161,366,808	113,955,996	47,410,812
Furniture & equipment	154,874	185,127	(30,253)
Capital assets, net	<u>\$ 163,065,873</u>	<u>\$ 166,072,404</u>	<u>\$ (3,006,531)</u>

**B. Debt Administration**

At June 30, 2019, the District had total bonds payable of \$105,520,000. The bonds were issued for school building improvements and the refunding of bonds originally issued for school building improvements. The decrease in outstanding debt represents principal payments. There were no new issuances of long-term debt during the year ended June 30, 2019. The District also has debt as a result of improvements made under an energy performance contract. The decrease in the energy performance contract payable represents principal payments. A summary of the outstanding debt at June 30, 2019 and 2018 is as follows:

Issue Date	Interest Rate	2019	2018	Increase (Decrease)
<b>Bonds Payable</b>				
11/23/2009	3.0-4.0%	\$	\$ 915,000	\$ (915,000)
9/8/2010	2.0-3.5%	16,615,000	18,445,000	(1,830,000)
8/1/2011	2.0-4.0%	13,455,000	14,740,000	(1,285,000)
10/31/2012	2.0-5.0%	23,240,000	24,840,000	(1,600,000)
8/1/2013	4.0-4.5%	8,275,000	8,465,000	(190,000)
8/18/2014	3.0-3.75%	13,840,000	14,205,000	(365,000)
5/4/2016	2.0-4.0%	30,095,000	32,255,000	(2,160,000)
		<u>\$ 105,520,000</u>	<u>\$ 113,865,000</u>	<u>\$ (8,345,000)</u>
<b>Energy Performance Contract</b>				
10/15/2014	2.93%	<u>\$ 5,338,380</u>	<u>\$ 5,791,712</u>	<u>\$ (453,332)</u>

The District's latest underlying, long-term credit rating from Standard & Poor's Financial Services, LLC is AA-.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)**

**C. Other Long-Term Liabilities**

Included in the District's long-term liabilities are the estimated amounts due for compensated absences, workers' compensation liability, net pension liability - proportionate share and total other postemployment benefits obligation. The compensated absences liability is based on employment contracts. The workers' compensation liability is based on estimated amounts needed to settle claims incurred through June 30, 2019. The net pension liability - proportionate share and the total other postemployment benefits obligation are based on actuarial valuations.

	2019	2018	Increase (Decrease)
Compensated absences	\$ 11,701,862	\$ 11,530,961	\$ 170,901
Workers' compensation	789,497	799,422	(9,925)
Net pension liability - proportionate share	1,431,399	662,796	768,603
Total OPEB obligation	130,069,047	100,753,396	29,315,651
	<u>\$ 143,991,805</u>	<u>\$ 113,746,575</u>	<u>\$ 30,245,230</u>

**7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

**A. Subsequent Year's Budget**

The general fund budget, the only fund with a legally adopted budget, as approved by the voters on June 18, 2019, for the year ending June 30, 2020, is \$96,551,702. This is an increase of \$3,049,318 or 3.26% over the previous year's budget. The increase is principally in the teaching - regular school (\$1,012,074), programs for students with disabilities (\$685,335), and contractual transportation (\$354,790) areas of the budget.

The District budgeted revenues other than property taxes and STAR at a \$252,866 increase over the prior year's estimate, which is principally due to an estimated increase in state aid. There is assigned, appropriated fund balance applied to the budget in the amount of \$1,308,431, there was none in the previous year. A property tax increase of \$1,488,021 (2.75%), levy to levy, was needed to meet the funding shortfall and cover the increase in appropriations.

**B. Future Budgets**

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

**C. Tax Cap**

New York State law limits the increase in the property tax levy of school districts to the lesser of 2% or the rate of inflation. There are additional statutory adjustments in the law. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60% of the votes cast. The District's 2019-2020 property tax increase of 2.75% was equal to the tax cap and did not require an override vote.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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**8. CONTACTING THE DISTRICT**

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

Mr. Timothy Laube  
Assistant Superintendent for Business & Operations  
Eastport-South Manor Central School District  
District Administrative Offices  
149 Dayton Avenue  
Manorville, New York 11949



**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Statement of Net Position**  
June 30, 2019

<b>ASSETS</b>	
Cash	
Unrestricted	\$ 10,362,157
Restricted	10,209,164
Receivables	
Accounts receivable	13,961
Due from fiduciary funds	59,371
Due from state and federal	2,502,349
Due from other governments	75,826
Inventory	3,586
Capital assets:	
Not being depreciated	1,544,191
Being depreciated, net of accumulated depreciation	161,521,682
Net pension asset - proportionate share	<u>4,234,978</u>
 Total Assets	 <u>190,527,265</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	24,133,706
Other postemployment benefit obligation	<u>24,240,841</u>
 Total Deferred Outflows of Resources	 <u>48,374,547</u>
 <b>LIABILITIES</b>	
Payables	
Accounts payable	332,710
Accrued liabilities	3,244,405
Due to other governments	38,137
Due to teachers' retirement system	3,898,470
Due to employees' retirement system	231,455
Compensated absences payable	419,746
Unearned credits	
Collections in advance	132,635
Long-term liabilities	
Due and payable within one year	
Bonds payable, net	9,158,212
Energy performance contract payable	466,711
Compensated absences payable	2,300,108
Due and payable after one year	
Bonds payable, net	101,732,119
Energy performance contract payable	4,871,669
Compensated absences payable	9,401,754
Workers' compensation liabilities	789,497
Net pension liability - proportionate share	1,431,399
Total other postemployment benefits obligation	<u>130,069,047</u>
 Total Liabilities	 <u>268,518,074</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions	5,831,526
Other postemployment benefits obligation	<u>4,145,950</u>
 Total Deferred Inflows of Resources	 <u>9,977,476</u>
 <b>NET POSITION (DEFICIT)</b>	
Net investment in capital assets	<u>53,645,643</u>
Restricted	
Workers' compensation	500,000
Unemployment insurance	100,000
Retirement contribution	
Teachers' retirement system	716,520
Employees' retirement system	520,707
Employee benefit accrued liability	6,850,319
Debt service	<u>1,438,674</u>
	<u>10,126,220</u>
Unrestricted (deficit)	<u>(103,365,601)</u>
 Total Net Position (Deficit)	 <u>\$ (39,593,738)</u>

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Statement of Activities**  
For the Year Ended June 30, 2019

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	Capital Grants	
<b>FUNCTIONS/PROGRAMS</b>					
General support	\$ 10,275,418	\$	\$	\$	\$ (10,275,418)
Instruction	68,695,463	1,185,996	1,791,900	148,985	(65,568,582)
Pupil transportation	4,180,262				(4,180,262)
Debt service - interest	3,743,443				(3,743,443)
Food service program	1,259,067	757,768	381,412		(119,887)
	<b>\$ 88,153,653</b>	<b>\$ 1,943,764</b>	<b>\$ 2,173,312</b>	<b>\$ 148,985</b>	<b>(83,887,592)</b>
<b>GENERAL REVENUES</b>					
Real property taxes					48,039,976
Other tax items					6,912,509
Use of money and property					131,617
Sale of property and compensation for loss					241
Miscellaneous					387,150
State sources					37,021,612
Medicaid reimbursement					67,769
					<b>92,560,874</b>
Total General Revenues					<b>92,560,874</b>
Change in Net Position					<b>8,673,282</b>
Total Net Position (Deficit) - Beginning of Year					<b>(48,267,020)</b>
Total Net Position (Deficit) - End of Year					<b>\$ (39,593,738)</b>

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
June 30, 2019

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash						
Unrestricted	\$ 9,828,088	\$ 252,691	\$ 281,378	\$	\$	\$ 10,362,157
Restricted	8,687,546			1,438,674		10,126,220
Receivables						
Accounts receivable	13,334		627			13,961
Due from other funds	1,294,757					1,294,757
Due from state and federal	1,498,710	832,765	21,889		148,985	2,502,349
Due from other governments	75,826					75,826
Inventory			3,586			3,586
<b>Total Assets</b>	<b>\$ 21,398,261</b>	<b>\$ 1,085,456</b>	<b>\$ 307,480</b>	<b>\$ 1,438,674</b>	<b>\$ 148,985</b>	<b>\$ 24,378,856</b>
<b>LIABILITIES</b>						
Payables						
Accounts payable	\$ 280,950		\$ 51,760			\$ 332,710
Accrued liabilities	2,349,665					2,349,665
Due to other funds		1,085,456	945		148,985	1,235,386
Due to other governments	37,266		871			38,137
Due to teachers' retirement system	3,898,470					3,898,470
Due to employees' retirement system	231,455					231,455
Compensated absences payable	419,746					419,746
Unearned credits						
Collections in advance	95,347		37,288			132,635
<b>Total Liabilities</b>	<b>7,312,899</b>	<b>1,085,456</b>	<b>90,864</b>	<b>-</b>	<b>148,985</b>	<b>8,638,204</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue					148,985	148,985
<b>FUND BALANCES (DEFICIT)</b>						
Nonspendable: Inventory						
Restricted:			3,586			3,586
Workers' compensation	500,000					500,000
Unemployment insurance	100,000					100,000
Retirement contribution						
Teachers' retirement system	716,520					716,520
Employees' retirement system	520,707					520,707
Employee benefit accrued liability	6,850,319					6,850,319
Debt service				1,438,674		1,438,674
Assigned:						
Appropriated fund balance	1,308,431					1,308,431
Unappropriated fund balance	227,314		213,030			440,344
Unassigned: Fund balance (deficit)	<b>3,862,071</b>				<b>(148,985)</b>	<b>3,713,086</b>
<b>Total Fund Balances (Deficit)</b>	<b>14,085,362</b>	<b>-</b>	<b>216,616</b>	<b>1,438,674</b>	<b>(148,985)</b>	<b>15,591,667</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 21,398,261</b>	<b>\$ 1,085,456</b>	<b>\$ 307,480</b>	<b>\$ 1,438,674</b>	<b>\$ 148,985</b>	<b>\$ 24,378,856</b>

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**

June 30, 2019

Total Governmental Fund Balances (Deficit)		\$ 15,591,667
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Cash held by third-party administrator is treated as a long-term asset and included in net position.	\$ 82,944	
The costs of building and acquiring capital assets (land, buildings & building improvements, furniture & equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.		
Original cost of capital assets	207,435,922	
Accumulated depreciation	<u>(44,370,049)</u>	163,148,817
Proportionate share of long-term asset and liability, and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.		
Net pension asset - teachers' retirement system	4,234,978	
Deferred outflows of resources	24,133,706	
Net pension liability - employees' retirement system	(1,431,399)	
Deferred inflows of resources	<u>(5,831,526)</u>	21,105,759
Total other postemployment benefits obligation and deferred outflows and inflows related to providing benefits in retirement are not current financial resources or obligation and are not reported in the funds.		
Deferred outflows of resources	24,240,841	
Total other postemployment benefits obligation	(130,069,047)	
Deferred inflows of resources	<u>(4,145,950)</u>	(109,974,156)
Some of the District's revenues will be collected after the year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds, but are not deferred on the Statement of Net Position.		
		148,985
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Accrued interest on bonds payable	(894,740)	
Bonds payable	(110,890,331)	
Energy performance contract payable	(5,338,380)	
Compensated absences payable	(11,701,862)	
Workers' compensation	<u>(789,497)</u>	(129,614,810)
Total Net Position (Deficit)		<u>\$ (39,593,738)</u>

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Governmental Funds**  
For the Year Ended June 30, 2019

	General	Special Aid	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Real property taxes	\$ 48,039,976	\$	\$	\$	\$	\$ 48,039,976
Other tax items	6,912,509					6,912,509
Charges for services	1,185,996					1,185,996
Use of money and property	130,666		427	524		131,617
Sale of property and compensation for loss	241					241
Miscellaneous	387,150		3,125			390,275
State sources	37,021,612	759,889	16,239			37,797,740
Medicaid reimbursement	67,769					67,769
Federal sources		1,032,011	365,173			1,397,184
Sales			754,643			754,643
<b>Total Revenues</b>	<b>93,745,919</b>	<b>1,791,900</b>	<b>1,139,607</b>	<b>524</b>	<b>-</b>	<b>96,677,950</b>
<b>EXPENDITURES</b>						
General support	7,983,092					7,983,092
Instruction	44,117,383	1,842,004				45,959,387
Pupil transportation	4,065,613	99,971				4,165,584
Employee benefits	17,454,105					17,454,105
Debt service						
Principal	8,798,332					8,798,332
Interest	4,635,113					4,635,113
Food service program			1,155,536			1,155,536
Capital outlay					173,985	173,985
<b>Total Expenditures</b>	<b>87,053,638</b>	<b>1,941,975</b>	<b>1,155,536</b>	<b>-</b>	<b>173,985</b>	<b>90,325,134</b>
Excess (Deficiency) of Revenues Over Expenditures	6,692,281	(150,075)	(15,929)	524	(173,985)	6,352,816
<b>OTHER FINANCING SOURCES AND (USES)</b>						
Operating transfers in		150,075	17,276	1,438,150		1,605,501
Operating transfers (out)	(167,351)				(1,438,150)	(1,605,501)
<b>Total Other Financing Sources and (Uses)</b>	<b>(167,351)</b>	<b>150,075</b>	<b>17,276</b>	<b>1,438,150</b>	<b>(1,438,150)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>6,524,930</b>	<b>-</b>	<b>1,347</b>	<b>1,438,674</b>	<b>(1,612,135)</b>	<b>6,352,816</b>
Fund Balances (Deficit) - Beginning of Year	7,560,432		215,269		1,463,150	9,238,851
<b>End of Year</b>	<b>\$ 14,085,362</b>	<b>\$ -</b>	<b>\$ 216,616</b>	<b>\$ 1,438,674</b>	<b>\$ (148,985)</b>	<b>\$ 15,591,667</b>

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and**  
**Changes in Fund Balances to the Statement of Activities**  
For the Year Ended June 30, 2019

Net Change in Fund Balances \$ 6,352,816

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

**Long-Term Revenue and Expense Differences**

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) are being held by a third-party administrator. This is the amount by which cash held by third-party increased administrator increased in the period. \$ 82,944

In the Statement of Activities, certain operating revenues are measured by the amounts earned during the year. In the governmental funds, however, revenue for these items are measured by the amount of financial resources provided (essentially, the amounts actually received). 148,985

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in a reduction of the long-term liability and an increase in the net position.

Decrease in workers' compensation liabilities 9,925

Certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, but are expensed in the Statement of Activities.

Increase in compensated absences payable (170,901) 70,953

**Capital Related Differences**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expense in the Statement of Activities. This is the amount by which, depreciation exceeded capital outlays in the period.

Capital outlays 178,980  
Depreciation expense (3,185,511) (3,006,531)

**Long-Term Debt Transactions Differences**

The amortization of the deferred premium on the advance refunding of bonds decreases interest expense in the Statement of Activities. 488,212

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

Repayment of bond principal 8,345,000  
Repayment of energy performance contract payable 453,332

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which accrued interest decreased from June 30, 2018 to June 30, 2019. 403,458

9,690,002

**Pension and Other Postemployment Differences**

The change in the proportionate share of the collective pension expense of the state retirement plans and the change in other postemployment benefits expense reported in the Statement of Activities did not affect current financial resources and, therefore, are not reported in the governmental funds.

Teachers' retirement system 253,876  
Employees' retirement system (45,831)  
Other postemployment benefits (4,642,003) (4,433,958)

Change in Net Position of Governmental Activities \$ 8,673,282

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position -**  
**Fiduciary Funds**  
June 30, 2019

	Agency	Private Purpose Trust
<b>ASSETS</b>		
Cash		
Unrestricted	\$ 265,864	\$
Restricted		17,147
Accounts receivable		3,550
Total Assets	\$ 265,864	20,697
 <b>LIABILITIES</b>		
Extraclassroom activity balances	\$ 153,026	
Due to governmental funds	59,371	
Other liabilities	53,467	
Total Liabilities	\$ 265,864	-
 <b>NET POSITION</b>		
Restricted for scholarships		\$ 20,697

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Position -**  
**Fiduciary Funds**  
For the Year Ended June 30, 2019

	Private Purpose Trust
<b>ADDITIONS</b>	
Investment earnings - interest	\$ 2,903
<b>DEDUCTIONS</b>	
Scholarships and awards	-
Change in Net Position	2,903
Net Position - Beginning of Year	17,794
Net Position - End of Year	\$ 20,697



**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of 7 members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

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

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following entity is included in the District's financial statements:

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. The District reports these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Position - Fiduciary Funds. Separate audited financial statements of the extraclassroom activity funds can be found at the District's Business Office.

**B. Joint Venture**

The District is a component district in the Board of Cooperative Educational Services of Eastern Suffolk (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities. BOCES are organized under Section §1950 of the Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section §1950 of the Education Law. All BOCES property is held by the BOCES Board as a corporation under Section §1950(6). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section §119-n(a) of the General Municipal Law. A BOCES budget is comprised of separate budgets for

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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administrative, program, and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment as defined in Education Law, Section §1950(4)(b)(7). There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate.

**C. Basis of Presentation**

District-Wide Financial Statements

The Statement of Net Position and the Statement of Activities present information about the overall governmental financial activities of the District, except for fiduciary activities. Eliminations have been made to minimize the double counting of interfund transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while capital grants reflect capital-specific grants, if applicable.

The Statement of Net Position presents the financial position of the District at fiscal year end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Employee benefits are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including real property taxes and state aid, are presented as general revenues.

Fund Financial Statements

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

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

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

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

**School Food Service Fund** - is used to account for the activities of the food service program.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

***Fiduciary Funds*** - are used to account for activities in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the district-wide financial statements, because their resources do not belong to the District, and are not available to be used to finance District operations. The following are the District's fiduciary funds:

***Agency Funds*** - These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

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

**D. Measurement Focus and Basis of Accounting**

Accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, pension costs and other postemployment benefits, 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 are reported as other financing sources.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**E. Real Property Taxes**

Calendar

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

Enforcement

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

**F. Restricted Resources**

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

**G. Interfund Transactions**

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include transfers to provide financing or other services. This includes the transfer of unrestricted general fund revenues to finance various programs that the District must account for in other funds in accordance with budgetary authorizations.

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

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

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

**H. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingencies at the date of the financial statements and the reported revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including compensated absences,

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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other postemployment benefits, workers' compensation liabilities, potential contingent liabilities and useful lives of long-lived assets.

**I. Cash and Cash Equivalents/Investments**

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

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

**J. Receivables**

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

**K. Inventory**

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

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

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

**L. Capital Assets**

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

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

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 2,000	50 years
Furniture and equipment	2,000	5-10 years

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**M. Deferred Outflows of Resources**

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. The District has two items that qualify for reporting in this category. First is related to pensions and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense. The second item is the District's contributions to the pension systems (TRS and ERS) subsequent to the measurement date.

**N. Collections in Advance**

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

**O. Deferred Inflows of Resources**

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. First is unavailable revenues reported in the governmental funds when potential revenues do not meet the availability criterion for recognition in the current period. This includes receivables of certain state aid allocations related to the SMART Schools Bond Act. In subsequent periods, when the availability criterion is met, unavailable revenues are reclassified as revenues. In the District-wide financial statements, unavailable revenues are treated as revenues. The second item is related to pensions reported in the district-wide Statement of Net Position and consists of the District's proportionate share of changes in the collective net pension asset or liability not included in collective pension expense. The third item is related to OPEB reported in the district-wide Statement of Net Position. This represents the effect of the net changes of assumptions or other inputs.

**P. Employee Benefits – Compensated Absences**

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

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

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.

Certain collectively bargained agreements require these payments to be paid in the form of non-elective contributions into the employee's 403(b) plan.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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The liability for compensated absences has been calculated using the vesting method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the fund financial statements, a liability is reported only for payments due for unused compensated absences for those employees that have obligated themselves to separate from service with the District by June 30<sup>th</sup>.

**Q. Other Benefits**

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

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

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

In addition to providing these benefits, the District provides postemployment health insurance coverage and survivor benefits for most retired employees and their survivors. Collective bargaining agreements and individual employment contracts determine if District employees are eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the governmental funds as the liabilities for premiums mature (come due for payment). In the district-wide statements, the cost of postemployment health insurance coverage is recognized on the economic resources measurement focus and the accrual basis of accounting in accordance with GASB Statement No. 75.

**R. Short-Term Debt**

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

The District may issue bond anticipation notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

**S. Equity Classifications**

District-Wide Statements

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

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

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

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

**Fund Statements**

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

*Nonspendable* – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of inventory, which is recorded in the school food service fund.

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

*Workers' Compensation Reserve*

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

*Unemployment Insurance Reserve*

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



**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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*Retirement Contribution Reserve*

Retirement Contribution Reserve (GML §6-r) is used for the purpose of financing retirement contributions payable to the New York State Teachers' Retirement System and the New York State and Local Employees' Retirement System. The Board, by resolution, may establish the reserve and authorize expenditures from the reserve. The reserve is funded by budgetary appropriations or taxes raised for the reserve, revenues that are not required by law to be paid into any other fund or account, transfers from reserves and other funds that may legally be appropriated. Effective April 1, 2019, a board may adopt a resolution establishing a sub-fund for contributions to the New York State Teachers' Retirement System. During a fiscal year, the Board may authorize payment into the sub-fund of up to 2% of the total covered salaries paid during the preceding fiscal year, with the total amount funded not to exceed 10% of the total covered salaries during the preceding fiscal year. The sub-fund is separately administered, but must comply with all the existing provisions of General Municipal Law §6-r. These reserves are accounted for in the general fund.

*Employee Benefit Accrued Liability Reserve*

Employee Benefit Accrued Liability Reserve (GML §6-p) is used to reserve funds for the payment of accrued employee benefit primarily based on unused and unpaid sick leave, personal leave, holiday leave or vacation time due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the general fund.

*Restricted for Debt Service*

Unexpended balances of proceeds of borrowings for capital projects, interest and earnings from investing proceeds of obligations, and premiums and accrued interest on long-term borrowings are recorded in the debt service fund and held until appropriated for debt payments. These restricted amounts are accounted for in the debt service fund.

*Restricted for Scholarships*

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

*Assigned* – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the District's Board of Education. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance also includes an amount appropriated to partially fund the subsequent year's budget, as well as encumbrances not classified as restricted at the end of the fiscal year.

*Unassigned* – Represents the residual classification for the District's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification is used to report a deficit fund balance resulting from overspending of available resources. NYS Real Property Tax Law §1318, restricts the unassigned fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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Fund Balance Classification

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

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

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned) the 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 assigned fund balance to the extent that there is an appropriation and then from the unassigned fund balance.

**T. New Accounting Standards**

The District has adopted and implemented Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019. This statement improves the information that is disclosed in the notes to financial statements related to debt.

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

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

**A. Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities**

Total fund balances of the District's governmental funds differ from net position of governmental activities reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the governmental fund Balance Sheet, as applied to the reporting of capital assets and long-term assets and liabilities.

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

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

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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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 current financial resources measurement focus and the modified accrual basis, whereas the economic resources measurement focus and the accrual basis of accounting is used on the Statement of Activities, thereby affecting expenses such as compensated absences.

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

Pension and Other Postemployment Benefits Differences

Pension differences occur as a result of recognizing pension costs using the current financial resources measurement focus and the modified accrual basis of accounting, whereby an expenditure is recognized based on the contractually required contribution as calculated by the plan, versus the economic resources measurement focus and the accrual basis of accounting, whereby an expense is recognized related to the District's proportionate share of the collective pension expense of the plan.

Other postemployment benefit differences occur as a result of recognizing OPEB costs using the current financial resources measurement focus and the modified accrual basis of accounting, whereby an expenditure is recognized for premiums and other postemployment benefit costs as they mature (come due for payment), versus the economic resources measurement focus and the accrual basis of accounting, whereby an expense is recognized related to the future cost of benefits in retirement over the term of employment.

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

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

The voters of the District approved the proposed appropriation budget for the general fund.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

Contingent expenses funded by gifts and donations	<u>\$ 46,039</u>
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Budgets are adopted annually on a basis consistent with GAAP.

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

**B. Encumbrances**

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as part of assigned fund balance, unless classified as restricted, and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

**C. Capital Projects Fund**

The capital projects fund has an unassigned fund balance deficit of \$148,985. This will be funded when the District receives reimbursement for amounts expended for capital improvements under the SMART Schools Bond Act.

**4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

The District's investment policies are governed by state statutes and District policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its Agencies and obligations of New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the District may be unable to recover deposits or collateral securities that are in possession of an outside agency. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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- A. Uncollateralized,
- B. Collateralized by securities held by the pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the District's name.

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

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.

**5. PARTICIPATION IN BOCES**

During the year ended June 30, 2019, the District was billed \$3,762,143 for BOCES administrative and program costs. The District's share of BOCES aid amounted to \$1,370,092. Financial statements for the BOCES are available from the BOCES administrative offices at 201 Sunrise Highway, Patchogue, New York 11772.

**6. DUE FROM STATE AND FEDERAL**

Due from state and federal at June 30, 2019 consisted of:

General Fund	
New York State - excess cost aid	\$ 828,059
BOCES Aid	616,542
Medicaid	54,109
	<u>1,498,710</u>
Special Aid Fund	
Federal and state grants	832,765
School Food Service Fund	
Federal and state food service program reimbursements	21,889
Capital Fund	
SMART Schools Bond Act grant	148,985
	<u>\$ 2,502,349</u>

**7. DUE FROM OTHER GOVERNMENTS**

Due from other governments at June 30, 2019 consisted of:

General Fund	
Alternative high school tuition	\$ 6,216
Foster tuition	9,009
Other districts - tuition and health services	60,601
	<u>\$ 75,826</u>

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**8. CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2019 were as follows:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,395,205	\$	\$	\$ 1,395,205
Construction in progress	50,536,076	148,985	(50,536,075)	148,986
Total capital assets not being depreciated	51,931,281	148,985	(50,536,075)	1,544,191
Capital assets being depreciated				
Buildings & building improvements	152,879,635	50,561,075		203,440,710
Furniture & equipment	2,473,289	4,995	(27,263)	2,451,021
Total capital assets being depreciated	155,352,924	50,566,070	(27,263)	205,891,731
Less accumulated depreciation for:				
Buildings & building improvements	38,923,639	3,150,263		42,073,902
Furniture & equipment	2,288,162	35,248	(27,263)	2,296,147
Total accumulated depreciation	41,211,801	3,185,511	(27,263)	44,370,049
Total capital assets, being depreciated, net	114,141,123	47,380,559	-	161,521,682
Capital assets, net	<u>\$166,072,404</u>	<u>\$ 47,529,544</u>	<u>\$ (50,536,075)</u>	<u>\$163,065,873</u>

Depreciation expense was charged to governmental functions as follows:

General support	\$ 7,654
Instruction	3,176,413
Food service program	1,444
Total depreciation expense	<u>\$ 3,185,511</u>

**9. INTERFUND TRANSACTIONS**

Interfund balances and activities at June 30, 2019, are as follows:

	Interfund			
	Receivable	Payable	Transfers In	Transfers Out
General Fund	\$ 1,294,757	\$	\$	\$ 167,351
Special Aid Fund		1,085,456	150,075	
School Lunch Fund		945	17,276	
Debt Service Fund			1,438,150	
Capital Projects Fund		148,985		1,438,150
Total Governmental Funds	1,294,757	1,235,386	<u>\$ 1,605,501</u>	<u>\$ 1,605,501</u>
Fiduciary Funds		59,371		
Total	<u>\$ 1,294,757</u>	<u>\$ 1,294,757</u>		

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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The District typically transfers from the general fund to the special aid fund and school food service fund. The transfer to the special aid fund was for the District's share of the costs for the summer program for students with disabilities and the state-supported Section 4201 schools. The transfer to the school food service fund was to provide support for the program for the amount of uncollectible receivables. The transfer to the debt service fund was the amount of unexpended bond proceeds from completed capital improvement projects.

**10. SHORT-TERM DEBT**

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

	<u>Maturity</u>	<u>Stated Interest Rate</u>	<u>Balance June 30, 2018</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2019</u>
TAN	2/6/2019	2.50%	\$	\$ 11,500,000	\$ (11,500,000)	\$
TAN	6/25/2019	1.77%		1,000,000	(1,000,000)	
TAN	6/25/2019	2.75%		9,300,000	(9,300,000)	
			<u>\$ -</u>	<u>\$ 21,800,000</u>	<u>\$ (21,800,000)</u>	<u>\$ -</u>

Interest on short-term debt for the year was \$330,563. The District received premiums of \$90,462, which are included in miscellaneous revenue in the general fund.

**11. LONG-TERM LIABILITIES**

**A. Changes**

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

	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>	<u>Amounts Due Within One Year</u>
Long-term debt:					
Bonds payable	\$ 113,865,000	\$	\$ (8,345,000)	\$ 105,520,000	\$ 8,670,000
Add: Premium on refunding	5,858,543		(488,212)	5,370,331	488,212
	<u>119,723,543</u>		<u>(8,833,212)</u>	<u>110,890,331</u>	<u>9,158,212</u>
Energy performance contract	5,791,712		(453,332)	5,338,380	466,711
	<u>125,515,255</u>		<u>(9,286,544)</u>	<u>116,228,711</u>	<u>9,624,923</u>
Other long-term liabilities					
Compensated absences	11,530,961	170,901		11,701,862	2,300,108
Workers' compensation	799,422	482,592	(492,517)	789,497	
	<u>12,330,383</u>	<u>653,493</u>	<u>(492,517)</u>	<u>12,491,359</u>	<u>2,300,108</u>
	<u>\$ 137,845,638</u>	<u>\$ 653,493</u>	<u>\$ (9,779,061)</u>	<u>\$ 128,720,070</u>	<u>\$ 11,925,031</u>

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

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**B. Bonds Payable**

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2019
Serial bond	9/8/2010	9/1/2030	2.0-3.5%	\$ 16,615,000
Serial bond	8/1/2011	8/1/2031	2.0-4.0%	13,455,000
Serial bond - refunding	10/31/2012	6/1/2030	2.0-5.0%	23,240,000
Serial bond	8/1/2013	8/1/2043	4.0-4.5%	8,275,000
Serial bond	8/18/2014	2/15/2043	3.0-3.75%	13,840,000
Serial bond - refunding	5/4/2016	8/1/2029	2.0-4.0%	<u>30,095,000</u>
				<u>\$ 105,520,000</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 8,670,000	\$ 3,834,653	\$ 12,504,653
2021	9,015,000	3,518,952	12,533,952
2022	9,380,000	3,190,592	12,570,592
2023	9,710,000	2,831,993	12,541,993
2024	9,655,000	2,466,531	12,121,531
2025 - 2029	37,360,000	7,505,885	44,865,885
2030 - 2034	10,820,000	2,838,888	13,658,888
2035 - 2039	5,345,000	1,724,378	7,069,378
2040 - 2044	<u>5,565,000</u>	<u>580,500</u>	<u>6,145,500</u>
Total	<u>\$105,520,000</u>	<u>\$ 28,492,372</u>	<u>\$134,012,372</u>

**C. Advance Refunding**

In the district-wide statements, the District is amortizing refunding bond premiums as a component of interest expense on a straight-line basis as follows:

Fiscal Year Ending June 30,	Amortization of Premium
2020	\$ 488,212
2021	488,212
2022	488,212
2023	488,212
2024	488,212
2025 - 2029	2,441,060
2030	<u>488,211</u>
Total	<u>\$ 5,370,331</u>



**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
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**D. Energy Performance Contract**

Energy performance contract is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at June 30, 2019
Energy performance contract	10/15/2014	4/15/2029	2.93%	<u>\$ 5,338,380</u>

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

Year Ending June 30,	Principal	Interest	Total
2020	\$ 466,711	\$ 153,021	\$ 619,732
2021	480,486	139,246	619,732
2022	494,668	125,065	619,733
2023	509,268	110,465	619,733
2024	524,298	95,434	619,732
2025 - 2029	<u>2,862,949</u>	<u>235,713</u>	<u>3,098,662</u>
Total	<u>\$ 5,338,380</u>	<u>\$ 858,944</u>	<u>\$ 6,197,324</u>

**E. Interest Expense**

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

Interest paid	\$ 4,304,550
Less interest accrued in the prior year	(1,298,198)
Plus interest accrued in the current year	894,740
Less amortization of premium on refunding	<u>(488,212)</u>
Total interest expense on long-term debt	<u>\$ 3,412,880</u>

**12. PENSION PLANS – NEW YORK STATE**

**A. General Information**

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

**B. Provisions and Administration**

Teachers' Retirement System

The TRS is administered by the New York State Teachers' Retirement Board. The TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in the TRS. Once a public employer elects to participate in the TRS, the election is irrevocable. The New York State Constitution provides that pension membership is a

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
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contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the TRS may be found on the TRS website at [www.nystrs.org](http://www.nystrs.org) or obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System

Obligations of employers and employees to contribute and benefits to employees are governed by the NYSRSSL. The net position of the ERS is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the ERS. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as the trustee of the fund and is the administrative head of the ERS. Once a public employer elects to participate in the ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found on the NYS Comptroller's website at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

**C. Funding Policies**

Plan members who joined the systems before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary to ERS or 3.5% of their salary to TRS throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. For the TRS, the employers' contribution rate is established annually by the New York State Teachers' Retirement Board for the TRS' fiscal year ended June 30<sup>th</sup>, and employer contributions are deducted from state aid in the subsequent months of September, October and November. For the ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31<sup>st</sup>, and employer contributions are either paid by the prior December 15<sup>th</sup> less a 1% discount or by the prior February 1<sup>st</sup>. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year. The District's contribution rate was 9.80% of covered payroll for the TRS' fiscal year ended June 30, 2018. The District's average contribution rate was 14.59% of covered payroll for the ERS' fiscal year ended March 31, 2019.

The District's share of the required contributions, based on covered payroll for the District's year ended June 30, 2019 was \$3,783,971 for TRS and \$903,365 for ERS.

**D. Pension Asset/(Liability), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2019, the District reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for each of the systems. The net pension asset/(liability) was measured as of June 30, 2018 for TRS and March 31, 2019 for ERS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The District's proportion of the net

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pension asset/(liability) was based on a projection of the District's long-term share of contributions to the systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and the ERS in reports provided to the District.

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2018	March 31, 2019
District's proportionate share of the net pension asset/(liability)	\$ 4,234,978	\$ (1,431,399)
District's portion of the Plan's total net pension asset/(liability)	0.2342010%	0.0202024%
Change in proportion since the prior measurement date	(0.0082810)	(0.0003338)

For the year ended June 30, 2019, the District recognized pension expense of \$3,530,095 for TRS and \$948,195 for ERS. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>
Differences between expected and actual experience	\$ 3,164,765	\$ 281,872	\$ 573,262	\$ 96,087
Changes of assumptions	14,804,027	359,795		
Net difference between projected and actual earnings on pension plan investments			4,701,148	367,376
Changes in proportion and differences between the District's contributions and proportionate share of contributions	1,352,367	155,794	40,754	52,899
District's contributions subsequent to the measurement date	<u>3,783,631</u>	<u>231,455</u>		
Total	<u>\$ 23,104,790</u>	<u>\$ 1,028,916</u>	<u>\$ 5,315,164</u>	<u>\$ 516,362</u>

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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Year Ending June 30,	TRS	ERS
2020	\$ 4,489,804	\$ 327,818
2021	3,126,957	(261,656)
2022	548,882	1,216
2023	3,116,979	213,721
2024	2,158,593	
Thereafter	564,780	
	<u>\$ 14,005,995</u>	<u>\$ 281,099</u>

Actuarial Assumptions

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

	TRS	ERS
Measurement date	June 30, 2018	March 31, 2019
Actuarial valuation date	June 30, 2017	April 1, 2018
Inflation	2.25%	2.50%
Salary increases	1.90-4.72%	4.20%
Investment rate of return (net of investment expense, including inflation)	7.25%	7.00%
Cost of living adjustments	1.50%	1.30%

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. Active member mortality rates are based on plan member experience. For ERS, annuitant mortality rates are based on system experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014.

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

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

For ERS, the long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

	TRS		ERS	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Measurement date		June 30, 2018		March 31, 2019
Asset type				
Domestic equity	33.0%	5.80%	36.0%	4.55%
International equity	16.0%	7.30%	14.0%	6.35%
Global equity	4.0%	6.70%		
Real estate	11.0%	4.90%	10.0%	5.55%
Private equities	8.0%	8.90%	10.0%	7.50%
Alternatives investments			8.0%	3.75-5.68%
Domestic fixed income securities	16.0%	1.30%		
Global fixed income securities	2.0%	0.90%		
High-yield fixed income securities	1.0%	3.50%		
Bonds and mortgages	8.0%	2.80-6.80%	17.0%	1.31%
Short-term	1.0%	0.30%		
Cash			1.0%	(0.25)%
Inflation indexed bonds			4.0%	1.25%
	100.0%		100.0%	

Real rates of return are net of a long-term inflation assumption of 2.3% for TRS and 2.5% for ERS.

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for TRS and 7.0% for ERS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Asset/(Liability) to the Discount Rate Assumption

The following presents the District's proportionate share of the net pension asset/(liability) calculated using the discount rate of 7.25% for TRS and 7.0% for ERS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.25% for TRS and 6.0% for ERS) or 1 percentage point higher (8.25% for TRS and 8.0% for ERS) than the current rate:

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TRIS	1% Decrease (6.25)%	Current Assumption (7.25)%	1% Increase (8.25)%
District's proportionate share of the net pension asset (liability)	\$ (29,094,992)	\$ 4,234,978	\$ 32,156,231
ERS	1% Decrease (6.00)%	Current Assumption (7.00)%	1% Increase (8.00)%
District's proportionate share of the net pension asset (liability)	\$ (6,258,304)	\$ (1,431,399)	\$ 2,623,544

Pension Plan Fiduciary Net Position

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

	TRIS	ERS
	<i>(Dollars in Thousands)</i>	
Measurement date	June 30, 2018	March 31, 2019
Employers' total pension liability	\$ (118,107,254)	\$ (189,803,429)
Plan fiduciary net position	119,915,518	182,718,124
Employers' net pension asset/(liability)	\$ 1,808,264	\$ (7,085,305)
Ratio of plan fiduciary net position to the employers' total pension liability	101.53%	96.27%

Payables to the Pension Plan

For TRS, employer and employee contributions for the fiscal year ended June 30, 2019, are paid to the system in September, October and November 2019 through a state aid intercept. Accrued retirement contributions as of June 30, 2019, represent employer and employee contributions for the fiscal year ended June 30, 2019, based on paid TRS covered wages multiplied by the employer's contribution rate and employee contributions for the fiscal year as reported to the TRS. Accrued retirement contributions as of June 30, 2019 amounted to \$3,783,971 of employer contributions and \$114,499 of employee contributions.

For ERS, employer contributions are paid annually based on the system's fiscal year, which ends on March 31st. Accrued retirement contributions as of June 30, 2019, represent the projected employer contribution for the period of April 1, 2017 through June 30, 2019 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2019 amounted to \$231,455 of employer contributions. Employee contributions are remitted monthly.

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**13. PENSION PLANS - OTHER**

**A. Tax Sheltered Annuities**

The District has adopted a 403(b) plan covering all eligible employees. Employees may defer up to 100% of their compensation subject to Internal Revenue Code elective deferral limitations. The District may also make non-elective contributions of certain compensated absence payments based on collectively bargained agreements. Contributions made by the District and the employees for the year ended June 30, 2019, totaled \$415,905 and \$1,991,695, respectively.

**B. Deferred Compensation Plan**

The District has established a deferred compensation plan in accordance with Internal Revenue Code §457 for all employees. The District makes no contributions into this Plan. The amount deferred by eligible employees for the year ended June 30, 2019 totaled \$180,005.

**14. POSTEMPLOYMENT HEALTHCARE BENEFITS**

**A. General Information about the OPEB Plan**

*Plan Description* – The District’s defined benefit OPEB plan, provides OPEB for all permanent full-time employees of the District. The plan is a single-employer defined benefit OPEB plan administered by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

*Benefits Provided* – The District provides healthcare and prescription drug plans for retirees and their dependents. The benefit terms are dependent on which contract each employee falls under. The specifics of each contract are on file at the District offices and are available upon request.

*Employees Covered by Benefit Terms* – At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	127
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	397
	524

**B. Total OPEB Liability**

The District’s total OPEB liability of \$130,069,047 was measured as of June 30, 2019, and was determined by an actuarial valuation as of June 30, 2018.

*Actuarial Assumptions and Other Inputs* – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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Inflation	3.00%
Salary increases	2.9-10% including inflation
Discount rate	3.51%
Healthcare cost trend rates	5.50% for 2019, decreasing to an ultimate rate of 3.84 % by 2075
Retirees' share of benefit-related costs	20.00% Teachers 25.00% Administrators 50.00% Nurses , clerical, and custodial

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Mortality rates were based on Pub-2010 Headcount-Weighted Table (Teachers for TRS group and General Employees for ERS group) projected fully generationally using Society of Actuaries' Scale MP-2018.

**C. Changes in the Total OPEB Liability**

Balance at June 30, 2018	<u>\$ 100,753,396</u>
Changes for the year	
Service cost	3,230,635
Interest	3,993,166
Changes of benefit terms	(2,734,466)
Differences between expected and actual experience	341,648
Changes in assumptions or other inputs	26,102,906
Benefit payments	<u>(1,618,238)</u>
	<u>29,315,651</u>
Balance at June 30, 2019	<u>\$ 130,069,047</u>

Changes of assumptions and other inputs is based on several factors including an increased inflation rate, a lower discount rate, a change in the mortality rates, and termination and retirement rates per the actuarial valuation report.

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate* – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.51%) or 1 percentage point higher (4.51%) than the current discount rate:

OPEB	1% Decrease ( 2.51%)	Discount Rate ( 3.51%)	1% Increase ( 4.51%)
Total OPEB liability	<u>\$ (166,966,199)</u>	<u>\$ (130,069,047)</u>	<u>\$ (115,970,075)</u>



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*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates* - The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4.50%) or 1 percentage point higher (6.50%) than the current healthcare cost trend rate:

	1% Decrease (4.50%) decreasing to 2.84%)	Healthcare Cost Trend Rates ( 5.50% decreasing to 3.84%)	1% Increase ( 6.50% decreasing to 4.84%)
OPEB			
Total OPEB liability	<u>\$ (110,503,787)</u>	<u>\$ (130,069,047)</u>	<u>\$ (175,813,338)</u>

**D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2019, the District recognized OPEB expense of \$6,260,241. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred	
	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$ 313,177	\$
Changes of assumptions	<u>23,927,664</u>	<u>4,145,950</u>
Total	<u>\$ 24,240,841</u>	<u>\$ 4,145,950</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2020	\$ 1,770,906
2021	1,770,906
2022	1,770,906
2023	1,770,906
2024	1,770,906
Thereafter	<u>11,240,361</u>
	<u>\$ 20,094,891</u>

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
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**15. RISK MANAGEMENT**

**A. General Information**

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

**B. Public Entity Risk Pool**

The District participates in a risk pool, the East End Workers' Compensation Consortium (EEWCC), to insure workers' compensation claims. This public entity risk pool was created under Article 5 of Workers' Compensation Law, to evaluate, process, administer, and pay workers' compensation claims. The District retains the risk of loss.

The District pays an annual assessment to the pool for its workers' compensation claims coverage and related expenses. The EEWCC has obtained an excess compensation insurance policy to buffer the effect that a single large claim may have on the District's loss experience. The EEWCC established a non-discounted liability for both reported and unreported insured events, which includes estimates of both future payments or losses and related claim adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported.

The District's liability for incurred but unpaid claims and incurred but not reported claims at June 30, 2019, as processed by the EEWCC, is \$ 789,497. Claims activity is summarized as follows:

	2018	2019
Unpaid claims at beginning of year	\$ 718,214	\$ 799,422
Incurred claims and claim adjustment expenses	368,397	482,592
Claim payments	(287,189)	(492,517)
Unpaid claims at year end	\$ 799,422	\$ 789,497

The EEWCC is holding \$82,944 of cash on account for the District to satisfy these liabilities at June 30, 2019. In addition, the District has reserved \$500,000 in the general fund for potential supplemental assessments due to catastrophic losses and future claims.

The EEWCC has issued financial statements for the year ended June 30, 2019. Copies of these statements can be obtained from the District's Business Office.

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**16. ASSIGNED: APPROPRIATED FUND BALANCE**

The amount of \$1,308,431 has been appropriated to reduce taxes for the year ending June 30, 2020.

**17. TAX ABATEMENTS**

The Town of Brookhaven Industrial Development Agency enters into various property tax abatement programs for the purpose of economic development. The amount by which the Districts property tax revenue was reduced as a result of these abatements was not readily available. The District received payment in lieu of tax (PILOT) revenues of \$725,264 as of June 30, 2019 .

**18. COMMITMENTS AND CONTINGENCIES**

**A. Encumbrances**

All encumbrances are classified as either restricted or assigned fund balance. At June 30, 2019, the District encumbered the following amounts:

Assigned: Unappropriated Fund Balance:	
General Fund	
General support	<u>\$ 227,314</u>

**B. Grants**

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

**C. Litigation**

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

**D. Operating Leases**

The District leases various equipment under non-cancelable operating leases. Rental expense for the year was \$274,802. The minimum remaining operating lease payments are as follows:

Year Ending June 30,	Amount
2020	\$ 274,801
2021	193,037
2022	138,697
2023	23,116
	\$ 629,651

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**19. 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. Issuance of Refunding Bonds**

On August 28, 2019, the District issued refunding bonds in the amount of \$13,055,000 in order to advance refund the 2010 serial bonds in the amount of \$14,720,000. The net present value of the savings in debt service payments over the repayment period is \$1,088,837.

**B. Issuance of TANs**

On August 27, 2019, the District issued tax anticipation notes in the amount of \$16,500,000, which are due March 26, 2020 and bear interest at a stated rate of 2%. The District received a premium of \$75,572 with the borrowing to yield an effective interest rate of 1.21%.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund**  
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
<b>REVENUES</b>				
Local Sources				
Real property taxes	\$ 47,866,936	\$ 48,041,136	\$ 48,039,976	\$ (1,160)
Other tax items	7,067,882	6,893,682	6,912,509	18,827
Charges for services	1,165,000	1,165,000	1,185,996	20,996
Use of money and property	32,300	32,300	130,666	98,366
Sale of property and compensation for loss			241	241
Miscellaneous	60,000	106,039	387,150	281,111
<b>Total Local Sources</b>	<b>56,192,118</b>	<b>56,238,157</b>	<b>56,656,538</b>	<b>418,381</b>
State Sources	37,281,766	37,281,766	37,021,612	(260,154)
Medicaid Reimbursement	28,500	28,500	67,769	39,269
<b>Total Revenues</b>	<b>93,502,384</b>	<b>93,548,423</b>	<b>93,745,919</b>	<b>\$ 197,496</b>
<b>APPROPRIATED FUND BALANCE</b>				
Prior Year's Encumbrances	34,379	34,379		
<b>Total Revenues and and Appropriated Fund Balance</b>	<b>\$ 93,536,763</b>	<b>\$ 93,582,802</b>		

**Note to Required Supplementary Information**

Budget Basis of Accounting

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

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - General Fund (Continued)**  
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Year End Encumbrances	Final Budget Variance with Actual & Encumbrances
<b>EXPENDITURES</b>					
General Support					
Board of education	\$ 32,459	\$ 36,284	\$ 31,618	\$	\$ 4,666
Central administration	287,209	342,534	339,836		2,698
Finance	885,744	957,156	910,665	32,340	14,151
Staff	594,413	594,455	506,507		87,948
Central services	6,110,718	6,437,970	5,461,644	194,974	781,352
Special items	762,945	761,878	732,822		29,056
<b>Total General Support</b>	<b>8,673,488</b>	<b>9,130,277</b>	<b>7,983,092</b>	<b>227,314</b>	<b>919,871</b>
Instruction					
Administration & improvement	2,973,122	2,716,022	2,626,940		89,082
Teaching - regular school	22,678,724	23,173,765	22,723,166		450,599
Programs for students with disabilities	14,173,793	13,993,748	12,072,713		1,921,035
Occupational education	1,528,382	1,489,935	1,455,700		34,235
Teaching - special schools	436,051	422,015	294,492		127,523
Instructional media	1,495,560	1,469,620	1,231,042		238,578
Pupil services	3,890,897	3,834,129	3,713,330		120,799
<b>Total Instruction</b>	<b>47,176,529</b>	<b>47,099,234</b>	<b>44,117,383</b>	<b>-</b>	<b>2,981,851</b>
Pupil Transportation	4,327,048	4,361,859	4,065,613		296,246
Employee Benefits	19,735,665	19,364,838	17,454,105		1,910,733
Debt Service					
Principal	8,798,332	8,798,332	8,798,332		-
Interest	4,664,551	4,649,836	4,635,113		14,723
<b>Total Debt Service</b>	<b>13,462,883</b>	<b>13,448,168</b>	<b>13,433,445</b>	<b>-</b>	<b>14,723</b>
<b>Total Expenditures</b>	<b>93,375,613</b>	<b>93,404,376</b>	<b>87,053,638</b>	<b>227,314</b>	<b>6,123,424</b>
<b>OTHER USES</b>					
Operating Transfers Out	161,150	178,426	167,351		11,075
<b>Total Expenditures and Other Uses</b>	<b>\$ 93,536,763</b>	<b>\$ 93,582,802</b>	<b>87,220,989</b>	<b>\$ 227,314</b>	<b>\$ 6,134,499</b>
Net Change in Fund Balance			6,524,930		
Fund Balance - Beginning of Year			7,560,432		
Fund Balance - End of Year			<b>\$ 14,085,362</b>		

**Note to Required Supplementary Information**

**Budget Basis of Accounting**

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

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Schedule of the District's Proportionate Share of the Net Pension Asset/(Liability)**  
 Last Six Fiscal Years

<i>Teachers' Retirement System</i>						
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension asset/(liability)	0.2342010%	0.2424820%	0.2532240%	0.2590200%	0.2627800%	0.2498070%
District's proportionate share of the net pension asset/(liability)	\$ 4,234,978	\$ 1,843,103	\$ (2,712,131)	\$ 26,903,951	\$ 29,266,268	\$ 1,644,366
District's covered payroll	\$ 38,346,402	\$ 38,584,315	\$ 40,438,968	\$ 40,139,543	\$ 40,161,074	\$ 37,902,373
District's proportionate share of the net pension asset/(liability) as a percentage of its covered payroll	11.04 %	4.78 %	6.71 %	67.03 %	72.87 %	4.34 %
Plan fiduciary net position as a percentage of the total pension liability	101.53%	100.66%	99.01%	110.46%	111.48%	100.70%
<i>Employees' Retirement System</i>						
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0202024%	0.0205362%	0.0209932%	0.0224217%	0.0219618%	0.0219618%
District's proportionate share of the net pension liability	\$ (1,431,399)	\$ (662,796)	\$ (1,972,564)	\$ (3,598,745)	\$ (741,922)	\$ (992,421)
District's covered payroll	\$ 6,102,252	\$ 6,285,929	\$ 6,050,307	\$ 6,145,861	\$ 5,993,029	\$ 5,821,976
District's proportionate share of the net pension liability as a percentage of its covered payroll	(23.46)%	10.54 %	32.60 %	58.56 %	12.38 %	17.05 %
Plan fiduciary net position as a percentage of the total pension liability	96.27%	98.24%	94.70%	90.68%	97.95%	97.20%

*An additional year of historical information will be added each year, subsequent to the year of implementation until 10 years of historical data is available.*

**Note to Required Supplementary Information**

**Teachers' Retirement System**

The discount rate decreased from 8.0% to 7.5% to 7.25%, as reflected in 2016, 2017 and 2018 above.

**Employees' Retirement System**

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

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Schedule of District Pension Contributions**  
 Last Ten Fiscal Years

*Teachers' Retirement System*

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 3,783,971	\$ 3,738,580	\$ 4,494,842	\$ 5,181,340	\$ 6,820,635	\$ 6,306,467	\$ 4,332,417	\$ 3,796,521	\$ 2,885,279	\$ 2,005,494
Contributions in relation to the contractually required contribution	3,783,971	3,738,580	4,494,842	5,181,340	6,820,635	6,306,467	4,332,417	3,796,521	2,885,279	2,005,494
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 35,824,961	\$ 38,346,402	\$ 38,584,315	\$ 40,438,968	\$ 40,139,543	\$ 40,161,074	\$ 37,902,373	\$ 35,342,086	\$ 34,716,028	\$ 33,543,523
Contributions as a percentage of covered payroll	11%	10%	12%	13%	17%	16%	11%	11%	8%	6%

*Employees' Retirement System*

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 903,365	\$ 857,557	\$ 862,879	\$ 984,328	\$ 969,002	\$ 1,079,200	\$ 1,077,669	\$ 815,150	\$ 614,599	\$ 332,581
Contributions in relation to the contractually required contribution	903,365	857,557	862,879	984,328	969,002	1,079,200	1,077,669	815,150	614,599	332,581
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 6,211,119	\$ 6,246,526	\$ 6,159,409	\$ 6,220,018	\$ 6,080,371	\$ 5,857,270	\$ 5,682,252	\$ 5,507,491	\$ 5,119,797	\$ 4,862,467
Contributions as a percentage of covered payroll	15%	14%	14%	16%	16%	18%	19%	15%	12%	7%



**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Schedule of Changes in the District's Total OPEB Liability and Related Ratios**  
 Last Two Fiscal Years

	2019	2018
Total OPEB liability		
Service cost	\$ 3,230,635	\$ 3,374,538
Interest	3,993,166	3,563,148
Changes in benefit terms	(2,734,466)	-
Differences between expected and actual experience	341,648	-
Changes of assumptions or other inputs	26,102,906	(5,011,564)
Benefit payments	(1,618,238)	(1,404,013)
Net change in total OPEB liability	29,315,651	522,109
Total OPEB liability, beginning	100,753,396	100,231,287
Total OPEB liability, ending	\$ 130,069,047	\$ 100,753,396
Covered employee payroll	\$ 38,884,341	\$ 37,798,412
Total OPEB liability as a percentage of covered employee payroll	334.50%	266.55%

*An additional year of historical information will be added each year, subsequent to the year of implementation until 10 years of historical data is available.*

**Note to Required Supplementary Information**

The discount rate decreased from 3.87% to 3.51% as reflected in 2018 and 2019 above.

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Schedules of Change from Adopted Budget to Final Budget**  
**and the Real Property Tax Limit - General Fund**  
For the Year Ended June 30, 2019

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget		\$ 93,502,384
Additions:		
Prior year's encumbrances		34,379
Original Budget		93,536,763
Budget revision		46,039
Final Budget		\$ 93,582,802

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2019-2020 voter-approved expenditure budget		\$ 96,551,702
Maximum allowed (4% of 2019-2020 budget)		\$ 3,862,068
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		
Unrestricted fund balance:		
Assigned fund balance	\$ 1,535,745	
Unassigned fund balance	3,862,071	
		\$ 5,397,816
Less:		
Appropriated fund balance	1,308,431	
Encumbrances	227,314	
Total adjustments		1,535,745
General Fund Fund Balance Subject to § 1318 of Real Property Tax Law:		\$ 3,862,071
Actual Percentage		4%

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Schedule of Project Expenditures and Financing Resources - Capital Projects Fund**  
For the Year Ended June 30, 2019

PROJECT TITLE	Budget		Expenditures			Unexpended Balance	Methods of Financing			Fund Balance June 30, 2018	
	June 30, 2018	June 30, 2019	Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources		Total
ESM Phase 3	\$ 60,835,000	\$ 60,835,000	\$ 59,371,850	\$ 25,000	\$ 59,396,850	\$ 1,438,150	\$ 60,835,000	\$	\$ 60,835,000	\$ 1,438,150	
SMART Schools Bond Act Improvements		2,279,065		148,985	148,985	2,130,080		2,279,065	2,279,065	2,130,080	
<b>Totals</b>	<b>\$ 60,835,000</b>	<b>\$ 63,114,065</b>	<b>\$ 59,371,850</b>	<b>\$ 173,985</b>	<b>\$ 59,545,835</b>	<b>\$ 3,568,230</b>	<b>\$ 60,835,000</b>	<b>\$ 2,279,065</b>	<b>\$ -</b>	<b>\$ 63,114,065</b>	<b>3,568,230</b>
									Transfer to debt service fund for completed projects	(1,438,150)	
									SMART Schools Bond Act revenue not yet recognized	(2,279,065)	
										<u>\$ (148,985)</u>	

**EASTPORT-SOUTH MANOR CENTRAL SCHOOL DISTRICT**  
**Net Investment in Capital Assets**  
June 30, 2019

Capital assets, net	<u>\$ 163,065,873</u>
Deduct:	
Short-term portion of bonds payable	8,670,000
Long-term portion of bonds payable	96,850,000
Less: Unspent bond proceeds	(1,438,150)
Short-term portion of energy performance contract	466,711
Long-term portion of energy performance contract	<u>4,871,669</u>
	<u>109,420,230</u>
Net Investment in Capital Assets	<u>\$ 53,645,643</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  
Eastport-South Manor Central School District  
Manorville, 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 Eastport-South Manor Central School District (District), as of and for the year ended June 30, 2019, 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 27, 2019.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 Eastport-South Manor Central School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the Board of Education, Audit Committee and management of the Eastport-South Manor Central School District in a separate letter dated September 27, 2019.

### **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 27, 2019

